

# LACLEDE GAS CO

## FORM 10-K (Annual Report)

Filed 12/5/2002 For Period Ending 9/30/2002

Address	720 OLIVE ST ST LOUIS, Missouri 63101
Telephone	314-342-0500
CIK	0000057183
Industry	Natural Gas Utilities
Sector	Utilities
Fiscal Year	09/30

# **SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C.

## **FORM 10-K**

ANNUAL REPORT

For the Fiscal Year Ended September 30, 2002

THE LACLEDE GROUP, INC.

## **LACLEDE GAS COMPANY**

720 Olive Street, St. Louis, MO 63101

**SECURITIES AND EXCHANGE COMMISSION**  
 Washington, D. C. 20549  
**FORM 10-K**

(X) ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES  
**EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended September 30, 2002**

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES  
**EXCHANGE ACT OF 1934**

**For the Transition Period from to**

Commission File Number	Exact Name of Registrant as Specified in its Charter and Principal Office Address and Telephone Number	States of Incorporation	I.R.S. Employer ID Number
1-16681	The Laclede Group, Inc. 720 Olive Street St. Louis, MO 63101 314-342-0500	Missouri	74-2976504
1-1822	Laclede Gas Company 720 Olive Street St. Louis, MO 63101 314-342-0500	Missouri	43-0368139

Securities registered pursuant to Section 12(b) of the Act (as of the date of this report)

Name of Registrant	Title of Each Class	Name of Each Exchange on which registered
The Laclede Group, Inc.	Common Stock \$1.00 par value	New York Stock Exchange
The Laclede Group, Inc.	Preferred Share Purchase Rights	New York Stock Exchange
Laclede Gas Company	None	

**Securities registered pursuant to Section 12(g) of the Act: None.**

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 report),

The Laclede Group, Inc.:	Yes	X	No
	-----	-----	-----
Laclede Gas Company:	Yes	X	No
	-----	-----	-----

and (2) has been subject to such filing requirements for the past 90 days:

The Laclede Group, Inc.:	Yes	X	No
	-----	-----	-----
Laclede Gas Company:	Yes	X	No
	-----	-----	-----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

The aggregate market value of the voting stock held by non-affiliates of the registrant amounted to \$447,055,178 as of October 31, 2002.

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Registrant -----	Description of Common Stock -----	Shares Outstanding At October 31, 2002 -----
The Laclede Group, Inc.	Common Stock (\$1.00 Par Value)	18,957,798
Laclede Gas Company	Common Stock (\$1.00 Par Value)	100

Incorporated by Reference: Form 10-K Part III Proxy Statement dated December 24, 2002\* Index to Exhibits is found on page 60.

\*The information under the captions "Compensation Committee Report Regarding Executive Compensation", "Performance Graph", and "Audit Committee Report" on pages 12-16 of the Proxy Statement are NOT incorporated by reference.

## Part I

### Item 1. Business

The Laclede Group, Inc. (Laclede Group or the Company) is an exempt public holding company committed to providing reliable natural gas service through its regulated core utility operations while developing its presence in non-regulated activities that fit well and provide opportunities for sustainable growth. Its primary subsidiary--Laclede Gas Company (Laclede Gas or the Utility)--is the largest natural gas distribution utility in Missouri, serving more than 630,000 residential, commercial and industrial customers in St. Louis and surrounding counties of eastern Missouri. In January 2002, Laclede Group acquired SM&P Utility Resources, Inc. (SM&P), one of the nation's major underground locating and marking service businesses, performing more than 10 million locates annually. SM&P, headquartered in Carmel, Indiana, now is a wholly owned subsidiary of Laclede Group. Other non-regulated subsidiaries provide less than 10% of revenues.

The Consolidated Financial Statements included in this report present the consolidated financial position, results of operations and cash flows of Laclede Group after the October 1, 2001 restructuring, as well as the consolidated financial position, results of operations and cash flows of Laclede Gas prior to restructuring. The consolidated financial position, results of operations and cash flows of Laclede Gas Company immediately before the restructuring are essentially identical to the consolidated financial position, results of operations and cash flows of Laclede Group immediately after the restructuring.

The Consolidated Financial Statements for Laclede Gas present the consolidated financial position, results of operations and cash flows of Laclede Gas throughout the reported periods, as well as the consolidated financial position, results of operations and cash flows of Laclede Gas' former subsidiaries prior to the October 1, 2001 restructuring. These consolidated financial statements, notes to consolidated financial statements, and management's discussion and analysis are included in this report as Exhibit 99.1.

### NATURAL GAS SUPPLY

The past year has been one of unprecedented turmoil for the large mid-market supply aggregators that recently have played a significant role nationally in natural gas trading and marketing. Laclede Gas did not participate in such activities and was able to avoid adverse financial impact during this difficult period. However, the changing marketplace caused us to significantly revamp our gas supply portfolio for the current heating season. Relationships are being re-established with large equity owners of natural gas in addition to smaller natural gas companies that, until recently, have used the large supply aggregators as intermediaries. Laclede's firm transportation access to a diverse number of strategic locations has facilitated the process of restructuring our gas supply portfolio.

Laclede Gas Company's fundamental gas supply strategy remains unchanged: to meet the two-fold objective of 1) ensuring that the gas supplies we acquire are dependable and will be delivered when needed and, 2) insofar as is compatible with that dependability, purchasing gas that is economically priced. In structuring our natural gas supply portfolio, we continue to focus on natural gas assets that are strategically positioned to meet the gas company's primary objectives. We utilize both Mid-Continent and Gulf Coast gas sources to provide a level of supply diversity that facilitates the optimization of pricing differentials as well as protecting against the potential of regional supply disruptions.

In fiscal 2002, Laclede Gas purchased natural gas from 25 different suppliers to meet current gas sales and storage injection requirements. Natural gas purchased by Laclede Gas for delivery to our utility service area through the Mississippi River Transmission Corporation (MRT) system totaled 59.2 billion cubic feet (Bcf). Our utility also holds firm transportation on several interstate pipeline systems that access our gas supplies upstream of MRT. An additional 10.9 Bcf of gas was purchased on the Panhandle Eastern Pipe Line Company system, and 10.2 Bcf on the Williams Gas Pipeline system. Some of our commercial and industrial customers also purchased their own gas and arranged for delivery to them of approximately 17.4 Bcf for transportation through our distribution system.

The fiscal 2002 peak day sendout of natural gas to our utility customers occurred on February 26, 2002, when the average temperature was 18 degrees Fahrenheit. On that day, our customers consumed 864,651 million Btu of natural gas. About two-thirds of this peak day demand was met with natural gas transported to St. Louis through the MRT, Panhandle, and Williams transportation systems, and the other third was met from the Utility's on-system storage and peak shaving resources.

## **UNDERGROUND NATURAL GAS STORAGE**

Laclede Gas has a contractual right to store approximately 23.1 Bcf of gas in MRT's storage system located in Unionville, Louisiana. MRT's tariffs allow injections into storage from May 16 through November 15 and require the withdrawal from storage of all but 2.2 Bcf from November 16 through May 15.

In addition, Laclede Gas supplements flowing pipeline gas with natural gas withdrawn from its underground storage field located in St. Louis and St. Charles Counties. The field is designed to provide 357,000 MMBtu of natural gas withdrawals on a peak day, and annual withdrawals of approximately 5,500,000 MMBtu of gas based on the inventory level that Laclede plans to maintain.

## **PROPANE SUPPLY**

Laclede Pipeline Company, a wholly owned subsidiary, operates a propane pipeline that connects the propane storage facilities of Laclede Gas in St. Louis County, Missouri, to propane supply terminal facilities located at Wood River and Cahokia, Illinois. Laclede Gas vaporizes the propane to supplement its natural gas supply and meet the peak demands on the distribution system.

## **REGULATORY MATTERS**

After regulatory review that occupied a good deal of calendar 2001, Laclede Gas obtained approval from the Missouri Public Service Commission to implement new rates, effective December 1, 2001, that were designed to increase annual utility base rates by about \$15 million. The settlement reached in this case also permitted Laclede Gas to continue to retain all income earned from sales made outside of its traditional service area and further provided for retention of all revenues derived from the release of available pipeline capacity. However, the extreme warm weather of the 2001-2002 heating season eroded much of the fiscal 2002 impact of these new rates, and the settlement itself left important issues unresolved.

Therefore, on January 25, 2002, Laclede Gas filed a second request for a general rate increase that would have increased the Company's annual revenues by \$36.1 million to recover costs related to the operation of its gas distribution system. As part of this rate increase filing, the utility also proposed a Weather Mitigation Plan that was designed to help stabilize annual revenues, which historically have been highly dependent on the weather. During August and September 2002, we entered into a series of stipulations and agreements with the Commission's Staff, the Office of the Public Counsel and other parties to settle the rate case in a manner designed to generate an additional \$14 million in annual rate revenues. In addition, the settlement included the establishment of a new, less weather-sensitive rate design to ensure that the utility's relatively fixed distribution costs - costs that are required to serve our heating customers - are primarily recovered from sales made to those customers in a manner that does not vary with the weather. In the settlement, we also were able to stabilize the regulatory treatment of pension expense, which previously tended to create significant year-to-year fluctuations in our utility operating expenses. By essentially locking in pension expense for the future, we have stabilized another volatile factor that previously had impacted results. Finally, the settlement imposed a moratorium on additional general rate increase filings by the Company until March 1, 2004. On October 3, 2002, the Commission approved the comprehensive rate case settlement, and the new rates went into effect November 9, 2002.

On February 19, 2002, Laclede Gas made a filing to revise its Purchased Gas Adjustment (PGA) Clause so that we would be permitted to adjust the gas cost component of our rates more frequently to recover our costs more closely to the time period in which they are incurred and to better reflect market prices during the high-volume winter months. The Commission approved such a plan, in which scheduled gas cost adjustments will be implemented in November, January, March, and June. As part of the same ruling, the Commission also clarified that costs and cost reductions associated with the utility's use of natural gas financial instruments, including carrying costs, are gas costs that are recoverable through the PGA mechanism.

On June 28, 2002, the Commission's Staff, in a proceeding established to review the utility's gas costs for fiscal 2001, recommended the disallowance of approximately \$4.9 million in pre-tax gains achieved by the utility through its incentive-based Price Stabilization Program, which was discontinued beyond March 31, 2002. We believe that Staff's position lacks merit and intend to vigorously oppose the adjustment in a proceeding for which a hearing is scheduled to occur in February 2003.

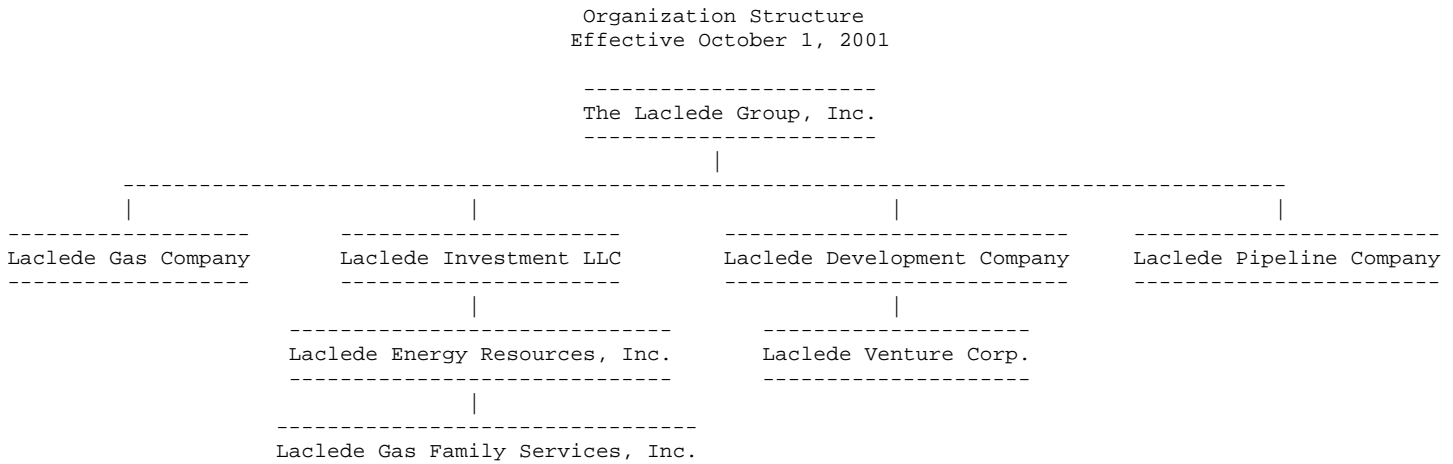
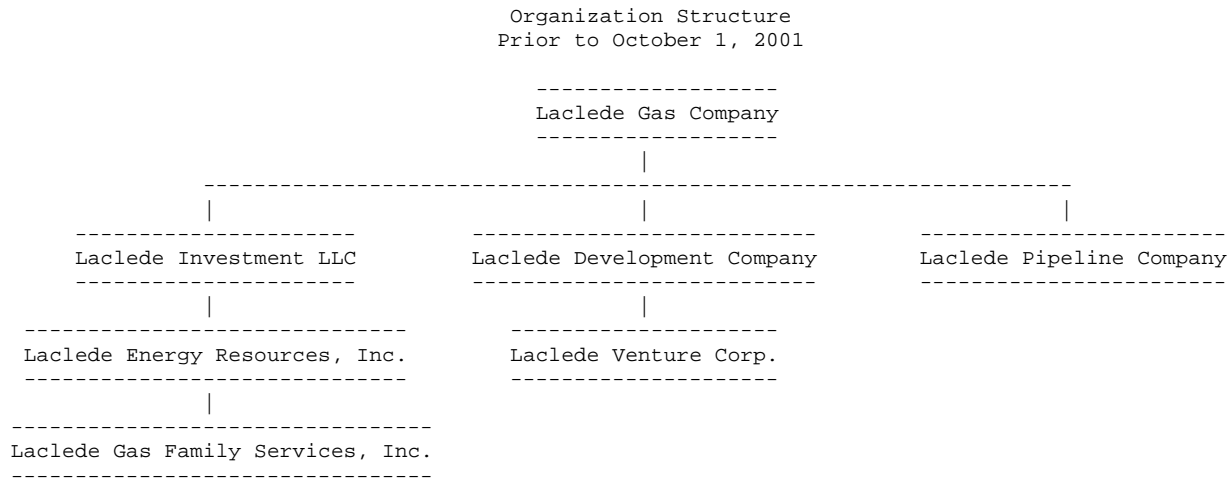
On July 29, 2002, Laclede Gas made a tariff filing to implement an innovative "Catch-Up/Keep-Up" Program for eligible, low-income customers. The purpose of this unique, new program is to assist those who have fallen behind in their payments manage their energy bills in a manner that, over time, will eliminate their past due balances for natural gas service, ensure their continued access to gas service under manageable terms, and ultimately reduce the level of uncollectibles experienced by the utility to the benefit of all customers. After intensive discussions, on September 18, 2002, Laclede Gas withdrew its original filing in order to prepare a new filing, which we ultimately made on September 23, 2002, that reflected various revisions responsive to the comments of the Staff and the Office of the Public Counsel in connection with our original filing. An essential aspect of this program is that it is to be funded

by savings we are able to achieve as a result of our ability to successfully negotiate discounts from the rates charged by our pipeline suppliers. A hearing is scheduled in early December, after which the Commission will determine whether to allow us to implement this important program.

As previously reported, in September 2001, the Commission ruled that our Gas Supply Incentive Plan (GSIP) should be allowed to expire on September 30, 2001. Under the GSIP, the utility shared with its customers certain gains and losses related to the acquisition and management of its gas supply assets. On February 19, 2002, the Commission denied our application for rehearing, whereupon we filed a petition for judicial review of the Commission's decision with the Cole County Circuit Court, together with a motion requesting that the Commission's decision be stayed. The request for stay was denied on May 13, 2002. The petition for judicial review is still pending.

## OTHER PERTINENT MATTERS

At its January 25, 2001 annual meeting of shareholders, Laclede Gas shareholders approved, by a two-thirds majority, a proposal to reorganize its corporate structure to form a holding company, known as The Laclede Group, Inc. Laclede subsequently received the necessary approval for this restructuring from the MoPSC, and the corporate restructuring became effective on October 1, 2001. Under the new structure, Laclede Gas and its former subsidiaries operate as separate subsidiaries of The Laclede Group. The following charts illustrate the major organizational changes resulting from this restructuring.



Since the October 1, 2001 restructuring, stock certificates previously representing shares of Laclede Gas common stock have represented the same number of shares of The Laclede Group common stock. All serial preferred stock issued by Laclede Gas remains issued and outstanding as shares of Laclede Gas serial preferred stock. The dividend rate for the preferred stock has not changed and those dividends will continue to be paid by Laclede Gas. All outstanding indebtedness and other obligations of Laclede Gas prior to the restructuring remain outstanding as obligations of Laclede Gas.

On October 1, 2001, The Laclede Group had no outstanding securities other than common stock, but it could issue other securities in the future. The Laclede Group common stock is listed on the New York Stock Exchange and trades under the ticker symbol "LG".

The business of Laclede Gas is subject to a seasonal fluctuation with the peak period occurring in the winter season. The operations of SM&P tend to be counter-seasonal to those of Laclede Gas and are impacted by construction trends. SM&P's revenues are dependent on a limited number of customers, primarily in the utility and telecommunications sector, with contracts that may be terminated on as short as 30 days' notice.

\*\*\*\*\*

As of September 30, 2002, Laclede Gas had 1,948 employees, which includes 16 part-time employees. SM&P had 2,005 employees, which includes 17 part-time employees.

\*\*\*\*\*

Laclede Gas has a labor agreement with Locals 5-6 and 5-194 of the Paper, Allied-Industrial, Chemical & Energy Workers International Union (formerly known as the Oil, Chemical and Atomic Workers International Union), two locals which represent approximately 70% of Laclede's employees. On July 30, 2000, Laclede and Union representatives reached a new four-year labor agreement replacing the prior agreement which was to expire July 31, 2000. The new contract extends through July 31, 2004. The settlement resulted in wage increases of 2.75% in all four years, along with lump-sum payment provisions and other benefit improvements.

\*\*\*\*\*

The business of Laclede Gas has monopoly characteristics in that it is the only distributor of natural gas within its (franchised) service area. The principal competition is the local electric company. Other competitors in Laclede's service area include suppliers of fuel oil, coal, liquefied petroleum gas in outlying areas, natural gas pipelines which can directly connect to large volume customers, and in a portion of downtown St. Louis, a district steam system. Gas for househeating, certain other household uses, and commercial and industrial space heating has historically been sold by Laclede at prices generally equal to or lower than are charged for other energies. Coal is price competitive as a fuel source for very large boiler plant loads, but environmental requirements have forestalled any significant market inroads. Oil and propane can be used to fuel boiler loads and certain direct-fired process applications, but these fuels require on-site storage and vary widely in price throughout the year, thus limiting their competitiveness. In certain cases, district steam has been competitive with gas for downtown area heating users.

Laclede Gas' residential, commercial, and small industrial markets, representing 83% of sales, remain committed to natural gas. Given the current adequate level of supply, Laclede Gas believes that the relationship between competitive equipment and operating costs will not change significantly in the foreseeable future, and that these markets will continue to be supplied by natural gas.

Laclede Gas' competitive exposure is presently limited to space and water heating applications in the new multi-family and commercial rental markets. Certain alternative heating systems can be cost competitive in traditional markets, but the performance and reliability of natural gas systems has contained the growth of these alternatives. Several large customers use coal for boiler fuel. Environmental restrictions and their associated high capital costs for new equipment forestalls options toward further use of coal.

Laclede Gas offers gas transportation service to its large user industrial and commercial customers. The tariff approved for that type of service produces a margin similar to that which Laclede Gas would have received under its regular sales rates. The availability of gas transportation service and favorable spot market prices for natural gas during certain times of the year may offer additional competitive advantages to Laclede Gas and new opportunities for distributed generation, cogeneration, and large tonnage air conditioning applications.

\*\*\*\*\*

Laclede Gas is subject to various environmental laws and regulations that, to date, have not materially affected the company's financial position and results of operations. For a detailed discussion of environmental matters, see Note 14 in the Notes to the Consolidated Financial Statements on page 46.

\*\*\*\*\*

Laclede Group issued 43,300 shares of its common stock during fiscal 2002 under its Dividend Reinvestment and Stock Purchase Plan. No additional common stock shares were issued in fiscal 2001.

Laclede Gas cancelled its treasury stock of 1,865,638 shares, in conjunction with the restructuring on October 1, 2001.



Customers and revenues contributed by each class of customers of Laclede Gas for the last three fiscal years are as follows:

**Regulated Gas Distribution Operating Revenues \$(000)**

	2002	2001	2000
	----	----	----
Residential	\$387,594	\$619,090	\$346,159
Commercial & Industrial	142,259	250,741	123,578
Interruptible	1,769	3,063	1,922
Transportation	12,868	14,350	13,722
Off-System and Other Incentive	43,443	30,218	40,163
Provision for Refunds and Other	4,164	5,780	3,706
	-----	-----	-----
Total	\$592,097	\$923,242	\$529,250
	=====	=====	=====
Customers (End of Period)			
	2002	2001	2000
	----	----	----
Residential	588,630	584,269	586,783
Commercial & Industrial	39,842	39,264	39,419
Interruptible	14	15	14
Transportation	152	152	154
	-----	-----	-----
Total Customers	628,638	623,700	626,370
	=====	=====	=====

Laclede Gas has franchises having initial terms varying from five years to an indefinite duration. Generally, a franchise allows Laclede Gas to lay pipes and other facilities in the community. The franchise in Florissant, Missouri expired in 1992 and since that time Laclede has continued to provide service in that community without a formal franchise. All of the franchises are free from unduly burdensome restrictions and are adequate for the conduct of Laclede Gas' current public utility business in the State of Missouri.

\*\*\*\*\* Non-Regulated Services:

On January 28, 2002, Laclede Group completed its acquisition from NiSource, Inc. of 100% of the stock of SM&P, one of the nation's major underground locating and marking service businesses. SM&P, a Carmel, Indiana-based company, performs over 10 million locates annually. During fiscal 2002, its approximate 2,000 employees operated across 10 centrally located states - Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Ohio, Oklahoma, Texas and Wisconsin. Locators mark the placement of underground facilities for providers of telephone, natural gas, electric, water, cable TV and fiber optic services so that construction work can be performed without damaging buried facilities. As a result of the acquisition, SM&P's earnings flow will not only diversify Laclede Group's earnings but also will be counter-seasonal to those of Laclede Gas. SM&P is a subsidiary of Laclede Group and will remain headquartered in Indiana. This acquisition was financed initially with conventional bank debt totaling \$42.8 million.

\*\*\*\*\*

Other Non-Regulated Subsidiaries include:

Laclede Investment LLC, a wholly owned subsidiary of The Laclede Group, invests in other enterprises and has made loans to several joint ventures engaged in real estate development.

Laclede Energy Resources, Inc., a wholly owned subsidiary of Laclede Investment LLC, is engaged in non-regulated efforts to market natural gas and related activities.

Laclede Gas Family Services, Inc., a wholly owned subsidiary of Laclede Energy Resources, Inc., is a registered insurance agency in the State of Missouri. It promotes the sale of insurance-related and other direct marketing products.

Laclede Development Company, a wholly owned subsidiary of The Laclede Group, participates in real estate development, primarily through joint ventures.

Laclede Venture Corp., a wholly owned subsidiary of Laclede Development Company, offers services for the compression of natural gas to third parties who desire to use or to sell compressed natural gas for use in vehicles. Laclede Venture Corp. also has a 28.5% interest in the LBP Partnership, a general

partnership which previously engaged in research and development of light beam profiling technology. There is presently no book value and no effect on earnings is anticipated from this partnership investment.

Laclede Energy Services, Inc., a wholly owned subsidiary of The Laclede Group, Inc., was formed during fiscal 2002, and is engaged in providing energy management services. Effective May 1, 2002, Laclede Energy Services, Inc., began providing energy management services to Laclede Gas and Laclede Energy Resources, Inc.

The lines of business that constitute the other non-regulated activities of the corporate family are not considered separately reportable operating segments as defined by current accounting standards.

## **Item 2. Properties**

The principal utility properties of Laclede Gas consist of approximately 8,152 miles of gas main, related service pipes, meters and regulators. Other physical properties include regional office buildings and holder stations. Extensive underground gas storage facilities and equipment are located in an area in North St. Louis County extending under the Missouri River into St. Charles County. Substantially all of Laclede Gas' utility plant is subject to the liens of its mortgage.

All of the utility properties of Laclede Gas are held in fee or by easement or under lease agreements. The principal lease agreements include underground storage rights which are of indefinite duration and the general office building. The current lease on the general office building extends through February 2005 with options to renew for up to 15 additional years.

For information on SM&P's lease obligations, see Note 14 in the Notes to the Consolidated Financial Statements on page 46.

Other non-regulated properties of The Laclede Group do not constitute a significant portion of its properties.

## **Item 3. Legal Proceedings**

For a description of environmental matters, see Note 14 to the Consolidated Financial Statements on page 46. For a description of pending regulatory matters of Laclede Gas, see Part I, Item I, Business, Regulatory Matters on page 4.

In late August 2001, Laclede Gas was named a defendant in a lawsuit in the Circuit Court of the City of St. Louis, Missouri, Ronald J. Johnson vs. Laclede Gas Company, alleging that a class of persons residing in homes provided natural gas by Laclede Gas through direct buried copper service lines have, among other things, suffered diminution in property values and annoyance and discomfort due to residing in homes served by such allegedly corroded lines. The suit sought actual and punitive damages and an injunction requiring the repair and/or replacement of all such lines, which were alleged to number approximately 78,000. By letter dated September 21, 2001, its liability insurer advised Laclede Gas that the claims in the lawsuit, as pled, failed to qualify for any coverage under its excess general liability policy. Laclede Gas disagrees and continues to assert its right to coverage under the policy. The gas distribution business of Laclede Gas is regulated by the MoPSC, including as to safe and adequate service and rate matters. Under a current program, the Commission has provided for the monitoring and replacement of such lines. The costs of replacement, including carrying costs, have been included in rates established by the Commission. The MoPSC filed a Motion to Intervene and a Motion to Strike Plaintiff's Prayer for Injunctive Relief and to Stay Matters Within the Primary Jurisdiction of the MoPSC. The court subsequently granted the MoPSC's request for intervention. Laclede Gas filed a Motion to Dismiss which urged, among other things, the exclusive jurisdiction of the MoPSC as to gas safety matters generally and the direct buried copper service replacement program in particular. Laclede Gas filed a motion to dismiss the lawsuit that was granted by the Court on February 22, 2002. The plaintiff did not file an amended petition within the time granted by the Court but filed an appeal on April 3, 2002. On May 13, 2002, the plaintiff dismissed the appeal.

Laclede Group and its subsidiaries are involved in litigation, claims, and investigations arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, after discussion with counsel, believes the final outcome will not have a material adverse effect on the consolidated financial position and results of operations reflected in the financial statements presented herein.

#### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal year 2002.

#### EXECUTIVE OFFICERS OF REGISTRANT

Name, Age, and Position with Company	Appointed (1)
D. H. Yaeger, Age 53 The Laclede Group ----- Chairman, President and Chief Executive Officer	October 2000
Laclede Gas ----- Chairman, President and Chief Executive Officer	January 1999
President and Chief Executive Officer	January 1999
President and Chief Operating Officer	December 1997
Executive Vice President - Operations and Marketing	September 1995
SM&P ----- Chief Executive Officer	January 2002
K. J. Neises, Age 61 Laclede Gas ----- Executive Vice President - Energy and Administrative Services	January 2002
Senior Vice President - Energy and Administrative Services	March 1998
Senior Vice President - Gas Supply and Regulatory Affairs	September 1995
J. Moten, Jr., Age 61 Laclede Gas ----- Senior Vice President - Operations and Marketing	July 2001
Vice President - Community Relations	January 1994
R. E. Shively, Age 40 Laclede Gas ----- Senior Vice President - Business and Services Development (3)	January 2001
SM&P ----- President	March 2002
B. C. Cooper, Age 43 The Laclede Group ----- Chief Financial Officer (2)	September 2002
Laclede Gas ----- Chief Financial Officer	September 2002
C. R. Hoferlin, Age 40 Laclede Gas ----- Vice President - Operations	July 2001
Assistant Vice President - Operations (Superintendent of Operations)	January 2001
(Chief Engineer)	May 1999
	December 1996

P. J. Palumbo, Age 57 Laclede Gas ----- Vice President - Industrial Relations	September 1992
M. C. Pendergast, Age 46 Laclede Gas ----- Vice President - Associate General Counsel Assistant Vice President - Associate General Counsel (Associate General Counsel) (Assistant General Counsel)	January 2002 January 2000 November 1997 November 1993
M. R. Spotanski, Age 42 Laclede Gas ----- Vice President - Finance Assistant Vice President - Finance (Assistant to the President) (Manager, Gas Supply Planning)	January 2001 January 2000 March 1998 January 1996
J. A. Fallert, Age 47 Laclede Gas ----- Controller (Manager, Financial Services)	February 1998 February 1992
R. L. Krutzman, Age 56 The Laclede Group ----- Treasurer and Assistant Secretary	October 2000
Laclede Gas ----- Treasurer and Assistant Secretary	February 1996
SM&P ---- Assistant Treasurer	January 2002
M. C. Kullman, Age 42 The Laclede Group ----- Corporate Secretary	October 2000
Laclede Gas ----- Secretary and Associate General Counsel Secretary and Associate Counsel (Associate Counsel)	February 2001 February 1998 August 1990
SM&P ---- Secretary	January 2002
P. B. Hunker, Jr., Age 63 Laclede Gas ----- Assistant Vice President - Associate General Counsel	February 1997
S. F. Mathews, Age 44 Laclede Gas ----- Assistant Vice President - Gas Supply (Director of Gas Supply)	February 2001 September 1995
R. L. Sherwin, Age 49 Laclede Gas ----- Assistant Vice President - Regulatory Administration Assistant Vice President - Human Resources	February 1999 January 1997

R. A. Skau, Age 45 Laclede Gas -----	
Assistant Vice President - Human Resources (Director, Labor Relations) (Manager, Labor Relations)	September 2001 February 1999 February 1996
M. D. Waltermire, Age 44 Laclede Gas -----	
Assistant Vice President - Planning (Director - Internal Audit)	May 2001 January 1996
L. D. Rawlings, Age 49 Laclede Gas -----	
Assistant Treasurer (4)	February 2000

( ) Indicates a non-officer position.

- (1) Officers of Laclede Gas Company are normally reappointed at the Annual Meeting of the Board of Directors in January of each year "to serve for the ensuing year and until their successors are elected and qualify".
- (2) Mr. Cooper served as Vice President of Finance at GenAmerica Corporation since 2000, and prior to that he was Vice President/Controller from 1999 through 2000 and Second Vice President/Associate Controller at GenAmerica Corporation from 1995 through 1999. Before joining GenAmerica Corporation, he was with KPMG Peat Marwick LLP.
- (3) Prior to joining Laclede, Mr. Shively was a principal in the Atlanta office of Scott Madden & Associates since December 1994.
- (4) Ms. Rawlings served as Vice President and Assistant Treasurer at Mercantile Bancorporation, which became Firststar Corp. in September 1999, from February 1996 to January 2000.

## Part II

### Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters

At September 30, 2002, there were 7,458 holders of record of Laclede's common stock, which was listed on the New York Stock Exchange. As of October 1, 2001, the certificates for Laclede Gas common stock are deemed to represent the same number of shares of The Laclede Group common stock. The Laclede Group's stock is listed on the New York Stock Exchange and trades under the symbol "LG".

#### Common Stock Market and Dividend Information

Fiscal 2002	Price Range		Dividends Declared
	High	Low	
1st Quarter	25.300	22.600	\$.335
2nd Quarter	24.900	22.000	\$.335
3rd Quarter	24.880	22.000	\$.335
4th Quarter	25.000	19.000	\$.335

Fiscal 2001	Price Range		Dividends Declared
	High	Low	
1st Quarter	24.750	21.375	\$.335
2nd Quarter	24.625	21.250	\$.335
3rd Quarter	25.480	23.100	\$.335
4th Quarter	25.400	21.750	\$.335

## Item 6. Selected Financial Data

The Laclede Group, Inc.

(Thousands, Except Per Share Amounts)	Fiscal Years Ended September 30				
	2002	2001	2000	1999	1998
Summary of Operations					
Operating Revenues:					
Regulated					
Gas distribution	\$ 592,097	\$ 923,242	\$ 529,250	\$ 473,031	\$ 547,229
Non-Regulated					
Services	94,116	-	-	-	-
Other	69,026	78,867	36,878	18,287	14,614
Total operating revenues	755,239	1,002,109	566,128	491,318	561,843
Operating Expenses:					
Regulated:					
Natural and propane gas	340,045	640,006	294,717	246,294	311,759
Other operation expenses	106,027	101,915	86,970	83,661	86,128
Maintenance	17,813	19,262	18,556	19,517	18,665
Depreciation & amortization	24,215	26,193	24,672	21,470	25,304
Taxes, other than income taxes	48,342	65,062	42,788	41,660	43,773
Total regulated operating expenses	536,442	852,438	467,703	412,602	485,629
Non-Regulated					
Services	90,771	-	-	-	-
Other	68,264	77,346	35,082	17,497	12,894
Total operating expenses	695,477	929,784	502,785	430,099	498,523
Operating Income	59,762	72,325	63,343	61,219	63,320
Allowance for Funds Used During Construction	(149)	749	397	739	609
Other Income and Income Deductions - Net	827	668	338	(942)	674
Income Before Interest and Income Taxes	60,440	73,742	64,078	61,016	64,603
Interest Charges:					
Interest on long-term debt	20,820	18,372	15,164	13,966	14,797
Other interest charges	4,989	10,067	8,844	6,627	6,473
Total interest charges	25,809	28,439	24,008	20,593	21,270
Income Before Income Taxes	34,631	45,303	40,070	40,423	43,333
Income Taxes	12,247	14,831	14,105	14,361	15,441
Dividends on Redeemable Preferred Stock - Laclede Gas	68	87	93	97	97
Net Income Applicable to Common Stock	\$ 22,316	\$ 30,385	\$ 25,872	\$ 25,965	\$ 27,795
Earnings Per Share of Common Stock	\$1.18	\$1.61	\$1.37	\$1.43	\$1.58

**Item 6. Selected Financial Data (continued)**

The Laclede Group, Inc.

(Thousands, Except Per Share Amounts)	Fiscal Years Ended September 30				
	2002	2001	2000	1999	1998
	----	----	----	----	----
Dividends Declared- Common Stock	\$ 25,311	\$ 25,296	\$ 25,297	\$ 24,459	\$ 23,229
Dividends Declared Per Share of Common Stock	\$1.34	\$1.34	\$1.34	\$1.34	\$1.32
Utility Plant					
Gross Plant-End of Period	\$ 988,747	\$ 949,775	\$ 915,998	\$ 872,527	\$ 833,685
Net Plant-End of Period	594,376	569,640	545,715	517,635	490,585
Construction Expenditures	48,765	46,952	51,635	48,698	47,254
Property Retirements	9,769	13,141	6,663	8,190	6,205
Goodwill	27,455	-	-	-	-
Other Property and Investments	46,986	32,893	29,664	27,866	33,834
Total Assets	\$1,081,873	\$ 975,910	\$ 931,740	\$ 837,664	\$ 777,291
Capitalization- End of Period					
Common Stock and Paid-In Capital	\$ 83,588	\$ 106,590	\$ 106,579	\$ 106,570	\$ 82,460
Retained Earnings	202,517	205,512	200,423	199,848	198,342
Accumulated Other Comprehensive Income (Loss)	(339)	-	-	(77)	-
Treasury Stock	-	(24,017)	(24,017)	(24,017)	(24,017)
	-----	-----	-----	-----	-----
Common stock equity	285,766	288,085	282,985	282,324	256,785
Redeemable Preferred Stock - Laclede Gas	1,266	1,588	1,763	1,923	1,960
Long-Term Debt	259,545	284,459	234,408	204,323	179,238
	-----	-----	-----	-----	-----
Total capitalization	\$ 546,577	\$ 574,132	\$ 519,156	\$ 488,570	\$ 437,983
	=====	=====	=====	=====	=====
Shares of Common Stock					
Outstanding-End of Period	18,921	18,878	18,878	18,878	17,628
Book Value Per Share	\$15.10	\$15.26	\$14.99	\$14.96	\$14.57

Laclede Gas Company's Selected Financial Data is included in Exhibit 99.1.



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### THE LACLEDE GROUP, INC.

#### INTRODUCTION

This management's discussion analyzes the financial condition and results of operations of The Laclede Group, Inc. (Laclede Group or the Company) and its subsidiaries, under the corporate organizational structure that was in place during the three fiscal years ended September 30, 2002. It includes management's view of factors that affect its business, explanations of past financial results including changes in earnings and costs from the prior year, and their effects on overall financial condition and liquidity. Effective October 1, 2001, the corporation reorganized, such that Laclede Gas Company (Laclede Gas or the Utility) and its subsidiaries became separate subsidiaries of Laclede Group, an exempt holding company under the Public Utility Holding Company Act of 1935. The consolidated results of Laclede Group for fiscal year 2002 are comparable to the consolidated results for Laclede Gas for fiscal years 2001 and 2000. Note 2 to the Consolidated Financial Statements discusses the new holding company structure.

Certain matters discussed in this report, excluding historical information, include forward-looking statements. Certain words, such as "may," "anticipate," "believe," "estimate," "expect," "intend," "plan," "seek," and similar words and expressions identify forward-looking statements that involve uncertainties and risks. Future developments may not be in accordance with our expectations or beliefs and the effect of future developments may not be those anticipated. Among the factors that may cause results to differ materially from those contemplated in any forward-looking statement are:

- o weather conditions and catastrophic events;
- o economic, competitive, political and regulatory conditions;
- o legislative, regulatory and judicial mandates and decisions, some of which may be retroactive, including those affecting
- o allowed rates of return
- o incentive regulation
- o industry and rate structures
- o purchased gas adjustment provisions
- o franchise renewals
- o environmental or safety matters
- o taxes
- o accounting standards;
- o the results of litigation;
- o retention, ability to attract, ability to collect from and conservation efforts of customers;
- o capital and energy commodity market conditions including the ability to obtain funds for necessary capital expenditures and general operations and the terms and conditions imposed for obtaining sufficient gas supply; and
- o employee workforce issues.

Readers are urged to consider the risks, uncertainties and other factors that could affect our business as described in this report. All forward-looking statements made in this report rely upon the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. We do not, by including this statement, assume any obligation to review or revise any particular forward-looking statement in light of future events.

The Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's Consolidated Financial Statements and the combined notes thereto.

#### RESULTS OF OPERATIONS

##### Earnings

Laclede Group's results are primarily impacted by the regulated activities of its largest subsidiary, Laclede Gas, Missouri's largest natural gas distribution company. Utility earnings are generated by the sale of heating energy, which historically have been heavily influenced by the weather. The seasonal effect of the Utility is tempered somewhat by the results of SM&P Utility Resources, Inc. (SM&P), a wholly owned underground locating and marking service business acquired on January 28, 2002, whose operations tend to be counter-seasonal to those of Laclede Gas.

Net income applicable to common stock for fiscal 2002 was \$22.3 million, compared with \$30.4 million for fiscal 2001, and \$25.9 for fiscal 2000. Temperatures in the Laclede Gas service area during fiscal 2002, the fifth warmest on record, were 15% warmer than normal and 22% warmer than fiscal 2001. Temperatures during fiscal 2001 were 10% colder than normal and 30% colder than in fiscal 2000--which was the third warmest over the last 100 years.

Laclede Group's earnings were \$1.18 per share for the twelve months ended September 30, 2002 compared with \$1.61 per share for the same period last year. The \$.43 per share decrease in earnings was primarily attributable to reduced earnings reported by Laclede Gas. The utility's earnings were adversely affected by (1) lower gas sales arising from temperatures in its service area that were significantly warmer than last year; and, (2) the Missouri Public Service Commission's decision not to extend the Utility's Gas Supply Incentive Plan (GSIP) beyond September 30, 2001. The GSIP produced significant benefits for customers and shareholders during the past five years during which the program was in effect. These factors were partially offset by (1) the benefit of the general rate increase effective on December 1, 2001; (2) nearly \$4.9 million of pre-tax income from the Utility's Price Stabilization Program (PSP) recorded this year; and (3) higher income from off-system sales and capacity release revenues. The PSP is discussed further in the Regulatory Matters section below. Laclede Group's consolidated earnings were positively impacted by income recorded by SM&P since its acquisition on January 28, 2002, amounting to approximately \$1.4 million, or \$.08 per share.

As a result of the colder weather experienced during fiscal 2001 (compared with fiscal 2000), consolidated earnings, at \$1.61 per share, were up nearly 18% over fiscal 2000 earnings of \$1.37 per share. The \$.24 per share increase in fiscal 2001 earnings versus fiscal 2000 was primarily due to the benefit of the colder weather experienced during 2001. This benefit was partially offset by higher expenses resulting from high wholesale natural gas prices during fiscal 2001. These included a higher provision for uncollectible accounts and higher carrying costs reflecting the interest and other costs incurred by Laclede Gas from the date it purchased gas in the wholesale market to the time it received payment from its customers. Laclede Gas does not benefit from higher wholesale natural gas prices, which are set in a competitive national market, but passes its actual purchased gas costs through to customers. In addition to the increased costs related to the high wholesale gas prices, fiscal 2001 expenses were higher, when compared with fiscal 2000, due to higher pension costs, expenses related to the formation of the holding company, and other increased costs of doing business.

### **Operating Revenues**

Regulated operating revenues for fiscal year 2002 decreased \$331.1 million, or 35.9%, below fiscal 2001, reflecting both the return to a more traditional level of wholesale gas prices and a weather-related reduction in natural gas sales. Wholesale natural gas prices are passed on to Utility customers, subject to prudence review, under the Purchased Gas Adjustment (PGA) Clause. The decrease in operating revenues was primarily comprised of lower wholesale natural gas costs of \$228.2 million and lower natural gas sales levels and other variations of \$125.3 million. These factors were slightly offset by the benefit of the Utility's general rate increase, implemented December 1, 2001, amounting to \$9.2 million, and higher off-system sales, capacity release and incentive revenues of \$13.2 million.

Fiscal 2001 regulated operating revenues increased \$394.0 million, or 74.4%, above fiscal 2000 primarily due to higher wholesale gas costs of \$317.3 million (reflecting an unprecedented rise in market prices during the fiscal 2001 winter), higher gas sales volumes and other variations amounting to \$83.0 million, and the remaining effect of the Laclede Gas 1999 general rate increase of \$3.6 million. These factors were slightly offset by lower off-system sales and incentive revenues of \$9.9 million.

Total therms sold and transported in 2002 were 1.06 billion compared with 1.12 billion in 2001 and 1.04 billion in 2000.

Laclede Group's non-regulated operating revenues increased \$94.1 million in fiscal 2002 reflecting revenues recorded this year by its newly-acquired subsidiary, SM&P. Other non-regulated operating revenues decreased \$9.8 million in fiscal 2002 (from fiscal 2001), and increased \$42.0 million in fiscal 2001 (from fiscal 2000), primarily due to variations in gas marketing sales by Laclede Energy Resources, Inc.

### **Operating Expenses**

Regulated operating expenses in fiscal 2002 decreased \$316.0 million, or 37.1%, from fiscal 2001. Natural and propane gas expense decreased \$300.0 million primarily due to decreased rates charged by suppliers and lower volumes purchased for sendout due to the warmer weather, partially offset by higher off-system gas expense. Other operation and maintenance expenses increased \$2.7 million, or 2.2%, primarily due to higher group insurance charges, higher wage rates, increased insurance premiums, lower net pension credits, and costs to remove retired utility plant. These factors were partially offset by a lower provision for uncollectible accounts and reduced distribution and maintenance charges. Depreciation and amortization expense decreased \$2.0 million primarily due to the effect of lower depreciation rates instituted December 1, 2001 and negative amortization of a portion of the depreciation reserve effective July 1, 2002, as authorized by the MoPSC (see Note 1 related to Utility Plant, Depreciation and Amortization). These effects were partially offset by increased depreciable property. Taxes, other than income, decreased \$16.7 million, or 25.7%, primarily due to lower gross receipts taxes, reflecting the decreased revenues.

Regulated operating expenses in fiscal 2001 increased \$384.7 million, or 82.3%, from fiscal 2000. Natural and propane gas expense increased \$345.3 million in fiscal 2001 from fiscal 2000 primarily due to nationwide increases in natural gas rates charged by our suppliers and higher volumes purchased for sendout arising from the colder weather, the effects of which were slightly offset by lower off-system sales gas expense. Other operation and maintenance expenses in 2001 increased \$15.7 million, or 14.8%,

over 2000 primarily due to increased net pension costs, a higher provision for uncollectible accounts, increased distribution and maintenance costs, higher wage rates, and other increases in the costs of doing business. Depreciation and amortization expense in 2001 increased \$1.5 million, or 6.2%, primarily due to additional depreciable property. Taxes, other than income taxes, increased \$22.3 million in 2001 compared with 2000. The increase was principally attributable to higher gross receipts taxes, reflecting increased gas sales revenues.

Laclede Group's non-regulated operating expenses increased \$90.8 million in fiscal 2002 due to the operating expenses of SM&P. Other non-regulated operating expenses decreased \$9.1 million in fiscal 2002 (compared with 2001), and increased \$42.3 million in fiscal 2001 (compared with 2000) primarily due to variations in expenses associated with gas marketing sales by Laclede Energy Resources, Inc.

### **Other Income and Income Deductions - Net**

Other income and income deductions - net decreased \$0.7 million in fiscal 2002 (compared with fiscal 2001), and increased \$0.7 million in fiscal 2001 (compared with fiscal 2000). The variations for both periods primarily reflect higher interest income recorded in fiscal 2001, partially offset by expenses related to the holding company formation and strategic planning initiatives also recorded in that same year.

### **Interest Charges**

Interest expense decreased \$2.6 million, or 9.2%, in fiscal 2002 (compared with fiscal 2001) primarily due to decreased short-term interest expense (reflecting lower rates and reduced average borrowings), partially offset by higher interest on long-term debt resulting from the issuance of \$50 million of 6 5/8% first mortgage bonds in June 2001 and interest charges related to the bank note used to finance the acquisition of SM&P.

Interest expense increased \$4.4 million, or 18.5%, in fiscal 2001 (compared with fiscal 2000) primarily due to the issuance of \$30 million of 7.90% first mortgage bonds in September 2000, the issuance of \$50 million of 6 5/8% first mortgage bonds in June 2001, and increased short-term interest expense (reflecting the net effect of higher average borrowings and lower rates).

### **Income Taxes**

The variations in income taxes for all periods reported are primarily due to changes in pre-tax income.

### **Labor Agreement**

On July 30, 2000, Laclede Gas and Union representatives reached a new four-year labor agreement replacing the prior agreement that was to expire July 31, 2000. The new contract extends through July 31, 2004. The settlement resulted in wage increases of 2.75% in all four years, along with lump-sum payment provisions and other benefit improvements.

### **Recent Developments**

In November 2002, SM&P was notified by two customers that, due to actions they have taken to address workforce management issues, they do not intend to continue to outsource certain functions at this time, which include locating services provided by SM&P after February and March 2003. Revenue from these customers totaled approximately \$45 million, or approximately 48% of SM&P's revenues and 6% of Laclede Group's consolidated revenues, for fiscal 2002. Management is currently evaluating the impact of this development on the financial position and results of operations of the Company.

### **CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition, results of operations, liquidity and capital resources is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Generally accepted accounting principles require that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Laclede Gas accounts for its regulated operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement sets forth the application of accounting principles generally accepted in the United States of America for those companies whose rates are established by or are subject to approval by an independent third-party regulator. The provisions of SFAS No. 71 require, among other things, that financial statements of a regulated enterprise reflect the actions of regulators, where appropriate. These actions may result in the recognition of revenues and expenses in time periods that are different than non-regulated enterprises. When this occurs, costs are deferred as assets in the balance sheet (regulatory assets) and recorded as expenses when those amounts are reflected in rates. Also, regulators can impose

liabilities upon a regulated company for amounts previously collected from customers and for recovery of costs that are expected to be incurred in the future (regulatory liabilities).

## **REGULATORY MATTERS**

At the state level, there have been several important developments during the fiscal year affecting Laclede Gas, some of which are still pending.

On January 25, 2002, Laclede filed a request with the Missouri Public Service Commission (MoPSC or Commission) for a general rate increase of \$36.1 million annually to recover costs related to the operation of its gas distribution system. As part of this rate increase filing, the Utility proposed a weather mitigation plan that would protect its customers from weather-related fluctuations in their bills and help stabilize its annual revenues in that regard. On October 3, 2002, the Commission approved a settlement reached among the parties to the case. The terms of the settlement include (1) an annual rate increase of \$14 million effective on November 9, 2002; (2) a moratorium on additional rate filings until March 1, 2004; and (3) an innovative rate design that is expected to provide the Utility with the ability to recover its distribution costs, which are essentially fixed, in a manner that is significantly less sensitive to weather. The settlement also provided for, among other things, changes resulting in negative amortization of the depreciation reserve of \$3.4 million annually effective from July 1, 2002 until the Utility's next rate case proceeding, minor changes in depreciation rates effective January 1, 2003, and changes in the regulatory treatment of pension costs primarily designed to stabilize such costs, effective during fiscal 2003. Also approved was an incentive program beginning in fiscal 2003 under which the Utility may achieve, under specific conditions, income related to management of its gas supply commodity costs.

On March 8, 2002, Laclede Gas filed an application requesting that the MoPSC issue an Accounting Authority Order (AAO) that would allow Laclede Gas to defer for future recovery consideration unrecovered costs due solely to the negative impact of the extraordinarily warm weather experienced in the Utility's service area during the winter of 2001-2002. Laclede Gas has filed to withdraw its application in conjunction with the 2002 rate case settlement.

On May 18, 2001, Laclede Gas filed a request with the Missouri Public Service Commission for a general rate increase of \$39.8 million annually to recover costs related to the operation of its distribution system. This filing culminated in a settlement among the parties to the case, which was approved by the Commission on November 29, 2001. The settlement provided Laclede Gas an annual increase of about \$12 million effective December 1, 2001. Additionally, effective on December 1, 2001 Laclede Gas was permitted to charge customers \$36 to cover the cost of initiating service at a particular address. This new charge was anticipated to generate additional revenue of approximately \$3 million annually. The settlement also provided for the continued deferral of certain costs related to the Laclede Gas pipe replacement program as well as recovery of costs previously deferred under that program. The cost of removing retired utility plant is treated as an expense pursuant to this settlement, rather than being included in depreciation rates. However, Laclede Gas will continue to pursue a reversal of the Commission's treatment of depreciation rates in the courts as discussed in greater detail below. As part of the settlement, Laclede Gas agreed to implement the terms of a rulemaking promulgated by the Commission on November 8, 2001 that relaxed the requirements for the fiscal 2002 heating season for reinstatement of certain customers who had been disconnected for nonpayment. The settlement provides for a recovery mechanism under which Laclede Gas will be reimbursed for any incremental costs associated with the new rule. Finally, under the terms of the agreement, Laclede Gas continues to be permitted to retain all income resulting from sales made outside its traditional service area, and is permitted to retain all income from releases of available pipeline capacity.

Laclede Gas previously appealed the MoPSC's decision in its 1999 rate case relative to the calculation of its depreciation rates. The Circuit Court remanded the decision to the MoPSC based on inadequate findings of fact. The MoPSC upheld its previous order and Laclede Gas appealed this second order to the Circuit Court. On April 29, 2002, the Court ruled that the MoPSC's second order was lawful and reasonable. On June 7, 2002, Laclede Gas appealed the Circuit Court's decision to the Missouri Western District Court of Appeals. All briefs to the Court of Appeals have been submitted and oral arguments have been scheduled for December 2002.

Under the GSIP of Laclede Gas, the Utility shared with its customers certain gains and losses related to the acquisition and management of its gas supply assets. In fiscal 2001, the GSIP contributed \$.29 per share to consolidated earnings. The provisions of the GSIP extended through September 30, 2001. In September 2001, the MoPSC ruled that the GSIP should be allowed to expire. On February 19, 2002, the MoPSC denied Laclede Gas' application for rehearing. Laclede Gas filed a petition for judicial review of the MoPSC's decision with the Cole County Circuit Court, together with a motion requesting that the MoPSC's decision be stayed. The request for stay was denied on May 13, 2002. The petition for judicial review is still pending. However, pursuant to the 2001 rate case settlement approved by the MoPSC in November 2001, and consistent with the 2002 rate case settlement, the MoPSC authorized Laclede Gas to retain all income from releases of pipeline capacity effective December 1, 2001, which previously was shared with customers under the GSIP. Laclede Gas continues to retain all income resulting from sales outside of its traditional service area, as previously authorized by the MoPSC. However, Laclede Gas

was not able to retain any of the savings it obtains relative to gas supply costs or any savings it obtains from pipeline discounts. Income related to releases of available pipeline capacity and sales made outside its traditional service area are volatile in nature and subject to market conditions. See Note 5 for more information on the GSIP.

The Price Stabilization Program (PSP) authorized Laclede Gas to purchase certain financial instruments in an effort to hedge against significant increases in the cost of natural gas. The cost of such financial instruments, however, like the cost of natural gas itself, increased significantly during fiscal 2001. As a result, the MoPSC granted the request of Laclede Gas to reduce the amount of natural gas purchases required to be covered by such financial instruments for that heating season. In February 2001, the MoPSC approved modifications to the PSP, including a provision that \$4 million in supplemental funding be added to the PSP for the purchase of financial instruments for the fiscal 2002 heating season. Concurrently, Laclede Gas relinquished a claim on \$4 million arising from gains realized from the purchase and sale of such instruments during the fiscal 2001 heating season and offered to utilize a similar amount to provide for future funding for such instruments in the event the program was allowed to continue. The MoPSC also approved modifications to the PSP to reduce the fiscal 2002 percentage of gas requirements to be covered by the PSP. The PSP was allowed to expire at the end of the fiscal 2002 heating season, at which time the Utility recorded nearly \$4.9 million of pre-tax income produced through the program.

On June 28, 2002, the Staff of the MoPSC filed its recommendation in a proceeding established to review Laclede Gas' gas costs for fiscal 2001. In its recommendation, the Staff proposed to disallow the approximately \$4.9 million of pre-tax income achieved under the PSP. Laclede Gas believes that Staff's position lacks merit and continues to vigorously oppose the adjustment in a proceeding before the MoPSC, the hearing for which is currently scheduled to occur in February 2003. Regulatory proceeding results are uncertain, and to the extent that a final Commission decision sustains Staff's recommended disallowance, the outcome of the proceeding could have a material effect on the future financial position and results of operations of Laclede Gas. Missouri statutes provide an opportunity for court review of Commission decisions.

The PGA clause allows Laclede Gas to flow through to customers, subject to prudence review, the cost of purchased gas supplies. The Utility is allowed to file to modify, on a periodic basis, the level of gas costs in its PGA. Previously, the Commission allowed two scheduled PGA filings each year, one for the summer months and another for the winter period, plus one unscheduled winter filing if certain conditions were met. The significant fluctuations in natural gas prices during fiscal 2001 necessitated additional unscheduled filings, which were approved by the MoPSC, to better match customer billings with market natural gas prices. In February 2002, the MoPSC approved Laclede Gas' proposal to revise its PGA clause to adjust the gas cost component of its rates more frequently to recover its costs. The new approved tariffs allow scheduled gas cost adjustments in November, January, March and June, thereby enabling Laclede Gas to more closely recover its costs of gas, especially during the high-volume winter months. As part of the same ruling, the MoPSC clarified that costs, cost reductions and carrying costs associated with the Utility's use of natural gas financial instruments (except as provided previously under the PSP) are gas costs recoverable through the PGA mechanism.

On March 15, 2002, the Staff of the MoPSC recommended in a proceeding to review Laclede Gas' gas costs for fiscal 2000 to disallow the recovery of approximately \$2.6 million in gas costs. The alleged grounds were that Laclede Gas had slightly more transportation capacity than necessary to serve its customers. The Utility demonstrated to the Staff the appropriateness of the then-current level of transportation capacity. On May 9, 2002, the Staff revised its recommendation to withdraw the \$2.6 million proposed disallowance.

On May 31, 2002, the Staff of the Commission filed a Motion to Investigate Laclede Gas Company's alleged transfer of its gas supply function to Laclede Energy Services, Inc. (LES), a subsidiary of Laclede Group, and such action's ramifications, including whether such alleged transfer required Commission approval or was otherwise lawful. On June 10, 2002 Laclede Gas responded, pointing out that it had not transferred its gas supply functions to LES but had instead delegated six employees to LES with responsibility for performing various gas supply administrative duties, many of which had been performed in prior years by an outside party. Laclede Gas remains primarily responsible for the gas supply function. Laclede Gas urged the Commission to deny Staff's Motion on this and other grounds. The Commission concluded that a case should be established to investigate the issues raised by the Staff. The Commission also ordered the Staff to file a status report regarding progress of the investigation and Laclede Gas to file any responses to the Staff's status report. Laclede Gas believes its actions comply with applicable law and intends to vigorously defend its position. The outcome of any regulatory proceeding is uncertain. However, Laclede Gas does not believe that the eventual outcome of the case will have a material effect on the financial results of Laclede Gas.

On July 29, 2002, Laclede Gas filed a proposed Catch-Up/Keep-Up Program with the MoPSC that would permit the Company to use a portion of the savings from its negotiated pipeline discounts to fund a low-income energy assistance program. Pursuant to, and among revisions to the Program filed by the Utility on September 23, 2002, the amount of discount savings that could be used for this purpose would be limited to \$6 million per year. In response to certain objections filed by the MoPSC Staff and Missouri Office of the Public Counsel, the Commission has suspended the tariffs implementing the Program and scheduled a prehearing conference that occurred on October 23, 2002. Evidentiary hearings are scheduled for early December, 2002.

## ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," which requires all business combinations in the scope of this Statement to be accounted for using the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets," which addresses how acquired goodwill and other intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon acquisition and after they have been initially recognized in the financial statements. The provisions of this Statement are required to be applied at the beginning of fiscal 2003. The Company had adopted the provisions of SFAS No. 141 with the acquisition of SM&P. As required by SFAS No. 141, the goodwill for SM&P is being accounted for consistent with the provisions of SFAS No. 142. The adoption of SFAS Nos. 141 and 142 did not have a material effect on the financial position and results of operations of Laclede Group.

The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for fiscal 2003. The provisions of the Statement provide for rate-regulated entities that meet the criteria for application of SFAS No. 71, such as Laclede Gas, to recognize regulatory assets or liabilities for differences in the timing of recognition of the period costs associated with asset retirement obligations for financial reporting pursuant to this Statement and rate-making purposes. The effect of the adoption of this Statement on October 1, 2002 did not have a material effect on the financial position and results of operations of Laclede Group.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to consolidate accounting guidance on various issues related to this matter. This Statement is effective for fiscal 2003. Adoption of this Statement is not expected to have a material effect on the financial position and results of operations of Laclede Group.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the financial position or results of operations of Laclede Group.

In October 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The consensus rescinded EITF Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The consensus precludes mark-to-market accounting for all energy trading contracts not within the scope of SFAS No. 133, "Accounting for Derivative and Hedging Activities." The consensus to rescind EITF 98-10 is applicable for fiscal periods beginning after December 15, 2002, except that energy trading contracts not within the scope of SFAS No. 133 purchased after October 25, 2002, but prior to the implementation of the consensus, are not permitted to apply mark-to-market accounting. The EITF also reached a consensus that gains and losses on derivative instruments within the scope of SFAS No. 133 should be shown net in the income statement if the derivative instruments are purchased for trading purposes. Application of these consensus is not expected to have a material effect on the financial position or results of operations of Laclede Group.

## INFLATION

The accompanying consolidated financial statements reflect the historical costs of events and transactions, regardless of the purchasing power of the dollar at the time. Due to the capital-intensive nature of the business of Laclede Gas, the most significant impact of inflation is on the depreciation of utility plant. Rate regulation, to which Laclede Gas is subject, allows recovery through its rates of only the historical cost of utility plant as depreciation. While no plans exist to undertake replacements of plant in service other than normal replacements and those under existing replacement programs, Laclede Gas believes that any higher costs experienced upon replacement of existing facilities would be recovered through the normal regulatory process.

## CREDIT RATINGS

As of September 30, 2002, credit ratings for outstanding securities for Laclede Group and Laclede Gas issues were as follows:

Type of Facility	S&P	Moody's	Fitch
Laclede Group Corporate Rating	A+		
Laclede Gas First Mortgage Bonds	A+	A3	A+
Laclede Gas Commercial Paper	A-1	P-2	

On April 24, 2002, Standard & Poor's (S&P) downgraded the rating for Laclede Gas' First Mortgage Bonds from AA- to A+, and also downgraded the commercial paper rating from A-1+ to A-1. S&P cited bondholder protection parameters that have eroded due to several successive warmer-than-normal winters and increasing debt leverage as reasons for the downgrade. S&P ratings outlook is currently stable.

Moody's Investors Service (Moody's) downgraded Laclede Gas' First Mortgage Bonds from Aa3 to A1 on May 2, 2002. Moody's cited concerns regarding Laclede's weakened credit measures due to increased earnings pressure and near-term regulatory risk. On August 6, 2002, Moody's announced additional downgrades, as the Laclede Gas' First Mortgage Bonds were lowered from A1 to A3 and its commercial paper rating was lowered from P-1 to P-2. The outlook indication from Moody's is now stable. Moody's cited Laclede Gas' declining debt protection measures and the continuing sensitivity of its earnings and cash flow to weather fluctuations in the absence of regulatory relief for warmer-than-normal winters, as well as other pending regulatory matters. Moody's indicated that it would review the potential impact of pending regulatory decisions as they occur.

Ratings from Fitch Ratings remained unchanged from the past year. However, on October 8, 2002, Fitch Ratings revised the rating outlook from stable to negative, citing recent deterioration in consolidated credit measures.

Despite these recent downgrades, the Company's ratings remain investment grade, and the Company believes that it will have adequate access to the markets to meet its capital requirements. These ratings remain subject to review and change by the rating agencies.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow from the operations of Laclede Gas, net of dividend payments, has generally provided the principal liquidity to meet operating requirements and to fund the majority of its construction program. Any remaining funding requirements for construction or other needs have been provided by long-term and short-term financing. The issuance of long-term financing is dependent on management's evaluation of need, financial market conditions, and other factors. Short-term financing is used to meet seasonal cash requirements and/or to defer long-term financing until market conditions are favorable.

Short-term borrowing requirements typically peak during colder months when Laclede Gas borrows money to cover the gap between when it purchases its natural gas and when its customers pay for that gas. These short-term cash requirements have traditionally been met through the sale of commercial paper supported by lines of credit with banks.

During the fiscal year 2002 heating season, Laclede Gas had lines of credit in place of up to \$170 million. Laclede Gas sold commercial paper aggregating to a maximum of \$139.7 million at any one time during the fiscal year, but did not borrow from the banks under the aforementioned agreements. At this writing, Laclede Gas has aggregate lines of credit totaling \$230 million. Short-term commercial paper borrowings outstanding at September 30, 2002 were \$118.9 million at a weighted average interest rate of 1.9%. Based on short-term borrowings at September 30, 2002, a change in interest rates of 100 basis points would increase or decrease pre-tax earnings and cash flows by approximately \$1.2 million on an annual basis.

Most of Laclede Gas' lines of credit include a covenant limiting total debt, including short-term debt, to no more than 70% of total capitalization. On September 30, 2002, total debt was 60% of total capitalization.

On June 26, 2001, Laclede Gas issued \$50 million of first mortgage bonds with an interest rate of 6 5/8% at an overall cost of 6.968%. The bonds were dated June 15, 2001 and mature June 15, 2016. The proceeds were used to repay short-term debt. The bonds were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's in consideration of insurance issued by Ambac Assurance covering the timely payment of the principal of, and interest on, the bonds. These ratings apply only to these insured bonds, and not to the other outstanding uninsured bonds of Laclede Gas. These bonds were issued under Laclede Gas' shelf registration statement on Form S-3 and MoPSC authorization obtained in 2000. Of the \$350 million of securities originally registered under this S-3, \$270 million of debt securities remained registered and unissued as of September 30, 2002. The amount, timing and type of securities remaining to be issued under the shelf registration will depend on cash requirements and market conditions.

At September 30, 2002, Laclede Gas had fixed-rate long-term debt, including current portion, totaling \$285 million. While these long-term debt issues are fixed-rate, they are subject to changes in fair

value as market interest rates change. However, increases or decreases in fair value would impact earnings and cash flows only if Laclede Gas were to reacquire any of these issues in the open market prior to maturity.

Short-term cash requirements outside of Laclede Gas have been met thus far with internally-generated funds. However, Laclede Group has put into place a working capital line of credit for \$20 million, expiring in June 2003, to meet short-term funding needs of its non-utility subsidiaries. While this line has not been used to date, it is expected to be used for seasonal needs of the various subsidiaries from time to time throughout the year. At September 30, 2002, Laclede Group had a bank note in the amount of \$42.8 million related to the acquisition of SM&P. The weighted average interest rate during fiscal 2002 was 2.7%.

On April 22, 2002, Laclede Group filed a registration statement on Form S-3 with the Securities and Exchange Commission (SEC) in connection with the sale of up to \$500 million of equity securities, other than preferred stock, and debt securities. This registration statement became effective on May 6, 2002. The amount, timing and type of financing to be issued under this shelf registration will depend on cash requirements and market conditions.

Certain of the Company's credit facilities include rating triggers which would trigger default in the event that the Company's ratings fall below a specified level. These triggers apply specifically to the \$42.8 million outstanding bank loan which was used to acquire SM&P and the \$20 million working capital line of credit (none of such line of credit has been employed at this writing). Both the bank loan and the line of credit were obtained from U. S. Bank National Association, and include interest rates at the lower of a rate indexed to LIBOR, or Prime. The applicable rating triggers are a rating on Laclede Gas Company's senior secured debt of no lower than A3 (Moody's) or A- (S&P). Therefore, these triggers would take effect in the event of a downgrade of three notches from the current level by S&P or of one notch by Moody's.

Construction expenditures for utility purposes were \$48.8 million in fiscal 2002 compared with \$47.0 million in fiscal 2001 and \$51.6 million in fiscal 2000. Laclede Gas expects fiscal 2003 utility construction expenditures to approximate \$53 million. Non-regulated construction expenditures for fiscal 2002 were \$4.2 million, and are estimated at approximately \$.5 million in fiscal 2003.

SM&P has several operating leases, the aggregate annual cost of which is approximately \$8 million, consisting primarily of 12-month operating leases, with renewal options, for vehicles used in its business. Upon acquisition of SM&P, Laclede Group assumed parental guarantees of certain of those vehicle leases. Laclede Group anticipates that the maximum guarantees will not exceed \$15 million.

During fiscal 2002, Laclede Group issued guarantees totaling \$9.0 million for performance and payment of certain gas supply purchases by Laclede Energy Resources, Inc. (its non-regulated marketing affiliate).

Consolidated capitalization at September 30, 2002 consisted of 52.3% common stock equity, .2% preferred stock and 47.5% long-term debt.

The ratio of earnings to fixed charges was 2.2 for 2002, 2.6 for 2001 and 2.6 for 2000.

It is management's view that the Company has adequate access to capital markets and will have sufficient capital resources, both internal and external, to meet anticipated capital requirements.

## **MARKET RISK**

The management of Laclede Gas has adopted a risk management policy that provides for the purchase of natural gas financial instruments with the goal of managing price risk associated with purchasing natural gas on behalf of its customers. This policy prohibits speculation. Costs and cost reductions, including carrying costs, associated with the Utility's use of natural gas financial instruments (except as provided for previously under the PSP) are allowed to be passed on to the Utility's customers through the operation of its Purchased Gas Adjustment Clause, through which the MoPSC allows the Utility to recover gas supply costs. Accordingly, Laclede Gas does not expect any earnings impact as a result of the use of these financial instruments. At September 30, 2002, the Utility held approximately 15 million MmBtu of futures contracts at an average price of \$3.83 per MmBtu. Additionally, approximately 12 million MmBtu of price risk mitigation was in place through the use of option-based strategies. These positions have various expiration dates, the longest of which extends through March 2003.

In the course of its business, Laclede Group's non-regulated marketing affiliate, Laclede Energy Resources, Inc. (LER), enters into fixed price commitments for the sale of natural gas to customers. LER manages the price risk associated with these sales by closely matching the purchases of physical supplies at fixed prices to lock in margins. At September 30, 2002, LER's open positions were not material to Laclede Group's financial position or results of operations.



## ENVIRONMENTAL MATTERS

Laclede Gas is subject to various environmental laws and regulations that, to date, have not materially affected the Company's financial position and results of operations. As these laws, regulations, and their interpretation evolve, however, additional costs may be incurred.

With regard to a former manufactured gas plant site located in Shrewsbury, Missouri, Laclede Gas and state and federal environmental regulators have agreed upon certain actions and those actions are nearing completion. Laclede Gas currently estimates the overall costs of these actions will be approximately \$2.3 million. As of September 30, 2002, Laclede Gas has paid or reserved for these actions. If regulators require additional actions, Laclede Gas will incur additional costs.

Laclede Gas enrolled a second former manufactured gas plant site into the Missouri Voluntary Cleanup Program (VCP). The VCP provides opportunities to minimize the scope and cost of site cleanup while maximizing possibilities for site development. This site is located in and is presently owned by the City of St. Louis, Missouri. The City of St. Louis has separately authorized a developer to prepare both a Remedial Action Plan (RAP), for submission to the VCP, and a site development plan. Laclede Gas is presently meeting with the developer to determine what role, if any, it might play in these efforts. Laclede Gas continues to evaluate other options as well, including, but not limited to, the submission of its own RAP to the VCP. Laclede Gas currently estimates that the cost of site investigations, agency oversight and related legal and engineering consulting may be approximately \$629,000. Currently, Laclede Gas has paid or reserved for these actions. Laclede has requested that other former site owners and operators share in these costs and one party has agreed to participate and has reimbursed Laclede Gas to date for \$173,000. Laclede Gas anticipates additional reimbursement from this party. Laclede Gas plans to seek proportionate reimbursement of all costs relative to this site from other potentially responsible parties if practicable.

Costs incurred are charged to expense or capitalized in accordance with generally accepted accounting principles. A predetermined level of expense is included in Laclede Gas' rates.

Laclede Gas has been advised that a third former manufactured gas plant site previously operated but no longer owned by Laclede Gas may contain gas plant waste that may require remediation. Laclede Gas is working to determine the nature and extent of such waste, if any, and its responsibility, if any, for any remediation costs.

While the scope of costs relative to the Shrewsbury site will not be significant, the scope of costs relative to the other sites is unknown and may be material. Laclede Gas has notified its insurers that it seeks reimbursement of its costs at these three manufactured gas plant sites. In response, the majority of insurers have reserved their rights. While some of the insurers have denied coverage, Laclede Gas continues to seek reimbursement from them. With regard to the Shrewsbury site, denials of coverage are not expected to have any material impact on the financial position and results of operations of Laclede Gas. With regard to the other two sites, since the scope of costs are unknown and they may be significant, denials of coverage may have a material impact on the financial position and results of operations of Laclede Gas. Such costs, if incurred, have typically been subject to recovery in rates.

Laclede Gas Company's Management Discussion and Analysis of Financial Condition is included in Exhibit 99.1

## **Item 8. Financial Statements and Supplementary Data**

### **Independent Auditors' Report**

To the Board of Directors and Shareholders of The Laclede Group, Inc.:

We have audited the consolidated balance sheets and statements of consolidated capitalization of The Laclede Group, Inc. and its subsidiaries ("the Company") as of September 30, 2002 and 2001, and the related statements of consolidated income, retained earnings, comprehensive income, and cash flows for each of the three years in the period ended September 30, 2002. Our audits also included the financial statement schedule listed in the Index at Part IV, Item 15(a) 2. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Laclede Group, Inc. and its subsidiaries as of September 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

### **DELOITTE & TOUCHE LLP**

St. Louis, Missouri

November 19, 2002 (December 2, 2002 as to the last paragraph of Note 13)

## Management Report

Management is responsible for the preparation, presentation and integrity of the consolidated financial statements and other financial information in this report. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts that are based on management's best estimates and judgments. In the opinion of management, the financial statements fairly reflect the Company's financial position, results of operations and cash flows.

The Company maintains internal accounting systems and related administrative controls that are designed to provide reasonable assurance, on a cost-effective basis, that transactions are executed in accordance with management's authorization, that consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and that the Company's assets are properly accounted for and safeguarded.

The Company's Internal Audit Department, which has unrestricted access to all levels of Company management, monitors compliance with established controls and procedures.

Deloitte & Touche LLP, the Company's independent auditors, whose report is contained herein, are responsible for auditing the Company's financial statements in accordance with auditing standards generally accepted in the United States of America. Such standards include obtaining an understanding of the internal control structure in order to design the audit of the financial statements.

The Audit Committee of the Board of Directors, which consists of five outside directors, meets periodically with management, the internal auditor, and the independent auditors to review the manner in which they are performing their responsibilities. Both the internal auditor and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Douglas H. Yaeger  
Chairman of the Board,  
President and Chief Executive Officer

Barry C. Cooper  
Chief Financial Officer

## Item 8. Financial Statements and Supplementary Data

THE LACLEDE GROUP, INC.  
STATEMENTS OF CONSOLIDATED INCOME

(Thousands, Except Per Share Amounts)

Years Ended September 30	2002	2001	2000
Operating Revenues:			
Regulated			
Gas distribution	\$ 592,097	\$ 923,242	\$ 529,250
Non-Regulated			
Services	94,116	-	-
Other	69,026	78,867	36,878
Total operating revenues	755,239	1,002,109	566,128
Operating Expenses:			
Regulated			
Natural and propane gas	340,045	640,006	294,717
Other operation expenses	106,027	101,915	86,970
Maintenance	17,813	19,262	18,556
Depreciation and amortization	24,215	26,193	24,672
Taxes, other than income taxes	48,342	65,062	42,788
Total regulated operating expenses	536,442	852,438	467,703
Non-Regulated			
Services	90,771	-	-
Other	68,264	77,346	35,082
Total operating expenses	695,477	929,784	502,785
Operating Income	59,762	72,325	63,343
Other Income and Income Deductions - Net	678	1,417	735
Income Before Interest and Income Taxes	60,440	73,742	64,078
Interest Charges:			
Interest on long-term debt	20,820	18,372	15,164
Other interest charges	4,989	10,067	8,844
Total interest charges	25,809	28,439	24,008
Income Before Income Taxes	34,631	45,303	40,070
Income Taxes	12,247	14,831	14,105
Dividends on Redeemable Preferred Stock - Laclede Gas	68	87	93
Net Income Applicable to Common Stock	\$ 22,316	\$ 30,385	\$ 25,872
Average Shares of Common Stock Outstanding	18,888	18,878	18,878
Earnings Per Share of Common Stock	\$1.18	\$1.61	\$1.37

See the accompanying notes to consolidated financial statements.

THE LACLEDE GROUP, INC.  
STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

(Thousands, Except Per Share Amounts)

Years Ended September 30	2002	2001	2000
Balance at Beginning of Year	\$ 205,512	\$ 200,423	\$ 199,848
Add - Net Income	22,316	30,385	25,872
Deduct - Cash Dividends Declared:			
Common stock, \$1.34 per share in 2002, 2001 and 2000	25,311	25,296	25,297
Balance at End of Year	\$ 202,517	\$ 205,512	\$ 200,423

See the accompanying notes to consolidated financial statements.

THE LACLEDE GROUP, INC.  
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(Thousands)

Years Ended September 30	2002	2001	2000
Net Income	\$ 22,316	\$ 30,385	\$ 25,872
Other Comprehensive Income (Loss):			
Minimum pension liability adjustment	(553)	-	125
Income tax expense (benefit)	(214)	-	48
Other Comprehensive Income (Loss)	(339)	-	77
Comprehensive Income	\$ 21,977	\$ 30,385	\$ 25,949

See the accompanying notes to consolidated financial statements.

THE LACLEDE GROUP, INC.  
CONSOLIDATED BALANCE SHEETS

(Thousands)	-----	-----
September 30	2002	2001
-----	-----	-----
<b>Assets</b>		
Utility Plant	\$ 988,747	\$ 949,775
Less - Accumulated depreciation and amortization	394,371	380,135
Net utility plant	-----	-----
	594,376	569,640
Goodwill	27,455	-
Other Property and Investments (net of accumulated depreciation and amortization, 2002, \$5,265; 2001, \$4,798)	-----	-----
	46,986	32,893
<b>Current Assets:</b>		
Cash and cash equivalents	12,870	3,223
Accounts receivable:		
Gas customers - Billed and unbilled	51,419	74,604
Other	42,591	13,103
Less - Allowances for doubtful accounts	(4,532)	(9,216)
Inventories:		
Natural gas stored underground at LIFO cost	77,121	76,661
Propane gas at FIFO cost	14,712	14,213
Materials, supplies and merchandise at average cost	4,364	5,393
Deferred income taxes	12,305	8,556
Prepayments and other	11,505	3,999
Total current assets	-----	-----
	222,355	190,536
<b>Deferred Charges:</b>		
Prepaid pension cost	114,313	110,475
Regulatory assets	72,484	68,599
Other	3,904	3,767
Total deferred charges	-----	-----
	190,701	182,841
Total Assets	-----	-----
	\$1,081,873	\$ 975,910
	=====	=====

See the accompanying notes to consolidated financial statements.

THE LACLEDE GROUP, INC.  
CONSOLIDATED BALANCE SHEETS (Continued)

(Thousands)

September 30	2002	2001
<b>Capitalization and Liabilities</b>		
Capitalization:		
Common stock equity	\$ 285,766	\$ 288,085
Redeemable preferred stock - Laclede Gas	1,266	1,588
Long-term debt	259,545	284,459
Total capitalization	546,577	574,132
Current Liabilities:		
Notes payable	161,670	117,050
Accounts payable	45,707	32,087
Advance customer billings	24,832	11,679
Current portion of long-term debt and preferred stock	25,000	79
Wages and compensation accrued	16,729	11,785
Dividends payable	6,340	6,400
Customer deposits	4,226	4,404
Interest accrued	7,832	7,963
Taxes accrued	9,815	14,912
Unamortized purchased gas adjustments	22,976	9,026
Other	11,670	2,311
Total current liabilities	336,797	217,696
Deferred Credits and Other Liabilities:		
Deferred income taxes	157,378	142,515
Unamortized investment tax credits	5,629	5,948
Pension and postretirement benefit costs	14,658	15,847
Other	20,834	19,772
Total deferred credits and other liabilities	198,499	184,082
Commitments and Contingencies (Note 14)		
Total Capitalization and Liabilities	\$1,081,873	\$ 975,910

See the accompanying notes to consolidated financial statements.

THE LACLEDE GROUP, INC.  
STATEMENTS OF CONSOLIDATED CAPITALIZATION

(Thousands)	-----	-----
September 30	2002	2001
-----	-----	-----
Common Stock Equity:		
Common stock, par value \$1 per share:		
Authorized - 2002 and 2001, 50,000,000 shares		
Issued - 2002, 18,921,287 shares; and 2001, 20,743,625 shares	\$ 18,921	\$ 20,744
Paid-in capital	64,667	85,846
Retained earnings	202,517	205,512
Accumulated other comprehensive income (loss)	(339)	-
Treasury stock, at cost - 2002, no shares; and 2001, 1,865,638 shares	-	(24,017)
Total common stock equity	----- 285,766	----- 288,085
Redeemable Preferred Stock - Laclede Gas, par value \$25 per share (1,480,000 shares authorized) Issued and outstanding:		
5% Series B - 2002, 44,749 shares; and 2001, 60,755 shares	1,118	1,440
4.56% Series C - 2002 and 2001, 5,906 shares	148	148
Total redeemable preferred stock	----- 1,266	----- 1,588
Long-Term Debt:		
First mortgage bonds:		
6-1/4% Series, due May 1, 2003	-	25,000
8-1/2% Series, due November 15, 2004	25,000	25,000
8-5/8% Series, due May 15, 2006	40,000	40,000
7-1/2% Series, due November 1, 2007	40,000	40,000
6-1/2% Series, due November 15, 2010	25,000	25,000
6-1/2% Series, due October 15, 2012	25,000	25,000
6-5/8% Series, due June 15, 2016	50,000	50,000
7% Series, due June 1, 2029	25,000	25,000
7.90% Series, due September 15, 2030	30,000	30,000
Total	----- 260,000	----- 285,000
Unamortized discount, net of premium, on long-term debt	(455)	(541)
Total long-term debt	----- 259,545	----- 284,459
Total	----- \$546,577	----- \$574,132
	=====	=====

Long-term debt and preferred stock amounts are exclusive of current portion.

See the accompanying notes to consolidated financial statements.



THE LACLEDE GROUP, INC.  
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Thousands)

Years Ended September 30	2002	2001	2000
<b>Operating Activities:</b>			
Net Income	\$ 22,316	\$ 30,385	\$ 25,872
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	26,223	26,425	24,875
Deferred income taxes and investment tax credits	5,666	(3,454)	14,295
Dividends on redeemable preferred stock - Laclede Gas	68	87	93
Other - net	801	(1,745)	112
Changes in assets and liabilities:			
Accounts receivable - net	3,714	(23,284)	(13,179)
Unamortized purchased gas adjustments	13,950	23,933	(23,863)
Deferred purchased gas costs	185	(3,332)	4,028
Accounts payable	11,093	(13,572)	13,944
Advance customer billings	13,153	(3,611)	(375)
Taxes accrued	(5,097)	2,868	6,240
Natural gas stored underground	(460)	18,126	(30,675)
Other assets and liabilities	(7,768)	(14,927)	(18,321)
Net cash provided by operating activities	83,844	37,899	3,046
<b>Investing Activities:</b>			
Construction expenditures	(52,999)	(46,952)	(51,635)
Employee benefit trusts	(1,508)	(3,522)	(448)
Acquisition of SM&P, net of cash and cash equivalents	(38,044)	-	-
Other investments	(1,515)	(2,948)	(2,877)
Net cash used in investing activities	(94,066)	(53,422)	(54,960)
<b>Financing Activities:</b>			
Issuance of first mortgage bonds	-	50,000	30,000
Issuance of short-term debt - net	44,620	(9,950)	42,300
Issuance of common stock	1,009	-	-
Dividends paid	(25,365)	(25,383)	(25,387)
Redemption of preferred stock	(395)	(136)	(136)
Net cash provided by financing activities	19,869	14,531	46,777
Net Increase (Decrease) in Cash and Cash Equivalents	9,647	(992)	(5,137)
Cash and Cash Equivalents at Beginning of Year	3,223	4,215	9,352
Cash and Cash Equivalents at End of Year	\$ 12,870	\$ 3,223	\$ 4,215
<b>Supplemental Disclosure of Cash Paid (Refunded) During the Year for:</b>			
Interest	\$ 23,125	\$ 26,508	\$ 23,631
Income taxes	12,087	12,462	(6,721)

See the accompanying notes to consolidated financial statements.

THE LACLEDE GROUP, INC.  
 SCHEDULE OF INCOME TAXES

(Thousands)

Years Ended September 30	2002	2001	2000
Included in Statements of Consolidated Income:			
Federal			
Current	\$ 5,510	\$ 15,639	\$ 202
Deferred	5,069	(2,778)	11,987
Investment tax credit adjustments - net	(319)	(319)	(319)
State and local			
Current	1,071	2,646	(392)
Deferred	916	(357)	2,627
Total	\$ 12,247	\$ 14,831	\$ 14,105

See the accompanying notes to consolidated financial statements.

THE LACLEDE GROUP, INC.  
SCHEDULE OF INTERIM FINANCIAL INFORMATION  
(Unaudited)

(Thousands, Except Per Share Amounts)

----- THREE MONTHS ENDED -----	----- DEC. 31 -----	----- MARCH 31 -----	----- JUNE 30 -----	----- SEPT. 30 -----
2002				
TOTAL OPERATING REVENUES	\$194,644	\$287,463	\$147,281	\$125,851
OPERATING INCOME (LOSS)	17,316	40,459	3,984	(1,997)
NET INCOME (LOSS)	7,719	20,738	(910)	(5,231)
EARNINGS (LOSS) PER SHARE OF COMMON STOCK	\$ .41	\$1.10	\$(.05)	\$(.28)

----- Three Months Ended -----	----- Dec. 31 -----	----- March 31 -----	----- June 30 -----	----- Sept. 30 -----
2001				
Total Operating Revenues	\$345,025	\$442,742	\$122,901	\$ 91,441
Operating Income (Loss)	35,747	40,972	(750)	(3,644)
Net Income (Loss)	18,495	20,685	(3,695)	(5,100)
Earnings (Loss) Per Share of Common Stock	\$ .98	\$1.10	\$(.20)	\$(.27)

See the accompanying notes to consolidated financial statements.

## NOTES TO FINANCIAL STATEMENTS

### THE LACLEDE GROUP, INC.

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF CONSOLIDATION** - The consolidated financial statements include the accounts of The Laclede Group, Inc. (Laclede Group or the Company) and its subsidiary companies under the corporate organizational structure that was in place during the three years ended September 30, 2002. Effective October 1, 2001, the corporation reorganized such that Laclede Gas Company (Laclede Gas or the Utility) and its subsidiaries became separate subsidiaries of Laclede Group, an exempt holding company under the Public Utility Holding Company Act of 1935. See Note 2 for a discussion of the holding company structure.

Consolidated Financial Statements included in this report present the consolidated financial position, results of operations and cash flows of Laclede Group after the October 1, 2001 restructuring, as well as the consolidated financial position, results of operations and cash flows of Laclede Gas prior to restructuring. The consolidated financial position, results of operations and cash flows of Laclede Gas Company immediately before the restructuring are essentially identical to the consolidated financial position, results of operations and cash flows of Laclede Group immediately after the restructuring.

All subsidiaries are wholly owned and material intercompany transactions have been eliminated. Laclede Gas and other subsidiaries of Laclede Group may engage in related party transactions during the ordinary course of business. All significant intercompany balances have been eliminated from the consolidated financial statements of Laclede Group. In addition, all such significant transactions between Laclede Gas and its affiliates that occurred prior to the October 1, 2001 restructuring have similarly been eliminated from the consolidated financial statements of Laclede Gas.

**NATURE OF OPERATIONS** - Laclede Group is an exempt holding company under the Public Utility Holding Company Act of 1935. Laclede Gas, Laclede Group's largest subsidiary and core business unit, is a public utility engaged in the retail distribution of natural gas. Laclede Gas serves an area in eastern Missouri, with a population of approximately 2.0 million, including the City of St. Louis, St. Louis County, and parts of eight other counties. As an adjunct to its gas distribution business, Laclede Gas operates underground natural gas storage fields. SM&P Utility Resources, Inc. (SM&P), acquired by Laclede Group on January 28, 2002, is one of the nation's major underground locating and marking service businesses. SM&P, a Carmel, Indiana-based company, performs over 10 million locates annually. During fiscal 2002, its approximate 2,000 employees operated across 10 centrally located states. The activities of other wholly owned subsidiaries are described in Note 13, Information by Operating Segment.

**USE OF ESTIMATES** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SYSTEM OF ACCOUNTS** - The accounts of Laclede Gas are maintained in accordance with the uniform system of accounts prescribed by the Missouri Public Service Commission (MoPSC or Commission), which system substantially conforms to that prescribed by the Federal Energy Regulatory Commission.

**UTILITY PLANT, DEPRECIATION AND AMORTIZATION** - Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and materials, allocable overheads, and an allowance for funds used during construction. The costs of units of property retired, replaced, or renewed are removed from utility plant and are charged to accumulated depreciation. Maintenance and repairs of property and replacement and renewal of items determined to be less than units of property are charged to maintenance expenses. Effective December 1, 2001, the MoPSC ordered the cost of removing retired utility plant to be recovered as an expense when incurred rather than being included in depreciation rates. Prior to December 1, 2001, the Utility's removal costs, net of salvage, were charged to accumulated depreciation. As ordered by the MoPSC, Laclede Gas instituted lower depreciation rates effective December 1, 2001 and began expensing all removal costs, net of salvage, as incurred. These costs are included in the Other Operation Expenses line on the income statement. Effective July 1, 2002, the MoPSC ordered the negative amortization on a straight-line basis of a portion of the Utility's depreciation reserve, amounting to \$3.4 million annually, until implementation of rates in the Utility's next rate case proceeding during which the parties have agreed to review the depreciation issue in light of Statement of Financial Accounting Standard (SFAS) No. 143 implementation.

Utility plant is depreciated on a straight-line basis at rates based on estimated service lives of the various classes of property. Annual depreciation and amortization in 2002, 2001 and 2000 averaged approximately 2.8%, 2.9% and 2.8%, respectively, of the original cost of depreciable and amortizable property.

**REGULATED OPERATIONS** - Laclede Gas accounts for its regulated operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement sets forth the application of accounting principles generally accepted in the United States of America for those companies whose rates are established by or are subject to approval by an independent third-party regulator. The provisions of SFAS No. 71 require, among other things, that financial statements of a regulated enterprise reflect the actions of regulators, where appropriate. These actions may result in the recognition of revenues and expenses in time periods that are different than non-regulated enterprises. When this occurs, costs are deferred as assets in the balance sheet (regulatory assets) and recorded as expenses when those amounts are reflected in rates. Also, regulators can impose liabilities

upon a regulated company for amounts previously collected from customers and for recovery of costs that are expected to be incurred in the future (regulatory liabilities).

The following regulatory assets and regulatory liabilities were reflected in the Consolidated Balance Sheets as of September 30:

(Thousands)	2002	2001
-----		
Regulatory Assets:		
Future income taxes due from customers	\$50,662	\$45,240
Pension and postretirement benefit costs	6,167	6,671
Purchased gas costs	2,212	2,396
Compensated absences	6,390	6,472
Other	7,924	9,133
	-----	-----
Total Regulatory Assets	\$73,355	\$69,912
	=====	=====
Regulatory Liabilities:		
Unamortized investment tax credits	\$ 5,629	\$ 5,948
Unamortized purchased gas adjustments	22,976	9,026
Other	384	304
	-----	-----
Total Regulatory Liabilities	\$28,989	\$15,278
	=====	=====

As authorized by the MoPSC, Laclede Gas discontinued deferring certain costs for future recovery, as expenses associated with those specific areas were included in approved rates effective December 27, 1999. Previously deferred costs, of \$10.5 million and \$2.1 million, are being recovered and amortized on a straight-line basis over fifteen-year and ten-year periods, respectively, without return on investment.

Approximately \$1.9 million and \$.6 million has been amortized, respectively, from December 27, 1999 through September 30, 2002. The Commission also authorized previously deferred costs of \$2.8 million to be recovered and amortized on a straight-line basis over a ten-year period, without return on investment, effective December 1, 2001. Approximately \$230,000 has been amortized through September 30, 2002.

**GAS STORED UNDERGROUND** - Inventory of Utility gas in storage is priced on a last-in, first-out (LIFO) basis. The replacement cost of gas stored underground for current use at September 30, 2002 exceeded the LIFO cost by \$10.0 million and at September 30, 2001 was less than the LIFO cost by \$13.5 million. The inventory carrying value is not adjusted to the lower of cost or market prices because, pursuant to the Laclede Gas Purchased Gas Adjustment (PGA) Clause, actual gas costs are recovered in customer rates.

**REGULATED GAS DISTRIBUTION REVENUES** - Laclede Gas records revenues from gas sales and transportation service on the accrual basis which includes estimated amounts for gas delivered, where applicable, but not yet billed.

**PURCHASED GAS ADJUSTMENTS AND DEFERRED ACCOUNT** - The PGA Clause allows Laclede Gas to flow through to customers, subject to prudence review, the cost of purchased gas supplies. The Utility is allowed to file to modify, on a periodic basis, the level of gas costs in its PGA. Previously, the Commission allowed two scheduled PGA filings each year, one for the summer months and another for the winter period, plus one unscheduled winter filing if certain conditions were met. The significant fluctuations in natural gas prices during fiscal 2001 necessitated additional unscheduled filings, which were approved by the MoPSC, to better match customer billings with market natural gas prices. In February 2002, the MoPSC approved Laclede Gas' proposal to revise its PGA clause to adjust the gas cost component of its rates more frequently to recover its costs. The new approved tariffs allow scheduled gas cost adjustments in November, January, March and June, thereby enabling Laclede Gas to more closely recover its costs of gas, especially during the high-volume winter months. As part of the same ruling, the MoPSC clarified that costs, cost reductions and carrying costs associated with the Utility's use of natural gas financial instruments (except as provided previously under the PSP) are gas costs recoverable through the PGA mechanism. In order to better match customer billings with market natural gas prices, Laclede Gas also requested, and received approval, to implement additional special unscheduled PGA filings allowing Laclede Gas to change rates charged to its customers in response to significant fluctuations in market prices during fiscal years 2001 and 2000.

The provisions of the PGA Clause also included operation of the Gas Supply Incentive Plan (GSIP or Plan), which extended through September 30, 2001. See Note 5 for additional information on the operation of the Plan.

Operation of the Price Stabilization Program (PSP or Program) was also included in the provisions of the PGA Clause. Under those provisions, the MoPSC authorized Laclede Gas to purchase financial instruments to protect itself and its customers from unusually large winter period gas price increases. The costs of purchasing these instruments and financial gains derived from such activities were passed on to Laclede Gas customers through the operation of its PGA Clause. Laclede Gas had an opportunity to benefit from gains and cost reductions achieved under the Program. During fiscal 2000, Laclede Gas recorded approximately \$27,000 of pre-tax income under the provisions of the Program. The cost of financial instruments for the fiscal 2001 heating season, however, like the cost of natural gas itself, increased significantly. As a result, the MoPSC granted a request made by Laclede Gas to reduce the amount of natural gas purchases required to be covered by such financial instruments for that particular heating season. In February 2001, the MoPSC approved modifications to the program for the fiscal 2002

heating season. The modifications allowed a total of \$4.0 million in supplemental funding to be added to the program for the purchase of financial instruments for the fiscal 2002 heating season and that the percentage of gas requirements to be covered be reduced. Concurrently, Laclede Gas relinquished a claim on \$4.0 million arising from gains realized from purchases and sales of financial instruments made during fiscal 2001 and offered to utilize a similar amount to provide for future funding for such instruments in the event the program was allowed to continue. The PSP was allowed to expire at the end of the fiscal 2002 heating season, at which time, the Utility recorded nearly \$4.9 million in pre-tax income produced through the Program. See Note 14 for further discussion of the PSP.

Pursuant to the provisions of the PGA Clause, the difference between actual costs incurred and costs recovered through the application of the PGA, amounts due to or from customers related to the operation of the GSIP, and amounts related to the PSP are reflected as a deferred charge or credit until fiscal year end. At that time the balance is classified as a current asset or liability and is recovered from or credited to customers over an annual period commencing in November. The balance in the current account is amortized as amounts are reflected in customer billings.

**INCOME TAXES** - Laclede Group and its subsidiaries have elected, for tax purposes only, various accelerated depreciation provisions of the Internal Revenue Code. In addition, certain other costs are expensed currently for tax purposes while being deferred for book purposes. The provision for current income taxes reflects the tax treatment of these items. Laclede Group companies record deferred tax liabilities and assets measured by enacted tax rates for the net tax effect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. Changes in enacted tax rates, if any, will be reflected by entries to regulatory asset or liability accounts for regulated companies, and will be reflected as income or loss for non-regulated companies.

Laclede Gas' investment tax credits utilized prior to 1986 have been deferred and are being amortized in accordance with regulatory treatment over the useful life of the related property.

**CASH AND CASH EQUIVALENTS** - All highly liquid debt instruments purchased are considered to be cash equivalents. Such instruments are carried at cost, which approximates market value.

**NEW ACCOUNTING STANDARDS** - In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," which requires all business combinations in the scope of this Statement to be accounted for using the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets," which addresses how acquired goodwill and other intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon acquisition and after they have been initially recognized in the financial statements. The provisions of this Statement are required to be applied at the beginning of fiscal 2003. The Company had adopted the provisions of SFAS No. 141 with the acquisition of SM&P. As required by SFAS No. 141, the goodwill for SM&P is being accounted for consistent with the provisions of SFAS No. 142. The adoption of SFAS Nos. 141 and 142 did not have a material effect on the financial position and results of operations of Laclede Group.

The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for fiscal 2003. The provisions of the statement provide for rate-regulated entities that meet the criteria for application of SFAS No. 71, such as Laclede Gas, to recognize regulatory assets or liabilities for differences in the timing of recognition of the period costs associated with asset retirement obligations for financial reporting pursuant to this Statement and rate-making purposes. The effect of the adoption of this Statement on October 1, 2002 did not have a material effect on the financial position and results of operations of Laclede Group.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to consolidate accounting guidance on various issues related to this matter. This statement is effective for fiscal 2003. Adoption of this Statement is not expected to have a material effect on the financial position and results of operations of Laclede Group.

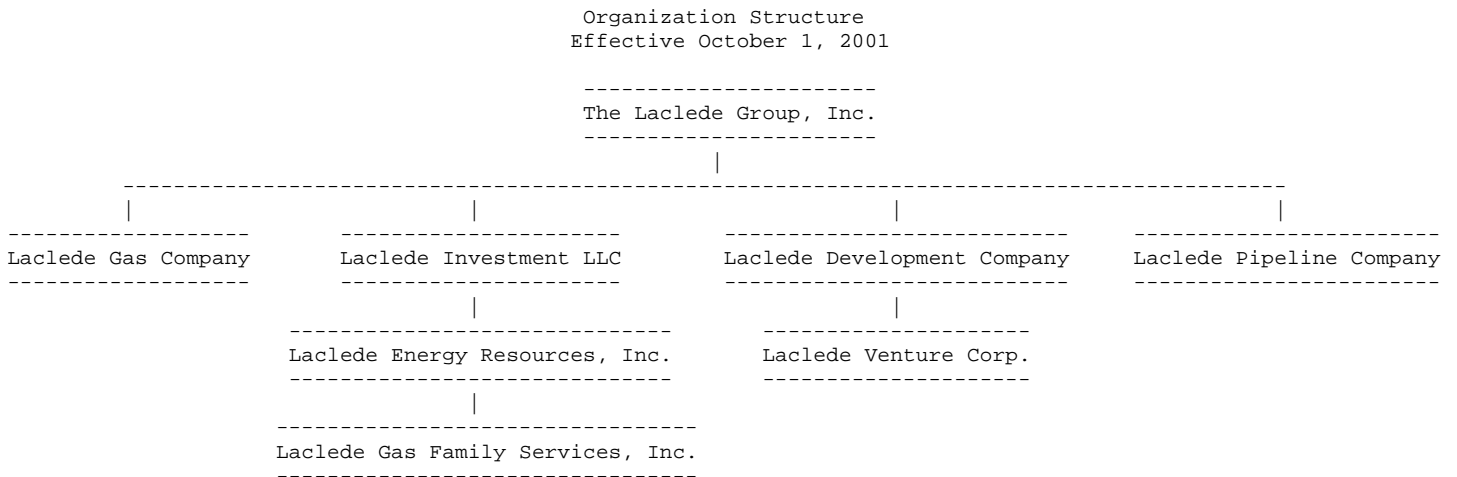
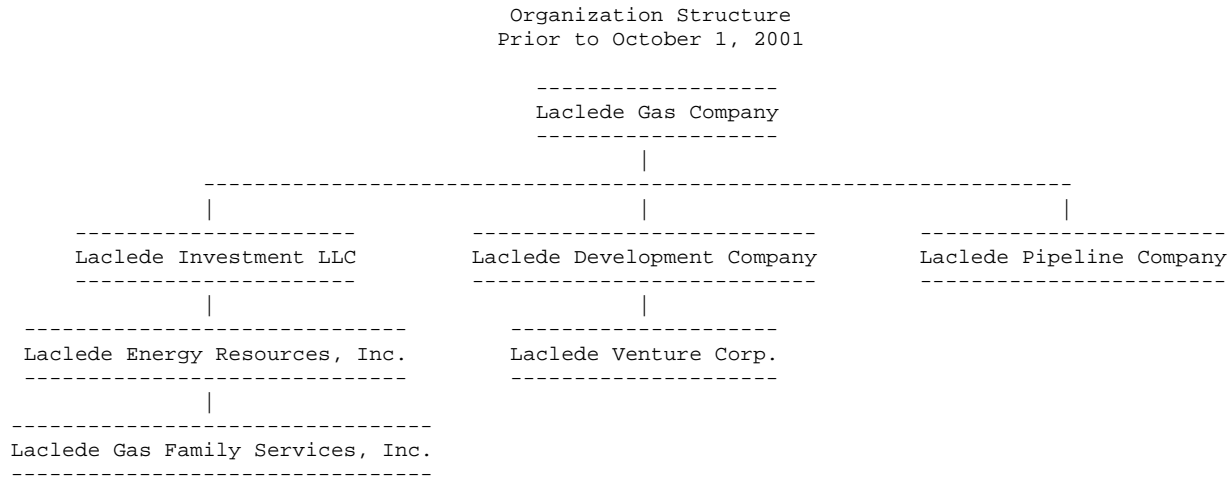
In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the financial position or results of operations of Laclede Group.

In October 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The consensus rescinded EITF Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The consensus precludes mark-to-market accounting for all energy trading contracts not within the scope of SFAS No. 133, "Accounting for Derivative and Hedging Activities." The consensus to rescind EITF 98-10 is applicable for fiscal periods beginning after December 15, 2002, except that energy trading contracts not within the scope of SFAS No. 133 purchased after October 25, 2002, but prior to the implementation of the consensus, are not permitted to apply mark-to-market accounting. The EITF also reached a consensus that gains and losses on derivative instruments within the scope of SFAS No. 133 should be shown net in the income statement if the derivative instruments are purchased for trading purposes. Application of these consensus is not expected to have a material effect on the financial position or results of operations of Laclede Group.

**RECLASSIFICATION** - Certain prior-period amounts have been reclassified to conform to current-period presentation.

## 2. CORPORATE RESTRUCTURING

Effective October 1, 2001, Laclede Gas and its subsidiaries became subsidiaries of Laclede Group, an exempt holding company under the Public Utility Holding Company Act of 1935. Under the new structure, Laclede Gas and its former subsidiaries operate as separate subsidiaries of Laclede Group. The following charts illustrate the major organizational changes resulting from this restructuring.



Since the October 1, 2001 restructuring, stock certificates previously representing shares of Laclede Gas common stock have represented the same number of shares of Laclede Group common stock. All serial preferred stock issued by Laclede Gas remains issued and outstanding as shares of Laclede Gas serial preferred stock. The dividend rate for the preferred stock has not changed and those dividends will continue to be paid by Laclede Gas. All outstanding indebtedness and other obligations of Laclede Gas prior to the restructuring remain outstanding as obligations of Laclede Gas.

On October 1, 2001, Laclede Group had no outstanding securities other than common stock, however, it could issue other securities in the future. Laclede Group common stock is listed on the New York Stock Exchange and trades under the ticker symbol "LG".

## 3. ACQUISITION OF SM&P UTILITY RESOURCES, INC.

On January 28, 2002, Laclede Group completed its acquisition from NiSource, Inc. of 100% of the stock of SM&P, one of the nation's major underground locating and marking service businesses. SM&P, a Carmel, Indiana-based company, performs over 10 million locates annually. During fiscal 2002, its approximate 2,000 employees operated across 10 centrally located states - Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Ohio, Oklahoma, Texas and Wisconsin. Locators mark the placement of underground facilities for major providers of telephone, natural gas, electric, water, cable TV and fiber optic services so that construction work can be performed without damaging buried facilities. As a result of the acquisition, SM&P's earnings flow will not only diversify Laclede Group's earnings but also will be counter-seasonal to those of Laclede Gas. SM&P is a subsidiary of Laclede Group and will remain headquartered in Indiana. This acquisition was financed initially with conventional bank debt totaling \$42.8 million.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition. The goodwill recognized in this transaction is fully deductible for tax purposes. Acquired intangible assets of \$484,000 were assigned to registered trademarks that are not subject to amortization. Net assets acquired includes cash and cash equivalents of \$5.1 million.

(Thousands)	At January 28, 2002
-----	-----
Current assets	\$20,578
Property, plant, and equipment	8,123
Other assets	456
Intangible assets	484
Goodwill	27,455
	-----
Total assets acquired	57,096
	-----
Current liabilities	13,571
Long-term liabilities	404
	-----
Total liabilities assumed	13,975
	-----
Net assets acquired	\$43,121
	=====

The results of SM&P's operations since January 28, 2002 have been included in Laclede Group's consolidated financial statements. SM&P's earnings are impacted by construction trends. SM&P's revenues are dependent on a limited number of customers, primarily in the utility and telecommunications sector, with contracts that may be terminated on as short as 30 days' notice.

#### 4. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Laclede Gas has non-contributory defined benefit, trustee forms of pension plans covering substantially all employees over the age of twenty-one. Benefits are based on years of service and the employee's compensation during the last three years of employment. The funding policy of Laclede Gas is to contribute an amount not less than the minimum required by government funding standards, nor more than the maximum deductible amount for federal income tax purposes. Plan assets consist primarily of corporate and U.S. government obligations and pooled equity funds. Pension credits in 2002, 2001 and 2000 amounted to \$3.5 million, \$5.2 million and \$7.6 million, respectively, including amounts recorded in construction.

The net periodic pension costs (credits) include the following components:

(Thousands)	2002	2001	2000
-----	-----	-----	-----
Service cost - benefits earned during the period	\$ 9,441	\$ 9,575	\$ 9,281
Interest cost on projected benefit obligation	14,653	15,331	14,714
Expected return on plan assets	(24,749)	(25,517)	(25,649)
Amortization of transition obligation	(602)	(662)	(716)
Amortization of prior service cost	1,127	1,174	1,024
Amortization of actuarial gain	(3,768)	(5,544)	(6,606)
Regulatory adjustment	435	435	332
	-----	-----	-----
Net pension cost (credit)	\$ (3,463)	\$ (5,208)	\$ (7,620)
	=====	=====	=====

Effective with the implementation of rates (from the 1999 rate case) on December 27, 1999, the Commission authorized amounts that were deferred pursuant to provisions in previous general rate cases, to be included in rates without return on investment and amortized over a fifteen-year period. Additionally, pursuant to MoPSC order, the return on plan assets is based on the market value of plan assets and the unrecognized net gain or loss balances subject to amortization are based upon the most recent five-year average of the unrecognized gain or loss balance. Net gains and losses subject to amortization are amortized over a five-year period, as ordered by the MoPSC. Other variances in net pension costs are primarily attributable to actuarial and investment experience.



The following table sets forth the reconciliation of the beginning and ending balances of the pension benefit obligation recognized in the Consolidated Balance Sheets at September 30:

(Thousands)	2002	2001
Benefit obligation at beginning of year	\$ 197,773	\$ 200,463
Service cost	9,441	9,575
Interest cost	14,653	15,331
Plan amendments	4,897	162
Actuarial loss	24,401	1,684
Settlements	-	(20,652)
Gross benefits paid	(23,075)	(8,790)
Benefit obligation at end of year	\$ 228,090	\$ 197,773

The following table sets forth the reconciliation of the beginning and ending balances of the fair value of plan assets recognized in the Consolidated Balance Sheets at September 30:

(Thousands)	2002	2001
Fair value of plan assets at beginning of year	\$299,437	\$307,820
Actual return on plan assets	(4,486)	9,214
Employer contributions	1,354	11,845
Settlements	-	(20,652)
Gross benefits paid	(23,075)	(8,790)
Fair value of plan assets at end of year	\$273,230	\$299,437
Funded status at end of year	\$ 45,140	\$101,664
Unrecognized net actuarial (gain)/loss	46,872	(10,532)
Unrecognized prior service cost	18,655	14,885
Unrecognized net transition asset	(236)	(838)
Fourth quarter contribution adjustment	989	56
Net amount recognized at end of year	\$111,420	\$105,235
Amounts recognized in the Consolidated Balance Sheets consist of:		
Prepaid pension cost	\$114,313	\$110,475
Accrued benefit liability	(3,456)	(5,451)
Intangible asset	10	211
Accumulated other comprehensive income	553	-
Net amount recognized at end of year	\$111,420	\$105,235

The pension benefit obligation and the fair value of plan assets are based on a June 30 measurement date. The projected benefit obligation was determined using a weighted average discount rate of 7.25% for 2002 and 7.75% for 2001, and a weighted average rate of future compensation increase of 4.00% for 2002 and 2001. The effect of the above changes in pension assumptions was to increase the projected benefit obligation by \$16.9 million. The expected long-term rate of return on plan assets was 8.50% for both 2002 and 2001.

The aggregate projected benefit obligation and fair value of plan assets for plans with benefit obligations in excess of plan assets were \$5.2 million and \$0, respectively, for fiscal 2002 and \$54.2 million and \$38.6 million, respectively, for fiscal 2001. The aggregate accumulated benefit obligation and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were \$5.0 million and \$0 respectively, for fiscal 2002 and \$4.2 million and \$0, respectively, for fiscal 2001.

Pursuant to the provisions of the Laclede Gas pension plans, pension obligations may be settled by lump-sum cash payments. Settlements in 2002, 2001 and 2000 resulted in pre-tax gains of approximately \$0, \$.6 million, and \$2.2 million, respectively. In 2001 and 2000, all such lump sum payments were recognized as settlements. Pursuant to MoPSC order in the 2001 rate case, effective for fiscal 2002, lump sum payments are recognized as settlements only if the total of such payments exceeds 100% of the sum of service and interest costs. No lump sum payments were recognized as settlements in fiscal 2002.

The cost of the defined contribution plans of Laclede Gas, which cover substantially all employees, amounted to \$2.9 million, \$3.0 million, and \$2.6 million, respectively, for the years 2002, 2001 and 2000.

Laclede Gas also provides certain life insurance benefits at retirement. Medical insurance is available after early retirement until age 65. Missouri state law provides for the recovery in rates of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (OPEB), accrued costs provided that such costs are funded through an independent, external funding mechanism. Laclede Gas established the Voluntary Employees' Beneficiary Association (VEBA) and Rabbi trusts as its external funding mechanisms. VEBA and Rabbi trusts assets consist primarily of money market securities. The unrecognized transition obligation is being amortized over 20 years. Postretirement benefit costs in 2002, 2001 and 2000 amounted to approximately \$6.5 million, \$6.2 million, and \$6.0 million, respectively, including amounts charged to construction. Net periodic postretirement benefit costs consisted of the following components:

(Thousands)	2002	2001	2000
Service cost - benefits earned during the period	\$2,205	\$2,063	\$1,973
Interest cost on accumulated postretirement benefit obligation	3,266	3,055	2,814
Expected return on plan assets	(853)	(704)	(574)
Amortization of transition obligation	1,267	1,267	1,267
Amortization of prior service cost	365	365	365
Amortization of actuarial loss	227	66	64
Regulatory adjustment	69	69	53
Net postretirement benefit cost	\$6,546	\$6,181	\$5,962

The following table sets forth the reconciliation of the beginning and ending balances of the postretirement benefit obligation at September 30:

(Thousands)	2002	2001
Benefit obligation at beginning of year	\$ 39,958	\$ 37,123
Service cost	2,205	2,063
Interest cost	3,266	3,055
Plan amendments	(476)	-
Actuarial loss	8,731	1,787
Gross benefits paid	(3,657)	(4,070)
Benefit obligation at end of year	\$ 50,027	\$ 39,958

The following table sets forth the reconciliation of the beginning and ending balances of the fair value of plan assets recognized in the Consolidated Balance Sheets at September 30:

(Thousands)	2002	2001
Fair value of plan assets at beginning of year	\$ 9,715	\$ 7,866
Actual return on plan assets	114	310
Employer contributions	5,909	5,609
Gross benefits paid	(3,657)	(4,070)
Fair value of plan assets at end of year	\$ 12,081	\$ 9,715
Funded status at end of year	\$ (37,946)	\$ (30,243)
Unrecognized net actuarial loss	11,073	1,829
Unrecognized prior service cost	1,997	2,839
Unrecognized net transition obligation	13,912	15,179
Net amount recognized at end of year as postretirement benefit cost	\$ (10,964)	\$ (10,396)

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation for 2002 was 8.00% in 2002, and gradually decreases each successive year until it reaches 5.00% in 2005 and future years. Such rate for 2001 was 5.00% in 2001 and future years. A one-percentage-point increase or (decrease) in the assumed health care cost trend rate for each future year would have increased or (decreased) the aggregate of the service and interest cost components of the 2002 net periodic postretirement benefit cost by approximately \$.3 million or \$(.3) million and would have increased or (decreased) the postretirement benefit obligation by \$1.6 million or \$(1.5) million. The accumulated postretirement benefit obligation was determined using a weighted average discount rate of 7.25% for 2002 and 7.75% for 2001, and a weighted average rate of future compensation increase of 4.00% for both 2002 and 2001. These changes in assumptions increased the postretirement benefit obligation by \$3.1 million. The weighted average rate for the expected return on medical plan assets was 7.75% for both 2002 and 2001 and the weighted average rate for the expected return on life insurance plan assets was 8.50% for both 2002 and 2001.

In the 1999 rate case settlement, the Commission authorized previously deferred costs to be included in rates without return on investment and amortized over a fifteen-year period, effective with the implementation of new rates on December 27, 1999. Deferrals ceased September 30, 1999 and all OPEB costs are being charged to expense.

SM&P maintains a defined benefit plan for selected employees. The plan is a non-qualified plan and therefore has no assets held in trust. Net pension cost related to the plan was \$54,000 from the date of acquisition of SM&P through the end of fiscal 2002. The net liability recognized at September 30, 2002 was \$289,000. The cost of the defined contribution plan of SM&P, which covers substantially all employees, was \$663,000 from the date of acquisition through the end of fiscal 2002.

## 5. GAS SUPPLY INCENTIVE PLAN AND OFF-SYSTEM SALES

The provisions of the Utility's Gas Supply Incentive Plan (GSIP) extended through September 30, 2001. In September 2001, the MoPSC ruled that the GSIP should be allowed to expire. The Utility requested clarification and rehearing. On February 19, 2002, the MoPSC denied Laclede Gas' application for rehearing. Laclede Gas filed a petition for judicial review of the MoPSC's decision with the Cole County Circuit Court, together with a motion requesting that the MoPSC's decision be stayed. The request for stay was denied on May 13, 2002. The petition for judicial review is still pending. However, pursuant to the 2001 rate case settlement approved by the MoPSC in November 2001, and consistent with the 2002 rate case settlement, the MoPSC authorized Laclede Gas to retain all income from releases of pipeline capacity effective December 1, 2001, which previously was shared with customers under the GSIP. Laclede Gas continues to retain all income resulting from sales outside of its traditional service area, as previously authorized by the MoPSC. However, Laclede Gas does not retain any of the savings it obtains relative to gas supply costs or any savings it obtains from pipeline discounts. Income related to releases of pipeline capacity and sales made outside its traditional service area are volatile in nature and subject to market conditions.

As modified for fiscal 2001, total pre-tax income derived from all sharing provisions of GSIP, excluding income generated by sales outside of the Laclede Gas service area, could not exceed \$9.0 million. Of that amount, pre-tax income derived from sharing gains and losses as measured against a benchmark level of gas costs could not exceed \$5.3 million. Under the provisions of the Plan during fiscal 2001 and fiscal 2000, Laclede Gas and its customers shared as follows:

- o releases of pipeline capacity, of which 70% to 90% of the revenues were allocated to its customers and the balance to its shareholders
  - o savings from discounts off of maximum pipeline transportation rates, of which the excess over a predetermined baseline of \$13 million was allocated 70% to its customers and the balance to its shareholders
  - o gains and losses as measured against a benchmark level of gas cost, of which 50% to 90% (depending on the change from a predetermined cost) was allocated to its customers and the balance to its shareholders, and
  - o increases or decreases in costs related to changes in the mix of pipeline services, of which 70% was allocated to its customers and the balance to its shareholders.
- GSIP and off-system sales revenues are included in the gas distribution operating revenues line in the accompanying financial statements. Expenses related to the GSIP and off-system sales are included in the natural and propane gas expense line in the accompanying financial statements. Pre-tax income of the Plan, capacity release and off-system sales activities are set forth below.

(Thousands)	2002	2001	2000
GSIP (including Capacity Release)	\$ -	\$ 9,000	\$7,166
Capacity Release (post-GSIP)	1,402	-	-
Off-System Sales	3,718	1,035	2,477
<b>Total Pre-Tax Income</b>	<b>\$5,120</b>	<b>\$10,035</b>	<b>\$9,643</b>

6. COMMON STOCK AND PAID-IN CAPITAL Total shares of common stock outstanding were 18.92 million and 18.88 million at September 30, 2002 and 2001, respectively. The Company issued 43,300 shares of its common stock during fiscal 2002 under its Dividend Reinvestment and Stock Purchase Plan. No additional common stock shares were issued in fiscal 2001. Paid-in capital decreased \$21.2 million in 2002 primarily due to the cancellation of 1,865,638 shares of treasury stock totaling \$22.2 million by Laclede Gas. This amount was partially offset by the effect of the issuance of common stock under the Dividend Reinvestment and Stock Purchase Plan. Paid-in capital increased slightly in 2001 due to gains recorded on reacquired preferred stock. On March 14, 1996, Laclede Gas declared a dividend of one common share purchase right for each outstanding share of common stock as of May 1, 1996. Each common share purchase right gave the Rightholder the right to purchase one common share for a purchase price of \$60, subject to adjustment. The rights expired on May 1, 2006, and could be redeemed by Laclede for one cent each at any time before they became exercisable. The rights were not exercisable or transferable apart from the common stock, until ten days after (i) a person or group acquired or obtained the right to acquire 20% or more of the common stock, or (ii) commenced or announced its intention to commence a tender or exchange offer for 20% or more of the common stock. Following the former event, a right would entitle its holder to purchase, at the purchase price, the number of shares equal to the purchase price divided by one-half of the market price. Alternatively, Laclede Gas could exchange each right for one share of Laclede Gas common stock. A total of 18.88 million rights were outstanding at September 30, 2001. Concurrent with implementation of the holding company structure, ownership of these rights transferred to Laclede Group. On August 23, 2001, Laclede Group declared a dividend of one preferred share purchase right for each outstanding share of common stock as of October 1, 2001. Each preferred share purchase right entitles the registered holder to purchase from Laclede Group one one-hundredth of Series A junior participating preferred stock for a purchase price of \$90, subject to adjustment. The value of one one-hundredth of a preferred share purchasable upon the exercise of each right should, because of the nature of the preferred shares' dividend, liquidation and voting rights, approximate the value of one common share. The rights expire on October 1, 2011 and may be redeemed by Laclede Group for one cent each at any time before they become exercisable. The rights will not be exercisable or transferable apart from the common stock until ten business days after (i) public announcement that a person or group has acquired beneficial ownership of 20% or more of the common stock, or (ii) commencement, or announcement of an intention to make, a tender offer or exchange for beneficial ownership of 20% or more of the common stock. Following the former event, a right will entitle its holder to purchase, for the purchase price, the number of shares equal to the purchase price divided by one-half of the market price. Alternatively, Laclede Group may exchange each right for one one-hundredth of a preferred share. A total of 18.92 million rights were outstanding on September 30, 2002.

#### 7. REDEEMABLE PREFERRED STOCK

The preferred stock, which is non-voting except in certain circumstances, may be redeemed at the option of the Laclede Gas Board of Directors. The redemption price is equal to par of \$25.00 a share.

During 2002, 16,006 shares of 5% Series B preferred stock were reacquired; in 2001, 5,257 shares of 5% Series B preferred stock and 601 shares of 4.56% Series C preferred stock were reacquired.

Any default in a sinking fund payment must be cured before Laclede Gas may pay dividends on or acquire any common stock. Sinking fund requirements on preferred stock for the next five years subsequent to September 30, 2002 are \$0 in 2003 and 2004 and \$.2 million in 2005, 2006 and 2007.

#### 8. LONG-TERM DEBT

Maturities on long-term debt, including current portion, for the five fiscal years subsequent to September 30, 2002 are as follows:

2003 \$25 million  
2004 -  
2005 \$25 million  
2006 \$40 million  
2007 -

On June 26, 2001, Laclede Gas issued \$50 million of first mortgage bonds with an interest rate of 6 5/8%, at an overall cost of 6.968%. The bonds were dated June 15, 2001 and mature June 15, 2016. The proceeds were used to repay short-term debt. The bonds were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's in consideration of insurance issued by Ambac Assurance covering the timely payment of the principal of and interest on the bonds. These ratings apply only to these insured bonds, and not to the other outstanding uninsured bonds of Laclede Gas. These bonds were issued under the Laclede Gas shelf registration Statement on Form S-3 and MoPSC authorization obtained in fiscal 2000, of which \$270 million remained registered and unissued as of September 30, 2002.

Substantially all of the utility plant of Laclede Gas is subject to the liens of its mortgage. Its mortgage contains provisions that restrict retained earnings from declaration or payment of cash dividends. As of September 30, 2002 and 2001, all of the consolidated retained earnings of Laclede Gas were free from such restrictions.

## 9. NOTES PAYABLE AND CREDIT AGREEMENTS

In September 2002, Laclede Gas renewed and increased its syndicated line of credit to \$215 million for a period of 364 days. Laclede Gas also has supplemental 364-day lines totaling \$15 million through January 2003. No seasonal lines were used during the fiscal year 2002.

Laclede Gas has an arrangement for the issuance of commercial paper which is supported by the bank lines of credit. During fiscal year 2002, short-term borrowing requirements, which peaked at \$139.7 million, were met by the sale of commercial paper. Laclede Gas had \$118.9 million in commercial paper outstanding as of September 30, 2002, at a weighted average interest rate of 1.9%, and \$117.1 million outstanding as of September 30, 2001, at a weighted average interest rate of 3.2%.

At September 30, 2002, Laclede Group had a bank note in the amount of \$42.8 million related to the acquisition of SM&P. The weighted average interest rate during fiscal 2002 was 2.7%.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of financial instruments at September 30, 2002 and 2001 are as follows:

(Thousands)	Carrying Amount	Fair Value
-----	-----	-----
2002:		
CASH AND CASH EQUIVALENTS	\$ 12,870	\$ 12,870
SHORT-TERM DEBT	161,670	161,670
LONG-TERM DEBT, INCLUDING CURRENT PORTION	284,545	315,178
REDEEMABLE PREFERRED STOCK	1,266	1,266
2001:		
Cash and cash equivalents	\$ 3,223	\$ 3,223
Short-term debt	117,050	117,050
Long-term debt	284,459	301,761
Redeemable preferred stock, including current portion	1,667	1,296

The carrying amounts for cash and cash equivalents and short-term debt approximate fair value due to the short maturity of these investments. Fair value of long-term debt and preferred stock is estimated based on market prices for similar issues.

## 11. INCOME TAXES

Net provisions for income taxes were charged during the years ended September 30, 2002, 2001 and 2000 as shown on the Schedule of Income Taxes.

The effective income tax rate varied from the federal statutory income tax rate for each year due to the following:

	2002	2001	2000
-----	-----	-----	-----
Federal income tax statutory rate	35.0%	35.0%	35.0%
State and local income taxes, Net of federal income tax benefits	3.7	3.3	3.6
Certain expenses capitalized on books And deducted on tax return	(4.4)	(2.5)	(2.5)
Taxes related to prior years	1.3	.3	.2
Other items - net	(.2)	(3.3)	(1.1)
-----	-----	-----	-----
Effective income tax rate	35.4%	32.8%	35.2%
	=====	=====	=====

The significant items comprising the net deferred tax liability recognized in the Consolidated Balance Sheets as of September 30 are as follows:

(Thousands)	2002	2001
-----	-----	-----
Deferred tax assets:		
Reserves not currently deductible	\$ 14,826	\$ 16,278
Deferred gas cost	9,037	5,639
Unamortized investment tax credits	3,544	3,745
Other	3,175	1,885
	-----	-----
Total deferred tax assets	30,582	27,547
	-----	-----
Deferred tax liabilities:		
Relating to utility property	123,862	111,057
Pension	44,380	41,942
Other	7,413	8,507
	-----	-----
Total deferred tax liabilities	175,655	161,506
	-----	-----
Net deferred tax liability	145,073	133,959
Net deferred tax asset - current	12,305	8,556
	-----	-----
Net deferred tax liability - non-current	\$157,378	\$142,515
	=====	=====

## 12. OTHER INCOME AND INCOME DEDUCTIONS - NET

(Thousands)	2002	2001	2000
-----	-----	-----	-----
Allowance for Funds			
Used During Construction	\$ (149)	\$ 749	\$ 397
Other Income	978	2,298	1,209
Other Income Deductions	(151)	(1,630)	(871)
	-----	-----	-----
Other Income and			
Income Deductions - Net	\$ 678	\$ 1,417	\$ 735
	=====	=====	=====

### 13. INFORMATION BY OPERATING SEGMENT

The Regulated Gas Distribution segment consists of the regulated operations of Laclede Gas and is the core business segment of Laclede Group. Laclede Gas is a public utility engaged in the retail distribution of natural gas serving an area in eastern Missouri, with a population of approximately 2.0 million, including the City of St. Louis, St. Louis County, and parts of eight other counties. The Non-Regulated Services segment includes the results of SM&P, an underground locating and marking business operating in 10 Midwestern states, a wholly owned subsidiary of Laclede Group acquired on January 28, 2002. Non-Regulated Other includes the transportation of liquid propane, gas marketing, the sale of insurance related products, real estate development, the compression of natural gas, and financial investments in other enterprises. These operations are conducted through seven wholly owned subsidiaries, six of which became subsidiaries of Laclede Group as a result of the restructuring on October 1, 2001, plus Laclede Energy Services, Inc. (LES), a wholly owned subsidiary of Laclede Group that became operational on May 1, 2002. LES performs administrative gas supply and risk management services. The results of SM&P's operations since January 28, 2002 and the results of LES' operations since May 1, 2002 are included in Laclede Group's Consolidated Financial Statements. Accounting policies are as described in Note 1. There are no material intersegment revenues.

(Thousands)	Regulated Gas Distribution	Non-Regulated Services	Non-Regulated Other	Eliminations	Consolidated
	-----	-----	-----	-----	-----
FISCAL 2002					
OPERATING REVENUES	\$ 592,097	\$ 94,116	\$ 69,026	\$ -	\$ 755,239
DEPRECIATION & AMORTIZATION	24,215	-*	-**	-	24,215
INTEREST CHARGES	25,105	850	-	(146)	25,809
INCOME TAX EXPENSE	10,740	1,077	430	-	12,247
NET INCOME	20,292	1,434	590	-	22,316
TOTAL ASSETS	984,374	67,195	45,567	(15,263)	1,081,873
CONSTRUCTION EXPENDITURES	48,765	4,228	6	-	52,999
Fiscal 2001					
Operating revenues	\$ 923,242	\$ -	\$ 78,867	\$ -	\$1,002,109
Depreciation & amortization	26,193	-	-**	-	26,193
Interest charges	28,792	-	-	(353)	28,439
Income tax expense	14,170	-	661	-	14,831
Net income	29,454	-	931	-	30,385
Total assets	963,676	-	29,800	(17,566)	975,910
Construction expenditures	46,952	-	-	-	46,952
Fiscal 2000					
Operating revenues	\$ 529,250	\$ -	\$ 36,878	\$ -	\$ 566,128
Depreciation & amortization	24,672	-	-**	-	24,672
Interest charges	24,326	-	-	(318)	24,008
Income tax expense	13,755	-	350	-	14,105
Net income	25,408	-	464	-	25,872
Total assets	919,721	-	26,901	(14,882)	931,740
Construction expenditures	51,635	-	-	-	51,635

\* Depreciation & amortization for Non-Regulated Services totaling \$1.9 million is included in Non-Regulated - Services Operating Expenses on the Statements of Consolidated Income.

\*\* Depreciation & amortization for Non-Regulated Other is included in the Non-Regulated - Other Operating Expenses on the Statements of Consolidated Income (2002, \$.2 million; 2001, \$.1 million; 2000, \$.1 million).

In November 2002, SM&P was notified by two customers that, due to actions they have taken to address workforce management issues, they do not intend to continue to outsource certain functions at this time, which include locating services provided by SM&P after February and March 2003. Revenue from these customers totaled approximately \$45 million for fiscal 2002. Management is currently evaluating the impact of this development on the financial position and results of operations of the Company.

## 14. COMMITMENTS AND CONTINGENCIES

Laclede Gas estimates fiscal year 2003 utility construction expenditures at approximately \$53 million. The lease agreement covering the general office space of Laclede Gas extends through February 2005 with options to renew for up to 15 additional years. The aggregate rental expense for fiscal years 2002, 2001 and 2000 was \$838,000, \$830,000 and \$821,000, respectively. The annual minimum rental payment for fiscal year 2003 is anticipated to be approximately \$847,000 with a maximum annual rental payment escalation of \$8,800 per year for each year through fiscal 2005. Laclede Gas has other relatively minor rental arrangements that provide for minimum rental payments. At the end of fiscal 2002, Laclede Gas entered into various operating lease agreements for the rental of vehicles and power operated equipment. The rental costs will be \$456,000 in fiscal 2003 through 2005, \$262,000 in fiscal 2006, and \$52,000 in fiscal 2007. Laclede Gas has entered into various contracts, which in the aggregate require it to pay approximately \$75 million on an annual basis, at present rate levels, for the reservation of gas supplies and pipeline transmission and storage capacity. These costs are recovered from customers in accordance with the PGA Clause. The contracts have various expiration dates ranging from 2003 to 2011.

SM&P has several operating leases, the aggregate annual cost of which is approximately \$8 million, consisting primarily of 12-month operating leases, with renewal options, for vehicles used in its business. Upon acquisition of SM&P, Laclede Group assumed parental guarantees of certain of those vehicle leases. Laclede Group anticipates that the maximum guarantees will not exceed \$15 million. SM&P also has lease agreements covering general office space extending through 2007 that resulted in rental expense of \$801,000 during fiscal 2002. Payments will be \$756,000 in fiscal 2003, \$613,000 in fiscal 2004, \$228,000 in fiscal 2005, \$47,000 in fiscal 2006 and \$20,000 in fiscal 2007. During fiscal 2002 Laclede Group issued guarantees totaling \$9.0 million for performance and payment of certain gas supply purchases by Laclede Energy Resources, Inc. (the Company's non-utility marketing affiliate).

A consolidated subsidiary is a general partner in an unconsolidated partnership, which invests in real estate partnerships. The subsidiary and third parties are jointly and severally liable for the payment of mortgage loans in the aggregate outstanding amount of approximately \$2.8 million incurred in connection with various real estate ventures. Laclede Group has no reason to believe that the other principal liable parties will not be able to meet their proportionate share of these obligations. Laclede Group further believes that the asset values of the real estate properties are sufficient to support these mortgage loans.

Laclede Gas is subject to various environmental laws and regulations that, to date, have not materially affected the Company's financial position and results of operations. As these laws, regulations, and their interpretation evolve, however, additional costs may be incurred. With regard to a former manufactured gas plant site located in Shrewsbury, Missouri, Laclede Gas and state and federal environmental regulators have agreed upon certain actions and those actions are nearing completion. Laclede Gas currently estimates the overall costs of these actions will be approximately \$2.3 million. As of September 30, 2002, Laclede Gas has paid or reserved for these actions. If regulators require additional actions, Laclede Gas will incur additional costs.

Laclede Gas enrolled a second former manufactured gas plant site into the Missouri Voluntary Cleanup Program (VCP). The VCP provides opportunities to minimize the scope and cost of site cleanup while maximizing possibilities for site development. This site is located in and is presently owned by the City of St. Louis, Missouri. The City of St. Louis has separately authorized a developer to prepare both a Remedial Action Plan (RAP), for submission to the VCP, and a site development plan. Laclede Gas is presently meeting with the developer to determine what role, if any, it might play in these efforts. Laclede Gas continues to evaluate other options as well, including, but not limited to, the submission of its own RAP to the VCP. Laclede Gas currently estimates that the cost of site investigations, agency oversight and related legal and engineering consulting may be approximately \$629,000. Currently, Laclede Gas has paid or reserved for these actions. Laclede Gas has requested that other former site owners and operators share in these costs and one party has agreed to participate and has reimbursed Laclede Gas to date for \$173,000. Laclede Gas anticipates additional reimbursement from this party. Laclede Gas plans to seek proportionate reimbursement of all costs relative to this site from other potentially responsible parties if practicable.

Costs incurred are charged to expense or capitalized in accordance with generally accepted accounting principles. A predetermined level of expense is included in Laclede Gas' rates.

Laclede Gas has been advised that a third former manufactured gas plant site previously operated but no longer owned by Laclede Gas may contain gas plant waste that may require remediation. Laclede Gas is working to determine the nature and extent of such waste, if any, and its responsibility, if any, for any remediation costs.

While the scope of costs relative to the Shrewsbury site will not be significant, the scope of costs relative to the other sites is unknown and may be material. Laclede Gas has notified its insurers that it seeks reimbursement of its costs at these three manufactured gas plant sites. In response, the majority of insurers have reserved their rights. While some of the insurers have denied coverage, Laclede Gas continues to seek reimbursement from them. With regard to the Shrewsbury site, denials of coverage are not expected to have any material impact on the financial position and results of operations of Laclede Gas. With regard to the other two sites, since the scope of costs are unknown and they may be significant, denials of coverage may have a material impact on the financial position and results of operations of Laclede Gas. Such costs, if incurred, have typically been subject to recovery in rates.

On June 28, 2002, the Staff of the MoPSC filed its recommendation in a proceeding established to review Laclede Gas' gas costs for fiscal 2001. In its recommendation, the Staff proposed to disallow the approximately \$4.9 million of pre-tax income achieved under the PSP. Laclede Gas believes that Staff's position lacks merit and continues to vigorously oppose the adjustment in a proceeding before



the MoPSC, the hearing for which is currently scheduled to occur in February 2003. Regulatory proceeding results are uncertain, and to the extent that a final Commission decision sustains Staff's recommended disallowance, the proceeding's outcome could have a material effect on the future financial position and results of operations of Laclede Gas. Missouri statutes provide an opportunity for court review of Commission decisions.

In late August 2001, Laclede Gas was named a defendant in a lawsuit in the Circuit Court of the City of St. Louis, Missouri, Ronald J. Johnson vs. Laclede Gas Company, alleging that a class of persons residing in homes provided natural gas by Laclede Gas through direct buried copper service lines have, among other things, suffered diminution in property values and annoyance and discomfort due to residing in homes served by such allegedly corroded lines. The suit sought actual and punitive damages and an injunction requiring the repair and/or replacement of all such lines, which were alleged to number approximately 78,000. By letter dated September 21, 2001, its liability insurer advised Laclede Gas that the claims in the lawsuit, as pled, failed to qualify for any coverage under its excess general liability policy. Laclede Gas disagrees and continues to assert its right to coverage under the policy. The gas distribution business of Laclede Gas is regulated by the MoPSC, including as to safe and adequate service and rate matters. Under a current program, the Commission has provided for the monitoring and replacement of such lines. The costs of replacement, including carrying costs, have been included in rates established by the Commission. The MoPSC filed a Motion to Intervene and a Motion to Strike Plaintiff's Prayer for Injunctive Relief and to Stay Matters Within the Primary Jurisdiction of the MoPSC. The court subsequently granted the MoPSC's request for intervention. Laclede Gas filed a Motion to Dismiss which urged, among other things, the exclusive jurisdiction of the MoPSC as to gas safety matters generally and the direct buried copper service replacement program in particular. Laclede Gas filed a motion to dismiss the lawsuit that was granted by the Court on February 22, 2002. The plaintiff did not file an amended petition within the time granted by the Court but filed an appeal on April 3, 2002. On May 13, 2002, the plaintiff dismissed the appeal.

Laclede Group and its subsidiaries are involved in litigation, claims, and investigations arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, after discussion with counsel, believes the final outcome will not have a material adverse effect on the consolidated financial position and results of operations reflected in the financial statements presented herein.

#### 15. INTERIM FINANCIAL INFORMATION (UNAUDITED)

In the opinion of Laclede Group, the quarterly information presented in the Schedule of Interim Financial Information for fiscal years 2002 and 2001 includes all adjustments, consisting of normal recurring accruals necessary for a fair statement of the results of operations for such periods. Variations in consolidated operations reported on a quarterly basis primarily reflect the seasonal nature of the business of Laclede Gas. Since its acquisition on January 28, 2002, SM&P's seasonal operations (which are counter-seasonal to those of Laclede Gas) impacted the consolidated earnings per share presented by:

Quarter Ended	
March 31, 2002	\$ (.10)
June 30, 2002	\$ .11
September 30, 2002	\$ .07

Laclede Gas Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements are included in Exhibit 99.1.

### **Item 9. Changes in and Disagreements on Accounting and Financial Disclosure**

There have been no disagreements on accounting and financial disclosure with Laclede's outside auditors that are required to be disclosed.

### **Part III**

### **Item 10. Directors and Executive Officers of the Registrant**

The information concerning directors required by this item is set forth on pages 5 through 8 in the Company's proxy statement dated December 24, 2002 and is incorporated herein by reference.

The information concerning executive officers required by this item is reported in Part I of this Form 10-K.

### **Item 11. Executive Compensation**

The information required by this item is set forth on pages 9 through 20 in the Company's proxy statement dated December 24, 2002 and is incorporated herein by reference but the information under the captions "Compensation Committee Report Regarding Executive Compensation", "Performance Graph", and "Audit Committee Report" on pages 12 through 16 of such proxy statement is expressly NOT incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

Information required by this item is set forth on page 8 in the Company's proxy statement dated December 24, 2002 and is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions**

There were no transactions required to be disclosed pursuant to this item.

### **Item 14. Controls and Procedures**

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 and Rule 15d-14 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date we carried out our evaluation.

## Part IV

### Item 15. Exhibits, Financial Statement Schedules and Reports on

Form 8-K

(a) 1.	Consolidated Financial Statements:	2002 10-K Page
	The Laclede Group, Inc.:	
	For Years Ended September 30, 2002, 2001 and 2000:	
	Statements of Consolidated Income	26
	Statements of Consolidated Retained Earnings	27
	Statements of Consolidated Comprehensive Income	27
	Statements of Consolidated Cash Flows	31
	Schedule of Income Taxes	32
	As of September 30, 2002 & 2001:	
	Consolidated Balance Sheets	28-29
	Statements of Consolidated Capitalization	30
	For Years Ended 2002 & 2001:	
	Schedule of Interim Financial Information	33
	Notes to Financial Statements:	
	The Laclede Group, Inc.	34
	Independent Auditors' Report	24
	Management Report	25
	Laclede Gas Company:	
	For Years Ended September 30, 2002, 2001 and 2000:	
	Statements of Consolidated Income	Ex. 99.1, p. 13
	Statements of Consolidated Retained Earnings	Ex. 99.1, p. 14
	Statements of Consolidated Comprehensive Income	Ex. 99.1, p. 14
	Statements of Consolidated Cash Flows	Ex. 99.1, p. 18
	Schedule of Income Taxes	Ex. 99.1, p. 19
	As of September 30, 2002 & 2001:	
	Consolidated Balance Sheets	Ex. 99.1, p. 15-16
	Statements of Consolidated Capitalization	Ex. 99.1, p. 17
	For Years Ended 2002 & 2001:	
	Schedule of Interim Financial Information	Ex. 99.1, p. 20
	Notes to Financial Statements:	
	Laclede Gas Company	Ex. 99.1, p. 21
	Independent Auditors' Report	Ex. 99.1, p. 11
	Management Report	Ex. 99.1, p. 12
2.	Supplemental Schedules	
	II - Reserves - Laclede Group	58
	II - Reserves - Laclede Gas	59

Schedules not included have been omitted because they are not applicable or the required data has been included in the financial statements or notes to financial statements.

### 3. Exhibits

Incorporated herein by reference to Index to Exhibits, page 60.

Management contracts and compensatory plans or arrangements listed in the Index to Exhibits required to be filed as exhibits to this form pursuant to Item 15(a)(3) of this report:

#### Exhibit No. Description

10.01	-	Laclede Incentive Compensation Plan, as amended.
10.01a	-	Amendment adopted by the Board of Directors on July 26, 1990 to the Incentive Compensation Plan.
10.01b	-	Amendments adopted by the Board of Directors on August 23, 1990 to the Incentive Compensation Plan.
10.01c	-	Amendments to Laclede's Incentive Compensation Plan, effective January 26, 1995.
10.02	-	Senior Officers' Life Insurance Program of Laclede, as amended.
10.02a	-	Certified copy of resolutions of Laclede's Board of Directors adopted on June 27, 1991 amending the Senior Officers' Life Insurance Program.
10.02b	-	Certified copy of resolutions of Laclede's Board of Directors adopted on January 28, 1993 amending the Senior Officers' Life Insurance Program.

- 10.03 - Employees' Retirement Plan of Laclede Gas Company - Management Employees, effective as of July 1, 1990, as amended.
- 10.03a - Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees adopted by the Board of Directors on September 27, 1990.
- 10.03b - Amendments dated December 12, 1990 to the Employees' Retirement Plan of Laclede Gas Company - Management Employees.
- 10.03c - Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated January 10, 1994.

Exhibit No. Description

- 10.03d - Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated July 29, 1994.
- 10.03e - Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated February 21, 1995.
- 10.03f - Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated March 7, 1995.
- 10.03g - Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated September 11, 1995.
- 10.03h - Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated August 14, 1996.
- 10.03i - Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees adopted by the Board of Directors on December 19, 1996.
- 10.03j - Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees adopted February 7, 1997.
- 10.03k - Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees adopted October 1, 2000.
- 10.04 - Laclede Gas Company Supplemental Retirement Benefit Plan, as amended and restated effective July 25, 1991.
- 10.04a - Trust Agreement with Boatmen's Trust Company, dated September 4, 1990.
- 10.04b - First Amendment to Laclede Gas Company Trust Agreement dated as of September 4, 1990, adopted by the Board of Directors on September 23, 1993.
- 10.04c - Amendment (effective as of January 15, 1998) to Laclede Gas Company Trust Agreement (dated as of September 4, 1990) relating to the Laclede Gas Company Supplemental Retirement Plan.
- 10.05 - Laclede Gas Company Salary Deferral Savings Plan, as amended through February 27, 1992.
- 10.05a - Amendment to Laclede's Salary Deferral Savings Plan, effective January 31, 1992, adopted by the Board of Directors on August 27, 1992.
- 10.05b - Amendment to Laclede's Salary Deferral Savings Plan dated January 10, 1994.
- 10.05c - Amendments to Laclede's Salary Deferral Savings Plan, dated July 29, 1994.
- 10.05d - Amendments to Laclede's Salary Deferral Savings Plan effective August 1, 1994 adopted by the Board of Directors on August 25, 1994.
- 10.05e - Amendments to Laclede's Salary Deferral Savings Plan, dated September 27, 1994.
- 10.05f - Amendments to Laclede's Salary Deferral Savings Plan, dated February 21, 1995.
- 10.05g - Amendments to Laclede's Salary Deferral Savings Plan, dated March 7, 1995.
- 10.05h - Amendments to Laclede's Salary Deferral Savings Plan, dated June 26, 1995.
- 10.05i - Amendments to Laclede's Salary Deferral Savings Plan, dated August 3, 1995.
- 10.05j - Amendments to Laclede's Salary Deferral Savings Plan, adopted April 21, 1997.
- 10.05k - Amendments to Laclede's Salary Deferral Savings Plan, adopted October 5, 1998.
- 10.05l - Amendments to Laclede's Salary Deferral Savings Plan, adopted with the following effective dates: October 1, 2000, November 1, 2000, February 3, 1997, August 1, 2000.
- 10.05m - Amendments to Laclede's Salary Deferral Savings Plan, dated September 18, 2001.
- 10.05n - Amendments to Laclede's Salary Deferral Savings Plan, dated September 25, 2002.
- 10.06 - Laclede Gas Company Deferred Compensation Plan for Non-Employee Directors dated March 26, 1981.
- 10.06a - First Amendment to Laclede's Deferred Compensation Plan for Non-Employee Directors, adopted by the Board of Directors on July 26, 1990.
- 10.06b - Amendment to Laclede's Deferred Compensation Plan for Non-Employee Directors, adopted by the Board of Directors on August 27, 1992.
- 10.08 - The Retirement Plan for Non-Employee Directors of Laclede Gas Company dated January 24, 1985.
- 10.08a - First Amendment to Retirement Plan for Laclede's Non-Employee Directors, adopted by the Board of Directors on July 26, 1990.
- 10.08b - Amendments to the Retirement Plan for Non-Employee Directors, adopted by the Board of Directors on January 23, 1992.
- 10.08c - Amendment and Restatement of Retirement Plan for Non-Employee Directors as of November 1, 2002.
- 10.09 - Salient Features of the Laclede Gas Company Deferred

- Income Plan for Directors and Selected Executives,  
including amendments adopted by the Board of Directors  
on July 26, 1990.
- 10.09a - Amendment to Laclede's Deferred Income Plan for Directors  
and Selected Executives, adopted by the Board of Directors  
on August 27, 1992.
- 10.10 - Form of Indemnification Agreement between Laclede  
and its Directors and Officers.
- 10.11 - Laclede Gas Company Management Continuity Protection  
Plan, as amended, effective at the close of business on  
January 27, 1994, by the Board of Directors.

Exhibit No. Description

- 10.12 - Laclede Gas Company Restricted Stock Plan for Non-Employee Directors, effective as of January 25, 1990.
- 10.12a - Extension and amendment of Laclede's Restricted Stock Plan for Non-Employee Directors adopted by the Board of Directors on November 17, 1994.
- 10.12b - Amendment to the Laclede Gas Company Restricted Stock Plan for Non-Employee Directors adopted August 14, 1998.
- 10.12c - Amendment to the Laclede Gas Company Restricted Stock Plan for Non-Employee Directors adopted December 16, 1999.
- 10.12d - 2002 Restricted Stock Plan for Non-Employee Directors as of November 1, 2002.
- 10.14 - Salient Features of the Laclede Gas Company Deferred Income Plan II for Directors and Selected Executives adopted by the Board of Directors on September 23, 1993.
- 10.18 - Severance Benefits Agreement dated as of July 31, 2000 between Laclede Gas Company and D.H. Yaeger.
- 10.20 - The Laclede Group, Inc. Management Bonus Plan.
- 10.22 - The Laclede Group, Inc. 2002 Equity Incentive Plan.

(b) Laclede and the Company filed one report on Form 8-K during the last quarter of fiscal year 2002.

On July 25, 2002, Laclede and the Company submitted a Form 8-K reporting under Item 9 the issuance of a press release announcing third quarter earnings.

(c) Incorporated herein by reference to Index to Exhibits, page 60.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### THE LACLEDE GROUP, INC.

December 05, 2002

By /s/ Barry C. Cooper  
Barry C. Cooper  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<i>Date</i>	<i>Signature</i>	<i>Title</i>
12/05/02	/s/ Douglas H. Yaeger Douglas H. Yaeger	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
12/05/02	/s/ Barry C. Cooper Barry C. Cooper	Chief Financial Officer (Principal Financial and Accounting Officer)
12/05/02	/s/ Andrew B. Craig, III Andrew B. Craig, III	Director
12/05/02	/s/ Henry Givens, Jr. Henry Givens, Jr.	Director
12/05/02	/s/ C. Ray Holman C. Ray Holman	Director
12/05/02	/s/ Robert C. Jaudes Robert C. Jaudes	Director
12/05/02	/s/ Mary Ann Van Lokeren Mary Ann Van Lokeren	Director
12/05/02	/s/ W. Stephen Maritz W. Stephen Maritz	Director
12/05/02	/s/ William E. Nasser William E. Nasser	Director
12/05/02	/s/ Robert P. Stupp Robert P. Stupp	Director



## CERTIFICATIONS

I, Douglas H. Yaeger, certify that:

1. I have reviewed this annual report on Form 10-K of The Laclede Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 5, 2002

*/s/ Douglas H. Yaeger*

-----  
*Douglas H. Yaeger*  
*Chairman of the Board,*  
*President and Chief Executive Officer*

**CERTIFICATIONS**

I, Barry C. Cooper, certify that:

1. I have reviewed this annual report on Form 10-K of The Laclede Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 3, 2002

*/s/ Barry C. Cooper*  
-----  
*Barry C. Cooper*  
*Chief Financial Officer*

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### LACLEDE GAS COMPANY

*December 05, 2002*

*By /s/ Barry C. Cooper  
Barry C. Cooper  
Chief Financial Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<i>Date</i>	<i>Signature</i>	<i>Title</i>
<i>12/05/02</i>	<i>/s/ Douglas H. Yaeger Douglas H. Yaeger</i>	<i>Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)</i>
<i>12/05/02</i>	<i>/s/ Barry C. Cooper Barry C. Cooper</i>	<i>Director, Chief Financial Officer (Principal Financial and Accounting Officer)</i>
<i>12/05/02</i>	<i>/s/ John Moten, Jr. John Moten, Jr.</i>	<i>Director, Senior Vice President Operations &amp; Marketing</i>
<i>12/05/02</i>	<i>/s/ Kenneth J. Neises Kenneth J. Neises</i>	<i>Director, Executive Vice President Energy &amp; Administrative Services</i>

## CERTIFICATIONS

I, Douglas H. Yaeger, certify that:

1. I have reviewed this annual report on Form 10-K of Laclede Gas Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 5, 2002

*/s/ Douglas H. Yaeger*

-----  
*Douglas H. Yaeger*  
*Chairman of the Board,*  
*President and Chief Executive Officer*

**CERTIFICATIONS**

I, Barry C. Cooper, certify that:

1. I have reviewed this annual report on Form 10-K of Laclede Gas Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 3, 2002

*/s/ Barry C. Cooper*

-----  
*Barry C. Cooper*  
*Chief Financial Officer*

SCHEDULE II  
THE LACLEDE GROUP, INC. AND SUBSIDIARY COMPANIES  
RESERVES  
FOR THE YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

COLUMN A DESCRIPTION	COLUMN B BALANCE AT BEGINNING OF PERIOD	COLUMN C ADDITIONS TO INCOME	COLUMN C CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS FROM RESERVES	COLUMN E BALANCE AT CLOSE OF PERIOD
(Thousands of Dollars)					
YEAR ENDED					
SEPTEMBER 30, 2002:					
DOUBTFUL ACCOUNTS	\$ 9,216	\$ 6,640 (d)	\$ 7,309 (a)	\$ 18,633 (b)	\$ 4,532
MISCELLANEOUS:					
Injuries and					
property damage	\$ 3,423	\$ 11,474 (d)	\$ -	\$ 6,806 (c)	\$ 8,091
Deferred compensation	10,092	1,329	-	992	10,429
TOTAL	\$ 13,515	\$ 12,803	\$ -	\$ 7,798	\$ 18,520
YEAR ENDED					
SEPTEMBER 30, 2001:					
DOUBTFUL ACCOUNTS	\$ 6,058	\$ 8,602	\$ 4,641 (a)	\$ 10,085 (b)	\$ 9,216
MISCELLANEOUS:					
Injuries and					
property damage	\$ 3,314	\$ 1,825	\$ -	\$ 1,716 (c)	\$ 3,423
Deferred compensation	9,614	1,415	-	937	10,092
TOTAL	\$ 12,928	\$ 3,240	\$ -	\$ 2,653	\$ 13,515
YEAR ENDED					
SEPTEMBER 30, 2000:					
DOUBTFUL ACCOUNTS	\$ 6,241	\$ 4,493	\$ 4,305 (a)	\$ 8,981 (b)	\$ 6,058
MISCELLANEOUS:					
Injuries and					
property damage	\$ 3,700	\$ 1,825	\$ -	\$ 2,211	\$ 3,314
Deferred compensation	9,184	1,292	-	862	9,614
TOTAL	\$ 12,884	\$ 3,117	\$ -	\$ 3,073	\$ 12,928

- (a) Accounts reinstated, cash recoveries, etc.  
(b) Accounts written off.  
(c) Claims settled, less reimbursements from insurance companies.  
(d) Includes addition of SM&P's reserve balances at January 28, 2002.

SCHEDULE II  
LACLEDE GAS COMPANY  
RESERVES  
FOR THE YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

COLUMN A DESCRIPTION	COLUMN B BALANCE AT BEGINNING OF PERIOD	COLUMN C ADDITIONS TO INCOME	COLUMN C CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS FROM RESERVES	COLUMN E BALANCE AT CLOSE OF PERIOD
(Thousands of Dollars)					
YEAR ENDED					
SEPTEMBER 30, 2002:					
DOUBTFUL ACCOUNTS	\$ 9,216	\$ 5,827 (d)	\$ 7,309 (a)	\$ 18,634 (b)	\$ 3,718
=====					
MISCELLANEOUS:					
Injuries and property damage	\$ 3,423	\$ 2,855	\$ -	\$ 3,102 (c)	\$ 3,176
Deferred compensation	10,092	1,329	-	992	10,429
-----					
TOTAL	\$ 13,515	\$ 4,184	\$ -	\$ 4,094	\$ 13,605
=====					
YEAR ENDED					
SEPTEMBER 30, 2001:					
DOUBTFUL ACCOUNTS	\$ 6,058	\$ 8,602	\$ 4,641 (a)	\$ 10,085 (b)	\$ 9,216
=====					
MISCELLANEOUS:					
Injuries and property damage	\$ 3,314	\$ 1,825	\$ -	\$ 1,716 (c)	\$ 3,423
Deferred compensation	9,614	1,415	-	937	10,092
-----					
TOTAL	\$ 12,928	\$ 3,240	\$ -	\$ 2,653	\$ 13,515
=====					
YEAR ENDED					
SEPTEMBER 30, 2000:					
DOUBTFUL ACCOUNTS	\$ 6,241	\$ 4,493	\$ 4,305 (a)	\$ 8,981 (b)	\$ 6,058
=====					
MISCELLANEOUS:					
Injuries and property damage	\$ 3,700	\$ 1,825	\$ -	\$ 2,211	\$ 3,314
Deferred compensation	9,184	1,292	-	862	9,614
-----					
TOTAL	\$ 12,884	\$ 3,117	\$ -	\$ 3,073	\$ 12,928
=====					

- (a) Accounts reinstated, cash recoveries, etc.
- (b) Accounts written off.
- (c) Claims settled, less reimbursements from insurance companies.
- (d) Includes elimination of subsidiary provision due to October 1, 2001 restructuring.

## INDEX TO EXHIBITS

Exhibit

No.

-----

- 2.01\* - Agreement and Plan of Merger and Reorganization, filed as Appendix A to proxy statement/prospectus contained in the Company's registration statement on Form S-4, No. 333-48794.
- 3.01(i)\* - Laclede's Restated Articles of Incorporation, effective March 18, 2002; filed as Exhibit 3.3 to Form 8-K filed May 29, 2002.
- 3.01(ii)\* - Bylaws of Laclede effective January 18, 2002; filed as Exhibit 3.4 to Laclede's Form 8-K filed May 29, 2002.
- 3.02(i)\* - The Company's Articles of Incorporation, filed as Appendix B to the proxy statement/prospectus contained in the Company's registration statement on Form S-4, No. 333-48794.
- 3.02(ii)\* - The Company's Bylaws as amended August 22, 2002, filed as Exhibit 1 to the Company's Form 8-K filed October 4, 2002.
- 4.01\* - Mortgage and Deed of Trust, dated as of February 1, 1945; filed as Exhibit 7-A to Registration Statement No. 2-5586.
- 4.02\* - Fourteenth Supplemental Indenture, dated as of October 26, 1976; filed on June 26, 1979 as Exhibit b-4 to Registration Statement No. 2-64857.
- 4.03\* - Seventeenth Supplemental Indenture, dated as of May 15, 1988; filed as Exhibit 28(a) to the Registration Statement No. 33-38413.
- 4.04\* - Eighteenth Supplemental Indenture, dated as of November 15, 1989; filed as Exhibit 28(b) to the Registration Statement No. 33-38413.
- 4.05\* - Nineteenth Supplemental Indenture, dated as of May 15, 1991; filed on May 16, 1991 as Exhibit 4.01 to Laclede's Form 8-K.
- 4.06\* - Twentieth Supplemental Indenture, dated as of November 1, 1992; filed on November 4, 1992 as Exhibit 4.01 to Laclede's Form 8-K.
- 4.07\* - Twenty-First Supplemental Indenture, dated as of May 1, 1993; filed on May 13, 1993 as Exhibit 4.01 to Laclede's Form 8-K.
- 4.08\* - Twenty-Second Supplemental Indenture dated as of November 15, 1995; filed on December 8, 1995 as Exhibit 4.01 to Laclede's Form 8-K.
- 4.09\* - Twenty-Third Supplemental Indenture dated as of October 15, 1997; filed on November 6, 1997 as Exhibit 4.01 to Laclede's Form 8-K.
- 4.10\* - Twenty-Fourth Supplemental Indenture dated as of June 1, 1999, filed on June 4, 1999 as Exhibit 4.01 to Laclede's Form 8-K.
- 4.11\* - Twenty-Fifth Supplemental Indenture dated as of September 15, 2000, filed on September 27, 2000 as Exhibit 4.01 to Laclede's Form 8-K.
- 4.12\* - Twenty-Sixth Supplemental Indenture dated as of June 15, 2001, filed on July 6, 2001 as Exhibit 4.01 to Laclede's Form 8-K.

\* Incorporated herein by reference and made a part hereof. Laclede's File No. 1-1822; the Company's File No. 1-16681.



## INDEX TO EXHIBITS

Exhibit No. -----	
4.13*	- Laclede Gas Company Board of Directors' Resolution dated August 28, 1986 which generally provides that the Board may delegate its authority in the adoption of certain employee benefit plan amendments to certain designated Executive Officers; filed as Exhibit 4.12 to Laclede's 1991 10-K.
4.13a*	- Laclede Gas Company Board of Directors' Resolutions dated August 25, 1988, which generally provide for certain amendments to Laclede's Wage Deferral Savings Plan and Salary Deferral Savings Plan and that certain Officers are authorized to execute such amendments; filed as Exhibit 4.12g to Laclede's 1988 10-K.
4.14*	- Rights Agreement dated as of April 3, 1996; filed on April 3, 1996 as Exhibit 1 to Laclede's Form 8-A.
4.15*	- Rights Agreement dated as of October 1, 2001; filed as Exhibit 4 to the Company's Form 8-A on September 6, 2001.
10.01*	- Laclede Incentive Compensation Plan, as amended; filed as Exhibit 10.03 to Laclede's 1989 10-K.
10.01a*	- Amendment adopted by the Board of Directors on July 26, 1990 to the Incentive Compensation Plan; filed as Exhibit 10.02a to Laclede's 1990 10-K.
10.01b*	- Amendments adopted by the Board of Directors on August 23, 1990 to the Incentive Compensation Plan; filed as Exhibit 10.02b to Laclede's 1990 10-K.
10.01c*	- Amendments to Laclede's Incentive Compensation Plan, effective January 26, 1995; filed as Exhibit 10.3 to Laclede's 10-Q for the fiscal quarter ended March 31, 1995.
10.02*	- Senior Officers' Life Insurance Program of Laclede, as amended; filed as Exhibit 10.03 to Laclede's 1990 10-K.
10.02a*	- Certified copy of resolutions of Laclede's Board of Directors adopted on June 27, 1991 amending the Senior Officers' Life Insurance Program; filed as Exhibit 10.01 to Laclede's 10-Q for the fiscal quarter ended June 30, 1991.
10.02b*	- Certified copy of resolutions of Laclede's Board of Directors adopted on January 28, 1993 amending the Senior Officers' Life Insurance Program; filed as Exhibit 10.03 to Laclede's 10-Q for the fiscal quarter ended March 31, 1993.
10.03*	- Employees' Retirement Plan of Laclede Gas Company - Management Employees, effective as of July 1, 1990, as amended; filed as Exhibit 10.01 to the Laclede's 10-Q for the fiscal quarter ended June 30, 1990.
10.03a*	- Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees adopted by the Board of Directors on September 27, 1990; filed as Exhibit 10.04a to Laclede's 1990 10-K.
10.03b*	- Amendments dated December 12, 1990 to the Employees' Retirement Plan of Laclede Gas Company - Management Employees; filed as Exhibit 10.04b to Laclede's 1990 10-K.
10.03c*	- Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated January 10, 1994; filed as Exhibit 10.01 to Laclede's 10-Q for the fiscal quarter ended December 31, 1993.
10.03d*	- Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated July 29, 1994; filed as Exhibit 10.3d to Laclede's 1994 10-K.
10.03e*	- Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated February 21, 1995; filed as Exhibit 10.4 to Laclede's 10-Q for the fiscal quarter ended March 31, 1995.
10.03f*	- Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated March 7, 1995; filed as Exhibit 10.5 to Laclede's 10-Q for the fiscal quarter ended March 31, 1995.

\* Incorporated herein by reference and made a part hereof. Laclede's File No. 1-1822; the Company's File No. 1-16681.

## INDEX TO EXHIBITS

Exhibit

No.

-----

- 10.03g\* - Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated September 11, 1995; filed as Exhibit 10.03g to Laclede's 1995 10-K.
- 10.03h\* - Amendments to the Employees' Retirement Plan of Laclede Gas Company - Management Employees dated August 14, 1996; filed as Exhibit 10.03h to Laclede's 1996 10-K.
- 10.03i\* - Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees adopted by the Board of Directors on December 19, 1996; filed as Exhibit 10.01 to Laclede's 10-Q for the fiscal quarter ended December 31, 1996.
- 10.03j\* - Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees adopted February 7, 1997; filed as Exhibit 10.01 to Laclede's 10-Q for the fiscal quarter ended March 31, 1997.
- 10.03k\* - Amendment to the Employees' Retirement Plan of Laclede Gas Company - Management Employees adopted October 1, 2000; filed as Exhibit 10.03k to Laclede's 2000 10-K.
- 10.04\* - Laclede Gas Company Supplemental Retirement Benefit Plan, as amended and restated effective July 25, 1991; filed as Exhibit 10.05 to Laclede's 1991 10-K.
- 10.04a\* - Trust Agreement with Boatmen's Trust Company, dated September 4, 1990; filed as Exhibit 10.05c to Laclede's 1990 10-K.
- 10.04b\* - First Amendment to Laclede Gas Company Trust Agreement dated as of September 4, 1990, adopted by the Board of Directors on September 23, 1993; filed as Exhibit 10.05b to Laclede's 1993 10-K.
- 10.04c\* - Amendment (effective as of January 15, 1998) to Laclede Gas Company Trust Agreement (dated as of September 4, 1990) relating to the Laclede Gas Company Supplemental Retirement Plan; filed as Exhibit 10.01 to Laclede's 10-Q for the fiscal quarter ended June 30, 1998.
- 10.05\* - Laclede Gas Company Salary Deferral Savings Plan, as amended through February 27, 1992; filed as Exhibit 10.08 to Laclede's 10-Q for the fiscal quarter ended March 31, 1992.
- 10.05a\* - Amendment to Laclede's Salary Deferral Savings Plan, effective January 31, 1992, adopted by the Board of Directors on August 27, 1992; filed as Exhibit 10.08a to Laclede's 1992 10-K.
- 10.05b\* - Amendment to Laclede's Salary Deferral Savings Plan dated January 10, 1994; filed as Exhibit 10.02 to Laclede's 10-Q for the fiscal quarter ended December 31, 1993.
- 10.05c\* - Amendments to Laclede's Salary Deferral Savings Plan, dated July 29, 1994; filed as Exhibit 10.05c to Laclede's 1994 10-K.
- 10.05d\* - Amendments to Laclede's Salary Deferral Savings Plan, effective August 1, 1994 adopted by the Board of Directors on August 25, 1994; filed as Exhibit 10.05d to Laclede's 1994 10-K.
- 10.05e\* - Amendments to Laclede's Salary Deferral Savings Plan, dated September 27, 1994; filed as Exhibit 10.05e to Laclede's 1994 10-K.
- 10.05f\* - Amendments to Laclede's Salary Deferral Savings Plan, dated February 21, 1995; filed as Exhibit 10.1 to Laclede's 10-Q for the fiscal quarter ended March 31, 1995.
- 10.05g\* - Amendments to Laclede's Salary Deferral Savings Plan, dated March 7, 1995; filed as Exhibit 10.2 to Laclede's 10-Q for the fiscal quarter ended March 31, 1995.
- 10.05h\* - Amendments to Laclede's Salary Deferral Savings Plan, dated June 26, 1995; filed as Exhibit 10.1 to Laclede's 10-Q for the fiscal quarter ended June 30, 1995.
- 10.05i\* - Amendments to Laclede's Salary Deferral Savings Plan, dated August 3, 1995; filed as Exhibit 10.05 to Laclede's 1995 10-K.
- 10.05j\* - Amendments to Laclede's Salary Deferral Savings Plan, adopted April 21, 1997; filed as Exhibit 4.1 to Laclede's 10-Q for the fiscal quarter ended June 30, 1997.
- 10.05k\* - Amendments to Laclede's Salary Deferral Savings Plan, adopted October 5, 1998; filed as Exhibit 10 to Laclede's 10-Q for the fiscal quarter ended December 31, 1998.
- 10.05l\* - Amendments to Laclede's Salary Deferral Savings Plan, adopted with the following effective dates: October 1, 2000, November 1, 2000, February 3, 1997, August 1, 2000; filed as Exhibit 10.05l to Laclede's 2000 10-K.
- 10.05m\* - Amendments to Laclede's Salary Deferral Savings Plan, dated September 18, 2001; filed as Exhibit 10.05m to Laclede's 2001 10-K.
- 10.05n - Amendments to Laclede's Salary Deferral Savings Plan, dated

- September 25, 2002.
- 10.06\* - Laclede Gas Company Deferred Compensation Plan for Non-Employee Directors dated March 26, 1981; filed as Exhibit 10.12 to Laclede's 1989 10-K.
  - 10.06a\* - First Amendment to Laclede's Deferred Compensation Plan for Non-Employee Directors, adopted by the Board of Directors on July 26, 1990; filed as Exhibit 10.09a to Laclede's 1990 10-K.
  - 10.06b\* - Amendment to Laclede's Deferred Compensation Plan for Non-Employee Directors, adopted by the Board of Directors on August 27, 1992; filed as Exhibit 10.09b to Laclede's 1992 10-K.
  - 10.07\* - Transportation Service Agreement For Rate Schedule FSS, Contract #3147 between Mississippi River Transmission Corporation ("MRT") and Laclede effective May 1, 2002; filed as exhibit 10.1 to Laclede's 10-Q for the fiscal quarter ended June 30, 2002.
  - 10.07a\* - Storage Service Agreement dated October 13, 1993 between Mississippi River Transmission Corporation and Laclede; filed as exhibit 10.07e to Laclede's 1997 10-K.
  - 10.07b\* - Transportation Service Agreement for Rate Schedule FTS, Contract #3310, between Laclede and MRT effective May 1, 2002; filed as Ex. 10.2 to Laclede's 10-Q for the fiscal quarter ended June 30, 2002.
  - 10.07c\* - Transportation Service Agreement for Rate Schedule FTS, Contract #3311, between Laclede and MRT effective May 1, 2002; filed as Ex. 10.3 to Laclede's 10-Q for the fiscal quarter ended June 30, 2002.
  - 10.08\* - The Retirement Plan for Non-Employee Directors of Laclede Gas Company dated January 24, 1985; filed as Exhibit 10.01 to Laclede's 10-Q for the fiscal quarter ended March 31, 1990.

\* Incorporated herein by reference and made a part hereof. Laclede's File No. 1-1822; the Company's File No. 1-16681.

## INDEX TO EXHIBITS

Exhibit

No.

-----

- 10.08a\* - First Amendment to Retirement Plan for Laclede's Non-Employee Directors, adopted by the Board of Directors on July 26, 1990; filed as Exhibit 10.11a to Laclede's 1990 10-K.
- 10.08b\* - Amendments to the Retirement Plan for Non-Employee Directors, adopted by the Board of Directors on January 23, 1992; filed as Exhibit 10.11 to Laclede's 10-Q for the fiscal quarter ended March 31, 1992.
- 10.08c - Amendment and Restatement of Retirement Plan for Non-Employee Directors as of November 1, 2002.
- 10.09\* - Salient Features of the Laclede Gas Company Deferred Income Plan for Directors and Selected Executives, including amendments adopted by the Board of Directors on July 26, 1990; filed as Exhibit 10.12 to the Laclede's 1991 10-K.
- 10.09a\* - Amendment to Laclede's Deferred Income Plan for Directors and Selected Executives, adopted by the Board of Directors on August 27, 1992; filed as Exhibit 10.12a to Laclede's 1992 10-K.
- 10.10\* - Form of Indemnification Agreement between Laclede and its Directors and Officers; filed as Exhibit 10.13 to Laclede's 1990 10-K.
- 10.11\* - Laclede Gas Company Management Continuity Protection Plan, as amended, effective at the close of business on January 27, 1994, by the Board of Directors; filed as Exhibit 10.1 to Laclede's 10-Q for the fiscal quarter ended March 31, 1994.
- 10.12\* - Laclede Gas Company Restricted Stock Plan for Non-Employee Directors, effective as of January 25, 1990; filed as Exhibit 10.03 to Laclede's 10-Q for the fiscal quarter ended March 31, 1990.
- 10.12a\* - Extension and amendment of Laclede's Restricted Stock Plan for Non-Employee Directors adopted by the Board of Directors on November 17, 1994; filed as Exhibit 10.1 to Laclede's 10-Q for the quarter ended December 31, 1994.
- 10.12b\* - Amendment to the Laclede Gas Company Restricted Stock Plan for Non-Employee Directors adopted August 14, 1998; filed as Exhibit 10.12b to Laclede's 1998 10-K.
- 10.12c\* - Amendment to the Laclede Gas Company Restricted Stock Plan for Non-Employee Directors adopted December 16, 1999; filed as Exhibit 10.01 to Laclede's 10-Q for the quarter ended June 30, 2000.
- 10.12d - 2002 Restricted Stock Plan for Non-Employee Directors as of November 1, 2002.
- 10.13\* - Laclede Gas Company Trust Agreement with Boatmen's Trust Company, dated December 7, 1989; filed as Exhibit 10.16 to Laclede's 1990 10-K.
- 10.13a\* - First Amendment to Laclede's Trust Agreement, adopted by the Board of Directors on July 26, 1990; filed as Exhibit 10.16a to Laclede's 1990 10-K.
- 10.13b\* - Second Amendment to Laclede's Trust Agreement dated as of December 7, 1989, adopted by the Board of Directors on September 23, 1993; filed as Exhibit 10.16b to Laclede's 1993 10-K.
- 10.13c\* - Third Amendment to Laclede Gas Company Trust Agreement dated as of December 7, 1989 adopted by the Board of Directors on August 28, 1997; filed as Exhibit 10.13c Laclede's 1997 10-K.
- 10.13d\* - Amendment (effective as of January 15, 1998) to Laclede Gas Company Trust Agreement (dated as of December 7, 1989); filed as Exhibit 10.02 to Laclede's 10-Q for the fiscal quarter ended June 30, 1998.
- 10.14\* - Salient Features of the Laclede Gas Company Deferred Income Plan II for Directors and Selected Executives adopted by the Board of Directors on September 23, 1993; filed as Exhibit 10.17 to Laclede's 1993 10-K.

\* Incorporated herein by reference and made a part hereof. Laclede's File No. 1-1822; the Company's File No. 1-16681.

## INDEX TO EXHIBITS

Exhibit No. -----	
10.15*	- Lines of Credit Agreements dated January 24, 2002 with UMB Bank, N.A.; filed as Exhibits 10.1 and 10.2 to Laclede's 10-Q for the quarter ended March 31, 2002.
10.16*	- Revolving Credit Agreement between the Company and U.S. Bank National Association dated June 13, 2002; filed as Ex. 10.4 to the Company's 10-Q for the quarter ended June 30, 2002.
10.17*	- Loan Agreement between the Company and U.S. Bank National Association filed as Ex. 10.1 to the Company's Form 8-K filed May 29, 2002.
10.18*	- Severance Benefits Agreement dated as of July 31, 2000 between Laclede Gas Company and D.H. Yaeger; filed as Exhibit 10.21 to Laclede's 2000 Form 10-K.
10.19*	- Loan Agreement dated September 16, 2002 for Laclede with U.S. Bank National Association as administrative agent for participating bank; Filed as Exhibit 2 to the Company's Form 8-K filed October 4, 2002.
10.20	- The Laclede Group, Inc. Management Bonus Plan.
10.21	- Stock Purchase Agreement between NiSource Inc. and The Laclede Group, Inc.
10.22	- The Laclede Group, Inc. 2002 Equity Incentive Plan.
10.23	- Lease between Laclede Gas Company, as Lessee and First National Bank in St. Louis, Trustee, as Lessor.
12	- Ratios of Earnings to Fixed Charges.
21	- Subsidiaries of the Registrant.
23	- Consent of Independent Public Accountants.
99.1	- Laclede Gas Company - Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Notes to Financial Statements, Independent Auditors' Report, and Management Report.
99.2	- Certificate of compliance for The Laclede Group, Inc. under Section 906 of the Sarbanes-Oxley Act of 2002 for Douglas H. Yaeger.
99.3	- Certificate of compliance for The Laclede Group, Inc. under Section 906 of the Sarbanes-Oxley Act of 2002 for Barry C. Cooper.
99.4	- Certificate of compliance for Laclede Gas Company under Section 906 of the Sarbanes-Oxley Act of 2002 for Douglas H. Yaeger.
99.5	- Certificate of compliance for Laclede Gas Company under Section 906 of the Sarbanes-Oxley Act of 2002 for Barry C. Cooper.

\* Incorporated herein by reference and made a part hereof. Laclede's File No. 1-1822; the Company's File No. 1-16681.

**Exhibit 10.05n**

Date: September 25, 2002

Douglas H. Yaeger (as Chairman of the Board, President and Chief Executive Officer of Laclede Gas Company), and Gerald T. McNeive, Jr. (as Senior Vice President - Finance and General Counsel of Laclede Gas Company), pursuant to resolutions adopted by the Board of Directors on August 28, 1986, which resolutions, among other things, granted to any two executive officers who hold one of the following offices: Chairman of the Board; President; Executive Vice President; or Senior Vice President; the authority to amend any or all of the benefit plans and/or related trust agreements of the Company (collectively the "Plans") to the extent such amendments deal with changes necessary or appropriate: (1) to comply with, or obtain the benefit of, applicable laws and/or regulations, as amended from time to time; (2) to reflect minor or routine administrative factors; (3) to clarify the meaning of any of the provisions of the Plans; and/or (4) to evidence changes in then existing Plans to reflect the interrelationship thereof with newly adopted Plans or amendments to Plans, which newly adopted Plans or amendments affect the terms of such other then existing Plans; do hereby amend the Laclede Gas Company Salary Deferral Savings Plan as set forth in the attached exhibit, such amendment to be effectuated and evidenced by our signatures on said exhibit.

**AMENDMENT TO THE  
LACLEDE GAS COMPANY  
SALARY DEFERRAL SAVINGS PLAN**

Laclede Gas Company hereby amends the Laclede Gas Company Salary Deferral Savings Plan, as follows:

1. Effective October 1, 2001, Section 2.8 is hereby amended in its entirety to read as follows:

**2.8 "COMPENSATION"**

The amounts paid a Participant for the period in which he is eligible to participate during a Company Year (including salary reduction amounts pursuant to Article IV hereof and Code Section 125 or Code Section 132(f)(4)), by the Company for services rendered as an Employee, as would (but for the subtraction of salary reduction amounts pursuant to Article IV hereof, Code Section 125 or Code Section 132(f)(4)) be reported for federal income tax purposes on U. S. Treasury Department Form W-2, except that pension payments and other deferred compensation, income attributable to the award or exercise of stock options, the premature disposition of stock option stock, or the award or vesting of restricted stock, and any other amount which does not constitute "compensation" within the meaning of Code Section 415 shall not constitute Compensation. Beginning October 1, 1994, Compensation is limited to \$150,000 per Plan Year, which amount is subject to annual adjustment by the U.S. Treasury Department. For purposes of applying the annual compensation limit described in the immediately preceding sentence, the family unit of an Employee, who is either: (a) a five percent (5%) owner or (b) both a highly compensated Employee and one of the ten most highly compensated Employees during the Plan Year will be treated as a single Employee. For this purpose a family unit consists of: the Employee who is a five percent (5%) owner or is both a highly compensated Employee and one of the ten most highly compensated Employees; such Employee's Employee spouse; and such Employee's Employee lineal descendants who have not attained age nineteen (19) before the close of the year. The provisions set forth in the immediately preceding two sentences shall expire on September 30, 1997.

2. Effective January 1, 2000, Section 2.13 is hereby amended in its entirety to read as follows:

**2.13 "ELIGIBLE ROLLOVER DISTRIBUTION"**

An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Participant, Beneficiary or QDRO Payee. However, an Eligible Rollover Distribution does not include: any minimum distribution required under Code Section 401(a)(9); the portion of any distribution that is not includible in gross income (determined without

regard to the exclusion for net unrealized appreciation with respect to employer securities); Salary Deferral Contributions returned as a result of Code Section 415 limitations; corrective distributions of Salary Deferral Contributions and/or Matching Contributions and any applicable earnings thereon; loans treated as distributions under Code Section 72(p) and not excepted by Code Section 72(p)(2); loans in default that are deemed distributions; any hardship distribution described in Code Section 401(k)(2)(B)(i)(IV), and similar items designated by the Commissioner of the Internal Revenue Service.

3. Effective October 1, 1997, Section 2.14 is hereby amended in its entirety to read as follows:

2.14 "EMPLOYEE"

Any person who is employed by Laclede Gas Company in any capacity. An individual's employment status and position shall be determined by the job classification assigned to him or her by the Company.

Notwithstanding the preceding paragraph of this Section 2.14, the term "Employee" shall exclude "leased employees," for all purposes except the determination of Year of Service, as defined in Section 2.33. For purposes of this Plan, a leased employee means any individual other than a common law employee, who pursuant to an agreement between the Company or a Related Company (as defined in Section 2.33) and any other person, has performed services for the Company or a Related Company on a substantially full-time basis for a period of at least one year and such services are performed under the primary direction or control of the Company or a Related Company. An individual who becomes a leased employee (determined without regard to the one year service requirement) shall be deemed to be an Employee for the purpose of eligibility to participate and vesting at the time the individual first begins performing services for the Company or a Related Company. An individual covered by a money purchase pension plan providing a non-integrated employer contribution of at least ten percent (10%) of compensation, immediate participation and full and immediate vesting, as defined in Code Section 414(n)(5) shall not be treated as a leased employee, provided that leased employees (determined without regard to this sentence) do not constitute more than twenty percent (20%) of the recipient's non-highly compensated work force.

In the event that an individual who was not classified as an Employee or a common-law employee is legally reclassified as an Employee or a common-law employee of the Company, such Employee shall only first be considered to be an Employee at the time of such reclassification, or, if later, at the time that such individual is initially treated as an Employee or common-law employee on the payroll records of the Company.



4. Effective October 1, 2001, Section 2.30 is hereby amended in its entirety to read as follows:

2.30 "SHARE" AND "SHARES"

One (1) or more shares of common stock of The Laclede Group, Inc.

5. Effective October 1, 2002, Section 2.33 is hereby amended in its entirety to read as follows:

2.33 "YEAR OF SERVICE"

A twelve (12) consecutive month Service Period, commencing on the Employee's employment commencement date and the anniversary dates thereof, consisting of at least one thousand (1,000) hours of service, with the Company, or a Related Company as hereinafter defined. All Years of Service, whenever achieved, shall be counted for purposes of determining eligibility to become a Participant. For purposes of this section, "Related Company" is defined as a member of a controlled group of corporations, as defined in Code Section 1563, without regard to paragraphs (a)(4) and (e)(3)(C) thereof, of which the Company is also a member.

6. Effective December 12, 1994, a new Section 3.3 is hereby added as follows:

3.3. IMPUTED MILITARY SERVICE

Notwithstanding any provision of the Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Code Section 414(u).

7. Effective for Plan Years beginning on or after October 1, 1997, Section 4.4(a) is hereby amended in its entirety to read as follows:

(a) At periodic intervals, but not less frequently than once each fiscal quarter of the Plan Year, the Administrator shall determine the actual deferral percentage for the two groups of Employees consisting of Highly Compensated Employees (as defined in Section 4.4(c)) eligible to be Participants (whether or not they are Participants) and all remaining Employees eligible to be Participants (whether or not they are Participants). The actual deferral percentage for each of these groups is the average of the ratios, calculated separately for each Employee in each group, of

(i) the amount of Salary Deferral Contribution for such Employee for such Plan Year, to

(ii) such Employee's Compensation for such Plan Year before deducting his Salary Deferral Contribution.

The ratio for such a Highly Compensated Employee shall be referred to herein as the "ADR."

8. Effective for Plan Years beginning on or after October 1, 1997, Section 4.4(b) is hereby amended in its entirety to read as follows:

(b) For each Plan Year, the Administrator shall determine:

(i) the product obtained by multiplying 1.25 times the actual deferral percentage for those Employees eligible to be Participants (whether or not they are Participants) who are not Highly Compensated Employees, and

(ii) the smaller of the amount determined as the sum of the actual deferral percentage for this group plus two percent (2%) and the amount determined as the product of the actual deferral percentage for this group multiplied by 2.

The higher amount of Sections 4.4(b)(i) and (b)(ii) above is hereinafter in this Section 4.4 called the "Base Percentage." If the actual deferral percentage for the Highly Compensated Employee group exceeds the Base Percentage, the deferrals of Highly Compensated Employees in excess of the amount permitted are hereby referred to as "Excess Contributions." The Administrator shall direct a refund of the Excess Contributions and income attributable thereto at such times and in such manner as is permitted by the Code and Treasury Regulations. The aggregate dollar amount of such Excess Contributions shall be determined by reducing the Salary Deferral Contributions of Highly Compensated Participants beginning with the Highly Compensated Participant with the highest ADR in accordance with Treas. Reg. Section 1.401(k)-1(f)(2). The Salary Deferral Contributions of the Highly Compensated Participant with the highest ADR shall be reduced to the extent necessary to reduce the ADR of such Participant so that the actual deferral percentage test is satisfied or so that such Participant's ADR is equal to the ADR of the Highly Compensated Participant with the next highest ADR. This reduction shall be repeated until the actual deferral percentage test is satisfied. The aggregate dollar amount of Excess Contributions shall be equal to the total amount of such Salary Deferral Contribution reductions. The aggregate amount of Excess Contributions so determined shall be distributed to Highly Compensated Participants using the "dollar-leveling method." Under this method, Excess Contributions shall be distributed first to the Highly Compensated Participant with the highest dollar amount of Salary Deferral Contributions so that each Participant's Salary Deferral Contributions equal the dollar amount of the Salary Deferral Contributions of the Highly Compensated

Participant with the next highest dollar amount of Salary Deferral Contributions. If the total amount distributed is less than the aggregate amount of Excess Contributions, this method shall be repeated until the aggregate amount of Excess Contributions has been distributed. After such refunds are made, the Plan shall be treated as meeting the actual deferral percentage test regardless of whether the Plan would satisfy such actual deferral percentage test if recalculated. Any Company Matching Contribution that was in fact already made on behalf of such a Participant that is attributable to such a refunded Excess Contribution shall be forfeited. Income attributable to any refund shall be determined in accordance with a method that satisfies Treas. Reg. Section 1.401(k)-1(f)(4)(ii).

9. Effective October 1, 1997, Section 4.4(c) is hereby amended in its entirety to read as follows:

(c) Highly Compensated Employees means active Highly Compensated Employees or former Highly Compensated Employees. An active Highly Compensated Employee means any Employee who (i) was a five-percent owner (as defined in Code Section 416(i)) of the Company at any time during the current or preceding year; or  
(ii) for the preceding year had Compensation from the Employer in excess of \$80,000 (as adjusted by the Secretary pursuant to Code Section 414(q)(1)). A former Employee shall be treated as a Highly Compensated Employee if such Employee was a Highly Compensated Employee (i) when such Employee incurred a severance date or (ii) at any time after attaining age fifty-five (55). The determination of who is a Highly Compensated Employee will be made in accordance with Code Section 414(q) and the regulations thereunder.

10. Effective October 1, 2002, Section 5.1(a) is hereby amended in its entirety to read as follows:

(a) Subject to Section 5.1(b), for each month during each Plan Year, the Company shall contribute to the Trust under this Plan an amount equal to the lesser of:

- (i) the entire amount of salary deferral of such Participant for such month; or
- (ii) four percent (4%) of the Compensation of such Participant for such month.

11. Effective October 1, 1997, Section 5.1(b) is hereby amended to read in its entirety as follows:

(b) Notwithstanding any other provision of this subsection, beginning October 1, 2001 the Plan is intended to meet the design-based safe harbors under

Code Sections 401(k)(12) and 401(m)(11). For each Plan Year in which the Plan meets the enhanced matching formula, the tests specified in this Section 5.1 and in Section 4.4 need not be calculated. Prior to each Plan Year, Employees will receive the required notification that the Plan will utilize the design-based safe harbors. If the Plan will not utilize the above design-based safe harbors, then Employees will be notified as such prior to the beginning of the applicable Plan Year.

Inasmuch as applicable federal law and regulations establish certain limitations on Company Matching Contributions for certain Employees, each Matching Contribution shall be subject to automatic adjustment in accordance with the following rules, which are intended to assure compliance with applicable law:

(i) At periodic intervals, but not less frequently than once each fiscal quarter of the Plan Year, the Administrator shall determine the actual matching percentage for the two groups of Employees consisting of Highly Compensated Employees (as defined in Section 4.4(c)) eligible to be Participants (whether or not they are Participants) and all remaining Employees eligible to be Participants (whether or not they are Participants). The actual matching percentage for each of these groups is the average of the ratios, calculated separately for each Employee in each group, of

(A) the amount of Company Matching Contribution for such Employee for such Plan Year, to

(B) such Employee's Compensation for such Plan Year before deducting his Salary Deferral Contribution.

The ratio for such a Highly Compensated Employee shall be referred to herein as the "ACR."

(ii) For each Plan Year, the Administrator shall determine:

(A) the product obtained by multiplying 1.25 times the actual matching percentage for those Employees eligible to be Participants (whether or not they are Participants) who are not Highly Compensated Employees, and

(B) the smaller of the amount determined as the sum of the actual matching percentage for this group plus two percent (2%) and the amount determined as the product of the actual matching percentage for this group multiplied by two (2).

The higher amount of (b)(ii)(A) and (b)(ii)(B) above is hereinafter in this Section 5.1 called the "Base Percentage." If the actual matching

percentage for the Highly Compensated Employee group exceeds the Base Percentage (any such excess being hereinafter in this Section 5.1 called the "Excess"), then prior to the end of the Plan Year, the Company Matching Contribution of each of those Participants in the Highly Compensated Employee group whose actual matching percentage shall be greater than the Base Percentage shall be reduced as necessary to eliminate the Excess. The Administrator shall reduce ACRs by reducing Company Matching Contributions so that after the reduction, the rate of Company Matching Contributions is uniform among Participants. Any such Excess shall be treated as a forfeiture and offset the Company Matching Contributions, including any applicable income earned on such matching contributions during the Plan Year.

(iii) If, after adjustment for any Plan Year of the actual deferral percentages as provided under Section 4.4(b) and the actual matching percentage as provided under Section 5.1(b), the sum of the actual deferral percentage and the actual matching percentage for Highly Compensated Employees eligible to be Participants exceeds the sum of:

(A) 1.25 times the greater of the actual deferral percentage or actual matching percentage for all remaining Employees eligible to be Participants plus

(B) the smaller of:

(1) two percentage points plus the smaller of the actual deferral percentage or actual matching percentage for all such remaining Employees, or

(2) 2.00 times the smaller of the actual deferral percentage or actual matching percentage for all such remaining Employees;

then, prior to the end of the Plan Year, either or both, as needed, of the actual deferral percentage or actual matching percentage for such participating Highly Compensated Employees shall be reduced as set forth under Sections 4.4(b) and 5.1(b) herein until there is no such excess.

12. Effective October 1, 2002, Section 5.3 is hereby deleted in its entirety and Sections 5.4, 5.5 and 5.6 are renumbered as Sections 5.3, 5.4 and 5.5.

13. Effective October 1, 2001, Section 6.12(a) is hereby amended in its entirety to read as follows:

(a) Participants shall be entitled to vote, at any meeting of shareholders of The Laclede Group, Inc., all full and fractional Shares attributable to their Accounts as shown on the books of the Trustee, as of the record date for determining shareholders entitled to vote at such meeting. Arrangements shall be made for the Trustee to deliver to each Participant a copy of all proxy solicitation materials, before each annual or special meeting of shareholders of The Laclede Group, Inc., together with a form requesting confidential instructions on how the Shares which such Participant is entitled to vote are to be voted at such meeting. The Trustee shall vote all Shares as to which it has received voting instructions from Participants at least three

(3) business days before the shareholders' meeting in the manner thus instructed. The Trustee shall not vote any Shares as to which voting instructions have not been timely received from Participants. Voting instructions from individual Participants shall be held by the Trustee in strictest confidence, and neither the name of, nor the voting instructions given by, any individual Participant who chooses to give voting instructions shall be divulged by the Trustee to the Company or to any director, officer, or employee thereof, or to the Administrator, or to any other person.

14. Effective October 1, 1998, Section 7.3(b) is hereby amended in its entirety to read as follows:

(b) The amount of such Additions with respect to any Participant for any Plan Year shall not exceed the lesser of:

(i) The amount specified in Code Section 415(c)(1)(A), as adjusted by the Secretary of the Treasury for Cost of Living increases in accordance with Code

Section 415(d), as in effect on the last day of the Plan Year; or

(ii) Twenty-five percent (25%) of the Participant's Compensation for such Limitation Year.

In applying the foregoing limitation, the Administrator shall take into account all defined contribution plans of the controlled group. For purposes of this section, controlled group means the Company and any other corporation or other business entity that from time to time is, along with the Company, a member of a controlled group as defined in Code Section 414, as modified by Code Section 415(h) (fifty percent control test)

Amounts that cannot be credited to the Account in this Plan of a particular Participant for a Plan Year because of the limitations of this section shall be disposed of as follows: first, Employee unmatched Salary Deferrals, if any, shall be returned to the respective Participants who made the contributions; and next, any remaining excess Company contributions shall be allocated to suspense accounts and used to reduce Company contributions for the next Plan Year (and succeeding Plan Years as necessary) for that Participant if the Participant is entitled to an allocation of Company Matching Contributions for such subsequent year, and if that Participant is not so entitled to an allocation, the excess amount shall be reallocated in the next Plan Year to all of the remaining Participants as a Company contribution for such year. However, amounts in suspense accounts must be used to reduce Company contributions for all remaining Participants and may not be distributed. Salary Deferral Contributions refunded in accordance with this paragraph shall include any income attributable thereto.

Code Section 415 is hereby incorporated by reference. The Limitation Year shall be the Plan Year.

15. Effective October 1, 2000, Section 7.3(c) is hereby deleted in its entirety.

16. Effective July 1, 2002, Section 8.1(f) is hereby amended in its entirety to read as follows:

(f) Aggregation Group shall include each plan of the Company in which a Key Employee is a Participant, and each other plan of the Company, or any other corporation which is a member of the same controlled group of corporations of which the Company is a member, which enables any plan in which a Key Employee participates to meet the requirements of Code Sections 401(a)(4) or 410. The Company, or any other corporation which is a member of the same controlled group of corporations of which the Company is a member, may treat any plan not required to be included in an Aggregation Group under Code Section 416(g)(2)(A)(i) as being part of such group if such group would continue to meet the requirements of Code Sections 401(a)(4) and 410 with such plan taken into account.

17. Effective October 1, 2000, Section 8.2(c) is hereby deleted in its entirety and Section 8.2(d) is renumbered Section 8.2(c).

18. Effective October 1, 1997, Section 10.1(a) is hereby amended in its entirety to read as follows:

(a) A Participant who ceases to be an Employee for any reason (including death, disability or retirement) shall receive (or if he is not then living, his Beneficiary shall receive) his entire Account balance, as soon as is administratively feasible after, but as of, the end of the month of such cessation of employment; unless the Participant survives such cessation of employment, and has elected, subject to the provisions of Section 10.2(c)(ii) hereof, to have his entire Account balance remain in, and continue to be subject to, and invested in accordance with, the Plan for:

(i) a period of not in excess of five (5) years following such cessation of his employment; or

(ii) in the case of a Participant whose entire Account balance exceeds \$5,000, for a period of not more than five (5) years following cessation of employment, or to age sixty-five (65), if later;

in either which case such Participant may, subject to the provisions of Section 10.2(c)(ii) hereof, elect, upon at least thirty (30) days advance written notice, to have his then entire Account balance distributed to him at any time during either such elected deferral period. In addition, a Participant who has attained age fifty-nine and one-half (59 1/2) shall be entitled to receive a distribution of all of his Account at his election, which election must be delivered at least thirty (30) days in advance of the intended distribution date.

19. Effective January 1, 2001, Section 10.2(c)(ii) is hereby amended in its entirety to read as follows:

(ii) with respect to distributions under the Plan made for calendar years beginning on or after January 1, 2001, the Plan will apply the minimum distribution requirements of Code Section 401(a)(9) in accordance with the regulations under Code Section 401(a)(9) that were proposed on January 17, 2001, notwithstanding any provision of the Plan to the contrary. This amendment shall continue in effect until the end of the last calendar year beginning before the effective date of final regulations under Section 401(a)(9) or such other date as may be specified in guidance published by the Internal Revenue Service.



Notwithstanding anything to the contrary in the Plan, and notwithstanding any election of the Participant, payment of benefits shall commence not later than the Participant's required beginning date. Effective for Participants who attain seventy and a half (70 1/2) years of age on or after January 1, 2000, the required beginning date of a Participant generally is the April 1 of the calendar year following the later of (a) the calendar year in which the Participant attains seventy and a half (70 1/2) years of age; and (b) if the Participant is not a five percent owner as defined in Code Section 416(i), the calendar year in which the Participant retires.

Participants who attained seventy and a half (70 1/2) years of age on or after January 1, 1997, and before January 1, 2001 who remain Employees shall receive the minimum distribution determined in accordance with Code Section 401(a)(9) of the Code for the distribution years 1997, 1998, and 1999, respectively, provided that an Employee who attained seventy and a half (70 1/2) years of age in 2000 may elect to receive or defer such distribution.

Payment of benefits may not extend over a period longer than the lifetime of the Participant and his designated Beneficiary (or in the case of a term certain, over a period longer than the joint life expectancy of the Participant and his designated Beneficiary without recalculating life expectancies).

If a Participant dies on or after his required beginning date after distribution of benefits has commenced but before his entire interest has been distributed, the remaining portion of such interest shall be distributed at least as rapidly as the method in effect on the date of death of the Participant.

If a Participant dies before his required beginning date, the entire interest payable to his Beneficiary shall be distributed within five years of the Participant's death, unless such interest is payable over a period not to exceed the life expectancy of the Beneficiary and payments of such interest commence within one year after the Participant's death. However, if the Beneficiary is the surviving spouse of the Participant, payments of such interest payable over a period not to exceed the life expectancy of the Beneficiary need not commence before the date on which the Participant would have attained 70 1/2 years of age; provided that if the surviving spouse dies before distribution to such spouse begins, this sentence shall be applied as if the surviving spouse were the Participant.

For purposes of the required distributions, the Participant may elect to receive a total distribution of the Participant's Account, or the minimum distribution which is required. If the Participant elects the minimum required distribution, it will be based on the value of the Participant's Account at December 31 of the calendar year preceding the distribution year, divided by remaining life expectancy. Minimum distributions shall be withdrawn from each Investment Fund or Funds in the same

proportion as the balance of the Investment Funds bear to each other. Subsequent distributions will be made at least annually thereafter, by December 31 and will be for the calendar year which ended on the prior December 31. If the Participant dies after required minimum distributions have commenced but before all of the Participant's Account has been distributed, then the remainder of the Participant's Account shall be distributed to the Participant's designated Beneficiary not later than sixty (60) days after the date of the Participant's death.

Mandatory distributions under this subclause (ii) will comply with the distribution requirements, including the minimum distribution incidental benefit requirements, as provided under Code Section 401(a)(9) and the regulations issued by the Secretary of the Treasury interpreting such section, and Code Section 401(a)(9) is hereby incorporated by reference. If any provision of this Plan conflicts with such distribution requirements, then the Code Section 401(a)(9) distribution requirements will govern.

20. Effective October 1, 2002, Section 10.3(a) hereby amended in its entirety to read as follows:

(a) Any Participant who has suffered a financial hardship may withdraw all or any portion of amounts attributable to the Participant's Salary Deferral Contributions, plus related earnings credited as of December 31, 1988 but exclusive of later earnings and amounts previously distributed due to hardship. Application for hardship and a demonstration of the existence of such financial hardship must be made to the satisfaction of the Administrator. Except as otherwise expressly provided in Section 10.1(a) or upon a showing of a financial hardship as defined in Section 10.3(b), no withdrawals may be made while a Participant continues to be employed by the Company or a Related Company, as defined in Section 2.33.

21. Effective January 1, 2000, Section 10.3(c)(i) is hereby amended in its entirety to read as follows:

(i) A withdrawal based upon a financial hardship cannot exceed the amount required to meet such hardship and not reasonably available from other resources available to the Participant, including loans from this Plan. Federal tax will be withheld on hardship withdrawals at a rate of ten percent (10%, unless the Participant elects no withholding); state or local income taxes will be withheld at the Participant's request. The amount required for hardship may be increased to include the necessary taxes but cannot exceed the amount available for hardship as provided in Section 10.3(a). A hardship withdrawal will not be granted if such financial hardship may be relieved in full by borrowing that amount as allowed under Section 10.4, as supplemented by Section 10.3(c)(iv).

22. Effective October 1, 2002, Section 10.4(a) is hereby amended in its entirety to read as follows:

(a) The aggregate amount of all such loans to a Participant made, renewed, negotiated, modified, or extended shall not exceed the lesser of fifty percent (50%) of the total value of the Participant's Account or fifty thousand dollars (\$50,000), (which \$50,000 amount shall be reduced by the excess, if any, of: (A) the highest outstanding balance of loans to the Participant from the Plan during the one year period ending on the date before the date on which the new or additional loan, or modification or extension of loan, is to be made, over (B) the outstanding balance of loans to the Participant from the Plan on the date on which such loan, or modification or extension of loan, is made). In any event, no loan of less than five hundred dollars (\$500) shall be permitted. Accounts shall be valued for these purposes as of the day preceding the date of the loan. For purposes of this Section, "plan" means all plans of the Company and Related Companies, as defined in Section 2.33.

23. Effective October 1, 2002, Section 10.4(c) is hereby amended in its entirety to read as follows:

(c) In the event a note or any installment thereunder is not paid when due, the Administrator shall give written notice to the Participant sent to his last known address and, if the note or such delinquent installment is not paid for more than a full calendar quarter, the loan shall be in default. The Administrator shall treat a loan that has been defaulted upon and not cured within the grace period as a deemed distribution from the Plan. Interest shall continue to accrue on a loan that is deemed distributed. Any loan that is deemed distributed (including interest accruing thereafter) and that has not been repaid is considered outstanding for determining the maximum amount of any subsequent loan to the Participant. A deemed distribution of a defaulted loan shall not be considered an eligible rollover distribution for purposes of Section 10.7 of the Plan. When a distribution of the Participant's Account is made in accordance with the Plan, or if a default occurs on the Participant's termination of employment or death, the Administrator shall foreclose on the security for the loan by deducting the amount of the outstanding balance of the defaulted loan from the Participant's Account. At the time of a lump sum distribution of the Participant's Account, the Note shall be distributed to the Participant (or Beneficiary).

24. Effective October 1, 2002, the first paragraph of Section 10.6 is hereby amended to read in its entirety as follows:

An eligible Employee, or an Employee who would be an eligible Employee except that such Employee fails to satisfy the minimum age and/or Year of Service requirements as defined in Section 3.1, may contribute to the Trust an eligible rollover distribution, as defined in the Internal Revenue Code.

25. Effective October 1, 2002, the last paragraph of Section 10.6 is hereby amended to read in its entirety as follows:

Nothing in this Section 10.6 shall be construed to supersede or otherwise change the participation requirements described in Article III. At the time an Employee makes a Rollover Contribution pursuant to the provisions of this Section 10.6, the Employee shall designate Investment Fund allocation percentages for the Rollover Contribution by filing an election with the Company, as described in Article VI.

26. Effective October 1, 2002, Section 14.6 is hereby amended to read in its entirety as follows:

**14.6 APPLICATIONS FOR BENEFITS. APPEALS FROM DENIAL OF BENEFITS**

A Participant or Beneficiary who believes that he is entitled to benefits under the Plan may file a written request for such benefits with the Administrator setting forth his claim.

Within ninety (90) days after receipt of the request, the Administrator shall provide to every claimant who is denied a claim for benefits, written notice setting forth in a manner calculated to be understood by the claimant:

- (a) The specific reason or reasons for the denial;
- (b) Specific reference to pertinent Plan provisions on which the denial is based;
- (c) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (d) An explanation of the claim review procedure and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

If special circumstances require an extension of time beyond the initial ninety (90) day period, prior to the end of such initial ninety (90) day

period the Administrator shall provide to the claimant written notice of the extension, the special circumstances requiring the extension, and the date by which the Administrator expects to render the final decision. In no event shall such extension exceed a period of ninety (90) days from the end of the initial ninety (90) day period. If the Administrator does not furnish a response within the initial ninety (90) day or extended period, the claimant shall be deemed to have exhausted the claims and appeals process set forth in this section and is entitled to file suit in state or federal court.

If a claimant receives notice from the Administrator that a claim for benefits has been denied in whole or in part, the claimant or the claimant's duly authorized representative may, within sixty (60) days after receipt of notice of such denial:

- (a) Make written application to the Administrator for a review of the decision. Such application shall be made on a form specified by the Administrator and submitted with such documentation as the Administrator shall prescribe;
- (b) Review, upon request and free of charge, all documents, records and other information in the possession of the Administrator which are relevant to the claim; and
- (c) Submit written comments, documents, records and other information relating to the claim.

If the claimant or his duly authorized representative fails to file such appeal within sixty (60) days after the claim is denied, the claimant shall be deemed to have waived any right to appeal the denial of the claim.

If review of a decision is requested, such review shall be made by the Administrator who shall review all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

The Administrator shall furnish a written decision on review not later than sixty (60) days after the notice of appeal is filed by the claimant. If special circumstances require an extension of time beyond the initial sixty (60) day period, prior to the end of such initial sixty (60) day period the Administrator shall provide to the claimant, written notice of the extension, the special circumstances requiring the extension, and the date by which the Administrator expects to render the final decision. In no event shall such extension exceed a period of sixty (60) days from the end of the initial sixty (60) day period.

Any denial shall inform the claimant of the specific reason or reasons for the denial, refer to the specific Plan provisions on which the denial is

based, state that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim, and state that the claimant has a right to bring a civil action under Section 502(a) of ERISA.

27. Effective October 1, 2002, Section 17.11 is hereby amended to read in its entirety as follows:

17.11      SITUS

-----

The Plan and the Trust by which it is funded shall be construed, regulated and administered according to the laws of the State of Missouri, to the extent not preempted by federal law.

LACLEDE GAS COMPANY

By: GERALD T. McNEIVE, JR. Senior Vice President - Finance and General Counsel

By: DOUGLAS H. YAEGER Chairman, President and Chief Executive Officer

**Exhibit 10.08c**

**TERMS OF RETIREMENT PLAN FOR  
NON-EMPLOYEE DIRECTORS OF LACLEDE GAS COMPANY**

(As amended and restated as of November 1, 2002)

1. Eligibility. This Retirement Plan shall be available to each non-employee Director who: (a) on or after this Retirement Plan's effective date, but before November 1, 2002, is an active member of the Board; (b) will not be entitled to retirement benefits under Laclede Gas Company's qualified Pension Plan; and (c) prior to November 1, 2002, either: (i)

accumulates (or has accumulated) at least sixty (60) months of service as a member of the Board; or (ii) accumulates (or has accumulated) less than sixty (60) months of such service, but dies while still a member of the Board. Each such Director who shall meet the requirements of clauses (a),

(b) and (c) above is hereinafter called an "Eligible Director." On and after

October 1, 2001, references to "the Board" shall mean The Laclede Group, Inc. Board of Directors and not the Laclede Gas Company Board of Directors. A non-employee Director who was not an Eligible Director on November 1, 2002 shall not participate in or have any benefits under this Plan.

2. Amount of Annual Retirement Benefit. Benefits shall, following the Entitlement Date (as hereinafter defined), be payable to each Eligible Director annually, and each annual payment shall be based on the Eligible Director's annual Board retainer (but excluding fees for serving as a chairman or member of any committees of the Board, or for attending meetings of the Board or any committees thereof) in effect at the time of retirement (or death in the case referred to in subclause (c)(ii) of the first sentence of Paragraph 1 above). The level of each such annual benefit shall be the amount determined by multiplying such annual retainer amount by 1/12 of 10% (.833%) for each past, present or future month of service of the particular Eligible Director up to a maximum of 120 months (or a maximum per year of 100% of such final annual Board retainer rate of the Eligible Director). The amount of annual retirement benefit thus determined shall hereinafter be called the "Annual Retirement Benefit."

3. Retirement Benefit Entitlement Date. Each Eligible Director (or the designated beneficiary, or designated contingent beneficiary, of such Eligible Director, as described in Paragraph 4 hereof) shall be entitled to obtain such Eligible Director's Annual Retirement Benefit commencing after the later of the following dates (hereinafter called the "Entitlement Date"): (a) the sixty-fifth anniversary date of the birth of the Eligible Director; or (b) the date the Eligible Director retires from the Board (or dies while still serving as a Board Member), should such Eligible Director serve beyond such Eligible Director's sixty-fifth birthday.

4. Payment Dates. The First Annual Retirement Benefit shall be paid within thirty (30) days following the Entitlement Date, and payments shall continue annually thereafter (in the same calendar month as the initial Annual Retirement Benefit payment) so long as the Eligible Director shall then be living; provided that if the Eligible Director shall not be living on the date of any of the first ten (10) scheduled Annual Retirement Benefit payments, then such Eligible Director's designated beneficiary shall receive such Annual Retirement Benefit payment, in lieu of payment thereof to the Eligible Director, if such designated beneficiary is then living, or if such designated beneficiary shall not then be living, such payment shall then be made to the designated contingent beneficiary, if then living. No Annual Retirement Benefit payments shall be paid to any designated beneficiary, or to any designated contingent beneficiary, beyond the tenth Annual Retirement Benefit payment; and all Annual Retirement Benefit payments regarding a deceased Eligible Director shall cease in their entirety upon the death of the last to die of the Eligible Director, the designated beneficiary and the designated contingent beneficiary.

5. Miscellaneous.

(a) The Plan shall be unfunded and payments hereunder shall be made solely from the general assets of the Company. To the extent any person acquires the right to receive payments hereunder, such right shall be no greater than that of an unsecured general creditor of the Company. Notwithstanding the foregoing, the Company may contribute to the Trust Fund established under the Trust Agreement entered into as of the 7th day of December, 1989, between the Company and Boatmen's Trust Company and payments under the Plan may be made from said Trust Fund.

(b) No right or benefit under the Plan shall be subject to anticipation, alienation, sale, assignment, pledge or encumbrance, and any attempt to anticipate, alienate, sell, assign, pledge or encumber the same shall be void.

(c) Each Director may specify his or her designated beneficiary and designated contingent beneficiary in writing to the Company and shall have the right, from time to time, at any time during such Director's life (whether before, on or after such Director's retirement), to change such Director's previously specified designated beneficiary and designated contingent beneficiary by means of a subsequent written notice to the Company.



**2002 RESTRICTED STOCK PLAN  
FOR NON-EMPLOYEE DIRECTORS  
As Amended and Restated November 1, 2002**

**ARTICLE I. GENERAL PROVISIONS.**

SECTION 1. PURPOSES. The 2002 Restricted Stock Plan for Non-Employee Directors (the "Plan") is designed to retain and attract Non-Employee Directors and to solidify the common interest of Directors and shareholders in enhancing the value of the Company's Shares.

SECTION 2. DEFINITIONS. Except where the context otherwise indicates, the following definitions apply:

"ANNUAL MEETING" means the Annual Meeting of Shareholders of The Laclede Group, Inc.

"BOARD" means the Board of Directors of the Company.

"COMPANY" means The Laclede Group, Inc., a Missouri corporation, and any successor that assumes the Plan.

"CURRENT VESTED NON-EMPLOYEE DIRECTOR" means a Non-Employee Director who, as of November 1, 2002, is vested under the Retirement Plan for Non-Employee Directors.

"CURRENT NON-VESTED NON-EMPLOYEE DIRECTOR" means a Non-Employee Director who, as of November 1, 2002, is not vested under the Retirement Plan for Non-Employee Directors.

"DIRECTOR" means a member of the Board.

"EMPLOYEE DIRECTOR" means a member of the Board who is employed by, or was formerly employed by, the Company or any of its subsidiaries.

"FAIR MARKET VALUE" means the average of the highest and lowest sales prices of the Company's shares on the effective date of a Grant (or, if Shares were not traded on such day, the next preceding day on which Shares were traded) as reported in The Wall Street Journal under the heading "New York Stock Exchange Composite Transactions" or any similar or successor heading.

"GRANT" means the instruction to the Trustee by the Company pursuant to Article III, Section 4 for the purchase of Shares for the account of a Participant under the Plan.

"GRANTED TO" means the act by which the Company instructs the Trustee to purchase the Shares for the account of a Non-Employee Director pursuant to this Plan.

"NEW NON-EMPLOYEE DIRECTOR" means a Non-Employee Director, other than a Current Vested Non-Employee Director, elected at or after the Annual Meeting in January 2003 or any adjournment thereof to a term as Non-Employee Director.

"NON-EMPLOYEE DIRECTOR" means a member of the Board who is not and never has been employed by the Company or any of its subsidiaries.

"PARTICIPANT" means a Non-Employee Director.

"SHARES" means shares of common stock of the Company and any related securities including, without limitation, related preferred stock purchase rights.

"TRUSTEE" means UMB Bank, National Association.

SECTION 3. SHARES AVAILABLE FOR GRANTS. There shall be 50,000 Shares available for Grants under this Plan and the Shares shall be purchased on the open market by the Trustee and held in trust by the Trustee for the account of each of the Participants in the Plan until vested. All Shares to be held in trust under this Plan shall be held by the Trustee pursuant to a trust agreement between the Company and the Trustee, as amended from time to time.

## **ARTICLE II. GRANTS OF SHARES.**

### **SECTION 1. NEW NON-EMPLOYEE DIRECTORS AND CURRENT NON-VESTED**

#### **NON-EMPLOYEE DIRECTOR. Effective on the date that he or she**

commences to serve as a New Non-Employee Director, a Grant of 800 Shares shall be made for the account of such New Non-Employee Director.

SECTION 2. ADDITIONAL GRANTS. Effective on the date of each Annual Meeting following the initial Grant of Shares to a Non-Employee Director pursuant to this Article II, an additional Grant of (a) 200 Shares shall be made in the name of each Current Vested Non-Employee Director continuing to serve as a Non-Employee Director; and (b) 350 Shares shall be made in the name of each New Non-Employee Director and the Current Non-Vested Non-Employee Director continuing to serve as a Non-Employee Director; in each case for service rendered during the year preceding each such Annual Meeting.

## **ARTICLE III. TERMS AND CONDITIONS OF GRANTS OF SHARES.**

SECTION 1. DIVIDEND AND VOTING RIGHTS. As soon as practicable after the Trustee's receipt thereof, the Trustee shall pay to each Participant in the Plan the applicable cash dividends declared and paid on the Shares held by the Trustee for the account of such Participant in the Plan. In addition, each Participant shall be entitled to vote the Shares held by the Trustee for the account of that Participant in the Plan.

Notwithstanding any provision of this Plan, neither this Plan nor any Grant of Shares hereunder shall impose on the Company any obligation to declare and pay dividends on the Shares.

SECTION 2. VESTING OF SHARES. Shares will vest (or be forfeited) depending upon the Participant's age entering the Plan, and the duration of the Participant's service as a Non-

Employee Director, as specified in the Share Vesting Schedule hereinafter set forth, or sooner, to the extent provided in the final unnumbered paragraph of this Section 2 of Article III and in Article IV:

AGE ENTERING PLAN

SHARE VESTING SCHEDULE

-----  
UNDER 60

-----  
No shares vest prior to 65th birthday. If service ends before 65th birthday, Participant forfeits all rights to any Shares.

If service continues after 65th birthday but ends before 70th birthday, 1/2 of the previously unvested accumulated Shares vest at 65th birthday, and at each succeeding Annual Meeting held on or after Participant's 65th birthday, 1/2 of each annual Grant of Shares shall be vested.

If service continues on or after 70th birthday, all previously accumulated unvested Shares vest on Participant's 70th birthday. Annually thereafter at each succeeding Annual Meeting, all of each annual Grant of Shares shall be vested for each year of continued service beyond 70th birthday.

60-64

No Shares vest prior to fifth anniversary date of entry into the Plan. If service ends before the Annual Meeting date immediately following the Participant's fifth anniversary of entry into the Plan, the Participant forfeits all rights to receive any Shares.

If service continues at least until the Annual Meeting date immediately following the Participant's fifth anniversary of entry into the Plan, 1/2 of the previously accumulated Shares vest on such Annual Meeting date and at each succeeding Annual Meeting thereafter, 1/2 of each annual Grant of Shares shall be vested.

If service continues on or after 70th birthday, all previously accumulated unvested Shares vest on 70th birthday. Annually thereafter at each succeeding Annual Meeting, all of each annual Grant of Shares shall be vested for each year of continued service beyond age 70.

65-69

No Shares vest prior to second anniversary date of entry into the Plan. If service ends before such second anniversary date, the Participant forfeits all rights to receive any Shares.

If service continues until the Annual Meeting date immediately following the second anniversary of entry into the Plan, 1/2 of the previously accumulated Shares vest on such Annual Meeting date. At each succeeding Annual Meeting thereafter, 1/2 of each annual Grant of Shares shall be vested.

If service continues after the Annual Meeting date immediately following the second anniversary of entry into the Plan and after 70th birthday, all previously accumulated unvested Shares vest on 70th birthday. Annually thereafter at each succeeding Annual Meeting, all of each annual Grant of Shares shall be vested for each year of continued service after 70th birthday.

AGE ENTERING PLAN

-----  
70 OR OVER

SHARE VESTING SCHEDULE

-----  
1/2 of the Shares vest upon entry into the Plan.

If service continues after the Annual Meeting date immediately following the first anniversary of entry into the Plan, all previously accumulated unvested Shares vest on such Annual Meeting date. Annually thereafter at each succeeding Annual Meeting, all of each annual Grant of Shares shall be vested for each year of continued service.

For purposes of the above vesting schedule in this Section 2 of Article III, "for each year of continued service" means, for the first year of such continued service, service as a Director from the time of the Director's birthday, or attaining the specified years of service under the Plan, as the case may be, until the time of the next Annual Meeting, and thereafter shall mean the respective periods between Annual Meetings. Any Shares that are unvested at the time a Non-Employee Director's service as a Director ends shall be immediately forfeited, except as set out in Article IV.

To the extent that the Grant of any Shares under the Plan, at the time of such Grant, would only be exempt from Section 16(b) of the Securities Exchange Act of 1934, as amended (the "1934 Act") if the Plan were to contain a provision prohibiting sale of such Shares for at least six months after such award, Shares granted under the Plan may not be sold for at least six months after the Grant thereof.

All fractional Shares shall be rounded down to the next lower whole number.

Notwithstanding anything to the contrary set forth above in this Section 2 of Article III, or elsewhere in this Plan: (a) all previously accumulated unvested shares held by any Non-Employee Director under this Plan shall vest following twelve years of continuous service by such Non-Employee Director, such vesting to take place on the Annual Meeting date immediately following the twelfth anniversary of the commencement of service by such Non-Employee Director (the "Twelfth Anniversary Date"); and (b) all shares granted to such Non-Employee Director under this Plan on or after said Twelfth Anniversary Date, shall vest immediately upon the granting thereof. For the purpose of this unnumbered paragraph, "years of continuous service" shall include any number of years of continued membership on the Board of Directors (without any hiatus in the period of such Board membership) by a Non-Employee Director, commencing on the date of initial Board membership as a Non-Employee Director, and continuing annually from anniversary date to anniversary date, so long as such Non-Employee Director remains, without interruption, as a Non-Employee Director.

SECTION 3. TRANSFER RESTRICTIONS. Shares granted pursuant to this Plan may not be transferred, sold, assigned, pledged or hypothecated until vested in accordance with the terms and conditions of this Plan, or as otherwise provided in this Plan. A legend referring to the foregoing restrictions may be placed on all certificates representing unvested Shares unless such Shares are held by the Trustee as provided in Section 4 below and an additional legend may be placed on Shares as to which resale restrictions otherwise apply.

SECTION 4. DELIVERY OF CERTIFICATES. Certificates representing unvested Shares granted to Non-Employee Directors pursuant to this Plan shall be held in trust by the Trustee, so long as the transfer restrictions set forth in Section 3 of this Article III remain in effect with respect to such Shares. Upon direction of an authorized Company officer designated from time to time as such in writing by the Company (the "Officer"), the Trustee shall: (a) release certificates representing previously unvested Shares from trust, cause such Shares to be registered in the Non-Employee Director's name and reissue said certificates without the restrictive legend in the name of the Non-Employee Director, and deliver such certificates to the Non-Employee Director promptly upon expiration of such transfer restrictions; and (b) release certificates representing vested Shares from trust and deliver to the Non-Employee Director promptly; subject only to any restrictions that may be established by the Company, on the advice of its counsel, to comply with Federal or State securities laws or other legal requirements, and provided, however, that the Trustee may designate the Company as agent for the delivery of the Shares to Participants and, to the extent any such designation shall be made, the Trustee shall be relieved of any liability for such delivery. At the Company's direction the Trustee shall deliver forfeited Shares under the terms of the Plan to the Company or use the forfeited Shares for future Grants.

SECTION 5. ADJUSTMENT TO SHARES. If the Company subdivides or combines its outstanding common stock into a greater or lesser number of shares or if the Board shall determine that a stock dividend, reclassification, business combination, exchange of shares, warrants or rights offering to purchase Shares or other similar event affects the Shares such that an adjustment is required to preserve the benefits or potential benefits intended to be made available under this Plan, the Board may make adjustments to the number of Shares that may be awarded and the number of Shares subject to outstanding Grants under this Plan. Any new or additional Shares or other securities to which a Non-Employee Director, by virtue of Grants hereunder, becomes entitled due to any such adjustment, shall be held by the Trustee in trust and shall be dealt with in the same manner as the Shares giving rise thereto are distributed. The Trustee shall sell any other instrument or property so received that does not give the holder the right to acquire Shares, and shall distribute the sales proceeds to the respective participants.

#### **ARTICLE IV. CESSATION OF SERVICE UNDER SPECIAL CIRCUMSTANCES.**

SECTION 1. DEATH OR DISABILITY. Anything to the contrary notwithstanding, if a Non-Employee Director: (a) dies; or (b) suffers an irreversible incapacity or disability before any Shares granted to him or her have become vested, then all such Shares which are still forfeitable shall immediately be deemed vested and nonforfeitable. A Non-Employee Director shall be deemed to have suffered an irreversible incapacity or disability for purposes of this Plan if, based on competent medical advice satisfactory to the Board, he or

she is prevented from performing the duties of Director because of an irreversible incapacity or disability for a period of six (6) months.

**SECTION 2. CESSATION OF SERVICE FOLLOWING CHANGE IN CONTROL.**

Notwithstanding anything herein to the contrary, if a Non-Employee Director's relationship as a Director of the Company is terminated and if such termination occurs within four years following a change in control of the Company, then all Shares that have been Granted to him or her and that may still be forfeitable shall immediately be deemed vested and nonforfeitable. For purposes of this Section 2, Article IV, a "change in control of the Company" means (i) the purchase or other acquisition (other than from the Company) by any person, entity or group of persons, within the meaning of Sections 13(d) or 14(d) of the Exchange Act of 1934 ("Exchange Act") (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the Company's then outstanding Shares or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of Directors; or (ii) individual members of the Board, as of November 1, 2002 (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to November 1, 2002 whose election, or nomination for election by the Company's shareholders, was approved by the vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, as a member of the Incumbent Board, any such individual whose initial election to office occurs as a result of either an actual or threatened election contest (as such term is used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a party other than the Board; or (iii) approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of the surviving entity's then outstanding shares of common stock or the surviving entity's combined voting power entitled to vote generally in the election of directors, or of a liquidation or dissolution of the Company or of the sale of all or substantially all of the Company's assets. In making this computation as to any Company shareholder who was also an equity owner in any other party to such reorganization, merger, or consolidation prior to consummating such transaction, only the common stock or voting power relating to such shareholder's equity interests in the Company shall be counted towards the 50% threshold in the prior sentence.

**ARTICLE V. MISCELLANEOUS PROVISIONS.**

**SECTION 1. GOVERNING LAW.** This Plan and all actions taken hereunder shall be governed by the laws of the State of Missouri.

**SECTION 2. WITHHOLDING.** The Company may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes which the Company is required by any law or regulation of any governmental authority, whether federal, state or local, domestic or foreign, to withhold in connection with any event or action under this Plan.

SECTION 3. EFFECTIVE DATE AND TERM OF GRANTING SHARES. This Plan has been amended and restated effective as of November 1, 2002, subject to approval by the Company's shareholders, and the granting of Shares hereunder shall terminate as of November 1, 2012. All references to service by a Participant as a Non-Employee Director of the Company in this Plan shall include any service such Participant provided to Laclede Gas Company as a Non-Employee Director prior to October 1, 2001 as well as any service provided to the Company as a Non-Employee Director on and after October 1, 2001.

**ARTICLE VI. AMENDMENTS.**

SECTION 1. AMENDMENT OR TERMINATION OF PLAN. Subject to Section 2 below, the Board may from time to time amend this Plan or discontinue this Plan or any provision thereof; provided, however, that no amendment may be made that would (a) change the types of awards under this Plan, (b) materially increase the aggregate number of Shares that may be granted under this Plan (except for the equitable adjustments referred to in Article III, Section 5 above), (c) change the category of Directors eligible to receive Shares under this Plan, (d) materially extend the period during which Grants may be made under this Plan, or (e) amend Articles II and III of this Plan more than once every six months, other than to comport with changes in the Internal Revenue Code or the rules thereunder.

SECTION 2. EFFECT ON SHARES GRANTED. No amendment or discontinuation of this Plan or any provision thereof shall, without the written consent of the Non-Employee Director, adversely affect any Shares theretofore granted to such Non-Employee Director under this Plan.

**Exhibit 10.20**

**THE LACLEDE GROUP, INC.  
MANAGEMENT BONUS PLAN**

The Laclede Group, Inc. Management Bonus Plan (hereinafter called the "Plan") was adopted by the Board of Directors of The Laclede Group, Inc., a Missouri corporation (hereinafter called the "Company"), on September 26, 2002 to be effective with the fiscal year beginning October 1, 2002.

**1. PURPOSE**

The Plan is intended to motivate the Company's executives and senior managers to commit to the continued growth, development, and financial success of the Company and encourage them to remain with and devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its shareholders. Accordingly, the Company may award to executives, senior managers, and other key contributors annual bonuses on the terms and conditions established herein.

**2. DEFINITIONS**

For the purposes of the Plan, unless the context requires otherwise, the following terms shall have the meanings indicated:

"Award" means the compensation payable under this Plan to a Participant as determined by the Committee pursuant to such terms, conditions, restrictions, and limitations established by the Committee and the Plan.

"Board" means the Board of Directors of the Company.

"CEO" means the Chief Executive Officer of the Company.

"Cause" means with respect to the termination of a Participant's employment with the Company or any of its Subsidiaries:

(i) Willful and continued failure by the Participant to perform substantially the Participant's duties as assigned (other than any such failure resulting from incapacity due to physical or mental illness) after a written demand for substantial performance has been delivered to the Participant by the Board or the Chief Executive Officer of the Company that specifically identifies the manner in which the Board or the Chief Executive Officer believes that the Participant has not substantially performed the Participant's duties; or

(ii) Willful engagement by the Participant in misconduct that is materially injurious to the Company or any of its Subsidiaries.

For purposes of this definition, no act, or failure to act, on the Participant's part shall be considered "willful" unless done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's action or omission was in the best interests of the Company and its Subsidiaries. Any act or failure to act based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall

1 September 19, 2002



be conclusively presumed to be done, or omitted to be done, by the participant in good faith and in the best interests of the Company and its Subsidiaries.

"Change in Control" of the Company shall be deemed to have occurred if:

- (i) any person, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 ("Exchange Act") (excluding, for this purpose, the Company or its Subsidiaries or any employee benefit plan of the Company or its Subsidiaries), acquires beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the Company's then outstanding shares of common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or
- (ii) a change in the composition of the Board such that the individuals who, as of the effective date of the Plan, constitute the Board (such Board hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the effective date of the Plan whose election, or nomination for election by the Company's shareholders, was approved by the vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, as a member of the Incumbent Board, any such individual whose initial election to office occurs as a result of either an actual or threatened election contest (as such term is used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a party other than the Company's Board; or
- (iii) approval by the Company's shareholders of a reorganization, merger or consolidation, in each case, with respect to which persons who were the Company's shareholders immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of the surviving entity's then outstanding shares of common stock or the surviving entity's combined voting power entitled to vote generally in the election of directors, or of a liquidation or dissolution of the Company or of the sale of all or substantially all of the Company's assets. In making this computation as to any of the Company's shareholders who was also an equity owner in any other party to such reorganization, merger, or consolidation prior to consummating such transaction, only the common stock or voting power relating to such shareholder's equity interests in the Company shall be counted towards the 50% threshold in the prior sentence.

"Code" means the Internal Revenue Code of 1986, as amended, together with the published rulings, regulations, and interpretations duly promulgated hereunder.

"Committee" means the Compensation Committee of the Board or such other committee appointed or designated by the Board to administer the Plan in accordance with Section 3 of this Plan.

"Disability" means a physical and/or mental condition that renders a Participant unable to perform the duties of the Participant's position on a full-time basis for a period of one hundred eighty (180) consecutive business days. Disability shall be deemed to exist when certified by a physician selected by the Company or its insurers. The Participant will submit to such examinations and tests as such physician deems necessary to make any such Disability determination.

"Funding" or "Funded" mean the level of achievement against approved, pre-established Performance Goals required to permit a corresponding level of Awards to be earned by Participants for a Performance Period. Funding can be established at Threshold, Target, and High Performance levels.

2 September 19, 2002

"High Performance Opportunity" means the cash Award that a Participant is potentially eligible to earn under the Plan, expressed as a percentage of the Participant's annual base salary at the start of the Performance Period, if the Plan is Funded at the High Performance level and the Participant's overall performance against Performance Goals exceeds expectations.

"Participant" means an employee who is selected by the Committee to participate in the Plan.

"Performance Criteria" or "Performance Goals" mean the objectives established by the Committee for the Performance Period pursuant to Section 5 hereof, for the purpose of determining Awards under the Plan.

"Performance Period" or "Plan Year" mean the consecutive twelve-month period that constitutes the Company's fiscal year, or, for an employee who becomes a Participant after the start of the Performance Period, the period of time between becoming a Participant and the end of the Company's fiscal year.

"Plan" means The Laclede Group, Inc. Management Bonus Plan, effective October 1, 2002, as amended from time to time.

"Retirement" means the Participant's termination of employment with the Company and its subsidiaries on or after the Participant's attainment of age 55 and completion of five or more years of service with the Company and its Subsidiaries.

"Subsidiary" means any company (other than the Company) with respect to which the Company owns, directly or indirectly, 50% or more of the total combined voting power of all classes of stock. In addition, any other related entity may be designated by the Board as a Subsidiary, provided such entity could be considered as a subsidiary according to generally accepted accounting principles.

"Target Opportunity" means the cash Award that a Participant is potentially eligible to earn under the Plan, expressed as a percentage of the Participant's annual base salary at the start of the Performance Period, if the Plan is fully Funded and the Participant's overall performance against Performance Goals meets expectations.

"Threshold Opportunity" means the cash Award that a Participant is potentially eligible to earn under the Plan, expressed as a percentage of the Participant's annual base salary at the start of the Performance Period, if the Plan is Funded at the Threshold level and the Participant's overall performance against Performance Goals meets minimum expectations.

### 3. ADMINISTRATION

The Plan shall be administered by the Committee unless otherwise determined by the Board. The Committee shall consist of not fewer than two members of the Board who are "independent" as that term is defined by the listing standards of the New York Stock Exchange. Unless otherwise provided in the Committee's charter document, the Committee shall select one of its members to act as its Chairman and a majority of the Committee shall constitute a quorum, and the act of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the act of the Committee.

The Committee shall determine and designate from time to time the eligible employees who may be Participants and to whom Awards will be made. The Committee, in its discretion, shall (a) interpret the Plan, (b) prescribe, amend, and rescind any rules and regulations necessary or appropriate

3 September 19, 2002

for the administration of the Plan, and (c) make such other determinations and take such other action as it deems necessary or advisable in the administration of the Plan. Any interpretation, determination, or other action made or taken by the Committee shall be final, binding, and conclusive on all interested parties. The Committee may, however, delegate all or any portion of its administrative authority to any one or more of its members and may delegate all or any part of its administrative authority to any person or persons selected by it, as the members by unanimous consent deem appropriate. The Committee may revoke any such allocation or delegation at any time.

#### 4. ELIGIBILITY

Only those employees in positions (a) that have the potential to materially and positively impact reliability, profitability, shareholder value, or customer satisfaction, or (b) where competitive market data strongly indicate the prevalence of a bonus opportunity for such position, shall be considered eligible for participation in the Plan. Prior to the beginning of the Performance Period, the CEO shall make recommendations to the Committee as to the Participants and their respective Target Opportunities for the upcoming Performance Period. The Committee, in its sole discretion, shall make the final determination as to Participants, and to their respective Target Opportunities. Participation in one Plan Year does not entitle any Participant to be a Participant in a subsequent Plan Year. The CEO may recommend an employee who is hired or promoted (after the start of the Plan Year) into a position considered to be eligible to participate in the Plan, to the Committee for inclusion as a Participant in the current Plan Year. Such Participant shall be eligible to earn a prorated Award based on the number of full months as a Participant during the Performance Period, as the Committee may determine. An employee who is not a Participant at the start of the Plan Year must be a Participant in the Plan for a minimum of six months during the Plan Year to be eligible for an Award for that Plan Year.

#### 5. PERFORMANCE GOALS AND MEASUREMENT

**AWARDS.** Awards may be made annually in accordance with actual performance compared to the Performance Goals previously established by the Committee for the Performance Period.

**PERFORMANCE GOALS.** The Committee shall establish, in writing, Performance Goals relating to Funding for a Performance Period not later than 90 days after commencement of the Performance Period. Performance Goals may include alternative and multiple Performance Goals and may be based on one or more business and/or financial criteria. In establishing the Performance Goals for the Plan Year, the Committee in its discretion may include one or any combination of the following Performance Criteria, in either absolute or relative terms, for the Company, any of its Subsidiary organizations, or an individual business unit:

- (a) Measures of operating stability and reliability, efficiencies, employee safety and attendance, and service disruptions
- (b) Return on assets, equity, capital, or investment
- (c) Pre-tax or after-tax profit levels, including: earnings per share; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; net operating profits after tax, and net income
- (d) Cash flow and cash flow return on investment
- (e) Economic value added and economic profit

4 September 19, 2002

(f) Credit rating or credit worthiness

(g) Levels of operating expense or other expense items as reported on the income statement, including operating and maintenance expense.

(h) Total shareholder return

(i) Measures of customer satisfaction and customer service as surveyed from time to time, or as tracked within the Company, including the relative improvement therein.

The Committee shall similarly establish Performance Goals for the CEO, and approve Performance Goals for all other Participants. The Performance Goals may be identical for all Participants or, at the discretion of the Committee, may be different to reflect more appropriate measures of individual performance.

**ADJUSTMENTS FOR EXTRAORDINARY ITEMS.** The Committee shall be authorized to make adjustments in the method of calculating attainment of Performance Goals in recognition of: (a) extraordinary or non-recurring items, (b) changes in tax laws, (c) changes in generally accepted accounting principles or changes in accounting policies, (d) charges related to restructured or discontinued operations, (e) restatement of prior period financial results, and (f) any other unusual, non-recurring gain or loss that is separately identified and quantified in the Company's financial statements. Notwithstanding the foregoing, the Committee may, at its sole discretion, reduce the performance results upon which Awards are based under the Plan, to offset any unintended result(s) arising from events not anticipated when the Performance Goals were established.

**DETERMINATION OF AWARDS.** The Award and payment of any Award under this Plan to a Participant with respect to the Performance Period shall be contingent upon both (a) the attainment of the Performance Goals related to Funding, and (b) the attainment of the Performance Goals that are applicable to such Participant, in such combination as the Committee shall determine. The Committee shall certify in writing prior to payment of any such Award that such applicable Performance Goals relating to the Award are satisfied. Approved minutes of the Committee may be used for this purpose.

**TIMING OF AWARDS.** At the first meeting of the Committee after the completion of the Plan Year, the Committee shall review the prior year's performance in relation to the Performance Goals. The first meeting of the Committee shall occur within 60 days following the completion of the Performance Period. All Awards shall be paid in cash as soon as practicable following certification by the Committee, unless deferred pursuant to an election under a deferred compensation plan maintained by the Company or a Subsidiary.

## 6. WITHHOLDING TAXES

The Company shall have the right to deduct from any payment to be made pursuant to the Plan the amount of any taxes required by law to be withheld with respect to such payments.

## 7. TERMINATION OF EMPLOYMENT

A Participant who, during the Performance Period, ceases to be an employee due to Retirement, death, Disability, or involuntary termination not for Cause, shall nonetheless be eligible to receive an award, as the Committee shall determine, subject to the provisions of Section 5, prorated for the period

5 September 19, 2002

of time, rounded to the nearest full month, that such employee was a Participant under the Plan. A Participant who, during the Performance Period or after the Performance Period but before certification of the Awards for such Performance Period by the Committee, ceases to be an employee due to voluntary termination or termination for Cause, shall forfeit all rights to an Award for such Performance Period.

#### 8. NO RIGHT TO CONTINUED EMPLOYMENT OR AWARDS

No employee shall have any claim or right to receive an Award, and the receipt of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any of its Subsidiaries. Further, the Company and its Subsidiaries expressly reserve the right at any time to terminate the employment of any Participant free from any liability under the Plan; except that a Participant, who meets or exceeds the Performance Goals for the Performance Period and was actively employed for six consecutive months or more of the Performance Period, may be eligible for an Award provided, however, that the Participant is an active employee of the Company at the time the Awards are paid under the Plan, or is otherwise eligible for an Award subject to the provisions of Section 7.

#### 9. CHANGE IN CONTROL

Immediately upon a Change in Control, notwithstanding any other provision of this Plan, all Awards for the Performance Period in which the Change in Control occurs shall be deemed earned at the Target Opportunity level, and the Company shall make a payment in cash, prorated for the period of time elapsed commencing with the first day of the then current Performance Period and ending with the effective date of the Change in Control, to each Participant within thirty (30) days after the effective date of the Change in Control in the amount of such Target Opportunity.

#### 10. AMENDMENTS, MODIFICATION, SUSPENSION, OR TERMINATION

Prior to the commencement of any Plan Year, the Committee may, without the consent of the Participants, alter, amend, revise, suspend, or discontinue the Plan in whole or in part.

#### 11. GOVERNING LAW

The validity, construction and effect of the Plan and any actions taken or relating to the Plan shall be determined in accordance with the laws of the State of Missouri and applicable Federal law.

#### 12. SUCCESSORS AND ASSIGNS

The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly to assume and agree to perform the Company's obligations under this Plan in the same manner and to the same extent that the Company would be required to perform them if no such succession had taken place. As used herein, the "Company" shall mean the Company as hereinbefore defined and any aforesaid successor to its business and/or assets.

6 September 19, 2002

### 13. INDEMNIFICATION

No member of the Board or the Committee, nor any officer or employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Committee and each and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination, or interpretation.

\* \* \* \* \*

IN WITNESS WHEREOF, the Company has caused this instrument to be executed as of September 26, 2002 by its President pursuant to prior action taken by the Board.

**The Laclede Group, Inc.**

By:

Douglas H. Yaeger Chairman of the Board, President and Chief Executive Officer

**Attest:**

---

Mary Caola Kullman  
Secretary

7 September 19, 2002

**Exhibit 10.21**

**STOCK PURCHASE AGREEMENT**

**BETWEEN**

**NISOURCE INC.**

**AND**

**THE LACLEDE GROUP, INC.**

**DECEMBER 12, 2001**

## TABLE OF CONTENTS

1.	DEFINITIONS.....	1
2.	PURCHASE AND SALE OF SM&P SHARES.....	6
	(a) Basic Transaction.....	6
	(b) Purchase Price.....	6
	(c) Purchase Price Adjustment.....	6
	(d) The Closing.....	7
	(e) Deliveries at the Closing.....	7
3.	REPRESENTATIONS AND WARRANTIES CONCERNING THE TRANSACTION.....	8
	(a) Representations and Warranties of the Seller.....	8
	(b) Representations and Warranties of the Buyer.....	9
4.	REPRESENTATIONS AND WARRANTIES OF THE SELLER CONCERNING SM&P.....	10
	(a) Organization, Qualification and Corporate Power.....	10
	(b) Capitalization.....	10
	(c) Noncontravention.....	11
	(d) Financial Statements.....	11
	(e) Title to Personal Property.....	12
	(f) Legal Compliance.....	12
	(g) Contracts.....	13
	(h) Litigation.....	13
	(i) Environmental Matters.....	13
	(j) Insurance.....	14
	(k) Employee Relations.....	14
	(l) Taxes.....	15
	(m) Events After October 31, 2001.....	17
	(n) Customers.....	17
	(o) Condition of Personal Property.....	17
	(p) Real Property.....	17



TABLE OF CONTENTS  
(continued)

	PAGE
(g) Transactions with Affiliates.....	18
(r) Employee Benefits.....	18
(s) Sufficiency of Assets.....	19
(t) Accounts Receivable.....	19
(u) Employees.....	20
(v) Intellectual Property.....	20
(w) Completion of UTI Exchange Transaction.....	20
(x) Undisclosed Liabilities.....	20
5. PRE-CLOSING COVENANTS.....	21
(a) General.....	21
(b) Notices and Consents.....	21
(c) Operation of Business.....	21
(d) Full Access.....	23
(e) Notice of Developments.....	23
(f) Intercompany Obligations.....	24
(g) Parent Guaranties.....	24
(h) Financial Statements.....	24
(i) Exclusivity.....	24
(j) Provision of Working Capital.....	24
(k) Transition of UTI Billing.....	25
(l) New Lease Agreement.....	25
6. POST-CLOSING COVENANTS.....	25
(a) General.....	25
(b) Litigation Support.....	25
(c) Transition.....	25
(d) Access to Information and Cooperation.....	25
(e) Noncompete; Nonsolicitation.....	26
(f) Employee Matters.....	27
(g) Insurance Proceeds.....	28

TABLE OF CONTENTS  
(continued)

	PAGE
7. CONDITIONS TO OBLIGATION TO CLOSE.....	28
(a) Conditions to Obligation of the Buyer.....	28
(b) Conditions to Obligation of the Seller.....	29
8. REMEDIES FOR BREACHES OF THIS AGREEMENT.....	30
(a) Survival of Representations and Warranties.....	30
(b) Indemnification Provisions for Benefit of the Buyer.....	30
(c) Indemnification Provisions for Benefit of the Seller.....	31
(d) Matters Involving Third Parties.....	31
(e) Exclusive Remedies.....	32
9. TAX MATTERS.....	32
(a) Scope of Tax Indemnity Provisions.....	32
(b) Allocation of Liability for Taxes.....	32
(c) Proration of Taxes.....	33
(d) Refunds of Taxes; Amended Returns; Carryovers.....	33
(e) Preparation and Filing of Tax Returns.....	34
(f) Tax Controversies; Assistance and Cooperation.....	35
(g) Termination of Tax Allocation Agreements.....	37
(h) Indemnification for Post-Closing Transactions.....	37
(i) Post-Closing Transactions Not in the Ordinary Course.....	37
(j) Survival.....	37
(k) Conflicts.....	38
(l) Section 338(h)(10) Election.....	38
10. TERMINATION.....	38
(a) Termination of Agreement.....	38
(b) Effect of Termination.....	39
11. MISCELLANEOUS.....	39
(a) Press Releases and Public Announcements.....	39
(b) No Third-Party Beneficiaries.....	39
(c) Entire Agreement.....	39
(d) Succession and Assignment.....	39

TABLE OF CONTENTS  
(continued)

	PAGE
(e) Counterparts.....	40
(f) Headings.....	40
(g) Notices.....	40
(h) Governing Law.....	41
(i) Amendments and Waivers.....	41
(j) Severability.....	41
(k) Expenses.....	41
(l) Construction.....	41
(m) Specific Performance.....	41
(n) Arbitration.....	41
(o) Exchange and Termination Agreement.....	42

## STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") is entered into as of December 12, 2001, between NiSource Inc., a Delaware corporation (the "Seller"), and The Laclede Group, Inc., a Missouri corporation (the "Buyer"). The Buyer and the Seller are herein referred to individually as "Party" and collectively as the "Parties."

The Seller owns all of the issued and outstanding stock of SM&P Utility Resources, Inc., an Indiana corporation ("SM&P"). This Agreement contemplates a transaction in which the Buyer will purchase from the Seller, and the Seller will sell to the Buyer, all of the outstanding capital stock of SM&P for the consideration described in Section 2(b).

Now, therefore, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties and covenants herein contained, the Parties agree as follows.

### 1. DEFINITIONS.

"ADVERSE CONSEQUENCES" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, reasonable amounts paid in settlement, liabilities, obligations, taxes, liens, losses, expenses and fees, including court costs and reasonable attorneys' fees and expenses, as adjusted for tax benefits and insurance coverage.

"AFFILIATE" of a Person means another Person that controls, is controlled by, or is under common control with such first Person.

"AFFILIATED GROUP" means any affiliated group within the meaning of **Code Section 1504**.

"APPLICABLE TAX LAW" means any law of any nation, state, region, province, locality, municipality or other jurisdiction relating to Taxes, including regulations and other official pronouncements of any governmental entity or political subdivision of such jurisdiction charged with interpreting such laws.

"BUYER" has the meaning set forth in the first paragraph of this **Agreement**.

"BUYER BENEFIT PLAN" means any Employee Benefit Plan maintained or contributed to by the Buyer.

"BUYER INDEMNIFIED PARTIES" has the meaning set forth in Section 8(b)(i).

**"CLAIM DEDUCTIBLE" means \$25,000.**

"CLOSING" has the meaning set forth in Section 2(c).

"CLOSING DATE" has the meaning set forth in Section 2(c).

"CODE" means the Internal Revenue Code of 1986, as amended.

"CONFIDENTIALITY AGREEMENT" has the meaning set forth in Section 5(d).

"CONFIDENTIAL INFORMATION" has the meaning set forth in Section 6(e)(iii).

"CUT-OFF CREDIT" has the meaning set forth in Section 2(c)(i).

"DISCLOSURE SCHEDULE" means the disclosure schedule attached as **Annex I to this Agreement**.

"EMPLOYEE BENEFIT PLAN" means any Employee Pension Benefit Plan, any Employee Welfare Benefit Plan and any other executive compensation plan, executive security plan, bonus plan, incentive compensation plan, deferred compensation plan or agreement, employment agreement, consulting agreement, change in control agreement, golden or tin parachute arrangement, employee pension, retirement, profit sharing or savings plan, employee stock purchase, stock option or stock award plan, group life insurance, health, hospitalization, dental and disability plan, severance plan, tuition assistance program, personnel policy (including but not limited to holiday pay, moving expense reimbursement, sick leave, vacation pay or benefit arrangement) or any other fringe benefit arrangement.

"EMPLOYEE PENSION BENEFIT PLAN" has the meaning set forth in ERISA Section 3(2).

"EMPLOYEE WELFARE BENEFIT PLAN" has the meaning set forth in ERISA Section 3(1).

"ENVIRONMENTAL LAWS" has the meaning set forth in Section 4(i).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATE" means any entity that is a member of a controlled group of corporations, a group of corporations or entities under common control, or an affiliated service group, of which SM&P is a member, within the meaning of Code Section 414(b), (c), (m) or (o).

"EXCHANGE AGREEMENT" has the meaning set forth in Section 4(w).

"GAAP" means United States generally accepted accounting principles

as promulgated from time to time.

"HAZARDOUS SUBSTANCES" means any substance defined or listed as a hazardous substance, waste or material under the Comprehensive Environmental Response, Compensation, and Liability Act or any comparable state or other Environmental Law that is applicable and includes petroleum oil and its fractions and petroleum-derived products.

"INDEMNIFIED PARTY" has the meaning set forth in Section 8(d).

"INDEMNIFYING PARTY" has the meaning set forth in Section 8(d).

**"INTELLECTUAL PROPERTY" means:**

- (i) all registered and unregistered trademarks, service marks and applications;
- (ii) all patents, patent applications, and inventions and discoveries that may be patentable;
- (iii) all copyrights; and
- (iv) all know-how, trade secrets, confidential information, customer lists, software, internet domain names, technical information, data and process technology.

"INTERCOMPANY ACCOUNT" has the meaning set forth in Section 2(c).

"KNOWLEDGE" means, with respect to the Seller, actual knowledge of the following representatives of the Seller and SM&P after reasonable inquiry or investigation: Bill J. Bates, Penelope S. Conway, Sherry H. Gavito, Craig A. Harrell, Ryan Hyman, Erick R. Johnson, Debra J. Lehmann, James A. Muhl, Dennis C. Norman, Timothy M. Seelig and Jon Winters.

"LEASED REAL PROPERTY" has the meaning set forth in Section 4(p).

"MATERIAL ADVERSE EFFECT" means a material adverse effect on the business, operations, properties, financial condition, assets or liabilities (including contingent liabilities) of SM&P, other than effects resulting from conditions generally affecting the industries in which SM&P operates, from any change in law or GAAP or from the transactions contemplated by or otherwise permitted by this Agreement.

"MATERIAL AGREEMENT" has the meaning set forth in Section 4(g).

"MULTIEMPLOYER PLAN" has the meaning set forth in ERISA Section 3(37).

"NISOURCE TAX ALLOCATION AGREEMENT" has the meaning set forth in Section 4(l).

"NONCOMPETE PERIOD" has the meaning set forth in Section 6(e)(i).

"ORDINARY COURSE OF BUSINESS" means the ordinary course of SM&P's business consistent with prior custom and practice (including with respect to quantity and frequency).

"OWNED REAL PROPERTY" has the meaning set forth in Section 4(p).

"PARTY" or "PARTIES" has the meaning set forth in the first paragraph of this Agreement.

"PBGC" means the Pension Benefit Guaranty Corporation.

"PERMITTED ENCUMBRANCES" means Security Interests and

- (i) mechanic's and materialmen's liens and liens for ad valorem taxes and assessments that are not yet delinquent or, if delinquent, that are being contested in good



"SM&P BENEFIT PLANS" has the meaning set forth in Section 4(r).

"SM&P FINANCIAL STATEMENTS" has the meaning set forth in Section 4(d).

"SM&P SHARE" means any share of the common stock, \$1.00 par value, of SM&P.

"STRADDLE PERIOD" means, with respect to SM&P, any Tax Period that begins before and ends after the Closing Date.

"TAX" OR "TAXES" means any net income, gross income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, windfall profits, environmental, ad valorem, customs duty, utility, production, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, estimated or other tax of any kind whatsoever, including any interest, penalty or additions thereto, imposed by any taxing authority (domestic or foreign), whether disputed or not, including any liability for taxes pursuant to Treasury Regulation Section 1.1502-6 (or similar provision of state, local or foreign law).

"TAX AUTHORITY" means, with respect to any Tax, the governmental entity or political subdivision thereof that imposes such Tax, and the agency (if any) charged with the collection of such Taxes for such entity or subdivision, including any governmental or quasi-governmental entity or agency that imposes, or is charged with collecting, social security or similar charges or premiums.

"TAX BENEFIT" means the present value of any refund, credit or reduction in otherwise required Tax payments including any interest payable thereon, which present value shall be computed as of the Closing Date or the first date on which the right to the refund, credit or other Tax reduction arises or otherwise becomes available to be utilized, whichever is later,

(i) using the combined federal, state and local income Tax rate applicable to the highest level of income with respect to such Tax under the Applicable Tax Law on such date, and (ii) using the applicable rate on such date imposed on corporate deficiencies paid within 30 days of a notice of proposed deficiency under the Code or other Applicable Tax Law. Any Tax Benefit shall be computed net of any related Tax cost (which shall be computed in the same manner in which Tax Benefits are otherwise computed pursuant to this definition).

"TAX LOSSES" has the meaning set forth in Section 9(b).

"TAX PERIOD" means, with respect to any Tax, the period for which the Tax is reported as provided under Applicable Tax Law.

"TAX RETURN" means any return, including any information return, declaration, report, claim for refund, statement, schedule, notice, form or other document or information, filed, or required to be filed, in connection with the calculation, determination, assessment or collection or otherwise relating to any Tax.

"THIRD-PARTY CLAIM" has the meaning set forth in Section 8(d).



"TITLE IV PLAN" means any Employee Benefit Plan that is a defined benefit plan (as defined in ERISA Section 3(35)) and is subject to Title IV of ERISA.

"TREASURY REGULATIONS" means the U.S. federal income tax regulations, as amended.

"UTI" means UGTI, a California corporation doing business as

---

**Underground Technology, Inc.**

"UTI BUSINESS" means the business acquired by SM&P from UTI on October 20, 2001 pursuant to the Exchange Agreement.

**2. PURCHASE AND SALE OF SM&P SHARES.**

(a) **BASIC TRANSACTION.** On and subject to the terms and conditions of this Agreement, the Buyer agrees to purchase from the Seller, and the Seller agrees to sell to the Buyer, all of the issued and outstanding SM&P Shares for the Purchase Price.

(b) **PURCHASE PRICE.** The Buyer agrees to pay to the Seller at the Closing an amount equal to the sum of (i) \$36,400,000 plus (ii) an amount equal to (A) the aggregate amount spent by the Seller or SM&P from October 20, 2001 through January 8, 2002 for capital expenditures and one time expenses with respect to the UTI Business, which the Seller has previously identified to the Buyer in writing (approximately \$121,000 of which were incurred prior to October 20, 2001), up to a maximum of \$1,400,000, plus (B) the aggregate amount spent by the Seller or SM&P from October 20, 2001 through January 8, 2002 for working capital with respect to the UTI Business, up to a maximum of \$5,000,000, minus (C) the aggregate amount collected by SM&P through January 8, 2002 with respect to the UTI Business, minus (iii) the aggregate amount of accounts receivable collected by SM&P prior to December 31, 2001 for work performed by SM&P on or after November 1, 2001 (excluding work performed with respect to the UTI Business). At the Closing, the Seller shall deliver to the Buyer a schedule showing in reasonable detail all expenditures and receipts by SM&P through January 8, 2002 with respect to the UTI Business. Additionally, the Buyer agrees to pay to the Seller a sum equal to the aggregate amount of capital expenditures made by SM&P after the date of this Agreement with respect to projects that the Buyer approves in writing (no such projects being currently contemplated by the Seller or SM&P). All of the foregoing, plus or minus any adjustment made pursuant to Section 2(c), shall be collectively referred to as the "Purchase Price" and shall be paid by wire transfer of immediately available funds to an account or accounts designated by the Seller.

(c) **PURCHASE PRICE ADJUSTMENT.**

(i) At the Closing, the Seller shall deliver to the Buyer a schedule showing in reasonable detail (A) all cash collections by SM&P (except with respect to the UTI Business) during the period from January 1, 2002 through the close of business on January 8, 2002, (B) all cash disbursements by SM&P (except with respect to the UTI Business) during the period from January 1, 2002 through the close of business on January 8, 2002 and (C) all amounts charged to SM&P for services performed by the Seller or its Affiliates in accordance with Section 5(c)(ii) during the period from January 1, 2002 through the close of business on January 8, 2002, to the extent such

amounts are not included in the cash disbursements described in clause (B) of this Section 2(c)(i). The Seller shall also provide such additional information as the Buyer may reasonably request in support of such schedule. The net amount, if any, owing to SM&P as of the close of business on January 8, 2002 in the account reflecting intercompany payables and receivables between SM&P, on the one hand, and the Seller and its Affiliates (other than SM&P), on the other hand, as a result of such cash collections, cash disbursements and charges is referred to as the "Cut-off Credit."

(ii) At the Closing, the Seller shall deliver to the Buyer a schedule showing in reasonable detail (A) all cash collections by SM&P (including with respect to the UTI Business) during the period from January 9, 2002 through the close of business on the day before the Closing Date (the "Post Cut-off Period"), (B) all cash disbursements by SM&P (including with respect to the UTI Business) during the Post Cut-off Period and (C) all amounts charged to SM&P for services performed by the Seller or its Affiliates in accordance with Section 5(c)(ii) during the Post Cut-off Period, to the extent such amounts are not included in the cash disbursements described in clause (B) of this Section 2(c)(ii). The Seller shall also provide such additional information as the Buyer may reasonably request in support of such schedule. The amount described in clause (A) of this Section 2(c)(ii) is referred to as the "Post Cut-off Collections", and the sum of the amounts described in clauses (B) and (C) of this Section 2(c)(ii) is referred to as the "Post Cut-off Expenditures."

(iii) If (A) the sum of the Cut-off Credit plus the Post Cut-off Collections is less than (B) the Post Cut-off Expenditures, then an amount equal to the difference between the amounts described in clauses (A) and (B) of this Section 2(c)(iii) shall be added to the Purchase Price and paid to the Seller at the Closing. If the amount described in clause (A) of this Section 2(c)(iii) is more than the amount described in clause (B) of this Section 2(c)(iii), then an amount equal to the difference between the amounts described in clauses (A) and (B) of this Section 2(c)(iii) shall be deducted from the Purchase Price payable to the Seller at the Closing.

(d) **THE CLOSING.** The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Thompson Coburn LLP, One Firststar Plaza, St. Louis, Missouri 63101, commencing at 9:00 a.m. local time on January 23, 2002 or, if later, the fifth business day after all conditions to the obligations of the Parties to consummate the transactions contemplated hereby (other than the conditions with respect to actions the Parties will take at the Closing itself) are satisfied or waived, or such other date as the Buyer and the Seller may mutually determine (the "Closing Date").

(e) **DELIVERIES AT THE CLOSING.** At the Closing, (i) the Seller will deliver to the Buyer the various certificates, instruments and documents referred to in Section 7(a), (ii) the Buyer will deliver to the Seller the various certificates, instruments and documents referred to in Section 7(b), (iii) the Seller will deliver to the Buyer stock certificates representing all of the SM&P Shares endorsed in blank or accompanied by duly executed assignment documents, and (iv) the Buyer will deliver to the Seller the Purchase Price.

### 3. REPRESENTATIONS AND WARRANTIES CONCERNING THE TRANSACTION.

(a) REPRESENTATIONS AND WARRANTIES OF THE SELLER. The Seller represents and warrants to the Buyer as follows:

(i) ORGANIZATION OF THE SELLER. The Seller is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware.

(ii) AUTHORIZATION OF TRANSACTION. The Seller has full power and authority (including full corporate power and authority) to execute and deliver this Agreement and has all requisite power and authority to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of the Seller, enforceable in accordance with its terms and conditions, subject to the effects of bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). The Seller is not required to give any notice to, make any filing with or obtain any authorization, consent or approval from any government or governmental agency to consummate the transactions contemplated by this Agreement, except for notices, filings, authorizations, consents or approvals that, if not made or obtained, would not adversely affect the Seller's ability to consummate the transactions contemplated by this Agreement.

(iii) NONCONTRAVENTION. Neither the execution and the delivery of this Agreement nor the consummation of the transactions contemplated hereby will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge or other restriction of any government, governmental agency or court to which the Seller is subject or any provision of its charter or bylaws or (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify or cancel, or require any notice under, any agreement, contract, lease, license, instrument or other arrangement to which the Seller is a party or by which it is bound or to which any of its assets is subject, except for such violations, defaults, breaches or other occurrences that, individually or in the aggregate, would not have a material adverse effect on the Seller and will not adversely affect the Seller's ability to consummate the transactions contemplated by this Agreement.

(iv) BROKERS' FEES. The Seller has no liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement, other than obligations to Credit Suisse First Boston Corporation for which the Seller is solely responsible.

(v) SM&P SHARES. The Seller holds of record and owns beneficially 100 SM&P Shares, which represent all of the issued and outstanding capital stock of SM&P, free and clear of any restrictions on transfer (other than restrictions under federal and state securities laws), taxes, Security Interests, options, warrants, purchase rights, contracts, commitments, equities, claims and demands. The Seller is not a party to any option, warrant, purchase right or other contract or commitment that could require the

Seller to sell, transfer or otherwise dispose of any capital stock of SM&P (other than this Agreement). The Seller is not a party to any voting trust, proxy or other agreement or understanding with respect to the voting of any capital stock of SM&P. Upon consummation of the Closing, the Buyer will receive good and marketable title to the SM&P Shares, which SM&P Shares will represent all of the issued and outstanding securities of SM&P and which will be free and clear of all liens, encumbrances and other third-party claims arising due to actions by the Seller.

(b) REPRESENTATIONS AND WARRANTIES OF THE BUYER. The Buyer represents and warrants to the Seller as follows:

(i) ORGANIZATION OF THE BUYER. The Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Missouri.

(ii) AUTHORIZATION OF TRANSACTION. The Buyer has full power and authority (including full corporate power and authority) to execute and deliver this Agreement and has all requisite power and authority to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of the Buyer, enforceable in accordance with its terms and conditions, subject to the effects of bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). The Buyer is not required to give any notice to, make any filing with or obtain any authorization, consent or approval from any government or governmental agency to consummate the transactions contemplated by this Agreement, except for (A) notification to the Missouri Public Service Commission, which the Buyer undertakes to make on a timely basis, and (B) notices, filings, authorizations, consents or approvals that, if not made or obtained, would not adversely affect the Buyer's ability to consummate the transactions contemplated by this Agreement.

(iii) NONCONTRAVENTION. Neither the execution and the delivery of this Agreement nor the consummation of the transactions contemplated hereby will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge or other restriction of any government, governmental agency or court to which the Buyer is subject or any provision of its charter or bylaws or (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify or cancel, or require any notice under, any agreement, contract, lease, license, instrument or other arrangement to which the Buyer is a party or by which it is bound or to which any of its assets is subject, except for such violations, defaults, breaches or other occurrences that, individually or in the aggregate, would not have a material adverse effect on the Buyer and will not materially adversely affect the Buyer's ability to consummate the transactions contemplated by this Agreement.

(iv) BROKERS' FEES. The Buyer has no liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which the Seller could become liable or obligated.

(v) INVESTMENT. The Buyer is acquiring the SM&P Shares solely for its own account for investment purposes and not with a view to any distribution thereof within the meaning of the Securities Act of 1933, as amended.

(vi) FINANCING. The Buyer has sufficient cash, available lines of credit or other sources of funds to enable it to make payment of the Purchase Price and all other fees and expenses required to be paid by it in accordance with this Agreement.

(vii) NO IMPLIED WARRANTIES. The Buyer is generally experienced and knowledgeable with respect to the industries in which SM&P operates and is aware of the risks in those industries. The Buyer acknowledges and agrees that neither the Seller nor any of its Affiliates nor any Person acting on behalf of any of them is making any representation or warranty with respect to SM&P or the transactions contemplated by this Agreement except as expressly set forth in Section 3(a), Section 4 or the certificates delivered pursuant to Sections 7(a)(iv) and (v). In particular, neither the Seller nor any of its Affiliates nor any Person acting on behalf of any of them makes any representation or warranty with respect to (A) any financial projection or forecast relating to SM&P or its business; provided, however, that the Seller represents and warrants that any such financial projection or forecast provided to the Buyer has been made in good faith and is based on reasonable assumptions, or (B) except as expressly set forth in Section 3(a), Section 4 or the certificates delivered pursuant to Sections 7(a)(iv) and (v), any other information provided by or on behalf of the Seller with respect to SM&P and its business. In entering into this Agreement, the Buyer acknowledges and affirms that it has relied and will rely solely on the terms of this Agreement and upon its independent analysis, evaluation and investigation of, and judgment with respect to, the business, economic, legal, tax or other consequences of the transactions contemplated by this Agreement, including its own estimate and appraisal of the extent and value of and the risks associated with the industries in which SM&P operates.

#### 4. REPRESENTATIONS AND WARRANTIES OF THE SELLER CONCERNING SM&P.

The Seller represents and warrants to the Buyer as follows:

(a) ORGANIZATION, QUALIFICATION AND CORPORATE POWER. SM&P (i) is a corporation duly organized and validly existing under the laws of the State of Indiana, (ii) is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required, except where the lack of such qualification would not have a Material Adverse Effect and (iii) has full power and authority to carry on the businesses in which it is engaged and to own and use the properties owned and used by it.

(b) CAPITALIZATION. The entire authorized capital stock of SM&P consists of 1,000 SM&P Shares, of which 100 SM&P Shares are issued and outstanding. All of the issued and outstanding SM&P Shares have been duly authorized, are validly issued, fully paid and nonassessable and are held beneficially and of record by the Seller. There are no outstanding or authorized options, warrants, purchase rights, subscription rights, conversion rights, exchange rights or other contracts or commitments that could require SM&P to issue, sell or otherwise

cause to become outstanding any of its capital stock. There are no outstanding or authorized stock appreciation, phantom stock, profit participation or similar rights with respect to SM&P. SM&P owns 100% of the issued and outstanding shares of capital stock of Colcom, Inc., a Texas corporation which currently has no active business operations. Except with respect to Colcom, Inc., SM&P does not own or hold any shares of stock or any other security or interest in any other Person or any rights to acquire any such stock or any other interest.

(c) NONCONTRAVENTION. Neither the execution and the delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge or other restriction of any government, governmental agency or court to which SM&P or any of its subsidiaries or any of their respective property is subject or any provision of the charter or bylaws of SM&P or (ii) except as set forth in Section 4(c) of the Disclosure Schedule, conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify or cancel, or require any notice under, any agreement, contract, lease, license, instrument or other arrangement to which SM&P is a party or by which it is bound or to which any of its assets is subject (or result in the imposition of any Security Interest upon any of its assets), except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice or Security Interest would not have a Material Adverse Effect. To the Seller's Knowledge, except as set forth in Section 4(c) of the Disclosure Schedule, SM&P is not required to give any notice to, make any filing with or obtain any authorization, consent or approval from any government or governmental agency or other third party in order for the Parties to consummate the transactions contemplated by this Agreement, except where the failure to give notice, to file or to obtain any authorization, consent or approval would not have a Material Adverse Effect or materially adversely affect the ability of the Parties to consummate the transactions contemplated by this Agreement.

(d) FINANCIAL STATEMENTS.

(i) Attached hereto as Exhibit A are unaudited balance sheets and income statements of SM&P as of December 31, 1999 and December 31, 2000 and for the fiscal years then ended and the unaudited balance sheet and income statement of SM&P as of October 31, 2001 and for the ten month period then ended (such financial statements, together with the financial statements provided in accordance with Section 5(h), are referred to collectively as the "SM&P Financial Statements"). The SM&P Financial Statements attached hereto fairly present (and the SM&P Financial Statements provided in accordance with Section 5(h) will fairly present) in all material respects the financial position and the results of operations of SM&P in accordance with GAAP consistently applied. The SM&P Financial Statements as of October 31, 2001 reflect (and the SM&P Financial Statements provided in accordance with Section 5(h) will reflect) the results of operations of the UTI Business since the date of acquisition.

(ii) Without limiting the generality of the foregoing clause (i):

(A) Section 4(d)(ii)(A) of the Disclosure Schedule sets forth, for each of calendar year 1999, calendar year 2000 and the ten month period ended October 31, 2001, the total billings and any write-offs or reductions from billed

accounts receivable for: (1) the customers listed on

Section 4(n)(i) of the Disclosure Schedule and (2) any customer not listed in Section 4(n)(i) of the Disclosure Schedule whose billed account receivable was reduced in any period by more than 5% of the total amount billed during such period, excluding, in each case, customers of the UTI Business. To the Seller's Knowledge, no reductions or write-offs of amounts billed or expected to be billed by SM&P are contemplated in character or relative amount which differ from SM&P's historical practice as reflected by Section 4(d)(ii)(A) of the Disclosure Schedule.

(B) Section 4(d)(ii)(B) of the Disclosure Schedule sets forth a listing of claims, with estimates of loss for such claims, pending against SM&P as of October 31, 2001, as included in the database used by it to determine "Cable cut charges" and "Accrued cable damage" in SM&P's regularly prepared income statements and balance sheets, respectively. To the Seller's Knowledge, such listing includes all claims of which SM&P is presently aware (subject to customary delays in notification from SM&P's field crews), and the estimates of loss were determined in good faith and in a manner consistent with the manner in which SM&P has prepared the SM&P Financial Statements attached as Exhibit A.

(C) Except (1) as reflected in charges or accruals to be recorded by SM&P prior to or at the Closing and (2) to the extent it would not have a Material Adverse Effect, to Seller's Knowledge the computer equipment leased or owned by SM&P as reflected in its books and records is actually in the possession of SM&P employees, and there is no deficiency in the character or amount of equipment actually used in SM&P's business, which is reasonably likely to result in cost or expense to SM&P in order to maintain its operations at their current level.

(e) TITLE TO PERSONAL PROPERTY. SM&P has marketable title to the personal property that it purports to own, including all personal property reflected on the unaudited balance sheet as of October 31, 2001 included in the SM&P Financial Statements, and holds such personal property free of Security Interests, except Permitted Encumbrances and except where the failure to have such title or to hold such personal property, individually or in the aggregate, would not have a Material Adverse Effect. Section 4(e) of the Disclosure Schedule lists (i) all bank accounts, safe deposits and all similar personal property of SM&P and authorized signatories with respect thereto, (ii) all trucks, trailers and other vehicles of SM&P and (iii) all computer equipment of SM&P.

(f) LEGAL COMPLIANCE. To the Seller's Knowledge, SM&P is in compliance with all applicable laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings and charges thereunder) of federal, state, local and foreign governments (and all agencies thereof) except for such failures to comply that, individually or in the aggregate, would not have a Material Adverse Effect. To the Seller's Knowledge, SM&P has all permits, licenses, certificates of authority, orders and approvals of, and has made all filings, applications and regulations with, federal, state, local or foreign government or regulatory bodies that are currently required to permit it to carry on its business as presently conducted, the absence of which, individually or in the aggregate, would have a Material Adverse Effect.

(g) **CONTRACTS.** Section 4(g) of the Disclosure Schedule lists all written contracts and other written agreements to which SM&P is a party, the performance of which will involve consideration in excess of \$500,000 per year or \$2 million in the aggregate (the "Material Agreements"). The Seller has made available to the Buyer a correct and complete copy of each contract or agreement listed in Section 4(g) of the Disclosure Schedule. Except as set forth in Section 4(g) of the Disclosure Schedule: (i) each Material Agreement is in full force and effect and is valid and enforceable in accordance with its terms; (ii) SM&P is, and at all times since January 1, 2001 (or, in the case of Material Agreements relating to the UTI Business, since October 20, 2001) has been, in full compliance with all applicable terms and requirements of each Material Agreement under which SM&P has or had any obligation or liability or by which SM&P or any of the assets owned or used by SM&P is or was bound; (iii) to the Seller's Knowledge, each other Person that has or had any obligation or liability under any Material Agreement under which SM&P has or had any rights is, and at all times since January 1, 2001 (or, in the case of Material Agreements relating to the UTI Business, since October 20, 2001) has been, in material compliance with all applicable terms and requirements of such Material Agreement; (iv) no event has occurred or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with, or result in a violation nor breach of, or give SM&P or other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Material Agreement; (v) to the Seller's Knowledge, SM&P has not given to or received from any other Person, at any time since January 1, 2001 (or, in the case of Material Agreements relating to the UTI Business, since October 20, 2001), any notice or other communication (whether oral or written) regarding any violation or breach of, or default under, any Material Agreement; and (vi) there are no renegotiations of, attempts to renegotiate, or outstanding rights to renegotiate any material amounts paid or payable to SM&P under current or completed Material Agreements with any Person, and no such Person has made written demand to SM&P for such renegotiation.

(h) **LITIGATION.** Section 4(h) of the Disclosure Schedule sets forth each instance in which SM&P is, or to the Seller's Knowledge any basis by which SM&P is reasonably likely to be, (i) subject to any outstanding injunction, judgment, order, decree, ruling or charge, (ii) a party to any action, suit, proceeding, hearing or investigation of, in or before any court or quasi-judicial or administrative agency of any federal, state, local or foreign jurisdiction, or (iii) to the Seller's Knowledge, threatened to be made a party to any such proceeding, except in each case where the injunction, judgment, order, decree, ruling, charge, action, suit, proceeding, hearing or investigation would not have a Material Adverse Effect.

(i) **ENVIRONMENTAL MATTERS.**

(i) SM&P is in substantial compliance with all applicable federal, state, and local laws, ordinances, rules and regulations relating to protection of public health or the environment, including the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq., the Solid Waste Disposal Act, including the Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. Section 6901, et seq., the Clean Air Act, 42 U.S.C. Section 7401, et seq., as amended; the Federal Water Pollution Control Act, 33 U.S.C.

Section 1251, et seq., as amended; the Oil Pollution Act of 1990, 33 U.S.C. Section 2701, and the Occupational Health and Safety Act, 29 USC Section 651, et seq. (collectively,



"Environmental Laws"), and SM&P has not used or disposed of Hazardous Substances except in compliance with Environmental Laws and except for such matters that resulted in a claim or action that has been resolved, and except for matters that individually or in the aggregate do not have a Material Adverse Effect.

(ii) SM&P has obtained and is in substantial compliance with all permits, licenses, franchises, authorities, consents and approvals as are necessary under applicable Environmental Laws for operating its assets and business as presently conducted, and all such permits, licenses, franchises, authorities, consents and approvals remain in full force and effect, except for such matters that, individually or in the aggregate, would not have a Material Adverse Effect.

(iii) There are no pending or, to the Seller's Knowledge, threatened claims, demands, actions, administrative proceedings, lawsuits, notices of violation, notices of potential liability or investigations (nor, to the Seller's Knowledge, is there any basis by which SM&P is reasonably likely to become subject thereto) (i) against SM&P under any Environmental Laws or (ii) arising from any activities of SM&P not in compliance with any Environmental Laws except for claims, demands, actions, administrative proceedings, lawsuits or investigations that are listed in Section 4 (i) of the Disclosure Schedule, and except for such matters that, individually or in the aggregate, would not have a Material Adverse Effect.

(iv) None of the real property currently owned or operated or, to the Seller's Knowledge, previously owned or operated by SM&P is (a) listed on the National Priorities List or any state or federal list of sites requiring environmental investigation or remedial action or (b) the subject of any regulatory action that is reasonably anticipated by the Seller to lead to claims against SM&P under any Environmental Law.

Notwithstanding any other provision of this Agreement, the Seller makes no representation in this Agreement regarding any compliance or failure to comply with, or any actual or contingent liability under, any Environmental Law, except as set forth in this Section 4(i).

(j) INSURANCE. SM&P maintains insurance coverages, in such amounts and covering such risks and with such limitations, deductibles and retentions, as are customary for similarly situated businesses. Section 4(j) of the Disclosure Schedule lists and briefly describes each insurance policy maintained by SM&P with respect to its properties, assets and business, together with a claims history for the past five years and an indication of whether such policy provides coverage on an "occurrence" or "claims made" basis. Except as set forth on Section 4(j) of the Disclosure Schedule, all of such insurance policies are in full force and effect, SM&P is not in default with respect to its obligations under any such insurance policy, and SM&P has not been denied insurance coverage. Except as set forth in Section 4(j) of the Disclosure Schedule, SM&P has no self-insurance or co-insurance programs, and the reserves set forth on the latest balance sheet of SM&P provided to the Buyer are adequate to cover all anticipated liabilities with respect to self-insurance or co-insurance programs.

(k) EMPLOYEE RELATIONS. SM&P is in substantial compliance with all federal, state, local or foreign laws, ordinances, rules and regulations respecting employment and employment

practices, terms and conditions of employment and wages and hours, and has not and is not engaged in any unfair labor practice, except for such matters that, individually or in the aggregate, would not have a Material Adverse Effect. No unfair labor practice complaint against SM&P is pending before the National Labor Relations Board. There is no labor strike, jurisdictional dispute, material slowdown or stoppage pending or, to the Seller's Knowledge, threatened against or involving SM&P, nor has there been any such strike, jurisdictional dispute, slowdown or stoppage during the past two years. There are no representation proceedings involving SM&P pending or, to the Seller's Knowledge, threatened with the National Labor Relations Board, and no labor union or group of SM&P employees has made a demand for recognition which is currently pending.

(l) TAXES.

(i) TAX RETURNS FILED AND TAXES PAID. Except as set forth in Section 4(l) of the Disclosure Schedule, (A) SM&P has duly filed or caused to be filed, on or before the due date thereof (taking into account timely extensions), with the appropriate taxing authorities, all state Tax Returns that it is required to file; (B) each such material state Tax Return (including any amendment thereto) is true, correct, and complete in all material respects; (C) all state Taxes of SM&P due with respect to, or shown or required to be shown to be due on, each such Tax Return (or amendment) or subsequent assessment with regard thereto, have been timely paid, or, an adequate reserve has been established therefor on the books and records of SM&P; and (D) there are no extensions of time to file any material Tax Return that are pending.

(ii) TAX RESERVES AND TAX LIABILITIES. Except as set forth in Section 4(l) of the Disclosure Schedule, (A) the amount of liability for unpaid Taxes for all periods ending on or before the date of the Closing Balance Sheet (as defined in Section 2(c)) does not, in the aggregate, exceed the amount of the current liability reserve for Taxes (excluding accruals for deferred Taxes) as reflected on the books and records of SM&P on the Closing Date; (B) the amount of SM&P's liability for unpaid Taxes for all periods ending on or before the Closing Date shall not, in the aggregate, exceed the amount of the current liability reserve for Taxes (excluding accruals for deferred Taxes) as reflected on the books and records of SM&P on the Closing Date; (C) no Taxes of SM&P in excess of such current liability reserve for Taxes (excluding accruals for deferred Taxes) will be due or payable with respect to any taxable periods or portions of periods ending on or before the Closing Date; (D) SM&P has collected or withheld all Taxes that it is required to collect or withhold; and (E) there are no liens on any of SM&P's assets that have arisen in connection with any failure (or alleged failure) to pay any Taxes except any lien for Taxes that are being contested in good faith or is for property Taxes that are not yet delinquent. As set forth, SM&P is a party to a tax allocation agreement, a copy of which has been delivered to the Buyer (the "NiSource Tax Allocation Agreement"). For purposes of this Section 4(l) and Section 9(b), the term "Taxes" includes amounts payable to NiSource under the NiSource Tax Allocation Agreement for any Pre-Closing Period.

(iii) AUDIT HISTORY AND OTHER PROCEEDINGS. Except as set forth in Section 4(l) of the Disclosure Schedule, (A) there are no pending audits, investigations, claims,

suits or other proceedings for or relating to any material liability of SM&P in respect of Taxes; (B) SM&P is not delinquent in the payment of any Taxes; (C) no material deficiencies for Taxes of SM&P have been claimed, proposed or assessed by any taxing or other governmental authority; (D) there are no matters under discussion between SM&P and a governmental authority which could result in any additional amount of Taxes; (E) no extension of a statute of limitations (whether arising by reason of a waiver, claim for refund, or otherwise) relating to Taxes or Tax Returns of SM&P is in effect; and (F) there are no pending requests for rulings or determinations in respect of Taxes of SM&P pending with any governmental authority. Seller shall prepare any consolidated or combined Tax Return for which SM&P or the Buyer shall be liable to make payments to Seller pursuant to Section 9(g) on a basis consistent with prior practice and in a manner which, unless otherwise agreed to by the Buyer, will result in the payment of the least amount of Taxes for SM&P and the least amount under Section 9(g), provided that no position shall be required to be taken on any such Tax Return for which there is not "substantial authority" within the meaning of the Code.

(iv) MISCELLANEOUS. Except as set forth in Section 4(l) of the Disclosure Schedule, (A) SM&P does not own any real property in the State of New York or any other jurisdiction in which a Tax is imposed upon the transfer of securities of an issuer having an interest in real property; (B) SM&P is not a party or subject to any joint venture, partnership, or other arrangement or contract that is treated as a partnership for federal income tax purposes; (C) SM&P has not made any payments, is not obligated to make any payments, nor is a party to any agreement that could obligate it to make any payments that will not be deductible under Section 280G of the Code; (D) SM&P has not been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable periods specified in Section 897(c)(1)(A)(ii) of the Code; (E) SM&P has not violated any of the COBRA continuation coverage requirements set forth in Section 4980B of the Code; (F) SM&P has disclosed on its federal income Tax Return all positions taken therein that could give rise to substantial understatement of federal income Taxes within the meaning of Section 6662 of the Code; (G) SM&P has not agreed to and is not required to make any adjustment under Section 481(a) of the Code by reason of a change in accounting method which affects any taxable year beginning after December 31, 1997; (H) SM&P has no application pending with any taxing authority requesting permission for any changes in accounting methods that affects any taxable year beginning after December 31, 1997; (I) no property owned by SM&P (1) is property required to be treated as being owned by another person pursuant to the provisions of Section 168(f)(8) of the Internal Revenue Code of 1954, as amended, and in effect immediately prior to the enactment of the Tax Reform Act in 1986, (2) constitutes "tax-exempt use property" within the meaning of Section 168(h)(1) of the Code; and (3) is tax-exempt bond financed property within the meaning of Section 168(f) of the Code; and (J) SM&P is not a foreign person within the meaning of Section 1445 of the Code.

Section 4(l) of the Disclosure Schedule contains an accurate list of all states, counties, cities and other taxing jurisdictions (whether foreign or domestic) to which any Tax is properly payable by SM&P; provided, however, that SM&P does not currently have an accurate list of the taxing jurisdictions with respect to the UTI Business. The transactions contemplated by this Agreement are not subject to the withholding provisions of Section

3406 of the Code, or of subchapter A of Chapter 3 of the Code, or of any similar provision of state, local or foreign Tax law.

(m) EVENTS AFTER OCTOBER 31, 2001. Except as set forth in Section 4(m) of the Disclosure Schedule, since October 31, 2001, there have not been any changes in the assets, conditions or affairs, financial or otherwise, of SM&P that, individually or in the aggregate, would have a Material Adverse Effect.

(n) CUSTOMERS. Section 4(n)(i) of the Disclosure Schedule sets forth the names of SM&P's ten largest customers based on revenues for the 12 months ended October 31, 2001 (including, with respect to contracts relating to the UTI Business, all revenues during such period, whether recognized by SM&P or UTI). Except as set forth in Section 4(n)(ii) of the Disclosure Schedule, SM&P has not received notice that any such customer intends to cease or materially reduce its business with SM&P or to terminate any agreement with SM&P where such action would have a Material Adverse Effect.

(o) CONDITION OF PERSONAL PROPERTY. The Seller makes no and disclaims any representation or warranty, whether express or implied and whether by common law, statute or otherwise, as to (i) the quality, condition or operability of any personal property or equipment, (ii) its merchantability, (iii) its fitness for any particular purpose or (iv) its conformity to models or samples of materials, and all personal property and equipment is delivered "AS IS, WHERE IS" in the condition in which the same exists.

(p) REAL PROPERTY.

(i) Section 4(p) of the Disclosure Schedule accurately lists all real property that SM&P owns (the "Owned Real Property") and every lease or similar agreement under which SM&P is lessee of, or holds or operates, any real property owned by any third Person (the "Leased Real Property"). The Seller has made available to the Buyer true and complete copies of all deeds, leases and other instruments by which SM&P acquired or leases any real property and any title policies in SM&P's possession with respect to such Owned Real Property.

(ii) SM&P has good and marketable title to the Owned Real Property, free and clear of any Security Interest, except for Permitted Encumbrances. Except as set forth in Section 4(p) of the Disclosure Schedule, there are no leases, subleases, licenses, concessions or other agreements granting to any party or parties the right of use or occupancy of any portion of the Owned Real Property. There are no outstanding options or rights of first refusal to purchase any of the Owned Real Property or any portion thereof or interest therein.

(iii) SM&P has a valid leasehold interest in, and the right to quiet enjoyment of, all Leased Real Property for the full term of each applicable lease or similar agreement (and any renewal option related thereto), and the leasehold or other interest of SM&P in such Leased Real Property is not subject or subordinate to any Security Interest granted by SM&P.

(q) TRANSACTIONS WITH AFFILIATES. Section 4(q) of the Disclosure Schedule lists all (i) oral or written contracts and agreements between SM&P and the Seller and Affiliates of the Seller and (ii) all services provided by the Seller and Affiliates of the Seller to SM&P not otherwise covered by such oral or written contracts and agreements.

(r) EMPLOYEE BENEFITS.

(i) Section 4(r) of the Disclosure Schedule sets forth a true and complete list of all Employee Benefit Plans maintained or contributed to by SM&P or the Seller during the past three years for the benefit of or with respect to any current or former employees, officers or directors of SM&P (the "SM&P Benefit Plans").

(ii) Each of the SM&P Benefit Plans has been administered in substantial compliance with its terms and with ERISA, the Code and all other applicable statutes and regulations. SM&P has performed and complied in all material respects with all of its obligations under or with respect to each of the SM&P Benefit Plans.

(iii) SM&P does not currently maintain or contribute to, and at no time in the past has it maintained or contributed to, a Multiemployer Plan, a Title IV Plan, a plan subject to Section 302 of ERISA or Section 412 of the Code, or an Employee Stock Ownership Plan as defined in Section 4975(e)(7) of the Code.

(iv) Each SM&P Benefit Plan, which is an Employee Pension Benefit Plan, and which is intended to be qualified under Section 401(a) of the Code, is the subject of a favorable Internal Revenue Service determination letter, has been operated substantially in accordance with its terms and is in substantial compliance with Section 401(a)(4) of the Code. There is no pending or, to the Seller's Knowledge, threatened litigation relating to any SM&P Benefit Plan (other than routine claims for benefits), and there is no proceeding that is pending or, to the Seller's Knowledge, threatened by any governmental agency with respect to any SM&P Benefit Plan.

(v) Neither SM&P nor any of its respective employees or directors nor, to the Seller's Knowledge, any fiduciary of any SM&P Benefit Plan or any other person has engaged in any transaction, including the execution and delivery of this Agreement, and other agreements, instruments and documents for which execution and delivery by SM&P is contemplated herein, in violation of Section 406(a) or (b) of ERISA, or which is a prohibited transaction (as defined in Section 4975(c)(1) of the Code), or which could subject SM&P to any tax or penalty imposed by Chapter 43 of subtitle D of the Code or Sections 502(c), (i) or (1) of ERISA in an amount that would be material.

(vi) With respect to any employee benefit plan, within the meaning of Section 3(3) of ERISA, which is not listed in Section 4(r) of the Disclosure Schedule but which is sponsored, maintained or contributed to, or has been sponsored, maintained or contributed to within six years prior to the Closing Date, by any ERISA Affiliate, (A) no withdrawal liability, within the meaning of Section 4201 of ERISA, has been incurred, which withdrawal liability has not been satisfied in full, (B) no liability to the PBGC has been incurred by any ERISA Affiliate, which liability has not been satisfied in full, (C)

the PBGC has not instituted any proceedings to terminate such plan, (D) no accumulated funding deficiency, whether or not waived, within the meaning of Section 302 of ERISA or Section 412 of the Code has been incurred, and (E) all contributions (including installments) to such plan required by Section 302 of ERISA and Section 412 of the Code have been timely made.

(vii) Except as provided in Section 4(r) of the Disclosure Schedule, there are no plans, arrangements or agreements to which SM&P is a party or by which it is bound and under which as a result of any particular transaction or transactions (including but not limited to the transactions contemplated by this Agreement) any director, officer, employee or other agent of SM&P, or any other party claiming through such a Person, shall or may acquire rights with respect to any SM&P Benefit Plan (including the creation, increase or extension of new or existing rights), become entitled to a distribution or payment with respect to SM&P at a date earlier than if such transaction had not occurred (except in accordance with Section 401(k)(10) of the Code), or otherwise receive or become vested in rights and benefits with respect to any SM&P Benefit Plan. Without limitation of the foregoing, except as set forth in Section 4(r) of the Disclosure Schedule, SM&P is not a party to any agreement with any director, officer, employee or agent of SM&P pursuant to which any such Person will be entitled to any payment by SM&P upon termination of employment following consummation of the transactions contemplated by this Agreement.

(viii) Complete and correct copies of all current documents, including all amendments thereto, with respect to each Employee Benefit Plan have been delivered to the Buyer.

(ix) Except to the extent required under a severance pay plan or under ERISA Section 601, et seq. and Code Section 4980B or applicable state coverage continuation laws, no Employee Benefit Plan provides health or welfare benefits for any retired or former employee or is obligated to provide health or welfare benefits to any active employee following such employee's retirement or other termination of service.

(x) SM&P has complied with the provisions of ERISA Section 601, et seq. and Code Section 4980B.

(s) SUFFICIENCY OF ASSETS. Except as set forth in Section 4(s) of the Disclosure Schedule, the rights, properties and assets owned by or leased or licensed to SM&P include all rights, properties and other assets necessary to permit SM&P to conduct its business in all material respects in the same manner as currently conducted.

(t) ACCOUNTS RECEIVABLE. Except as set forth in Section 4(t) of the Disclosure Schedule, all accounts receivable of SM&P that are reflected on the consolidated balance sheet of SM&P as of October 31, 2001, included in the SM&P Financial Statements attached as Exhibit A, and the accounting records of SM&P as of the Closing Date represent or will represent valid obligations arising from sales actually made or services actually performed in the Ordinary Course of Business. SM&P's allowance for uncollectible accounts receivable is adequate and calculated consistent with past practice. SM&P's allowance for uncollectible

accounts receivable as of the Closing Date will not represent a greater percentage of the accounts receivable as of the Closing Date than the allowance reflected in the balance sheet as of October 31, 2001 represented of the accounts receivable reflected therein and will not represent a material adverse change in the composition of such accounts receivable in terms of aging. Section 4(t) of the Disclosure Schedule contains a complete and accurate list of all accounts receivable greater than \$250,000 as of October 31, 2001 and sets forth the aging of such accounts receivable.

(u) EMPLOYEES.

(i) Section 4(u) to the Disclosure Schedule contains a complete and accurate list of the following information for each employee of SM&P, including each employee on leave of absence or layoff status: job title; current compensation paid or payable and any change in compensation since January 1, 2001 or date of hire, if later; vacation accrued; and service credited for purposes of vesting and eligibility to participate under any severance pay, insurance, medical, welfare, vacation, profit-sharing or other employee benefit plan maintained by SM&P or the Seller and available to SM&P employees. Except as set forth in Section 4(u) of the Disclosure Schedule, SM&P maintains no plans or obligation to pay pension benefits or provide retiree medical or other retiree insurance benefits to any of its current or retired employees.

(ii) No employee of SM&P is a party to, or is otherwise bound by, any agreement or arrangement, including any confidentiality, noncompetition or proprietary rights agreement, between such employee or director and any other Person that in any way adversely affects or will affect (A) the performance of his duties as an employee of SM&P, or (B) the ability of SM&P to conduct its business. Except as set forth in Section 4(u) of the Disclosure Schedule, no officer or other key employee of SM&P intends to terminate his employment with SM&P.

(v) INTELLECTUAL PROPERTY. Section 4(v) of the Disclosure Schedule sets forth all of the Intellectual Property owned or used by SM&P. Except as set forth in Section 4(v) of the Disclosure Schedule, (i) SM&P owns and possesses without restriction as to use, all right, title and interest in and to the Proprietary Rights necessary for the operation of SM&P's business as currently conducted; (ii) SM&P has not received any notices of invalidity, infringement or misappropriation from any third party with respect to any such Intellectual Property; (iii) SM&P has not interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property of any third parties; and (iv) to the Seller's Knowledge, no third party has interfered with, infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property of SM&P.

(w) COMPLETION OF UTI EXCHANGE TRANSACTION. The transactions contemplated by the Exchange and Termination Agreement dated as of August 15, 2001 (the "Exchange Agreement"), by and among UTI, the Seller, SM&P and the other parties named therein, have been completed in accordance with the terms of the Exchange Agreement, without modification.

(x) UNDISCLOSED LIABILITIES. Except as set forth in Section 4(x) of the Disclosure Schedule, SM&P and its subsidiaries have no liabilities or obligations of any nature (whether known or unknown and whether absolute, accrued, contingent or otherwise), except for (i)

liabilities or obligations reflected or reserved against in the consolidated balance sheet of SM&P as of October 31, 2001, included in the SM&P Financial Statements attached as Exhibit A, (ii) current liabilities incurred in the Ordinary Course of Business since October 31, 2001, (iii) obligations under leases, contracts and other agreements (which agreements are set forth in Section 4(g) of the Disclosure Schedule to the extent they constitute Material Agreements) and (iv) such other liabilities and obligations that are not in the aggregate material to SM&P.

## 5. PRE-CLOSING COVENANTS.

The Parties agree as follows with respect to the period between the execution of this Agreement and the Closing.

(a) GENERAL. Each of the Parties will use its reasonable efforts to take all action and to do all things necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the Closing conditions set forth in Section 7).

(b) NOTICES AND CONSENTS. The Seller will cause SM&P to give any notices to third parties and will cause SM&P to use its reasonable efforts to obtain any third-party consents that the Buyer reasonably may request in connection with the matters referred to in Section 4(c). Each of the Parties will make (and the Seller will cause SM&P to make) any filings with, and use its reasonable efforts to obtain any authorizations, consents and approvals of, governments and governmental agencies in connection with the matters referred to in Section 3(a)(ii), Section 3(b)(ii) and Section 4(c).

(c) OPERATION OF BUSINESS. The Seller will not, without the consent of the Buyer, cause or permit SM&P to engage in any practice, take any action or enter into any transaction outside the Ordinary Course of Business, except as described on Section 5(c) of the Disclosure Schedule. Without limiting the generality of the foregoing, except as disclosed on Section 5(c) of the Disclosure Schedule, the Seller will not, without the consent of the Buyer, except as expressly contemplated by this Agreement, cause or permit SM&P to do any of the following:

(i) amend or otherwise change its charter or bylaws;

(ii) declare, pay or become obligated for any dividend, distribution or other payment to the Seller or any of its Affiliates, other than (A) in the Ordinary Course of Business through December 31, 2001 and (B) payments and obligations for services prior to the Closing of a type contemplated by the Transition Services Agreement referred to in Section 7(a)(viii);

(iii) issue, sell, pledge, dispose of, grant, encumber or authorize the issuance, sale, pledge, disposition, grant or encumbrance of (A) any shares of capital stock of any class of SM&P or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such capital stock or any other ownership interest (including any phantom interest) in SM&P or (B) any assets and properties to SM&P other than in the Ordinary Course of Business;



(iv) (A) acquire (including by merger, consolidation or acquisition of stock or assets) any corporation, partnership or other business organization or any division thereof, (B) incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any Person, or make any loans or advances, except borrowings in the Ordinary Course of Business pursuant to any existing credit agreements or pursuant to intercompany loan agreements with the Seller, or (C) enter into or amend any contract, agreement, commitment or arrangement with respect to any matter set forth in this paragraph (iv);

(v) (A) increase the compensation payable to, or grant any severance or termination pay to, its officers, employees, directors or consultants, except pursuant to existing contractual arrangements or existing compensation plans and except for spot awards not to exceed \$25,000 in the aggregate, (B) enter into any employment, consulting or severance agreement with any director, officer or other employee or consultant of SM&P, or (C) establish, adopt, enter into or amend any bonus, profit sharing, thrift, compensation, stock option, restricted stock, pension, retirement, deferred compensation, employment, termination, severance or other plan, agreement, trust, fund, policy or arrangement for the benefit of any director, officer, employee or consultant;

(vi) change any accounting practice for GAAP or Tax purposes, unless required by a change in accounting rules or applicable law;

(vii) amend in any material respect any Material Agreement, or terminate any Material Agreement before the expiration of the term thereof;

(viii) pay, discharge or satisfy any liability or obligation (whether accrued, absolute, contingent or otherwise) in excess of \$50,000 individually, or \$250,000 of related liabilities or obligations in the aggregate, other than the payment, discharge or satisfaction, in the Ordinary Course of Business, of liabilities or obligations shown or reflected on the SM&P Financial Statements or incurred in the Ordinary Course of Business (for this purpose, payments made under the NiSource Tax Allocation Agreement shall be deemed to be made in the Ordinary Course of Business);

(ix) permit or suffer any assets (whether real, personal or mixed, tangible or intangible) to be subjected to any Security Interest, except in the Ordinary Course of Business;

(x) permit the waste of any of its properties or assets, whether or not covered by insurance;

(xi) subject to the provisions of Section 5(f), cancel, forgive or compromise any debt or obligation due to SM&P, except in the Ordinary Course of Business;

(xii) dispose of any records related to its assets or business at any time earlier than it would have done consistent with past practices;

(xiii) discourage or prevent those employees identified by the Seller as employees who are expected to continue their employment with SM&P after the Closing to not continue their employment with SM&P or the Buyer after the Closing;

(xiv) induce or attempt to induce, or cause the Seller's Affiliates to induce or attempt to induce, any customer or other business relation of SM&P into any business relationship which might materially harm SM&P or the Buyer;

(xv) transfer to any Person any attributes of ownership (including the right to receive payments) in respect of any split-dollar life insurance policy owned by SM&P; or

(xvi) agree to do any of the foregoing, whether or not in writing.

The Buyer shall designate a person who will be available at all reasonable times to consult with the Seller and SM&P regarding actions for which the Buyer's consent is required and endeavor to promptly respond to all reasonable requests of the Seller and SM&P for consents required by this Section. The Seller agrees to use commercially reasonable efforts to encourage those employees listed in Section 7(a)(ix) of the Disclosure Schedule to continue their employment with SM&P after the Closing. The Seller's obligations hereunder shall terminate at Closing.

(d) FULL ACCESS. The Seller will permit, and will cause SM&P to permit, representatives of the Buyer to have full access at all reasonable times, and in a manner so as not to interfere with the normal business operations of SM&P, to all premises, properties, personnel, books, records (including tax records and audit work papers), contracts and documents of or pertaining to SM&P. Any information obtained by the Buyer and its employees, representatives, consultants, attorneys, agents, lenders and other advisors under this Section 5(d) shall be subject to the confidentiality and use restrictions contained in that certain letter agreement between the Buyer and SM&P dated April 25, 2001 (the "Confidentiality Agreement"). Without limiting the generality of the foregoing, the Seller shall regularly inform, advise and consult with the Buyer with regard to the management and operations of SM&P, including marketing, execution and performance of Material Agreements, capital expenditures, management review, integration of the UTI Business and overall business strategy.

(e) NOTICE OF DEVELOPMENTS.

(i) Each Party will give prompt written notice to the other of any material adverse development causing a breach of any of its own representations and warranties in Section 3 or 4. Subject to Section 5(e)(ii), no disclosure by any Party pursuant to this Section 5(e), however, shall be deemed to amend or supplement the Disclosure Schedule or to prevent or cure any misrepresentation or breach of warranty.

(ii) If the Seller notifies the Buyer that an item was omitted from the Disclosure Schedule, and Buyer concurs, in its sole discretion, that the omission did not prejudice the Buyer (and only in such event), such omitted item shall be added to the Disclosure Schedule and will be deemed to have qualified the representations and warranties in Section 3 or 4 and to have cured any misrepresentations or breach of

warranty that might otherwise have existed hereunder by reason of the omission of such item from the Disclosure Schedule.

(f) **INTERCOMPANY OBLIGATIONS.** As of the close of business on December 31, 2001 and again as of the close of business on January 8, 2002, the Seller shall convert to equity all intercompany loans to SM&P from the Seller or any of its Affiliates. In addition, on each such date all intercompany payables owing from SM&P to the Seller or its any of its Affiliates shall be offset against intercompany receivables owing to SM&P from the Seller or any of its Affiliates (excluding receivables owed pursuant to a customer contract pursuant to which SM&P is providing services to the Seller or the Seller's Affiliates, which shall remain outstanding and be payable in accordance with SM&P's customary accounts receivable payment practices). Upon such conversion and offset, any remaining balance owed to the Seller or any of its Affiliates shall be contributed to the equity that the Seller holds in SM&P.

(g) **PARENT GUARANTIES.** Each of the Parties will use its reasonable efforts to obtain the termination and release of any existing guaranties of SM&P's obligations by the Seller or any of its subsidiaries, including in the case of the Buyer agreeing to replace such guaranties with a guarantee from the Buyer or an Affiliate of the Buyer or other reasonable credit support.

(h) **FINANCIAL STATEMENTS.** Seller will provide to the Buyer monthly unaudited interim income statements and balance sheets for the months after October 31, 2001 prior to the Closing, which shall be prepared in accordance with GAAP, applied on a basis consistent with the SM&P Financial Statements attached as Exhibit A. No election has been or will be made pursuant to Sections 108 and 1017 of the Code to reduce the tax basis or any other tax attribute of SM&P.

(i) **EXCLUSIVITY.** Until this Agreement is terminated by its terms, the Seller shall not (nor shall the Seller cause or permit any Person acting on behalf of the Seller, SM&P or the Seller's Affiliates to), (i) solicit, initiate or encourage the submission of any proposal or offer from any Person (including any of them) relating to any (A) liquidation, dissolution or recapitalization of, (B) merger or consolidation with or into, (C) acquisition or purchase of assets (other than in the Ordinary Course of Business) of or any equity interest in or (D) similar transaction or business combination involving SM&P or (ii) participate in any discussions or negotiations regarding, furnish any information with respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any other Person to do or seek any of the foregoing. The Seller agrees that it will discontinue immediately (and will cause SM&P or any Person acting on behalf of the Seller, SM&P, or the Seller's Affiliates to discontinue immediately) any negotiations or discussion with respect to any of the foregoing. Until this Agreement is terminated by its terms, the Seller shall notify the Buyer immediately if any Person makes any proposal, offer, inquiry or contact with respect to any of the foregoing.

(j) **PROVISION OF WORKING CAPITAL.** The Seller agrees to provide SM&P working capital sufficient for SM&P (including the UTI Business) to operate in the Ordinary Course of Business and otherwise to comply with Seller's obligations under this Agreement.

(k) **TRANSITION OF UTI BILLING.** The Seller shall use its best efforts, and will cause SM&P to use its best efforts, to complete SM&P's assumption of all billing functions with respect to the UTI Business no later than January 15, 2002.

(l) **NEW LEASE AGREEMENT.** To the extent any of the vehicles or equipment used by SM&P are leased under an agreement under which the Seller or one of its Affiliates (other than SM&P) is the lessee, the Seller shall cause SM&P to enter into a new lease agreement with the lessor having substantially the same terms and conditions as the existing lease and shall use its best efforts to cause the lessor to transfer such vehicles or equipment to such new lease effective no later than the Closing.

## 6. POST-CLOSING COVENANTS.

The Parties agree as follows with respect to the period following the Closing.

(a) **GENERAL.** In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Section 8).

(b) **LITIGATION SUPPORT.** In the event and for so long as any Party actively is contesting or defending against any third-party action, suit, proceeding, hearing, investigation, charge, complaint, claim or demand in connection with (i) any transaction contemplated under this Agreement or

(ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act or transaction on or before the Closing Date involving SM&P, each of the other Parties shall cooperate with it and its counsel in the defense or contest, make available their personnel and provide such testimony and access to their books and records as shall be reasonably necessary in connection with the defense or contest and without interfering with such other Party's ability to conduct its business, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under Section 8).

(c) **TRANSITION.** The Seller and its Affiliates will not take any action that is designed or intended to have the effect of discouraging any lessor, licensor, customer, supplier, employee or other business associate of SM&P (other than the Seller and its Affiliates) from maintaining the same business relationships with SM&P after the Closing as it maintained with SM&P before the Closing.

(d) **ACCESS TO INFORMATION AND COOPERATION.** After the Closing and subject to the execution of such confidentiality agreements as may be reasonably requested by the Buyer, the Buyer shall afford to the Seller and its representatives and advisors such access during normal business hours with reasonable notice to the books, records and personnel of SM&P and to such other information, and shall furnish such cooperation relating to SM&P, as the Seller shall reasonably request for financial reporting and accounting matters, the preparation and filing of any Tax applications or returns, the defense of Tax claims and related purposes. The Buyer shall cause SM&P to preserve all Tax and accounting records of SM&P for a period of seven years

following the Closing. In addition, the Seller shall afford the Buyer, and its respective representatives and advisors, similar access to any books, records and files retained by the Seller relating to the business of SM&P, and the Seller shall retain such records for seven years.

(e) NONCOMPETE; NONSOLICITATION.

(i) In consideration of the mutual covenants provided for herein to the Seller at the Closing, during the period beginning on the Closing Date and ending on the second anniversary of the Closing Date (the "Noncompete Period"), neither the Seller nor any of the Seller's Affiliates shall engage, and the Seller shall cause its Affiliates not to engage (whether as an owner, operator, manager, employee, officer, director, consultant, advisor, representative or otherwise), directly or indirectly (other than through the ownership of less than 1% of the outstanding equity of a publicly-traded entity) in the business of locating and marking utility lines for third parties in any geographic area in which SM&P conducts its business as of the Closing Date. Notwithstanding the foregoing, nothing herein shall preclude (A) the Seller or any of its Affiliates from acquiring any entity that operates a division, subsidiary or business unit that is engaged in the utility line locating and marking business if the revenues of such division, subsidiary or business unit for the most recently completed fiscal year (regardless of when such division, subsidiary or business unit was acquired by the entity to be acquired by the Seller) account for less than 15% of the total revenues of the acquired entity for such fiscal year, or (B) any entity that acquires the Seller from engaging in any business. For purposes of the foregoing clause (B), a transaction shall be deemed to involve an acquisition of the Seller if the Persons who beneficially owned a majority of the Seller's voting stock immediately prior to the transaction beneficially own less than a majority of the voting stock of the continuing or surviving entity immediately following the transaction. The Parties agree that the covenant set forth in this Section is reasonable with respect to its duration, geographical area and scope. If the final judgment of a court of competent jurisdiction declares that any term or provision of this Section is invalid or unenforceable, the Parties agree that the court making the determination of invalidity or unenforceability shall have the power to reduce the scope, duration or geographical area, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Section shall be enforceable as so modified after the expiration of the time within which the judgment may be appealed.

(ii) The Seller agrees that, during the Noncompete Period, the Seller (A) shall not, and shall cause its Affiliates not to, directly or indirectly, contact, approach or solicit (other than through advertising in a newspaper or other publication not directed primarily to employees of SM&P) for the purpose of offering employment to or hiring (whether as an employee, consultant, agent, independent contractor or otherwise) any person employed by SM&P at any time within two years prior to the Closing Date or during the Noncompete Period, without the prior written consent of the Buyer, which shall not be unreasonably withheld or delayed, and (B) shall not induce or attempt to induce, and shall cause its Affiliates not to induce or attempt to induce, any customer or other business relation of SM&P to terminate its business relationship with SM&P or to materially reduce its business with SM&P. The term "indirectly" as used in this Section is intended

to mean any acts authorized or directed by or on behalf of the Seller or any Person controlled by the Seller.

(iii) The Seller shall, and shall cause its Affiliates to, treat and hold as confidential any information concerning the business and affairs of SM&P that is not already generally available to the public (the "Confidential Information"). In the event that the Seller or any of its Affiliates is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information, the Seller shall, or shall cause such Affiliate, to notify the Buyer promptly of the request or requirement so that the Buyer may seek an appropriate protective order or waive compliance with the provisions of this Section. If, in the absence of a protective order or the receipt of a waiver hereunder, the Seller or any of its Affiliates is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or else stand liable for contempt, the Seller or such Affiliate may disclose the Confidential Information to the tribunal; provided that the Seller shall, or shall cause such disclosing Affiliate, to use its best efforts to obtain, at the request of the Buyer, an order or other assurance that confidential treatment shall be accorded to such portion of the Confidential Information required to be disclosed as the Buyer shall designate.

(iv) The Seller shall not use or permit any of its Affiliates to use the "SM&P" or "SM&P Utility Resources, Inc." names or any names confusingly similar thereto in any manner anywhere in the world after Closing.

(f) EMPLOYEE MATTERS.

(i) CONTINUATION OF COMPENSATION AND BENEFITS. For a period of two years after the Closing Date, the Buyer shall maintain, or shall cause SM&P to maintain, base salary, wages, compensation levels (including bonus and other incentive compensation) and Employee Benefit Plans for the benefit of the employees and former employees of SM&P, which, in the aggregate, are at least equal or equivalent to the base salary, wages, compensation levels and SM&P Benefit Plans provided to the employees and former employees of SM&P on the date of this Agreement (which SM&P Benefit Plans are set forth in Section 4(r) of the Disclosure Schedule), other than the NiSource Inc. Employee Stock Purchase Plan and subject to promotions, demotions and layoffs in the Ordinary Course of Business.

(ii) SERVICE CREDIT. The Buyer shall provide, or shall cause SM&P to provide, each employee or former employee of SM&P with credit for all service with SM&P (as reflected in Section 4(u) of the Disclosure Schedule) for purposes of determining eligibility to participate, vesting or qualification or eligibility for any benefit or privilege (including vacation) based on length of service under any Buyer Benefit Plan (but excluding determining benefit accruals under any Buyer Benefit Plan that is a defined benefit plan as defined in Section 3(35) of ERISA) or retiree medical plan.

(iii) WELFARE BENEFIT PLAN OBLIGATIONS. With respect to any Buyer Employee Welfare Benefit Plan covering any employee or former employee (and covered spouse or

dependant) of SM&P after the Closing Date, the Buyer shall (i) waive all limitations as to preexisting conditions, exclusions and waiting periods, and (ii) provide each such employee or former employee (and any covered spouse or dependant) with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any applicable deductible or out-of-pocket requirements under any Buyer Benefit Plan in which such employee or former employee is eligible to participate after the Closing Date.

(iv) SEVERANCE POLICY. For a period of two years after the Closing Date, the Buyer shall provide, or shall cause SM&P to provide, for the benefit of the employees of SM&P severance benefits in accordance with the terms and conditions of the NiSource Inc. Severance Policy as amended and restated effective November 27, 2001, a copy of which has been delivered to the Buyer. During such two year period, the Buyer shall not materially amend or terminate, and shall cause SM&P not to amend or terminate, such policy in any manner adverse to the employees or former employees of SM&P.

(g) INSURANCE PROCEEDS. The Seller shall use commercially reasonable efforts to obtain for the benefit of SM&P and the Buyer the proceeds of any insurance policies maintained by the Seller or its Affiliates that provide coverage for SM&P's business for periods prior to the Closing.

## 7. CONDITIONS TO OBLIGATION TO CLOSE.

(a) CONDITIONS TO OBLIGATION OF THE BUYER. The obligation of the Buyer to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in Section 3(a) and Section 4 above shall be true and correct in all material respects at and as of the Closing Date as though made at and as of the Closing Date, except for such changes as may result from the conduct of the business of SM&P in accordance with this Agreement before the Closing; provided, however, that if any such representation or warranty is already qualified by materiality, for purposes of determining whether this condition has been satisfied, such representation or warranty as so qualified shall be true and correct in all respects;

(ii) the Seller shall have performed and complied with all of its covenants hereunder in all material respects through the Closing;

(iii) there shall not be any injunction, judgment, order, decree, ruling or charge in effect preventing consummation of any of the transactions contemplated by this Agreement;

(iv) the Seller shall have delivered to the Buyer a certificate to the effect that each of the conditions specified in the foregoing clauses (i) through (iii) is satisfied;

(v) the Seller shall have delivered to the Buyer the certificate called for by Section 9(b);

(vi) the Buyer shall have received all the stock records, corporate books and records of SM&P and the resignations of officers and directors of SM&P;

(vii) the Seller shall have delivered to the Buyer an opinion of the Seller's legal counsel dated as of the Closing Date as to the matters set forth as Exhibit B to this Agreement;

(viii) the Parties shall have executed a Transition Services Agreement substantially in the form of Exhibit C;

(ix) the Buyer shall have made arrangements with the key employees of SM&P listed in Section 7(a)(ix) of the Disclosure Schedule to continue their employment after the Closing;

(x) except as provided in Section 9, the provisions of the NiSource Tax Allocation Agreement and the Intercompany Lending Agreement between the Seller and its subsidiaries, insofar as each relates to SM&P, shall have been terminated;

(xi) the Seller shall have delivered to the Buyer certified copies of the resolutions of the Seller's Board of Directors approving the transactions contemplated by this Agreement;

(xii) the Seller shall have obtained the consents set forth in Section 7(a)(xii) of the Disclosure Schedule in form and substance reasonably acceptable to the Buyer;

(xiii) the Buyer shall have had an opportunity to contact customers of SM&P listed in Section 7(a)(xiii) of the Disclosure Schedule and shall not have advised the Seller that the Buyer received any indication that any customer or customers intend to terminate or materially reduce its or their business with SM&P where such action would have a Material Adverse Effect;

(xiv) SM&P shall have entered into the new lease agreement referred to in Section 5(1); and

(xv) the Buyer shall have received such other documents as the Buyer may reasonably request for the purpose of facilitating the consummation or performance of any of the transactions contemplated by this Agreement.

The Buyer may waive any condition specified in this Section 7(a) if it executes a writing so stating at or before the Closing.

(b) **CONDITIONS TO OBLIGATION OF THE SELLER.** The obligation of the Seller to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in Section 3(b) above shall be true and correct in all material respects at and as of the Closing Date as though made at and as of the Closing Date; provided, however, that if any such representation or



warranty is already qualified by materiality, for purposes of determining whether this condition has been satisfied, such representation or warranty as so qualified shall be true and correct in all respects;

(ii) the Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing;

(iii) there shall not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement;

(iv) the Buyer shall have delivered to the Seller a certificate to the effect that each of the conditions specified in the foregoing clauses (i) through (iii) is satisfied;

(v) the Seller shall have obtained the consents set forth on Section 7(a)(xii) of the Disclosure Schedule in form and substance reasonably acceptable to the Seller; and

(vi) all guaranties of SM&P's obligations by the Seller or any of its subsidiaries that are set forth in Section 7(b)(vi) of the Disclosure Schedule shall have been terminated and released, and neither the Seller nor any of its subsidiaries shall have any obligations for the vehicles subject to the new lease agreement referred to in Section 5(l).

The Seller may waive any condition specified in this Section 7(b) if it executes a writing so stating at or before the Closing.

## 8. REMEDIES FOR BREACHES OF THIS AGREEMENT.

(a) **SURVIVAL OF REPRESENTATIONS AND WARRANTIES.** All of the representations and warranties of the Seller contained in Section 3(a) shall survive the Closing indefinitely. All of the representations and warranties of the Buyer contained in Section 3(b) shall survive the Closing indefinitely. Except as provided in Section 9(a), all of the representations and warranties of the Seller contained in Section 4 shall survive the Closing and continue in full force and effect for a period of 18 months thereafter, whereupon they shall terminate.

### (b) INDEMNIFICATION PROVISIONS FOR BENEFIT OF THE BUYER.

(i) Subject to the limitations in Section 8(b)(ii), the Seller agrees to indemnify the Buyer, SM&P and any of their respective Affiliates, directors, officers, employees and agents (collectively, the "Buyer Indemnified Parties") from and against any Adverse Consequences any Buyer Indemnified Party suffers as a result of the breach of any of the Seller's representations, warranties and covenants contained herein, provided that (A) such Adverse Consequences exceed the Claim Deductible, and (B) in the case of breaches of representations and warranties contained in Section 4, the Buyer makes a written claim for indemnification against the Seller pursuant to Section 11(g) within the applicable survival period.

(ii) The Seller shall have no obligation under Section 8(b) to indemnify the Buyer Indemnified Parties from and against any Adverse Consequences arising from or relating to the breach of any representation, warranty or covenant until the aggregate of the Adverse Consequences for all claims (including the Claim Deductible for each individual claim for which Adverse Consequences exceed the Claim Deductible) exceeds \$500,000. After the aggregate of the Adverse Consequences for all claims under Section 8(b) (including the Claim Deductible for each individual claim for which Adverse Consequences exceed the Claim Deductible) exceeds \$500,000, the Seller shall indemnify the Buyer Indemnified Parties for all Adverse Consequences in excess of \$500,000, up to a maximum aggregate indemnity of \$8.0 million.

(c) INDEMNIFICATION PROVISIONS FOR BENEFIT OF THE SELLER. The Buyer agrees to indemnify the Seller and any of its respective Affiliates, directors, officers, employees and agents (collectively, the "Seller Indemnified Parties") from and against the entirety of any Adverse Consequences the Seller suffers as a result of the breach of any of the Buyer's representations, warranties and covenants contained herein.

(d) MATTERS INVOLVING THIRD PARTIES.

(i) If any third party notifies any Party (the "Indemnified Party") with respect to any matter (a "Third-Party Claim") which may give rise to a claim for indemnification against any other Party (the "Indemnifying Party") under this Section 8, the Indemnified Party shall promptly (and in any event within five business days after receiving notice of the Third-Party Claim) notify each Indemnifying Party thereof in writing; provided, however, that no delay on the part of an Indemnified Party in notifying the Indemnifying Party shall relieve the Indemnifying Party of any of its obligations hereunder unless and then solely to the extent that the Indemnifying Party is irrevocably prejudiced by such delay. The notice shall include a description of the Third-Party Claim and copies of all documents relating to the claim.

(ii) Any Indemnifying Party will have the right to assume and thereafter conduct the defense of the Third-Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party; provided that the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third-Party Claim without the prior written consent of the Indemnified Party (not to be withheld unreasonably) unless the judgment or proposed settlement fully releases such Indemnified Party and involves only the payment of money damages that are covered in full by the indemnity and does not impose an injunction or other equitable relief upon the Indemnified Party and is subject to confidentiality provisions acceptable to the Indemnified Party (which approval will not be unreasonably withheld by the Indemnified Party).

(iii) Unless and until an Indemnifying Party assumes the defense of the Third-Party Claim as provided in Section 8(d)(ii), the Indemnified Party may defend against the Third-Party Claim in any manner it reasonably may deem appropriate.

(iv) In no event will the Indemnified Party consent to the entry of any judgment or enter into any settlement with respect to the Third-Party Claim without the prior written consent of each Indemnifying Party, which consent shall not be unreasonably withheld.

(e) EXCLUSIVE REMEDIES. Except as provided in Section 9, the rights, remedies and obligations of the Parties under this Section 8 shall be the exclusive rights, remedies and obligations of the Parties for any breach or default in connection with the transactions contemplated by this Agreement.

## 9. TAX MATTERS.

(a) SCOPE OF TAX INDEMNITY PROVISIONS. In the case of any indemnity claim for Taxes for a Pre-Closing Period, the indemnity obligations of the Seller, and the rights of the Buyer with respect to indemnification, shall be governed by this Section and not by Section 8 hereof (regardless of whether the Taxes for which indemnity is being claimed result from a breach of a representation in Section 4(1) hereof). The indemnity obligations of the Seller under this Section shall survive the Closing until 30 days after the expiration of the statute of limitations to which the Tax liabilities relate.

(b) ALLOCATION OF LIABILITY FOR TAXES. The Seller shall be liable for, and shall indemnify, defend and hold the Buyer and its Affiliates, including SM&P, harmless from and against, (i) any and all Taxes together with any costs, expenses, losses or damages, including reasonable expenses of investigation and attorneys' and accountants' fees and expenses, arising out of or incident to the determination, assessment or collection of such Taxes (collectively, "Tax Losses") imposed on or with respect to SM&P, or its respective assets, operations or activities for any Pre-Closing Period (including, but not limited to, Taxes resulting by reason of the several liability of SM&P pursuant to Treasury Regulation Section 1.1502-6 or any analogous state, local or foreign law by reason SM&P of having been a member of any consolidated, combined or unitary group on or prior to the Closing Date) and (ii) any Tax Losses resulting from the breach of the Seller's representations and warranties set forth in Section 4(1) or covenants set forth in this Section 9, but only to the extent that such Taxes have not been accrued and reflected by a reserve for current Taxes (excluding any accrual for deferred Taxes) on the books and records of SM&P as of the Closing Date. The Seller shall deliver to the Buyer, pursuant to Section 7(a)(v), at the Closing a certificate setting forth the reserve for current Taxes (excluding any accrual for deferred Taxes), as of the Closing Date, on the books and records of SM&P. For purposes of this Article 9, the phrase "reserve for Taxes" includes Taxes which are directly payable by SM&P and Taxes which represent amounts (whether computed pursuant to the NiSource Tax Allocation Agreement or otherwise) owing to an Affiliate of SM&P with respect to Taxes paid by such Affiliate with respect to the activities, business or operations of SM&P. The Buyer shall be liable for, and shall indemnify, defend and hold the Seller harmless from and against, any and all Taxes imposed on or with respect to SM&P, or its operations, ownership, assets or activities for any Post-Closing Period.

(c) PRORATION OF TAXES.

(i) METHOD OF PRORATION. Tax items shall be apportioned between Pre-Closing and Post-Closing Periods based on a closing of the books and records of the relevant entity or entities as of the Closing Date (provided that (i) any Tax item incurred by reason of the transactions occurring on or before the Closing Date as contemplated by this Agreement, including any Tax item resulting from a prior intercompany transaction that has been deferred and that will be taxed as a result of the changes in ownership contemplated by this Agreement, shall be treated as occurring in a Pre-Closing Period and (ii) depreciation, amortization and depletion for any Straddle Period shall be apportioned on a daily pro rata basis). Notwithstanding anything to the contrary in the preceding sentence, the parties agree that for U.S. federal income Tax purposes, Tax items for any Straddle Period shall be apportioned between Pre-Closing Periods and Post-Closing Periods in accordance with U.S. Treasury Regulation Section 1.1502-76(b), which regulation shall be reasonably interpreted by the parties in a manner intended to achieve the method of apportionment described in the preceding sentence. Notwithstanding anything to the contrary herein, any franchise Tax paid or payable with respect to SM&P shall be allocated to the taxable period during which the income, operations, assets or capital comprising the base of such Tax is measured, regardless of whether the right to do business for another taxable period is obtained by the payment of such franchise Tax.

(ii) NO CONTRARY ELECTIONS. The Seller and the Buyer will not exercise any option or election (including any election to ratably allocate a Tax year's items under Treasury Regulation Section 1.1502-76(b)(2)(ii)) to allocate Tax items in a manner inconsistent with Section 9(c)(i) hereof.

(d) REFUNDS OF TAXES; AMENDED RETURNS; CARRYOVERS.

(i) REFUNDS. Subject to Section 9(d)(iii) hereof, if the Buyer receives a Tax refund with respect to Taxes arising in a Pre-Closing Period, the Buyer shall pay, within 90 days following the receipt of such Tax refund, the amount of such Tax refund to the Seller. If the Seller receives a Tax refund with respect to Taxes arising in any Post-Closing Tax Period, within 90 days following the receipt of such Tax refund, the Seller will pay the amount of such Tax refund to the Buyer.

(ii) AMENDED TAX RETURNS.

(A) Subject to Section 9(d)(iii) hereof, any amended Tax Return or claim for Tax refund for any Pre-Closing Period other than a Straddle Period shall be filed, or caused to be filed, only by the Seller. The Seller shall not, without the prior written consent of the Buyer, make or cause to be made any such filing, to the extent such filing, if accepted, reasonably might change the Tax liability of the Buyer for any Tax Period.

(B) An amended Tax Return or claim for Tax refund for any Straddle Period shall be filed by the party responsible for filing the original Tax Return

hereunder if either the Buyer or the Seller so request, except that such filing shall not be done without consent (which shall not be unreasonably withheld or delayed) of the Buyer (if request is made by the Seller) or of the Seller (if request is made by the Buyer).

(C) Any amended Tax Return or claim for Tax refund for any Post-Closing Period other than a Straddle Period shall be filed, or caused to be filed, only by the Buyer, who shall not be obligated to make (or cause to be made) such filing. The Buyer shall not, without the prior written consent of the Seller (which consent shall not be unreasonably withheld or delayed) file, or cause to be filed, any amended Tax Return or claim for Tax refund for any Post-Closing Period to the extent that such filing, if accepted, reasonably might change the Tax liability of the Seller for any Pre-Closing Period.

(iii) CARRYBACKS. If any Tax loss or credit with respect to SM&P arising in a Post-Closing Period may be carried back and included in any Tax Return filed or caused to be filed by the Seller with respect to SM&P for any Pre-Closing Period, the Buyer may elect (at its expense) to carry back such Tax items (subject to Seller's consent, which consent shall not be unreasonably withheld or delayed), but only if SM&P cannot elect to waive the carryback. In such case, the Seller shall pay to the Buyer an amount equal to the Tax Benefit resulting from such carryback of Tax loss or credit, provided that the Seller shall not be required to file any carryback claim unless the Buyer so requests in writing and agrees to pay the reasonable expenses related to the claim for refund.

(e) PREPARATION AND FILING OF TAX RETURNS.

(i) SELLER'S RESPONSIBILITIES. The Seller shall have the right and obligation to timely prepare and file, and cause to be timely prepared and filed, when due, any Tax Return that is required to include the operations, ownership, assets or activities of SM&P for Tax Periods ending on or before the Closing Date and for Tax Periods beginning before and ending after the Closing Date for which a consolidated, combined or unitary Tax Return is filed that includes SM&P for the period prior to and including the Closing Date (other than a combined or unitary Tax Return with respect to which SM&P is the parent or reporting corporation). The Seller shall be responsible for reimbursing the Buyer for Taxes relating to taxable periods, or portion thereof, prior to the Closing Date, except to the extent accrued as a current liability on the books and records of SM&P on the Closing Date as a "reserve for Taxes" excluding deferred Taxes.

(ii) BUYER'S RIGHTS AND RESPONSIBILITIES. The Buyer shall have the right and obligation to timely prepare and file, or cause to be timely prepared and filed, when due, all Tax Returns that are required to include the operations, ownership, assets or activities of SM&P for any Tax Periods ending after the Closing Date (including all Straddle Period Tax Returns), except for consolidated, combined or unitary Tax Returns described in Section 9(e)(i).

(iii) PREPARATION OF TAX RETURNS.

(A) The Seller shall prepare and provide to the Buyer such Tax information as is reasonably requested by the Buyer with respect to the operations, ownership, assets or activities of SM&P or for Pre-Closing Periods to the extent such information is relevant to any Tax Return which the Buyer has the right and obligation hereunder to file.

(B) The Seller shall, on the one hand, or the Buyer shall, on the other, with respect to any Tax Return which such Party is responsible hereunder for preparing and filing, or causing to be prepared and filed, make such Tax Return and related work papers available for review by the other Party and its advisors if the Tax Return (i) is with respect to Taxes for which the other Party or a member of its Affiliated Group may be liable hereunder, or (ii) claims Tax Benefits which the other party or a member of its Affiliated Group is entitled to receive hereunder. The filing Party shall use its reasonable best efforts to make Tax Returns available for review as required under this paragraph sufficiently in advance of the due date for filing such Tax Returns to provide the non-filing Party and its advisors with a meaningful opportunity to analyze and comment on such Tax Returns and have such Tax Returns modified before filing, accepting the position of the filing party unless such position is contrary to the provisions of Section 9(e)(iv) hereof.

(iv) CONSISTENCY OF ACCOUNTING METHOD. Any Tax Return which includes or is based on the operations, ownership, assets or activities of SM&P for any Pre-Closing Period, and any Tax Return which includes or is based on the operations, ownership, assets or activities of SM&P for any Post-Closing Period to the extent the items reported on such Tax Return might reasonably increase any Tax liability of the Seller for any Pre-Closing Period or any Straddle Period shall be prepared in accordance with past Tax accounting practices as used with respect to the Tax Returns in question (unless such past practices are no longer permissible under the Applicable Tax Law), and to the extent any items are not covered by past practices (or in the event such past practices are no longer permissible under the Applicable Tax Law), in accordance with reasonable Tax accounting practices selected by the filing Party with respect to such Tax Return under this Agreement with the consent (not to be unreasonably withheld or delayed) of the non-filing Party.

(f) TAX CONTROVERSIES; ASSISTANCE AND COOPERATION.

(i) NOTICE. In the event any Tax Authority informs the Seller (or its Affiliates), on the one hand, or the Buyer or SM&P (or their Affiliates), on the other, of any notice of proposed audit, claim, assessment or other dispute concerning an amount of Taxes with respect to which the other Party may incur liability hereunder, the Party so informed shall promptly notify the other Party of such matter. Such notice shall contain factual information (to the extent known) describing any asserted Tax liability in reasonable detail and shall be accompanied by copies of any notice or other documents received from any Tax authority with respect to such matter. If an indemnified Party

receives written notice of an asserted Tax liability with respect to a matter for which it is to be indemnified hereunder and such Party fails to provide the indemnifying Party prompt notice of such asserted Tax liability, then (A) if the indemnifying Party is precluded from contesting the asserted Tax liability in any forum as a result of the failure to give prompt notice, the indemnified Party shall have an obligation to indemnify the indemnifying Party for Taxes arising out of such asserted Tax liability, and (B) if the indemnifying Party is not precluded from contesting the asserted Tax liability in any forum, but such failure to provide prompt notice results in a monetary detriment to the indemnifying Party, then any amount which the indemnifying Party is otherwise required to pay the indemnified Party pursuant to this Agreement shall be reduced by the amount of such detriment.

(ii) **CONTROL RIGHTS.** The Party who files the relevant Tax Return under this Section shall, at its expense, control any audits, disputes, administrative, judicial or other proceedings related to Taxes with respect to which either Party may incur liability hereunder. Subject to the preceding sentence, in the event an adverse determination may result in the non-filing Party having responsibility for any amount of Taxes under this Section, the non-filing Party shall be entitled to fully participate in that portion of the proceedings relating to the Taxes with respect to which it may incur liability hereunder. For purposes of this

Section 9(f), the term "participation" shall include (A) participation in conferences, meetings or proceedings with any Tax Authority, the subject matter of which includes an item for which such Party may have liability hereunder, (B) participation in appearances before any court or tribunal, the subject matter of which includes an item for which a party may have liability hereunder, and (C) with respect to the matters described in the preceding clauses (A) and (B), participation in the submission and determination of the content of the documentation, protests, memorandum of fact and law, briefs and the conduct or oral arguments and presentations.

(iii) **CONSENT TO SETTLEMENT.** SM&P, the Buyer and the Seller and their respective Affiliates shall not agree to settle any Tax liability or compromise any claim with respect to Taxes, which settlement or compromise may affect the liability for Tax hereunder (or right to Tax Benefit) of the other Party under this Section, without such other Party's consent (which consent shall not be unreasonably withheld or delayed).

(iv) **ASSISTANCE AND COOPERATION.** The Seller, on the one hand, and the Buyer, on the other, shall cooperate (and cause their Affiliates to cooperate) with each other and with each other's agents, including accounting firms and legal counsel, in connection with Tax matters relating to SM&P, including (A) preparation and filing of Tax Returns, (B) determining the liability and amount of any Taxes due or the right to and amount of any refund of Taxes, (C) examinations of Tax Returns, and (D) any administrative or judicial proceeding in respect of Taxes assessed or proposed to be assessed. Such cooperation shall include each Party making all information and documents in its possession relating to SM&P available to the other party. The Parties shall retain all Tax Returns, schedules and work papers, and all material records and other documents relating thereto, until the expiration of the applicable statute of limitations (including, to the extent notified by any party, any extension thereof) of the Tax Period to which such Tax Returns and other documents and information relate. Each of the Parties shall also

make available to the other Party, as reasonably requested and available, personnel (including officers, directors, employees and agents) responsible for preparing, maintaining, and interpreting information and documents relevant to Taxes, and personnel reasonably required as witnesses or for purposes of providing information or documents in connection with any administrative or judicial proceedings relating to Taxes.

(v) PAYMENT. Promptly after the extent of the liability of the indemnified Party with respect to an indemnified Tax claim shall be established by the final judgment or decree of a court or a final and binding settlement with a governmental authority having jurisdiction thereof, the indemnifying Party shall pay to the indemnified Party the amount of any Tax Losses the indemnified Party may become entitled to by reason of the provisions of this Section 9.

(g) TERMINATION OF TAX ALLOCATION AGREEMENTS. As of the Closing Date, the Seller shall cause the NiSource Tax Allocation Agreement to be extinguished and terminated with respect to SM&P. Notwithstanding the foregoing, prior to the Closing Date, SM&P shall be entitled to make payments to the Seller pursuant to the NiSource Tax Allocation Agreement among the Affiliated Group which includes the Seller and SM&P, and after the Closing, the Seller shall be entitled to receive from SM&P (and the Buyer shall cause SM&P to make) payments for Taxes paid by the Seller on behalf of SM&P pursuant to the NiSource Tax Allocation Agreement with respect to any Pre-Closing Period, provided, however, that such payments made to the Seller do not exceed SM&P's reserve for current Taxes (excluding any accrual for deferred Taxes) as of the Closing Date, as certified pursuant to Section

9(b). Moreover, prior to the Closing Date, the Seller and SM&P shall be entitled to forgive, without payment, any amounts owed by the Seller to SM&P under the NiSource Tax Allocation Agreement relating to any Pre-Closing Period. Any payments for Taxes pursuant to the NiSource Tax Allocation Agreement shall in no event exceed the amount that would be due if SM&P had filed a separate rather than a consolidated or combined Tax Return for such Pre-Closing Period, based on the assumption that SM&P would be subject to tax at the highest rate imposed on corporations under Code Section 11. Notwithstanding any language in this Section 9(g) to the contrary, the Seller shall be liable for, and shall pay, any income Taxes arising from or related to the Section 338(h)(10) Election, and SM&P's reserve for current Taxes shall not include any income Taxes arising from or related to the Section 338(h)(10) Election.

(h) INDEMNIFICATION FOR POST-CLOSING TRANSACTIONS. The Buyer agrees to indemnify the Seller for any additional Tax owed by the Seller (including Tax owed by the Seller due to this indemnification payment) resulting from any transaction not in the Ordinary Course of Business occurring on the Closing Date after the Buyer's purchase of the SM&P Shares.

(i) POST-CLOSING TRANSACTIONS NOT IN THE ORDINARY COURSE. The Buyer and the Seller agree to report all transactions not in the Ordinary Course of Business occurring on the Closing Date, after the Buyer's purchase of the SM&P Shares, on the Buyer's federal income Tax Return to the extent permitted by Treasury Regulation Section 1.1502-76(b)(1)(ii)(B).

(j) SURVIVAL. Anything to the contrary in this Agreement notwithstanding, the representations, warranties, covenants, agreements, rights and obligations of the Parties with



respect to any Tax matter covered by this Agreement shall survive the Closing and shall not terminate until 30 days after the expiration of the statute of limitations (including extensions) applicable to such Tax matter.

(k) CONFLICTS. To the extent any provision of this Agreement is inconsistent with the provisions of this Section 9, the provisions of Section 9 shall control; provided, however, any amounts due or owing pursuant to this Section 9 will not be considered in calculating limits on the Seller's obligations under Section 8(b). Any payments pursuant to this Section 9 will be considered an adjustment to the Purchase Price.

(l) SECTION 338(h)(10) ELECTION. At the Buyer's option, the Seller shall join with the Buyer in making an election under Section 338(h)(10) of the Code and any corresponding or similar provisions of state or local law (collectively the "Section 338(h)(10) Election") with respect to the purchase and sale of the SM&P Shares under this Agreement. The Seller shall assist the Buyer in the preparation of Form 8023 and any accompanying schedules required under Section 338(h)(10) of the Code and any corresponding or similar provisions of state or local law, and the Seller agrees that the Buyer may make any determination or election required or permitted to be made in connection with the Section 338(h)(10) Election. The Seller shall execute Form 8023 and any accompanying schedules and such other documents or forms at the Closing or at such other time as the Buyer may reasonably request or as required by the Code in order to effectuate the Section 338(h)(10) Election. The Seller shall be liable for, and shall pay, any income Taxes arising from or related to the Section 338(h)(10) Election. Prior to the Closing or as soon thereafter as reasonably practicable (but in no event more than 120 days after the Closing Date), the Buyer and the Seller shall agree upon the allocation of the Purchase Price among the assets of SM&P for purposes of preparing a properly completed Form 8023 and any comparable form required under state or local law and shall set forth such allocation on a statement. The Buyer and the Seller shall file all Tax Returns in a manner consistent with such allocation statement and shall not take any position inconsistent therewith in connection with any examination of any such Tax Return, any refund claim or any judicial litigation proceeding, unless there has been a final determination (within the meaning of Code Section 1313(a)) which finally and conclusively establishes the amount of any liability for Taxes.

#### 10. TERMINATION.

(a) TERMINATION OF AGREEMENT. The Parties may terminate this Agreement as provided below:

(i) The Buyer and the Seller may terminate this Agreement by mutual written consent at any time before the Closing;

(ii) The Buyer may terminate this Agreement by giving written notice to the Seller at any time before the Closing (A) in the event the Seller has breached any representation, warranty or covenant contained in this Agreement and such breach has a Material Adverse Effect, the Buyer has notified the Seller of the breach, and the breach has continued without cure for a period of ten business days after the notice of breach; or (B) if the Closing shall not have occurred on or before February 28, 2002, by reason of the failure of any condition precedent under Section 7(a) (unless the failure results

primarily from the Buyer itself breaching any representation, warranty or covenant contained in this Agreement); and

(iii) The Seller may terminate this Agreement by giving written notice to the Buyer at any time before the Closing (A) in the event the Buyer has breached any representation, warranty or covenant contained in this Agreement and such breach has a Material Adverse Effect, the Seller has notified the Buyer of the breach, and the breach has continued without cure for a period of ten business days after the notice of breach; or (B) if the Closing shall not have occurred on or before February 28, 2002, by reason of the failure of any condition precedent under Section 7 (b) (unless the failure results primarily from the Seller itself breaching any representation, warranty or covenant contained in this Agreement).

(b) EFFECT OF TERMINATION. If any Party terminates this Agreement pursuant to Section 10(a), all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to any other Party (except for any liability of any Party then in breach); provided that the confidentiality provisions and limitations on use contained in the Confidentiality Agreement and the provisions of Section 11 shall survive termination.

## 11. MISCELLANEOUS.

(a) PRESS RELEASES AND PUBLIC ANNOUNCEMENTS. No Party shall issue any press release or make any public announcement relating to the subject matter of this Agreement before the Closing without the prior written approval of the Buyer and the Seller; provided, however, that any Party may make any public disclosure it believes in good faith is required by applicable law or any listing or trading agreement concerning its publicly traded securities (in which case the disclosing Party will use its reasonable efforts to advise the other Party and review the contents of the press release or public announcement with the other Party a reasonable time before making the disclosure).

(b) NO THIRD-PARTY BENEFICIARIES. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(c) ENTIRE AGREEMENT. This Agreement (including the Exhibits and Schedules identified herein) and the Confidentiality Agreement constitute the entire agreement among the Parties and supersede any prior understandings, agreements or representations by or among the Parties, written or oral, to the extent they relate to the subject matter hereof. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

(d) SUCCESSION AND ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of the other party.

(e) COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

(f) HEADINGS. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(g) NOTICES. All notices, requests, demands, claims and other communications hereunder will be in writing. Any notice, request, demand, claim or other communication hereunder shall be deemed duly given if (and then two business days after) it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient as set forth below:

**If to the Seller:**

NiSource Inc.  
801 East 86th Avenue  
Merrillville, Indiana 46410  
Attention: Stephen P. Adik, Vice Chairman

with a copy, which shall not constitute notice, to:

Schiff Hardin & Waite 6600 Sears Tower Chicago, Illinois 60606 Attention: Robert J. Minkus

**If to the Buyer:**

The Laclede Group, Inc.  
720 Olive Street  
St. Louis, Missouri 63101  
Attention: Douglas H. Yaeger, Chairman

with a copy, which shall not constitute notice, to:

Thompson Coburn LLP One Firststar Plaza St. Louis, Missouri 63101 Attention: Thomas A. Litz

Any Party may send any notice, request, demand, claim or other communication hereunder to the intended recipient at the address set forth above using any other means (including personal delivery, expedited courier, messenger service, facsimile transmission, telex, ordinary mail or electronic mail), but no such notice, request, demand, claim or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims and other

communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

(h) **GOVERNING LAW.** This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Indiana without giving effect to any choice or conflict of law provision or rule (whether of the State of Indiana or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Indiana.

(i) **AMENDMENTS AND WAIVERS.** No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the Buyer and the Seller. No waiver by any Party of any default, misrepresentation or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

(j) **SEVERABILITY.** Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(k) **EXPENSES.** Each Party will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

(l) **CONSTRUCTION.** The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean "including, without limitation."

(m) **SPECIFIC PERFORMANCE.** The Seller acknowledges that SM&P's business is unique and recognizes and affirms that in the event of a breach of this Agreement by the Seller, the Buyer would suffer irreparable harm and money damages may be inadequate and the Buyer may have no adequate remedy at law. Accordingly, the Seller agrees that the Buyer shall have the right, in addition to any other rights and remedies existing in its favor, to enforce its rights and Seller's obligations hereunder not only by an arbitration proceeding or proceedings for damages but also by an action or actions for specific performance, injunctive and/or other equitable relief, without obligation to post a bond.

(n) **ARBITRATION.** Except as with respect to any equitable relief sought under this Agreement, any controversy or claim arising out of or relating to this Agreement, or the interpretation or breach hereof, shall be submitted to binding arbitration conducted in Indianapolis, Indiana, by a panel of three arbitrators in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association, unless otherwise agreed. If the Parties are unable to agree on the selection of arbitrators to resolve the dispute within 15

days of either Party giving the other Party notice of its intent to invoke this Section 11(n), then either Party may make a request of the American Arbitration Association for a list of qualified potential arbitrators from which the Parties shall select arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association. If no arbitrators are thus selected within 15 days after such list is submitted to the Parties, either Party may request the American Arbitration Association to select such arbitrators. All expenses and fees of the arbitrator and any other expenses of the arbitration, as well as the attorney's fees and expenses of each Party, shall be paid by the losing Party unless the arbitrator in the award assesses such expense, or any part of such expenses, against the other Party or allocates such expenses equally between the Parties. The determination of such arbitrator shall be final and binding upon the Parties and judgment may be entered thereupon in any court having jurisdiction thereof. During the arbitration proceedings hereunder, the Parties shall continue to perform their respective responsibilities under this Agreement.

(o) EXCHANGE AND TERMINATION AGREEMENT. The Seller hereby agrees that, as between it and SM&P, as "NiSource Parties" referred to in the Exchange Agreement, SM&P shall have sole right to exercise the NiSource Parties' rights under the Exchange Agreement, other than the rights under Section 7.11 of the Exchange Agreement, which shall be exercised by the Seller or NiSource Capital Markets, Inc. The Seller shall use commercially reasonable efforts to cooperate with SM&P in connection with the exercise of such rights and the Seller shall assign or immediately pay over to SM&P any amounts received by the Seller after the Closing Date in respect of the Exchange Agreement, other than amounts received pursuant to such Section 7.11.

**THIS CONTRACT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.**

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the date first above written.

**NISOURCE INC.**

By:

Name:

Its:

**THE LACLEDE GROUP, INC.**

By:

Name:

Its:

**Exhibit 10.22**

**THE LACLEDE GROUP, INC.**

**2002 EQUITY INCENTIVE PLAN**

1. **PURPOSE.** The purpose of The Laclede Group, Inc. Equity Incentive Plan (the "Plan") is to encourage key employees of The Laclede Group, Inc. (the "Company") and such subsidiaries of the Company as the Administrator designates, to acquire shares ("Shares") of common stock, \$1.00 par value, of the Company ("Common Stock") or to receive monetary payments based on the value of such stock or based upon achieving certain goals on a basis mutually advantageous to such employees and the Company and thus provide an incentive for employees to contribute to the success of the Company and align the interests of key employees with the interests of the shareholders of the Company.

2. **ADMINISTRATION.** The Plan shall be administered by the Board of Directors of the Company ("Board") or the Compensation Committee of the Board as determined by the Board (the "Administrator").

The authority to select persons eligible to participate in the Plan, to grant benefits in accordance with Section 5 of the Plan, and to establish the timing, pricing, amount and other terms and conditions of such grants (which need not be uniform with respect to the various Participants or with respect to different grants to the same Participant), may be exercised by the Administrator in its sole discretion. No grant shall have a term in excess of ten (10) years nor have a vesting period of less than one year, nor shall any stock option be granted at less than fair market value on the date of grant. An award of a benefit under this Plan ("Award") shall be evidenced by an award agreement that shall set forth the terms and conditions applicable to that Award, including applicable provisions in the event of the termination of employment, retirement, death or disability of the Participant. In the event of any inconsistency between the terms of such an award agreement and terms of this Plan, the terms of the Plan shall prevail. An award of stock options or stock appreciation rights under this Plan is intended to be exempt for the one million dollar limit on deductible compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended.

Subject to the provisions of the Plan, the Administrator shall have exclusive authority to interpret and administer the Plan, to establish appropriate rules relating to the Plan, to delegate some or all of its authority under the Plan and to take all such steps and make all such determinations in connection with the Plan and the benefits granted pursuant to the Plan as it may deem necessary or advisable. Any decision of the Administrator in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to, Participants and their beneficiaries or successors). The Administrator shall have the full power and authority to establish the terms and conditions of any Award consistent with the provisions

**THE LACLEDE GROUP, INC.**  
**2002 EQUITY INCENTIVE PLAN**

---

of the Plan and to waive any such terms and conditions at any time (including, without limitation, accelerating or waiving any vesting conditions); provided, however, that in no event shall any Award be subject to repricing without shareholder approval. The Administrator shall require payment of any amount it may determine to be necessary to withhold for federal, state, local or other taxes as a result of the exercise, grant or vesting of an Award. Unless the Administrator specifies otherwise, the Participant may elect to pay a portion or all of such withholding taxes by

(a) delivery in Shares or (b) having Shares withheld by the Company from any Shares that would have otherwise been received by the Participant. In no event shall any Participant receive a loan from the Company or any subsidiary (directly or indirectly) in connection with any Award hereunder. Whenever used herein, the term "Fair Market Value" means, with respect to a share of Common Stock on a particular date, the closing price on the New York Stock Exchange on the particular date. If the New York Stock Exchange is not open for trading on that date, Fair Market Value shall be the average of the closing prices on the nearest trading date before and the nearest trading date after that date.

Notwithstanding any provision of the Plan to the contrary, Awards under the Plan may be reduced, but not increased, by the administrator of any performance incentive plan of the Company established to provide for the payment of qualified performance-based compensation that is not subject to the deduction limit in Section 162(m) of the Code.

**3. SHARES RESERVED UNDER THE PLAN.** Subject to the provisions of Section 12 (relating to adjustment for changes in capital stock) an aggregate number of one million two hundred fifty thousand (1,250,000) shares of Common Stock of the Company shall be available for issuance under the Plan. The shares of Common Stock issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.

As used in this Section, the term "Plan Maximum" shall refer to the number of shares of Common Stock of the Company that are available for issuance pursuant to the Plan. Stock underlying outstanding options, stock appreciation rights, or performance awards will reduce the Plan Maximum. Shares underlying expired, canceled or forfeited options, stock appreciation rights or performance awards shall be added back to the Plan Maximum. When the exercise price of stock options is paid by delivery of shares of Common Stock of the Company, or if the Administrator approves the withholding of shares from a distribution in payment of the exercise price, the Plan Maximum shall be reduced by the net (rather than the gross) number of shares issued pursuant to such exercise, regardless of the number of shares surrendered or withheld in payment. Restricted stock issued pursuant to the Plan will reduce the Plan Maximum while outstanding even while subject to restrictions. Shares of restricted stock shall be added back to the Plan Maximum if such restricted stock is forfeited.

Notwithstanding the above, the maximum number of Shares subject to stock options or stock appreciation rights that may be awarded under the Plan to any individual in any calendar year shall not exceed one hundred twenty-five thousand (125,000) Shares. The number of Shares

**THE LACLEDE GROUP, INC.**  
**2002 EQUITY INCENTIVE PLAN**

---

granted in the form of Restricted Stock or Stock Units to all Participants shall not exceed one hundred twenty-five thousand (125,000) Shares. The limitations of this paragraph shall be adjusted in accordance with Section 12.

4. **PARTICIPANTS.** Participants will consist of such officers and key employees of the Company or any designated subsidiary as the Administrator in its sole discretion shall determine ("Participant"). Designation of a Participant in any year shall not require the Administrator to designate such person to receive a benefit in any other year or to receive the same type or amount of benefit as granted to the Participant in any other year or as granted to any other Participant in any year. The Administrator shall consider such factors as it deems pertinent in selecting Participants and in determining the type and amount of their respective benefits.

5. **TYPES OF BENEFITS.** The following benefits may be granted under the Plan: (a) stock appreciation rights ("SARs"); (b) restricted stock ("Restricted Stock"); (c) performance awards ("Performance Awards"); (d) incentive stock options ("ISOs"); (e) nonqualified stock options ("NQSOs"); and (f) Stock Units, all as described below; as well as any other stock-based awards not inconsistent with the overall purpose of the Plan.

6. **STOCK APPRECIATION RIGHTS.** A SAR is the right to receive all or a portion of the difference between the fair market value of a share of Common Stock at the time of exercise of the SAR and the exercise price of the SAR established by the Administrator, subject to such terms and conditions set forth in a SAR agreement as may be established by the Administrator in its sole discretion. At the discretion of the Administrator, SARs may be exercised (a) in lieu of exercise of an option, (b) in conjunction with the exercise of an option, (c) upon lapse of an option, (d) independent of an option or (e) each of the above in connection with a previously awarded option under the Plan. If the option referred to in (a), (b) or (c) above qualified as an ISO pursuant to Section 422 of the Internal Revenue Code of 1986 ("Code"), the related SAR shall comply with the applicable provisions of the Code and the regulations issued thereunder. At the time of grant, the Administrator may establish, in its sole discretion, a maximum amount per share which will be payable upon exercise of a SAR, and may impose conditions on exercise of a SAR. At the discretion of the Administrator, payment for SARs may be made in cash or shares of Common Stock of the Company, or in a combination thereof. SARs will be exercisable not later than ten years after the date they are granted and will expire in accordance with the terms established by the Administrator.

7. **RESTRICTED STOCK.** Restricted Stock is Common Stock of the Company issued or transferred under the Plan (other than upon exercise of stock options or as Performance Awards) subject to such terms and conditions set forth in a Restricted Stock agreement as may be established by the Administrator in its sole discretion. In the case of any Restricted Stock:

(a) The period of restriction shall be established by the Administrator for any grants of Restricted Stock.



**THE LACLEDE GROUP, INC.**  
**2002 EQUITY INCENTIVE PLAN**

---

(b) Restricted Stock may be subject to (i) restrictions on the sale or other disposition thereof; (ii) rights of the Company to reacquire such Restricted Stock upon termination of the Participant's employment within specified periods; (iii) representation by the Participant that he or she intends to acquire Restricted Stock for investment and not for resale; and (iv) such other restrictions, conditions and terms as the Administrator deems appropriate.

(c) The Participant shall be entitled to all dividends paid with respect to Restricted Stock during the period of restriction and shall not be required to return any such dividends to the Company in the event of the forfeiture of the Restricted Stock.

(d) The Participant shall be entitled to vote the Restricted Stock during the period of restriction.

(e) The Administrator shall determine whether Restricted Stock is to be delivered to the Participant with an appropriate legend imprinted on the certificate or if the shares are to be issued in the name of a nominee or deposited in escrow pending removal of the restrictions.

8. **PERFORMANCE AWARDS.** Performance Awards are Common Stock of the Company, monetary units or some combination thereof, to be issued without any payment therefor, in the event that certain performance goals established by the Administrator are achieved over a period of time designated by the Administrator. The goals established by the Administrator may relate to the Company or to a subsidiary, or both, and may include measures of operating stability and reliability, efficiencies, employee safety and attendance, return on average total capital employed, return on assets, return on equity, return on investments, earnings per share, net income, increases in share price, total shareholder returns, cash flow and cash flow return on investment, credit rating or credit worthiness, levels of operating expense, or measures of customer service or satisfaction, as may be established by the Administrator; provided that the Administrator shall be permitted to adjust or modify goals or Performance Awards upon the occurrence or existence of extraordinary corporate events, or other circumstances that, in the good faith determination of the Administrator, warrant such adjustment or modification. In the event the minimum entity goal is not achieved at the conclusion of the period, no payment shall be made to the Participant. Actual payment of the award earned shall be in cash or in Common Stock of the Company or in a combination of both, as the Administrator in its sole discretion determines. If Common Stock of the Company is used, the Participant shall not have the right to vote and receive dividends until the goals are achieved and the actual shares are issued.

9. **INCENTIVE STOCK OPTIONS.** ISOs are stock options awarded to employees to purchase shares of Common Stock at not less than 100% of the Fair Market Value of the shares on the date the option is granted (110% if the optionee owns stock possessing more than 10% of

**THE LACLEDE GROUP, INC.**  
**2002 EQUITY INCENTIVE PLAN**

---

the combined voting power of all owners of stock of the Company or a subsidiary), subject to such terms and conditions set forth in an option agreement as may be established by the Administrator in its sole discretion that conform to the requirements of Section 422 of the Code. Such purchase price may be paid (a) by payment in cash or cash equivalent, (b), in the discretion of the Administrator, by the delivery of shares of Common Stock already owned by the Participant for at least six months, (c), in the discretion of the Administrator, by using shares of Common Stock that would otherwise have been received by the Participant upon exercise of the option (which method may be restricted to a cashless exercise procedure involving a broker or dealer), or (d) in the discretion of the Administrator, by a combination of any of the foregoing, in the manner and subject to the restrictions provided in the option agreement. The aggregate Fair Market Value (determined as of the time an option is granted) of the stock with respect to which ISOs are exercisable for the first time by an optionee during any calendar year (under all option plans of the Company and its subsidiary corporations) shall not exceed \$100,000.

**10. NONQUALIFIED STOCK OPTIONS.** NQSOs are nonqualified stock options to purchase shares of Common Stock at not less than the Fair Market Value of the shares on the date the options are granted, subject to such terms and conditions set forth in an option agreement as may be established by the Administrator in its sole discretion. The purchase price may be paid (a) by payment in cash or cash equivalent, (b), in the discretion of the Administrator, by the delivery of shares of Common Stock already owned by the Participant for at least six months, (c), in the discretion of the Administrator, by using shares of Common Stock that would otherwise have been received by the Participant upon exercise of the option (which method may be restricted to a cashless exercise procedure involving a broker or dealer) or (d) in the discretion of the Administrator, by a combination of any of the foregoing, in the manner and subject to the restrictions provided in the option agreement.

**11. STOCK UNITS.** A Stock Unit represents the right to receive a share of Common Stock from the Company at a designated time in the future, subject to such terms and conditions set forth in a Stock Unit agreement as may be established by the Administrator in its sole discretion. The Participant generally does not have the rights of a shareholder until receipt of the Common Stock. The Administrator may in its discretion provide for payments in cash, or adjustment in the number of Stock Units, equivalent to the dividends the Participant would have received if the Participant had been the owner of shares of Common Stock instead of the Stock Units.

**12. ADJUSTMENT PROVISIONS.**

(a) If the Company shall at any time change the number of issued shares of Common Stock without new consideration to the Company (such as by stock dividends or stock splits), the total number of shares reserved for issuance under this Plan and the number of shares covered by each outstanding benefit shall be adjusted so that the aggregate consideration payable to the Company, if any, and the value of each such

**THE LACLEDE GROUP, INC.**  
**2002 EQUITY INCENTIVE PLAN**

---

benefit shall not be changed. Benefits may also contain provisions for their continuation or for other equitable adjustments after changes in the Common Stock resulting from reorganization, sale, merger, consolidation, issuance of stock rights or warrants, or similar occurrence. Fractional shares shall be rounded down to the nearest whole share.

(b) Notwithstanding any other provision of this Plan, and without affecting the number of shares reserved or available hereunder, the Board may authorize the issuance or assumption of benefits in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate.

13. CHANGE IN CONTROL. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control of the Company, as defined below:

(a) If a Participant's employment with the Company and its subsidiaries is terminated by the Company or subsidiary within the period beginning on the date of the Change in Control and ending on the second anniversary of such date, and such termination is not for Cause (as defined below), (i) all outstanding ISOs and NQSOs granted to such Participant shall be immediately fully vested and exercisable and (ii) a prorata portion of SARs granted to such Participant that have not become exercisable shall be vested and exercisable and a prorata portion of any restrictions on Restricted Stock or Stock Units shall lapse, such vesting and lapse of restrictions determined based on the period of time from the date of grant to the date the Participant's employment terminates, the term of such Award, and the portion of such Award that was vested or with respect to which restrictions lapsed prior to the date the Participant's employment terminates; and

(b) Any Performance Awards outstanding as of the date of the Change of Control shall be payable immediately following such change and shall be computed as if target performance were achieved. Any such Award shall be prorated to the date of the Change of Control based on the period of time elapsed from the date of the Award to the date of the Change in Control over the performance period for such Award.

For purposes of this section, "Change in Control" means:

(i) The purchase or other acquisition (other than from the Company) by any person, entity or group of persons, within the meaning of Sections 13(d) or 14(d) of the Exchange Act of 1934 ("Exchange Act") (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either the Company's then outstanding shares of Common Stock

**THE LACLEDE GROUP, INC.**  
**2002 EQUITY INCENTIVE PLAN**

---

or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or

(ii) Individual members of the Board of Directors, as of October 1, 2002 (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to October 1, 2002 whose election, or nomination for election by the Company's shareholders, was approved by the vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, as a member of the Incumbent Board, any such individual whose initial election to office occurs as a result of either an actual or threatened election contest (as such term is used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a party other than the Board of Directors of the Company; or

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of the surviving entity's then outstanding shares of common stock or the surviving entity's combined voting power entitled to vote generally in the election of directors, or of a liquidation or dissolution of the Company or of the sale of all or substantially all of the Company's assets. In making this computation as to any Company shareholder who was also an equity owner in any other party to such reorganization, merger, or consolidation prior to consummating such transaction, only the common stock or voting power relating to such shareholder's equity interests in the Company shall be counted towards the 50% threshold in the prior sentence.

"Cause" means termination of a Participant's employment with the Company or any of its subsidiaries upon:

(i) Willful and continued failure by the Participant to perform substantially the duties of employment assigned by the Company (other than any such failure resulting from incapacity due to physical or mental illness) after a demand for substantial performance has been delivered by the Company, which specifically identifies the manner in which it is believed that the Participant has not substantially performed such duties; or

(ii) Willful engagement by the Participant in misconduct that is materially injurious to the Company.

For purposes of this definition, no act, or failure to act, on the Participant's part shall be considered willful unless done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's action or omission was in the best

**THE LACLEDE GROUP, INC.  
2002 EQUITY INCENTIVE PLAN**

---

interest of the Company and its subsidiaries. Any act or failure to act based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Company and its subsidiaries.

14. **NONTRANSFERABILITY.** Each benefit granted under the Plan to an employee shall not be transferable otherwise than by will or the laws of descent and distribution; provided, however, NQSOs granted under the Plan may be transferred, without consideration, to a Permitted Transferee (as defined below). Benefits granted under the Plan shall be exercisable, during the Participant's lifetime, only by the Participant; provided that NQSOs may be exercisable by a Permitted Transferee. In the event of the death of a Participant, exercise or payment shall be made only:

(a) By or to the Permitted Transferee, executor or administrator of the estate of the deceased Participant or the person or persons to whom the deceased Participant's rights under the benefit shall pass by will or the laws of descent and distribution; and

(b) To the extent that the deceased Participant or the Permitted Transferee, as the case may be, was entitled thereto at the date of his death.

For purposes of this Section, "Permitted Transferee" shall include

(i) one or more members of the Participant's family, (ii) one or more trusts for the benefit of the Participant and/or one or more members of the Participant's family, or (iii) one or more partnerships (general or limited), corporations, limited liability companies or other entities in which the aggregate interests of the Participant and members of the Participant's family exceed 80% of all interests. For this purpose, the Participant's family shall include only the Participant's spouse, children and grandchildren.

15. **TAXES.** The Company shall be entitled to withhold the amount necessary to enable the Company to remit to the appropriate government entity or entities the amount of any tax required to be withheld from wages attributable to any amounts payable or shares deliverable under the Plan, after giving the person entitled to receive such payment or delivery notice as far in advance as practicable. The Company may defer making payment or delivery as to any benefit if any such tax is payable until indemnified to its satisfaction. The person entitled to any such delivery may, by notice to the Company at the time the requirement for such delivery is first established, elect to have such withholding satisfied by a reduction of the number of shares otherwise so deliverable, such reduction to be calculated based on the Fair Market Value of the Common Stock on the date of such notice.

**THE LACLEDE GROUP, INC.**  
**2002 EQUITY INCENTIVE PLAN**

---

16. **TENURE.** A Participant's right, if any, to continue to serve the Company and its subsidiaries as an officer, employee, or otherwise, shall not be enlarged or otherwise affected by his or her designation as a Participant under the Plan.

17. **RULES OF CONSTRUCTION.** The terms of the Plan shall be constructed in accordance with the laws of the State of Missouri; provided that the terms of the Plan as they relate to ISOs shall be construed first in accordance with the meaning under and in a manner that will result in the Plan satisfying the requirements of the provisions of the Code governing incentive stock options.

18. **DURATION, INTERPRETATION, AMENDMENT AND TERMINATION.** No benefit shall be granted more than ten years after the date of adoption of this Plan; provided, however, that the terms and conditions applicable to any benefit granted within such period may thereafter be amended or modified by mutual agreement between the Company and the Participant or such other person as may then have an interest therein. To the extent that any stock options or other benefits granted under the Plan within the terms of the Plan would qualify under present or future laws for tax treatment that is beneficial to a recipient, then any such beneficial treatment shall be considered within the intent, purpose and operational purview of the Plan and the discretion of the Administrator, and to the extent that any such stock options or other benefits would so qualify within the terms of the Plan, the Administrator shall have full and complete authority to grant stock options or other benefits that so qualify (including the authority to grant, simultaneously or otherwise, stock options or other benefits which do not so qualify) and to prescribe the terms and conditions (which need not be identical as among recipients) in respect to the grant or exercise of any such stock option or other benefits under the Plan.

The Board may amend the Plan from time to time or terminate the Plan at any time. However, no action authorized by this paragraph shall reduce the amount of any outstanding Award or change the terms and conditions thereof to the detriment of the Participant without such Participant's consent. Subject to Section 12, to the extent necessary to comply with or get an exemption from any provision of the Code, including regulations thereunder, or of the Securities Exchange Act of 1934, as amended, no amendment of the Plan shall, without approval of the stockholders of the Company, (a) increase the total number of shares which may be issued under the Plan or increase the amount or type of benefits that may be granted under the Plan, or (b) modify the requirements as to eligibility for benefits under the Plan.

19. **EFFECTIVE DATE.** This The Laclede Group, Inc. Equity Incentive Plan shall become effective as of the date it is adopted by the Board of the Company subject only to approval by a majority of the shares of the Company's common stock voted on the plan within twelve months before or after the adoption of the Plan by the Board.

**THE LACLEDE GROUP, INC.  
2002 EQUITY INCENTIVE PLAN**

---

The undersigned hereby certifies that this The Laclede Group, Inc. Equity Incentive Plan was adopted by the Board of the Company at its meeting on September 26, 2002.

By:  
Douglas H. Yaeger Chairman of the Board, President and Chief Executive Officer

Date:

**Exhibit 10.23**

**LEASE  
THE LACLEDE GAS BUILDING**

**Lessor: FIRST NATIONAL BANK IN  
ST. LOUIS, TRUSTEE  
Lessee: LACLEDE GAS COMPANY**



# INDEX

Paragraph		Page
1.	Leasing Agreement.....	1
2.	Option To Renew.....	2
3.	Base Rent.....	2
4.	Rent Escalation.....	3
5.	Total Energy Plant.....	7
6.	Services.....	9
7.	Recording.....	10
8.	Mortgage by Lessor.....	10
9.	Certain Rights Reserved To Lessor.....	11
10.	Insurance.....	12
11.	Condition of Premises.....	13
12.	Alterations.....	14
13.	Repairs.....	15
14.	Rules and Regulations.....	15
15.	Fire and Other Casualty.....	16
16.	Holding Over.....	16
17.	Remedies In Event Of Default.....	16
18.	Building Construction.....	17
19.	Finishing Premises.....	17
20.	Commencement of Term.....	18
21.	Heating and Air Conditioning Systems.....	19
22.	Subletting and Assigning.....	20
23.	Notices.....	20
24.	Quiet Possession.....	21
25.	Liability of Trustee.....	21
26.	Miscellaneous.....	21
27.	Special Provisions.....	23
	Endorsements.....	24

## Exhibits

Appendix A.....	Illustration of Escalation
Exhibits A & A-1.....	Space to be Occupied by Lessee
Exhibit B.....	Subordination Non-Disturbance Attornment Agreement
Exhibit C.....	Building Standards
Exhibit D.....	Janitorial Services
Exhibit E.....	Rules and Regulations

## LEASE

THIS INDENTURE, entered into the 16th day of June, 1967, between First National Bank in St. Louis, a national banking association organized and existing under the laws of the United States, 510 Locust Street, St. Louis, Missouri 63101, not individually but as Trustee under Trust Agreement, dated as of the 31st day of May, 1967, and known as Trust No. 531-67, hereinafter referred to as "Lessor," and Laclede Gas Company, a corporation organized and existing under the laws of the State of Missouri, hereinafter referred to as "Lessee," WITNESSETH THAT:

WHEREAS, the parties to a Joint Venture Agreement of even date with the aforesaid Trust Agreement (and attached to said Trust Agreement as Exhibit

A) have acquired and caused to be transferred to said Trust certain property located at Eighth and Olive Streets and constituting substantially the West one-half of City Block 182 of the City of St. Louis; and

WHEREAS, the parties to said Joint Venture Agreement further propose to create a leasehold estate by causing said property to be conveyed to a newly formed trust, which will thereafter lease said property back to Trust No. 531-67, the said property to be thereafter conveyed by said newly formed trust, subject to said leasehold, to John Hancock Mutual Life Insurance Company; and

WHEREAS, Lessor proposes to construct on said property a new, modern 30 floor office building; and

WHEREAS, Lessee is willing to enter into a long-term lease of substantial space in the proposed building on the terms and conditions hereinafter set forth, an agreement having been entered into concurrently herewith for the purchase for cash of Lessee's interest in the premises at 1017 Olive Street, St. Louis, Missouri;

NOW, THEREFORE, in consideration of the foregoing recitals and of the mutual agreements and covenants hereinafter set forth, it is agreed as follows:

### 1. LEASING AGREEMENT

Lessor hereby leases to Lessee and Lessee hires from Lessor the premises hereinafter described, in the building to be erected by Lessor at the southeast corner of Eighth and Olive Streets, St. Louis, Missouri, hereinafter referred to as the "Building", for an initial term of thirty (30) years commencing on the date to be determined in

accordance with paragraph 20 hereof, unless sooner terminated or extended as provided herein, to be occupied and used by Lessee solely for executive and general administrative, office, sales, demonstration, display and other purposes pertaining to the operation of the business of Lessee and its subsidiary or affiliated companies.

The premises hereby leased to Lessee are part of the ground floor as shown on Sheet 1 of Exhibit A hereof and the entire tenant occupancy areas of the ninth, eleventh, twelfth, thirteenth and fourteenth floors of the Building as shown on the floor plans annexed hereto as Sheet 2 of Exhibit A; plus the entire tenant occupancy area on the fifteenth floor as shown on Sheet 3 of Exhibit A hereof; having aggregate rental areas of approximately 93,152 square feet.

In addition to the foregoing Lessor hereby leases to Lessee and Lessee hereby hires from the Lessor approximately 3,935 square feet of storage space on the tenth (equipment) floor of the Building as shown on Exhibit A-1.

All of the aforesaid premises constitute and are hereinafter called the "leased premises". The storage space on the tenth floor is hereinafter sometimes referred to as the "storage space".

## 2. OPTION TO RENEW

Lessor hereby grants to Lessee the exclusive right and option to renew or extend this Lease as to the leased premises as then constituted for a further term of five (5) years at the expiration of the initial thirty (30) year term for the same rental price and upon the same terms and conditions as then provided and in effect hereunder; provided, however, that written notice of the exercise of such option shall be given by Lessee to Lessor at least one (1) year before the expiration of the initial term. Lessor also grants to Lessee like options to renew or extend this Lease for three (3) additional terms of five (5) years each, each such option to be exercised in the same manner and within the same period of time before the expiration of the then current extended term.

## 3. BASE RENT

Lessee shall pay to Lessor, at Lessor's office, or to such other person or such other place as directed from time to time by written notice to the Lessee from Lessor

(a) base rent at the annual rates of \$12,788.75 for the storage space and \$526,308.80 for the non-storage space (subject to adjustment at \$3.25 per square foot for the storage space and \$5.65 per square foot for the non-storage space in the event there is a variation from the square footage as set forth in Paragraph 1), as increased or decreased pursuant to the provisions of Paragraph 4 hereof.

(b) such additional sums as may become due from and payable by Lessee to Lessor under the terms of this Lease.

Subject to the provisions of Paragraph 4 hereof, the annual rent provided for in (a) above shall be payable in twelve (12) equal monthly installments, each installment being due and payable in advance the first day of the calendar month. If the term of this Lease shall commence on a date other than January 1, the initial equal monthly installments shall be computed from the portion of the annual rental applicable in the first partial calendar year. In those calendar years of the Lease after annual base rent has been adjusted under the escalation clause contained in Paragraph 4 hereof, the equal monthly installments for any calendar year shall be based upon the adjusted annual rental for the second preceding calendar year.

Lessee shall pay the annual rent and any additional sums due from Lessee hereunder promptly as and when the same shall become due and payable. The equal monthly installments of rent described above shall be paid without demand therefor.

#### 4. RENT ESCALATION

The annual rental for the leased premises for those calendar-years during the term of this Lease commencing with the fifth calendar-year following the base-year, shall be decreased or increased in accordance with the following provisions of this Paragraph 4. As used in this Paragraph 4:

(a) Base-year shall be the first full calendar year (commencing January 1) after the commencement of the term of this Lease, as provided in Paragraph 20 hereof.

(b) Direct operating costs shall consist of expenses for maintaining and operating the Building, whether determined for the base-year or any subsequent year, and shall be deemed to include:

(1) Such expenses incurred during such year according to accepted principles of sound management and accounting principles as applied to the

operation and maintenance of first-class office buildings, including without limitation, real estate taxes and premiums on insurance carried by Lessor, plus

(2) Such additional expenses of maintaining and operating the Building as would have been incurred during such year had that portion of the Building above the first floor level used for office space been fully occupied and Lessor had performed the same kind of services to the tenants in such portions as are required to be furnished to Lessee hereunder.

Provided, however, the following expenses shall not be included:

1. Capital improvements made to the land or the Building.
2. Work which Lessor performs for any Lessee in the Building which is not standard for all lessees therein.
3. Repairs or work due to fire, windstorm or insurable casualty.
4. Expenses incurred in leasing or procuring new tenants, including lease commissions, advertising, and renovating of space for new tenants.
5. Legal or other expenses in enforcing the terms of any lease.
6. Interest or amortization payments on any mortgage, mortgages, or deeds of trust, or other indebtedness whether secured or not.
7. Wages, salaries or other compensation paid to any employee above the grade of Building Superintendent. However, fees paid to a managing agent based upon a management contract shall not be excluded provided that the compensation to such managing agent shall not exceed five percent (5%) of the gross rentals of the Building, and provided further that the cost of the managing agent shall be deemed in effect in the base year and computed on the basis of full occupancy at prevailing rentals.
8. Changes and other special work for individual tenants.

9. Expenses caused by a violation by Lessor or any tenant of the terms of any lease or caused by any use of space in the Building in violation of any law or regulation.

10. The cost of installing and operating any specialty, such as an observatory, recreation room, restaurant, etc.

11. Compensation of the Trustee under the Trust Agreement hereinabove referred to.

12. Ground rent.

13. Legal and auditing fees.

14. Travel and entertainment.

15. Depreciation of building or equipment.

(c) All expenditures scheduled less often than annually shall be prorated over the period to which such expenditures are applicable.

(d) Taxes for the base year and subsequent calendar years shall be the general real estate taxes payable in each respective year; provided that in no event shall the real estate taxes for the base year be determined on a valuation less than that first placed upon the Building by the taxing authority after its completion. In the event Lessor's tax liability for the base year or for any subsequent year is reduced as a result of any appropriate proceeding, such reduced amount of real estate taxes shall constitute the taxes for the base year, or for such subsequent year, as the case may be.

(e) The proportion of the decrease or increase (in direct operating costs as defined) to be reflected in this escalation for any calendar-year shall be the proportion computed by dividing the non-storage area of the leased premises above the first floor level during such calendar-year by the total non-storage area of the Building above the first floor level during such calendar-year.

(f) Anything in this Paragraph 4 to the contrary notwithstanding, no increase or decrease in annual rental for the non-storage area of the leased premises shall be effective to the extent that it exceeds, in the fifth calendar-year following the base-year, an amount equal to 8.8 cents multiplied by the number of square feet included in the non-storage area of the leased premises and, in each calendar-year thereafter, an amount equal to 8.8 cents multiplied by the number of square feet in

the non-storage area of the leased premises multiplied by the number of calendar-years after the fifth year to and including the calendar-year in question.

(g) It is agreed that the application of the escalation provisions of this Paragraph 4 to the leased premises is correctly illustrated (on stated assumptions) in Appendix A attached hereto and by this reference incorporated herein.

(h) The annual rental for the storage space shall be subject to escalation only in the following manner:

Difference between adjusted annual rent and base annual rent of the non- storage area of the leased premises for any year	X 325 =	Amount per square foot to be added to or sub- tracted from base annual rental of storage space for such year
----- The non-storage area of the leased premises for such year, in square feet	565	

Payments accruing pursuant to this Paragraph and during the term of this Lease shall be made notwithstanding the fact that an escalation statement is furnished to the Lessee after the expiration of the Lease.

Lessor agrees to keep books and records reflecting direct operating costs of the Building and reflecting all expenses which are estimated pursuant to (b)(2) above, in accordance with a standard method of accounting recognized and approved for maintaining accounts and records for large office buildings. On or before March 1 of the first calendar-year after the base-year Lessor shall deliver to Lessee a statement prepared by a national firm of certified public accountants showing (a) the direct operating costs (as defined herein) for the base-year and (b) the amount and derivation of all "additional expenses" included therein under (b)(2) above. During the thirty (30) days following receipt of such statement Lessee or its authorized agent or representative, or a public accounting firm selected by it, shall have the right to inspect the books and records of the Lessor (and the work papers of said national firm of certified public accountants relating to said "additional expenses") during business hours for the purpose of verifying any information in such statement. Unless Lessee asserts specific error or errors within thirty (30) days after such receipt, said statement shall be deemed to be correct.

On or before March 1 of the sixth calendar-year after the base-year and of each calendar-year thereafter, Lessor shall deliver to Lessee a statement, as described in the next preceding paragraph, relating to the preceding calendar-year. Such statement shall also include a computation of the decrease or increase in rental

for said preceding calendar-year in accordance with the provisions of this Lease. Lessee shall have the same right of inspection as stated above with respect to each such statement and each such statement shall be deemed to be correct if Lessee shall assert no specific error within the thirty (30) day period described. At or prior to the expiration of an additional thirty (30) day period following the described thirty (30) day period, Lessee shall pay any additional rent reflected by any statement deemed to be correct, or if Lessee be entitled to a credit, the same shall be paid in cash to Lessee. In the event that at the expiration of the two thirty (30) day periods hereinabove described the accuracy of the statement remains in dispute, the parties shall submit the dispute to an independent national firm of certified public accountants (or to an independent St. Louis law firm, depending upon the nature of the dispute) approved by both parties and the decision of such firm shall be accepted by the parties as final. Within thirty (30) days after such decision, payment shall be made in accordance therewith.

## 5. TOTAL ENERGY PLANT

Lessor covenants and agrees that:

(a) Lessor will construct or cause to be constructed in or in connection with the Building a natural gas-fired total energy plant (hereinafter called the "Plant") adequate in all respects to furnish all electricity, space heating, domestic hot water and air conditioning services for the Building, such Plant to include adequate standby and auxiliary facilities and to be completed and in operation not later than seven days prior to the date Lessor notifies Lessee of the availability of space for first occupancy of the leased premises by Lessee pursuant to Paragraph 20 hereof.

(b) During the original term and any extended term of this Lease, all electricity, space heating, domestic hot water and air conditioning services used in the Building will be supplied from the Plant which shall at all said times be operated on natural gas fuel supplied by Lessee pursuant to any applicable firm service rate schedule of Lessee which Lessor may select. Space heating, domestic hot water and air conditioning (except as specified in Paragraph 6) shall be supplied to Lessee without additional charge. The supplying of electricity to Lessee shall, however, be on a metered basis and an additional charge shall be made for the total amount supplied (as though supplied through a single meter whether or not multiple meters are used) at the regular commercial rate established by the utility then supplying electricity to office buildings in downtown St. Louis.



(c) Lessor shall keep Lessee fully advised of all designs, plans and specifications for the Plant which shall be prepared by competent engineers (including local consulting engineers) at Lessor's expense. The designs, plans and specifications and the local consulting engineers shall require the approval of Lessee, which approval will not be arbitrarily withheld.

(d) At all the times described in (b) above, Lessor shall properly maintain and operate the Plant or cause the same to be properly maintained and operated. In the event that the maintenance and/or operation of the Plant is undertaken by someone other than Lessor, such undertaking and the terms and conditions of the contract entered into with respect thereto shall be subject to the approval of Lessee. Lessee shall at all reasonable times have right of access to the Plant and shall be entitled, upon its request, to information concerning the maintenance and operation of the Plant.

(e) The foregoing covenants of this Paragraph 5 shall constitute covenants running with the Plant, the Building and the land on which it is situated, and all liens or charges attaching to said land or Building, or Plant, either before or after the execution of this Lease, shall be expressly subordinated to said covenants; provided, however, that in the event the interest of the Lessor in the Building, and the land on which it is situated, and in the Plant is terminated by John Hancock Mutual Life Insurance Company or by its successors or assigns (all herein called "Hancock"), either by termination of the ground lease or by foreclosure of the lien of the mortgage or deed of trust on Lessor's interest in the ground lease, then Hancock may, at its election by giving the written notice provided for below, on or after five (5) years from the date of commencement of the term of the Lease, abandon the use of the Plant for the supplying of services to the Building and obtain all of such services from another source if the supplying of the services from the Plant is found to be economically disadvantageous to Hancock. The supplying of services from the Plant shall not be deemed to be economically disadvantageous unless the cost of supplying all of such services from the Plant, on an annual basis, is more than ten per cent (10%) greater than the cost of obtaining all of such services from some other source, the determination of cost to include consideration of new costs and unrecovered first costs as well as operating, maintenance, and fuel costs (however, the foregoing proviso shall be null and void during any period of time in which, by reason of Lessee's participation in the financing of all or a part of the cost of the Plant, Lessee shall have a continuing participation in such financing or an interest in the revenues derived from operation of the Plant.) In the event Hancock shall be entitled to and shall elect to abandon the use of the Plant, as above provided, written notice of such election shall promptly be delivered by Hancock to Lessee whereupon

Lessee shall have the absolute right to terminate the Lease as of any date within five (5) years after receipt of such notice, upon giving to Hancock not less than twelve (12) months prior notice in writing.

## 6. SERVICES

The Lessor shall provide the following services:

(a) Janitor service and cleaning as outlined in Exhibit D hereto attached and made a part hereof.

(b) All electrical energy requirements of Lessee for its use of the leased premises for the purposes specified in Paragraph 1 hereof, subject, however, to the charges therefor provided in Paragraph 5(b).

(c) Heat daily, each day of the year, whenever heat shall be required for the comfortable occupancy of the leased premises. While any portion of the leased premises is unoccupied by personnel, the heat level in such portion need not exceed 65 degrees F., except as provided in Paragraph 21(b). It is anticipated that the data processing area and the telephone contact area will be occupied by personnel 24 hours each day.

(d) Air conditioning (cooling) daily during the business week, Monday through Friday (holidays excepted, as determined from Lessee's union contract) from 8:00 a.m. to 6:00 p.m., and on Saturday from 8:00 a.m. to 1:00 p.m., whenever air conditioning shall be required for the comfortable occupancy of the leased premises, except that air conditioning for the telephone contact and data processing areas shall be provided on a 24-hour basis each day of the year and shall be available on a 24-hour basis any day of the year for the Kitchen and Auditorium-Home Service Department. While any portion of the leased premises is unoccupied by personnel the cooling level in such portion need not be less than 85 degrees F., except as provided in Paragraph 21(b). The amount to be paid by Lessee to Lessor for supplying air conditioning during periods beyond the normal business hours and normal business days specified above and for furnishing the auxiliary service required by Paragraph 21 hereof shall be determined as provided in Exhibit C to this Lease.

(e) Water required by Lessee for the purposes referred to in Paragraph 1, drawn through fixtures installed and maintained by Lessor. In the event that Lessee shall make additional uses of water over and above those now required in the operation of its business, the cost of the water required for such additional uses shall be paid by it.

(f) Operatorless elevator service in common with other tenants at all times.

(g) Window-washing of all windows in the leased premises, both inside and out, weather permitting, at least 6 times per year.

(h) Painting of interior walls a minimum of once each 5 years, washing of walls at least once each three years, and spot washing and touch-up painting as frequently as necessary to maintain a neat appearance.

Lessor does not warrant that any of the service above mentioned will be free from interruptions caused by repairs, renewals, improvements, alterations, strikes, lockouts, accidents, inability of the Lessor to obtain fuel or supplies, or any other cause or causes beyond the reasonable control of Lessor. Any such interruption of service from causes beyond the control of Lessor shall not be deemed an eviction or disturbance of Lessee's use and possession of the leased premises or any part thereof, or render Lessor liable to Lessee for damages, and shall not relieve Lessee from performance of its obligations under this Lease. Lessor shall, however, use reasonable efforts to prevent such interruptions and, in the event of their occurrence, to terminate them as rapidly as practical.

## 7. RECORDING

Lessor covenants and agrees that promptly following the execution of this Lease, it will cause a Memorandum of this Lease to be recorded at Lessee's expense, which Memorandum will be sufficient to give general notice of Lessee's interests hereunder and to give specific notice of the covenants and subordination requirements provided for in Paragraph 5 and in subparagraph (a) of Paragraph 26 hereof. Promptly following the commencement date of the term of this Lease, the parties hereto shall enter into a recordable supplemental agreement fixing the dates of the commencement date and the expiration date of this Lease.

## 8. MORTGAGE BY LESSOR

From time to time either before or after the execution of this Lease and before the termination of the term hereof, Lessor may execute a ground lease (as Lessee), mortgage or deed of trust in the nature of a mortgage against the Building and/or the land and Lessor's interest therein, whether leasehold or fee. In such event:

(a) If requested by the ground lessee, the mortgagee or trustee, Lessee will (except with respect to Paragraphs 5, 7, 26(a) and 27 hereof subordinate its interest in this Lease to said ground lease, mortgage or deed of trust and will execute a Subordination Non-Disturbance Attornment Agreement substantially in the form attached hereto as Exhibit B.

(b) Lessor agrees promptly to notify Lessee of the placing of any mortgage or deed of trust against the Building of which the leased premises form a part, or against Lessor's interest therein, and Lessee agrees in the event of any act or omission by Lessor which would give Lessee the right to terminate this Lease or to claim a partial or total eviction, Lessee shall not, except in the case of violation by Lessor of Paragraphs 5 or 7 hereof, exercise any such right (1) until it has notified in writing the holder of any mortgage which at the time shall be a lien on the leased premises, if the name and address of such holder shall have previously been furnished by written notice to Lessee, of such act or omission, and (2) until a reasonable period, not exceeding sixty (60) days, for commencing the remedying of such act or omission shall have elapsed following the giving of such notice, and (3) such holder, with reasonable diligence, shall not have so commenced and continued to remedy such act or omission or to cause the same to be remedied. During the period between the giving of such notice and the remedying of such act or omission, the rental herein recited shall be bated and apportioned to the extent that any part of the premises shall be untenable.

(c) If such ground lease be terminated or cancelled or such mortgage be foreclosed, upon request of the ground lessor, mortgagee or trustee, Lessee will, provided the conditions of Paragraphs 5 and 7 hereof are met, attorn to the owner of the fee or to the purchaser at any foreclosure sale under such mortgage and will execute such instruments as may be necessary or appropriate to evidence such attornment.

## 9. CERTAIN RIGHTS RESERVED TO THE LESSOR

The Lessor reserves the following rights:

(a) Access to mail-chutes. To have access for the Lessor and the other tenants of the Building to any mail-chute located on the leased premises according to the rules of the United States Post Office.

(b) Occupancy. During the last ninety (90) days of the term of this Lease, if during or prior to that time the Lessee vacates the leased premises, to decorate, remodel, repair, alter or otherwise prepare the leased premises for re-occupancy.

(c) Pass-keys. To have pass-keys to the leased premises.

(d) Access for repairs, etc. To have access to the leased premises to make inspections thereof and to make repairs, alterations, additions, and improvements to the leased premises or to the Building as may be necessary or desirable in the operation of the Building.

(e) Show leased premises. To show the leased premises to prospective tenants or brokers during the last year of the term of this Lease as extended, and to prospective purchasers at all reasonable times, provided prior to notice is given to Lessee in each case and the Lessee's use and occupancy of the leased premises is not materially inconvenienced by any such action of Lessor.

(f) Heavy equipment. To approve the weight, size, and location of safes or other heavy equipment or articles and such articles may be moved in, about, or out of the Building or the leased premises only at such times and in such manner as Lessor shall direct, but in all events at Lessee's sole risk and responsibility.

(g) Close Building. To close the Building after regular working hours and on legal holidays subject, however, to Lessee's right to admittance, under such reasonable regulations as Lessor may prescribe from time to time, which may include by way of example but not of limitation, that persons entering or leaving the Building identify themselves to a watchman by registration or otherwise and that said persons establish their right to enter or leave the Building.

The Lessor may enter upon the leased premises and may exercise any or all of the foregoing rights hereby reserved without being deemed guilty of an eviction or disturbance of Lessee's use or possession and without being liable in any manner to Lessee.

## 10. INSURANCE

Lessee will secure and maintain general liability and property damage insurance from financially responsible insurance companies covering the leased premises in the amount of at least \$500,000.00 provided, however, that Lessee's obligation with respect to such insurance shall be applicable only to liability in excess of Lessee's policy of self-insurance in effect from time to time. Lessor, the fee owner of the Building and the land, and the leasehold mortgagee, shall be named as insureds in all policies of insurance required hereunder and certificates evidencing such insurance shall be furnished to the Lessor. Lessee agrees to hold the Lessor, the fee owner of the Building and the land, and the leasehold mortgagee harmless from claims against them by reason of injuries to persons or property occurring in the

leased premises, not resulting in whole or in part from their negligence, to the extent that protection against such claims is not afforded by policies of insurance then in force, and will defend them against such claims unless such defense is provided for in such policies of insurance. If any damage to the Building results from any act or neglect of Lessee and Lessee does not repair the same within a reasonable time, Lessor may, at Lessor's option, repair such damage, and Lessee shall thereupon pay to Lessor the total cost of such repairs and damages to the Building to the extent necessary to return the same to the condition existing prior to the damage as nearly as practicable. Lessor and Lessee hereby release each other from any and all liability or responsibility to the other, or anyone claiming through or under them by way of subrogation or otherwise, for any loss or damage to property caused by fire or other casualty included in extended coverage, even if such fire or casualty shall have been caused by negligence of the other party or anyone for whom such other party may be responsible; provided, however, that this release shall apply only with respect to such loss or damage occurring during the time releasor's insurance coverage shall contain a provision that such release shall not impair such coverage or prejudice the right of the releasor to recover thereunder. The Lessor and the Lessee each agree that each of their respective policies for such coverage shall include such provision so long as the same shall be obtainable without extra cost or if extra cost shall be charged therefor, provided the other party shall pay such extra cost. If extra cost shall be chargeable therefor, each party shall advise the other thereof and of the amount of the extra cost and the other party, at its election, may pay the same but shall not be obliged to do so. At the request of either party, made from time to time, a copy of such provision shall be furnished to the party requesting the same together with a letter from the other party specifying the insurance policies containing such provision. The Lessee shall not be relieved from any liability to the Lessor or its insurers in connection with any damage to the leased premises by fire or other casualty except as provided in this section.

## 11. CONDITION OF PREMISES

Lessor shall complete or cause the construction of the Plant and related facilities to be completed in accordance with Paragraph 5, complete or cause the construction of the Building to be completed in accordance with Paragraph 18, perform or cause the finishing work provided for in Paragraphs 19 and 21 to be performed in accordance with said Paragraphs, shall turn over the leased premises to Lessee in good order and first-class condition, and shall maintain in first-class condition (i) the Building, (ii) the Plant, and (iii) all facilities necessary to render the services required to be rendered by Lessor, all in accordance with the terms of this Lease.

Possession of the leased premises by Lessee prior to completion of the Building or the finishing work by Lessor shall not relieve Lessor from completing or causing said work to be completed in accordance with the requirements of this Lease, and possession of the leased premises by Lessee prior to completion of said work shall not constitute a waiver by Lessee of Lessor's obligation to perform or cause said work to be performed in full. During the term of this Lease, Lessee shall (except for repairs and maintenance for which Lessor is responsible hereunder), maintain the leased premises in as good condition as when Lessee took possession, or as when completed after possession, loss or damage caused by action of the elements, acts of God and public enemy, structural defects, ordinary wear, and fire and other casualty insured against by Lessor excepted, failing which Lessor may restore the leased premises to such condition and Lessee shall pay the cost thereof. At the termination of this Lease, Lessee shall surrender the leased premises to Lessor in good condition as just above described, provided, however, that Lessee may remove any floor-covering, removable fixtures other than light-fixtures, and other equipment installed by Lessee. Such removal shall be done in a good and workmanlike manner and all surfaces shall be restored to a smooth condition.

Lessee as to the leased premises shall at all times comply with all applicable laws and ordinances, and all lawful requirements of governmental or other authorities including lawful requirements of any Board of Fire Underwriters or similar body.

## 12. ALTERATIONS

Lessee may not make alterations in or additions to the leased premises unless Lessee has obtained Lessor's permission to do so, and Lessee shall, if requested by Lessor, furnish Lessor with plans and specifications, names and addresses of contractors, copies of contracts, necessary permits and indemnification in form and amounts satisfactory to Lessor against any and all claims, costs, damages, liabilities, and expenses which may arise in connection with the alternations or additions. Whether the Lessee shall have furnished Lessor the foregoing or not, Lessee hereby agrees to hold Lessor harmless from any and all liabilities of every kind and description which may arise out of or be connected in any way with said alterations or additions. Before commencing any work in connection with alterations or additions in or to the leased premises, Lessee, if requested by Lessor, shall furnish Lessor with certificates of insurance from all contractors performing labor or furnishing materials, insuring Lessor against any and all liabilities which may arise out of or be connected in any way with said additions or alterations. Lessee shall pay the cost of all such alterations and additions and also the cost of decorating the leased premises occasioned by such alterations and

additions. Nothing in this Lease shall be construed to authorize Lessee as an agent of Lessor to place a mechanic's lien upon Lessor's interest in the land and/or the Building.

Upon completing any alterations or additions, Lessee, if requested by Lessor, shall furnish Lessor with contractors' affidavits in full and final waivers of lien and receipted bills covering all labor and material expended and used. All alterations and additions shall comply with all insurance requirements and with all lawful ordinances and regulations of the City of St. Louis, or any department or agency thereof, and with the requirements of all statutes and lawful regulations of the State of Missouri or of any department or agency thereof. All alterations and additions shall be constructed in a good and workmanlike manner and only good grades of materials shall be used. All additions, excluding fixtures other than light fixtures, shall become Lessor's property and shall remain upon the leased premises at the termination of this Lease by lapse of time or otherwise without compensation or allowance or credit to the Lessee. Any alterations or repairs which are undertaken by Lessee shall be performed by union labor.

### 13. REPAIRS

At all times, Lessor, either voluntarily or pursuant to governmental requirement or the requirements of this Lease, may at Lessor's own expense, make repairs, alterations or improvements in or to the Building or any part thereof, including the leased premises, and during such operations, may close entrances, doors, corridors, elevators and other facilities, all without any liability to Lessee by reason of interference, inconvenience or annoyance; provided, however, that if such work should reduce the area rented by Lessee, the rent paid by Lessee shall be proportionately reduced, and provided, further, that such work shall be done in such a manner as to cause the least possible interference, inconvenience and annoyance to Lessee.

### 14. RULES AND REGULATIONS

Lessee shall abide by the rules and regulations annexed hereto as Exhibit E and such reasonable changes therein (whether by modification, elimination or addition) as Lessor shall hereafter make. If any rules and regulations are contrary to the terms of this Lease, the terms of this Lease shall govern.

Lessor shall use its best efforts to compel observance of such rules by other tenants, but shall not be liable to Lessee for breaches thereof by such tenants or their employees, agents, or visitors, unless such breaches shall constitute a breach of the covenant contained in Paragraph 24 hereof.



## 15. FIRE AND OTHER CASUALTY

If the leased premises or the Building are made untenable by fire or casualty, including damage or casualties of war, Lessor shall immediately take such action as is necessary to reconstruct, repair, restore and rehabilitate the leased premises and the Building; provided, however, that if said fire or other casualty results in the total destruction of the Building, this Lease shall automatically terminate as of the date of said fire or other casualty. In case of fire or other casualty not resulting in termination of this Lease, rent shall be abated on a per diem basis as to that portion of the leased premises made untenable during the time that such part of the leased premises shall be untenable. In case of termination of this Lease, rent shall be apportioned on a per-diem basis and be paid to the date of the fire or other casualty.

## 16. HOLDING OVER

If Lessee without Lessor's consent retains possession of the leased premises or any part thereof after termination of the term or any extension thereof, by lapse of time or otherwise, Lessee shall pay Lessor rent at double the rate payable for the year immediately preceding said hold-over, computed on a per-month basis for the time Lessee thus remains in possession. The provisions of this Paragraph do not waive Lessor's rights of re-entry or any other right hereunder. Any retention of the leased premises after the termination of this Lease or any extension thereof shall be considered as a month-to-month hold-over unless otherwise agreed to in writing by both parties.

## 17. REMEDIES IN EVENT OF DEFAULT

If Lessee defaults in the payment of rent and if the default is not remedied within thirty (30) days after written demand is delivered by Lessor, then Lessor may, if Lessor so elects but not otherwise, either forthwith terminate this Lease and Lessee's right to possession of the leased premises or, without terminating this Lease, forthwith terminate Lessee's right to possession of the leased premises. If Lessee defaults in the performance of any other covenant or agreement herein and such default is not cured within thirty (30) days after a court of competent jurisdiction has, by final order, determined such default to exist, Lessor shall have the right to terminate this Lease.

It is agreed that the performance by Lessor of its obligations under this Lease are of unique importance to Lessee and that the remedy of specific performance shall be available to Lessee in the event of breach of any of such obligations whether or not the remedy of money damages might otherwise be the only remedy available under the then existing law.

## 18. BUILDING CONSTRUCTION

Lessor will construct or cause to be constructed on the southeast corner of Eighth and Olive Streets, St. Louis, Missouri, a new first-class office building, including the Plant hereinabove referred to, with refinements of design and quality of construction and improvements in accordance with these requirements, substantially in accordance with the Specifications, revised February 4, 1966 (to be amended to provide for total energy plant) and Drawings No. 7 and No. 9 each dated July 8, 1966, all prepared by EMERY ROTH AND SONS, Architects, and in accordance with all appropriate laws, ordinances, rules, regulations and building codes. It is understood, however, that said specifications and drawings may be revised by Lessor for the purpose of redesigning the Building from a steel to a concrete structure and to relocate the Plant, provided such redesigning shall not change the character of the Building or the space leased to Lessee hereunder.

The times specified in Paragraph 5(a) and in this paragraph are of the essence of this Lease. Lessor agrees that, unless prevented by force majeure or strikes, firm contracts for construction of the Building and the Plant will be executed not later than September 30, 1967, and that the entire leased premises will be ready for occupancy by Lessee not later than December 31, 1969.

## 19. FINISHING PREMISES

On or before December 31, 1967 Lessee shall furnish to Lessor the location of all areas of the leased premises which Lessee elects to take in an unfinished condition. Lessor shall furnish building standard finishing in all other areas of the leased premises (except the storage area) as provided in Exhibit C.

Lessor shall pay to Lessee (a) the sum of \$4.50 per square foot of floor area of the leased premises (exclusive of the storage space) which Lessee shall elect to take in an unfinished condition, and (b) in any event, an additional sum of \$175,000.

In addition to the foregoing payments, Lessor shall give to Lessee all applicable credits arising out of substitutions in finished areas as provided in Part IV of Exhibit C.

Credits arising out of substitutions shall be given at the times specified in Exhibit C.

The sum of \$175,000 and the sum determined at the rate of \$4.50 per square foot as above provided shall be disbursed by Lessor to Lessee as follows:

(a) Payments for excess cost (after applicable credits, if any) of substitutions for Lessee by Lessor in building standard areas of the leased

premises shall be charged against the aforesaid sums as such payments become due and payable by Lessee.

(b) If Lessor shall contract to perform or cause to be performed for Lessee any work in the areas Lessee elects to take in an unfinished condition, payments under such contract shall be charged against the aforesaid sums as such payments become due and payable by Lessee.

(c) If any work for Lessee in the areas Lessee elects to take in an unfinished condition shall be performed other than pursuant to contract with Lessor, Lessor shall pay to Lessee in cash, at the times when Lessee's payments for such work are payable, amounts equivalent to those so payable by Lessee.

(d) If the aggregate of the charges pursuant to (a) and (b) above and the cash payments pursuant to (c) above is less than the total amount payable by Lessor to Lessee hereunder (\$175,000 plus \$4.50 per square foot), the balance shall be paid by Lessor to Lessee in cash on the date when Lessee certifies to Lessor that the finishing of the leased premises has been completed.

Lessee shall not have the right to terminate this Lease by reason of Lessor's failure to make a cash payment provided for in this Paragraph 19, but in such event Lessee shall have the right to deduct the amount of such payments not paid, together with interest thereon at the rate of 8% per annum, from the rents for the leased premises.

If Lessee's finishing work shall be done by contract with Lessor, then the leased premises shall not be deemed to be substantially and reasonably ready for occupancy by Lessee for the purposes of Paragraph 20 hereof until such work is completed and the notice required by said Paragraph 20 has been given. If Lessee shall cause all or a portion of its finishing work to be done by other than Lessor, the fact that such work is not completed at the time the leased premises are otherwise substantially and reasonably ready for occupancy by Lessee shall not defer the commencement of rental for the area not completed unless completion by Lessee has been prevented by force majeure or strikes, in which event rental of such uncompleted area shall be deferred for a period of time equivalent to the delay caused by such force majeure or strikes.

## 20. COMMENCEMENT OF TERM.

The term of this Lease and the rental called for herein shall not commence until the leased premises are substantially and reasonably ready for

occupancy by Lessee, including all the work which Lessor may contract to do for Lessee as provided in Paragraph 19 hereof, but excluding any uncompleted work Lessee does for itself (unless Lessee is delayed by force majeure or strikes as referred to in said Paragraph 19) and Lessor has given Lessee at least thirty (30) days prior notice in writing, specifying the day on which possession of the leased premises may be taken by Lessee. Payment of rent shall commence on the day designated in the aforesaid notice, but the term of this Lease shall commence on the first day of the month following the date specified by Lessor as the date on which Lessee may take possession of the leased premises.

If portions of the leased premises are made ready for occupancy in advance of others and Lessor has given Lessee at least thirty (30) days prior written notice of the availability date, Lessee will occupy such completed portions as and to the extent that it can do so without undue inconvenience or interruption of its business. Payment of rent in such case shall be on a pro rata basis. The occupancy of such completed portions shall not affect the provisions for the commencement of the term of this Lease, nor shall such occupancy affect any right of Lessee to terminate this Lease pursuant to Paragraph 27 hereof.

If delay is caused by Lessee, either in submitting plans to Lessor for the work hereunder, or in requiring changes or additional work, Lessee shall pay rental for the period caused by such delay. The date provided for the completion of the Building as set forth in Paragraph 18 hereof shall be extended for a period of time equivalent to the delay; and the term of this Lease shall be deemed to have commenced on the date that commencement would have occurred, except for such delay.

## 21. HEATING AND AIR CONDITIONING SYSTEMS

Lessor will supply, install, maintain and operate a building standard heating and air conditioning system as described in Exhibit C. In addition, Lessor will:

- (a) Supply, install and maintain additional controls for regulating temperature and exhaust in (i) all conference rooms, (ii) Kitchen Home Service Department, (iii) Auditorium-Home Service Department, and (iv) Executive floor, as tenant's extras.
- (b) Supply, install, maintain and operate additional heating and air conditioning equipment for auxiliary use in Lessee's data

processing area, said auxiliary equipment to be used to provide a guarantee that temperature and humidity levels in said area will remain, twenty-four hours a day each day of the year, within the limits of 72 degrees F. - 78 degrees F. and 45% - 50% humidity.

## 22. SUBLETTING AND ASSIGNING

Lessee shall have the right to assign this Lease or to sublet all or any part of the leased premises on the following conditions:

- (a) Approval by Lessor must first be obtained. Such approval shall not be unreasonably or arbitrarily withheld.
- (b) In any case of a request for permission to assign or sublet substantially all of the leased premises for all or substantially all of the remaining term of the Lease, other than to a majority-owned or wholly-owned subsidiary of Lessee or to a company into which Lessee may hereafter have been merged or consolidated, Lessor shall have the right, in its sole discretion, to cancel this Lease for the leased premises or the portion sought to be assigned or sublet; provided, however, that Lessee may instead withdraw such request, without thereby relieving Lessee from its obligations or liabilities accrued prior thereto.
- (c) No assignment or sublease shall relieve Lessee of its obligations hereunder and, if Lessor so requires, the assignee shall assume all of said obligations with full privity of contract between it and the Lessor.

## 23. NOTICES

All notices to be given by one party to the other party under this Lease shall be given in writing, mailed or delivered as follows:

- (a) To Lessor - care of Myron Moss, 515 Olive Street, St. Louis, Missouri, 63101, or to such other person or persons at such other address or addresses designated by Lessor by written notice sent to Lessee and, after commencement of the term, at the address at which rent is payable.
- (b) To Lessee - at 1017 Olive Street, St. Louis, Missouri 63101, until Lessee takes possession of the executive floor of the leased premises, and thereafter at the leased premises or at such other address designated by written notice sent to Lessor by Lessee.

Mailed notices shall be sent by United States certified or registered mail, postage prepaid. Such notice shall be deemed to have been given upon posting in the United States mail.

## 24. QUIET POSSESSION

So long as Lessee shall observe and perform the covenants and agreements binding on it hereunder, Lessee shall at all times during the term herein granted and any extension thereof peacefully and quietly have and enjoy possession of the leased premises without any encumbrance or hindrance by, from or through Lessor, its successors or assigns, or any other party whomsoever.

## 25. LIABILITY OF TRUSTEE

This Lease is being executed by Lessor as Trustee under the terms of the aforesaid Trust No. 531-67 and it is expressly understood and agreed by and between the parties hereto that no covenants, undertakings or agreements by Lessor herein are personal covenants, undertakings or agreements of Lessor but are for the purpose of binding the property held by the Lessor as such Trustee, and this Lease is executed by the Trustee solely in the exercise of the powers conferred upon it as such Trustee, and no personal liability is assumed by nor at any time may be asserted or enforced against the Trustee or any agent or employee of said Trustee, all such personal liability, if any, being expressly waived and released by Lessee. The provisions of this paragraph shall inure to the benefit of any successor trustee under the aforesaid Trust No. 531-67.

## 26. MISCELLANEOUS

(a) In order that the covenants of Lessor contained in Paragraph 5 of this Lease shall constitute covenants running with the west half of City Block 182 and the Building and Plant to be erected thereon and that said covenants shall have priority against all persons now or hereafter having or claiming an interest in said lands, Building and Plant, all persons and entities now having or who will have any such interest at the time of recording of the Memorandum of Lease referred to in Paragraph 7 of this Lease shall endorse this Lease in a manner appropriate to effect such priority.

(b) From the date of execution of this Lease to and including the date of commencement of the term pursuant to Paragraph 20, each provision of this Lease shall bind and inure to the benefit of Lessor and Lessee and their respective heirs, legal representatives, successors and assigns and shall bind the interest of Trust No. 531-67 in the West half of City Block 182 and all improvements hereafter erected thereon. There shall be furnished to Lessee a written guarantee, satisfactory to Lessee as to form and signatories, that the Building and the Plant will be completed in accordance with the terms of this Lease. If said guarantee is not furnished to Lessee at the time of the execution of the construction loan mortgage, or on December 31, 1967, whichever is sooner, this Lease shall terminate, and in such event, if Lessee shall have received liquidated damages provided for in separate

agreement of even date, neither party shall have any further obligations under this Lease.

(c) After the commencement of the term of this Lease, each provision thereof shall bind and inure to the benefit of Lessor and Lessee and their respective beneficiaries, heirs, legal representatives, successors and assigns and shall continue to bind the interest of Trust No. 531-67 in the West half of City Block 182 and all improvements hereafter erected thereon. However, after the commencement of the term of this Lease, no covenant, agreement, condition or provision of this Lease which creates an obligation on the part of the Lessor shall be binding upon the Lessor with respect to any period subsequent to the transfer of his interest in the land and the Building (a lease of such interest being for this purpose deemed to be a transfer of his interest) and in the event of any such transfer all of the covenants, agreements, conditions and provisions of this Lease shall be binding upon the transferee, but only with respect to the period from the effective date of such transfer to the effective date of any subsequent such transfer, and such transferee, by accepting such interest, shall be deemed to have assumed such obligations. If at any time after the commencement of the term of this Lease an entity in the form of an individual, trust, joint venture, copartnership, tenancy in common, unincorporated association or a group of such entities constitutes the Lessor (or is a part thereof), then (i) the Lessee shall look solely to such entity's estate and property in the Land, Building and Plant (or the proceeds thereof) for the satisfaction of the Lessee's remedies for the collection of a judgment (or other judicial process) arising out of or related to this Lease, and (ii) no other property or assets of such entity shall be subject to levy, execution or other enforcement procedure for the satisfaction of Lessee's remedies.

(d) All amounts owed to Lessor hereunder, for which the date of payment is not expressly fixed herein, shall be deemed payable as additional rental and shall be paid within ten days from the date Lessor renders statements of account therefor and shall bear interest at the rate of six per cent (6%) per annum thereafter until paid.

(e) Upon request of Lessor from time to time, Lessee shall issue a certificate to Lessor for transmittal to its auditors, mortgagees, or prospective mortgagees or purchasers indicating that Lessors are in compliance with this Lease, or if not, specifying the particulars in which Lessee claims that Lessor is not in compliance.

(f) In any instance in which this Lease requires the consent or approval of a party hereto or of persons employed by a party hereto, such consent or approval will not be withheld arbitrarily or capriciously.

(g) Paragraph headings are inserted for convenience of reference only and do not control or limit the text of any paragraph or provision.

27. SPECIAL PROVISIONS

The entire Building shall be known and designated as "The Laclede Gas Building" throughout the initial and any extended term of this Lease. Lessee shall have the exclusive right to place appropriate signs on the Building designating the name of the Building, including but not limited to a large illuminated sign on the roof, such signs to be paid for and maintained by Lessee. Any repairs to the roof made necessary due to the Lessee's signs, shall be repaired at Lessee's cost.

It is understood and agreed that Lessee has executed this Lease in reliance upon the express representations of the parties to the aforesaid Joint Venture Agreement (including Arlen Operating Company, a general partnership), individually and through the Lessor named herein, that the Building and the Plant will be constructed at the times and in the manner herein provided. In the event of a breach (actual or anticipatory) of the agreements herein contained to construct the Building and the Plant, Lessee shall have the absolute right, subject only to the provisions of subparagraph (b) of Paragraph 8 hereof, in addition to any other right or remedy available to it, to declare this Lease null and void from and after the date of such declaration. Such right may be exercised by Lessee at any time within sixty (60) days after acquiring knowledge of all the facts necessary to a determination of the existence of such breach.

Commencing with the first occupancy by Lessee of the leased premises and continuing thereafter throughout the initial and any extended term of this Lease, Lessee shall be entitled to the exclusive use of a minimum of 50 parking spaces in the Building, the rental therefor to be an extra charge to Lessee at Lessor's rates for such parking spaces in effect from time to time.

IN WITNESS WHEREOF, the parties have executed this Lease the day and year first above mentioned.

**Lessor:**

**FIRST NATIONAL BANK IN ST. LOUIS,**  
Not Individually but as Trustee as aforesaid,

**ATTEST:**

By /s/ William H. Harrison

-----  
Senior Vice President

/s/ L. A. Ruebling

-----  
Cashier

(CORPORATE SEAL)



Lessee:

**LACLEDE GAS COMPANY**

By /s/ H. Reid Derrick  
-----  
(Title) President  
-----

ATTEST:

/s/ D. L. Gardner  
-----  
Secretary

(CORPORATE SEAL)

In consideration of Laclede Gas Company executing the foregoing Lease, the undersigned, being all the persons and entities (other than First National Bank in St. Louis, Trustee, as Lessor) who now have or claim, and who will have or claim, an interest in the West half of City Block 182 at the time of recording of the Memorandum of Lease required by Paragraph 7 of the foregoing Lease, do hereby, for themselves, their successors, assigns, and all persons claiming by, through or under them, consent to and join in said Lease for the purpose of establishing the priority of the covenants contained in Paragraph 5 of said Lease, all as required by subparagraph (a) of Paragraph 26 of said Lease.

/s/ Myron Moss  
-----  
MYRON MOSS

**ARLEN OPERATING COMPANY, a Partnership**

By: /s/ Arthur G. Cohen  
-----  
Arthur G. Cohen, Partner

/s/ Arthur N. Levien  
-----  
Arthur N. Levien, Partner

/s/ Henry G. Willers

-----  
HENRY G. WILLERS, as Trustee under  
Deeds of Trust recorded, respectively,  
January 29, 1965 as Daily No. 169,  
January 15, 1965 as Daily No. 116,  
and May 5, 1965 as Daily No. 96, in  
the Recorder's Office, City of St. Louis

ATTEST:

FIRST NATIONAL BANK IN ST. LOUIS, as  
owner and holder of the promissory notes  
secured by the Deeds of Trust of which  
Henry G. Willers is Trustee as described  
above

/s/ L. A. Ruebling

-----  
Cashier

By /s/ William H. Harrison

-----  
Senior Vice President

(CORPORATE SEAL)

In consideration of Laclede Gas Company executing the foregoing Lease, the undersigned hereby agree that their interests in said land and in the Building and Plant shall be bound as provided in Paragraph 26(c) of said Lease and further agree to be bound by each and every provision of the foregoing Lease as and to the extent that they are personally bound as therein provided.

*/s/ Myron Moss*

-----  
*MYRON MOSS*

ARLEN OPERATING COMPANY, a  
Partnership

*By: /s/ Arthur G. Cohen*

-----  
*Arthur G. Cohen, Partner*

*/s/ Arthur N. Levien*

-----  
*Arthur N. Levien, Partner*

**ADDENDUM NO. 1**

to

LEASE dated June 16, 1967,  
between First National Bank in  
St. Louis, Trustee, as Lessor, and  
Laclede Gas Company, as Lessee

THIS ADDENDUM, entered into this 4th day of December, 1967,

**WITNESSETH THAT:**

WHEREAS, under date of June 16, 1967, Laclede Gas Company, Arlen Operating Company, Myron Moss, and First National Bank in St. Louis entered into an Agreement relating to financing of the total energy plant ("Plant") to be installed in the proposed Laclede Gas Building ("Building") at 8th and Olive Streets, St. Louis, Missouri; and

WHEREAS, Laclede Gas Company ("Laclede") has this day entered into an agreement with John Hancock Mutual Life Insurance Company ("Hancock") which provides, among other things, for amendment of the aforesaid Lease to provide for Laclede offsetting certain sums against rent under certain conditions; and

WHEREAS, all parties and signatories hereto have knowledge of the terms and conditions of such offsets and are desirous of causing the aforesaid provision of said Laclede-Hancock agreement to become effective;

NOW, THEREFORE, in consideration of the premises, it is mutually agreed by the parties and signatories to said Lease and this Addendum that said Lease is hereby amended by incorporating herein by this reference the provisions of said Laclede-

Hancock agreement relating to the right of Laclede to offset against rents the sums therein described at the times therein described.

IN WITNESS WHEREOF, the parties and signatories to said Lease have executed this Addendum the day and year first above written.

**Lessor:**

**FIRST NATIONAL BANK IN ST. LOUIS,**  
Not individually but as Trustee as aforesaid,

**ATTEST:**

*/s/ L. H. Meyer*  
-----  
*Cashier*  
  
*(CORPORATE SEAL)*

*By /s/ William H. Harrison*  
-----  
*Senior Vice-President*

*Lessee:*

*ATTEST:*  
  
*/s/ C. M. Rainey*  
-----  
*Asst. Secretary*

*LACLEDE GAS COMPANY*  
  
*By /s/ H. Reid Derrick*  
-----  
*President*

(CORPORATE SEAL)

In consideration of Laclede Gas Company executing the Addendum No. 1 to Lease, the undersigned, being all the persons and entities (other than First National Bank in St. Louis, Trustee, as Lessor) who now have or claim, and who will have or claim, an interest in the West half of City Block 182 as of the date hereof, do hereby, for themselves, their successors, assigns, and all persons claiming by, through or under them, consent to and join in this Addendum to said Lease for the purpose of confirming the

priority of the covenants contained in Paragraph 5 of said Lease, all as required by subparagraph (a) of Paragraph 26 of said Lease.

*/s/ Myron Moss*

-----  
*MYRON MOSS*

**ARLEN OPERATING COMPANY, a Partnership**

By: */s/ Arthur G. Cohen*

-----  
*Arthur G. Cohen, Partner*

*/s/ Arthur N. Levien*

-----  
*Arthur N. Levien, Partner*

*/s/ Henry G. Willers*

-----  
*HENRY G. WILLERS, as Trustee under Deeds of Trust recorded, respectively, January 29, 1965 as Daily No. 169, January 15, 1965 as Daily No. 116, and May 5, 1965 as Daily No. 96, in the Recorder's Office, City of St. Louis*

ATTEST:

*FIRST NATIONAL BANK IN ST. LOUIS, as owner and holder of the promissory notes secured by the Deeds of Trust of which Henry G. Willers is Trustee as described above*

*/s/ L. H. Meyer*

-----  
*Cashier*

By */s/ William H. Harrison*

-----  
*Senior Vice President*

(CORPORATE SEAL)

In consideration of Laclede Gas Company executing the Addendum No. 1 to Lease, the undersigned hereby agree that their interests in said land and in the Building and Plant shall be bound as provided in Paragraph 26(c) of said Lease and further agree

to be bound by each and every provision of the foregoing Lease as amended by this Addendum as and to the extent that they are personally bound as therein provided.

*/s/ Myron Moss*

-----  
*MYRON MOSS*

**ARLEN OPERATING COMPANY, a Partnership**

*By: /s/ Arthur G. Cohen*

-----  
*Arthur G. Cohen, Partner*

*/s/ Arthur N. Levien*

-----  
*Arthur N. Levien, Partner*

**ADDENDUM NUMBER 2**  
to  
LEASE dated June 16, 1967  
between First National Bank  
in St. Louis, Trustee, as Lessor,  
and Laclede Gas Company, as Lessee

THIS ADDENDUM, entered into as of the 1st day of March, 1968,  
**WITNESSETH THAT:**

WHEREAS, under date of December 4, 1967, the parties and signatories to the aforesaid Lease executed and delivered Addendum No. 1 providing for Laclede Gas Company, Lessee, offsetting certain sums against rent under certain conditions; and

WHEREAS, the Lessor and the Lessee have now agreed upon additional changes in and additions to said Lease which the parties and signatories wish to make effective;

NOW THEREFORE, in consideration of the premises, it is mutually agreed by the parties and signatories to said Lease and Addendum No. 1 thereto and this Addendum No. 2 as follows:

1. Paragraph 1 (LEASING AGREEMENT) of said Lease is hereby deleted and in lieu thereof there is inserted a new Paragraph 1 as follows:

**"1. LEASING AGREEMENT**

Lessor hereby leases to Lessee and Lessee hires from Lessor the premises hereinafter described, in the building to be erected by Lessor at the southeast corner of Eighth and Olive Streets, St. Louis, Missouri, hereinafter referred to as the "Building", for an initial term of thirty (30) years commencing on the date to be determined in accordance with paragraph 20 hereof, unless sooner terminated or extended as provided herein, to be occupied and used by Lessee solely for executive and general administrative, office, sales, demonstration, display and other purposes pertaining to the operation of the business of Lessee and its subsidiary or affiliated companies.

The premises hereby leased to Lessee consist of a part of the ground floor and all of the eighth, ninth, eleventh, twelfth, thirteenth, fourteenth and fifteenth floors of the Building as shown on the floor plans annexed hereto as Exhibit A. The aggregate net rentable area of the storage space so leased and shown on said floor plans is 5,072 square feet, and the aggregate net rentable area of the remaining space so leased and shown on said floor plans is 102,906 square feet all as detailed on Sheet 6 of Exhibit A. All of the aforesaid premises constitute and are hereinafter called the "leased premises",



except that the storage space is sometimes referred to as such and the remaining space is sometimes referred to as the "non-storage space" or "non-storage area". Lessee shall not cause an unsightly appearance from the exterior windows of any storage space."

2. Paragraph 3 (BASE RENT) of said Lease is hereby deleted and in lieu thereof there is inserted a new Paragraph 3 as follows:

### **"3. BASE RENT**

Lessee shall pay to Lessor, at Lessor's office, or to such other person or such other place as directed from time to time by written notice to the Lessee from Lessor:

(a) base rent at the annual rates of \$17,905.25 for the storage space and \$581,418.90 for the non-storage space, as increased or decreased pursuant to the provisions of Paragraph 4 hereof.

(b) such additional sums as may become due from and payable by Lessee to Lessor under the terms of this Lease. Subject to the provisions of Paragraph 4 hereof, the annual rent provided for in (a) above shall be payable in twelve (12) equal monthly installments, each installment being due and payable in advance the first day of the calendar month. If the term of this Lease shall commence on a date other than January 1, the initial equal monthly installments shall be computed from the portion of the annual rental applicable in the first partial calendar year. In those calendar years of the Lease after annual base rent has been adjusted under the escalation clause contained in Paragraph 4 hereof, the equal monthly installments for any calendar year shall be based upon the adjusted annual rental for the second preceding calendar year.

Lessee shall pay the annual rent and any additional sums due from Lessee hereunder promptly as and when the same shall become due and payable. The equal monthly installments of rent described above shall be paid without demand therefor.

Any of the foregoing to the contrary notwithstanding, Lessee shall be entitled to offset, against the aforesaid monthly installments of rent, the monthly installments of rent payable by Lessor to Lessee under any sublease of the leased premises by Lessee to Lessor.

It is understood that the base rent set out in (a) above have been determined as follows: 102,906 square feet of net rentable area of non-storage space at \$5.65 per square foot per annum; 3,935 square feet of net rentable area of storage space at \$3.25 per square foot per annum; and 1,137 square feet of the net rentable area of the storage space on the eighth floor at \$4.50 per square foot per annum.

3. Subparagraph (h) of Paragraph 4 (RENT ESCALATION) of said Lease is hereby deleted and in lieu thereof there is inserted a new subparagraph (h) as follows:

"(h) The annual rental for the storage space (exclusive of 1,137 square feet of storage space on the eighth floor) shall be subject to escalation only in the following manner:

$$\begin{array}{r} \text{Difference between adjusted annual} \\ \text{rent and base annual rent of the non-} \\ \text{storage area of the leased premises} \end{array} \times 325 = \begin{array}{r} \text{Amount per square foot} \\ \text{to be added to or sub-} \\ \text{tracted from base annual} \end{array}$$

for any year --- rental of such storage ----- 565 space for such year The non-storage area of the leased premises for such year, in square feet

In determining escalation of rental for 1,137 square feet of storage space on the eighth floor, 450 shall be substituted for 325 in the foregoing formula." --- ---  
565 565

4. Paragraph 19 (FINISHING PREMISES) of said Lease is hereby deleted and in lieu thereof there is inserted a new Paragraph 19 as follows:

**"19. FINISHING PREMISES.**

On or before February 29, 1968, Lessee shall furnish to Lessor the location of all areas of the leased premises which Lessee elects to take in an unfinished condition. Lessor shall furnish building standard finishing (in accordance with Exhibit C) in all other areas of the leased premises, except the storage area and except omissions and substitutions specified in Lessee's detailed plans and specifications.

Lessor shall pay to Lessee (a) the sum of \$4.50 per square foot of floor area of the leased premises (exclusive of storage space) which Lessee shall elect to take in an unfinished condition, (b) the sum of \$175,000, (c) \$1.75 per square foot of rentable area in the Telephone Contact Department (5,400 square feet), and (d) the amount of the credit determined in accordance with Paragraph 2 of Division IV of Exhibit C if non-standard items are furnished and installed by others than Lessor.

If the non-standard items are furnished and installed by Lessor, the payments described in the preceding paragraph shall be credited by lessor against sums becoming due and payable by Lessee to Lessor for such non-standard work. If in such event the total of the payments described in the preceding paragraph shall exceed the payments to be made by Lessee to

Lessor for non-standard work, the difference shall be paid by Lessor to Lessee in cash on the date when Lessor completes such non-standard work.

If the non-standard items are furnished and installed by others than Lessor, the total of the payments described in the second preceding paragraph shall be paid by Lessor to Lessee in cash within ten (10) days after Lessee's acceptance of a bid by others for furnishing and installing such non-standard items.

Lessee shall not have the right to terminate this Lease by reason of Lessor's failure to make a cash payment provided for in this Paragraph 19, but in such event Lessee shall have the right to deduct the amount of such payments not paid, together with interest thereon at the rate of 8% per annum, from the rents for the leased premises.

If Lessee's finishing work shall be done by contract with Lessor, then the leased premises shall not be deemed to be substantially and reasonably ready for occupancy by Lessee for the purposes of Paragraph 20 hereof until such work is completed and the notice required by said Paragraph 20 has been given. If Lessee shall cause all or a portion of its finishing work to be done by other than Lessor, the fact that such work is not completed at the time the leased premises are otherwise substantially and reasonably ready for occupancy by Lessee shall not defer the commencement of rental for the area not completed unless completion by Lessee has been prevented by force majeure or strikes, in which event rental of such uncompleted area shall be deferred for a period of time equivalent to the delay caused by such force majeure or strikes."

5. Exhibits A and A-1 of said Lease are hereby deleted and in lieu thereof there is inserted a new Exhibit A consisting of the following six sheets which are numbered as Pages 5 through 10 of this Addendum No. 2:

6. Exhibit C of said Lease is hereby deleted and in lieu thereof there is inserted a new Exhibit C consisting of the following thirteen sheets which are numbered as Pages 12 through 24 of this Addendum No. 2.

7. Said Lease shall continue in full force and effect as amended by the aforesaid Addendum No. 1 and by this Addendum No. 2.

IN WITNESS WHEREOF, the parties and signatories to said Lease have executed this Addendum the day and year first above written.

ATTEST:

-----  
Asst. Cashier

(CORPORATE SEAL)

ATTEST:

-----  
Secretary

(CORPORATE SEAL)

Lessor:

FIRST NATIONAL BANK IN ST. LOUIS  
Not Individually but as Trustee as  
aforesaid,

By

-----  
Senior Vice President

Lessee

LACLEDE GAS COMPANY

By

-----  
President

In consideration of Laclede Gas Company executing the Addendum No. 2 to Lease, the undersigned, being all the persons and entities (other than First National Bank in St. Louis, Trustee, as Lessor) who now have or claim, and who will have or claim, an interest in the West half of City Block 182 as of the date hereof, do hereby, for themselves, their successors, assigns, and all persons claiming by, through or under them, consent to and join in this Addendum to said Lease for the purpose of confirming the priority of the covenants contained in Paragraph 5 of said Lease, all as required by subparagraph (a) of Paragraph 26 of said Lease.

**MYRON MOSS**

ARLEN OPERATING COMPANY, a  
Partnership

By  
**Arthur G. Cohen, Partner**

---

**Arthur N. Levien, Partner**

---

HENRY G. WILLERS, as Trustee under Deeds of Trust recorded, respectively, January 29, 1965 as Daily No. 169, January 15, 1965 as Daily No. 116, and May 5, 1965 as Daily No. 96 in the Recorder's Office, City of St. Louis

**FIRST NATIONAL BANK IN ST. LOUIS**

as owner and holder of the promissory  
notes secured by the Deeds of Trust  
of which Henry G. Willers is Trustee  
as described above

**ATTEST:**

----- By -----  
Asst. Cashier Senior Vice-President

In consideration of Laclede Gas Company executing the Addendum No. 2 to Lease, the undersigned hereby agree that their interests in said land and in the Building and Plant shall be bound as provided in Paragraph 26(c) of said Lease and further agree to be bound by each and every provision of the foregoing Lease as amended by this Addendum as and to the extent that they are personally bound as therein provided.

**MYRON MOSS**  
ARLEN OPERATING COMPANY, a  
Partnership

By  
**Arthur G. Cohen, Partner**

---

**Arthur N. Levien, Partner**

**LACLEDE GAS COMPANY**

720 Olive Street  
St. Louis, Missouri 63101  
(314) 342-0783

Douglas H. Yaeger  
President  
and  
Chief Operating Officer

February 1, 1999

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED  
AND  
PERSONAL DELIVERY**

Nooney, Inc.  
500 North Broadway, Suite 1200  
St. Louis, Missouri 63102

Re: Lease - The Laclede Gas Building dated June 16, 1967, as amended and supplemented (the "Lease"), between John Hancock Mutual Life Insurance Company, as successor lessor, and Laclede Gas Company, as lessee

Dear Sirs:

In accordance with the terms and provisions of Section 2 of the Lease, Laclede Gas Company hereby exercises its option to renew the Lease for a further term of five (5) years commencing at the expiration of the initial term, which initial term expires on February 29, 2000.

Sincerely,

*/s/ Douglas H. Yaeger  
Douglas H. Yaeger*

*cc: David Peverly  
G. T. McNeive, Jr.  
Kenneth J. Neises  
Peter J. Palumbo, Jr.  
Ellen L. Theroff*

## THE LACLEDE GROUP, INC. AND SUBSIDIARY COMPANIES

## SCHEDULE OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Fiscal Year Ended September 30,				
	2002	2001	2000	1999	1998
	(Thousands of Dollars)				
Income before interest charges and income taxes	\$60,440	\$73,742	\$64,077	\$61,016	\$64,603
Add: One third of Applicable rentals charged to operating expense (which approximates the interest factor)	2,699	313	310	301	297
<b>Total Earnings</b>	<b>\$63,139</b>	<b>\$74,055</b>	<b>\$64,387</b>	<b>\$61,317</b>	<b>\$64,900</b>
Interest on long-term debt	\$20,820	\$18,372	\$15,164	\$13,966	\$14,797
Other Interest	4,989	10,067	8,844	6,627	6,473
Add: One third of Applicable rentals charged to operating expense (which approximates the interest factor)	2,669	313	310	301	297
<b>Total Fixed Charges</b>	<b>\$28,508</b>	<b>\$28,752</b>	<b>\$24,318</b>	<b>\$20,894</b>	<b>\$21,567</b>
<b>Ratio of Earnings to Fixed Charges</b>	<b>2.22</b>	<b>2.58</b>	<b>2.65</b>	<b>2.93</b>	<b>3.01</b>



## LACLEDE GAS COMPANY

## SCHEDULE OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Fiscal Year Ended September 30,				
	2002	2001	2000	1999	1998
	(Thousands of Dollars)				
Income before interest charges and income taxes	\$56,154	\$73,742	\$64,077	\$61,016	\$64,603
Add: One third of Applicable rentals charged to operating expense (which approximates the interest factor)	315	313	310	301	297
<b>Total Earnings</b>	<b>\$56,469</b>	<b>\$74,055</b>	<b>\$64,387</b>	<b>\$61,317</b>	<b>\$64,900</b>
Interest on long-term debt	\$20,820	\$18,372	\$15,164	\$13,966	\$14,797
Other Interest	4,285	10,067	8,844	6,627	6,473
Add: One third of Applicable rentals charged to operating expense (which approximates the interest factor)	315	313	310	301	297
<b>Total Fixed Charges</b>	<b>\$25,420</b>	<b>\$28,752</b>	<b>\$24,318</b>	<b>\$20,894</b>	<b>\$21,567</b>
<b>Ratio of Earnings to Fixed Charges</b>	<b>2.22</b>	<b>2.58</b>	<b>2.65</b>	<b>2.93</b>	<b>3.01</b>

**Exhibit 21**

**THE LACLEDE GROUP, INC. AND SUBSIDIARIES**

**SUBSIDIARIES OF THE REGISTRANT**

**PERCENT OF  
VOTING STOCK  
OWNED**

**Subsidiaries of The Laclede Group, Inc. (Parent)**

Laclede Gas Company	100%
Laclede Pipeline Company	100%
Laclede Investment LLC*	100%
Laclede Development Company**	100%
Laclede Energy Services, Inc.	100%
SM&P Utility Resources, Inc.	100%
*Subsidiary Company of Laclede Investment LLC	
Laclede Energy Resources, Inc.	100%
Subsidiary Company of Laclede Energy Resources, Inc.	
Laclede Gas Family Services, Inc.	100%
**Subsidiary Company of Laclede Development Company	
Laclede Venture Corp.	100%

All of the above corporations have been organized under the laws of the State of Missouri.

## Exhibit 23

### INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-40362 of The Laclede Group, Inc. and Laclede Gas Company and Registration Statement Nos. 333-86722 and 33-52357 of The Laclede Group, Inc. and 333-86722-01 of Laclede Capital Trust I on Form S-3 and in Registration Statement Nos. 333-90248, 333-90252, 333-90254 and 333-91432 of The Laclede Group, Inc. on Form S-8 of our report dated November 19, 2002 (December 2, 2002 as to the last paragraph of Note 13) (relating to the financial statements of The Laclede Group, Inc.) appearing in this Annual Report on Form 10-K of The Laclede Group, Inc. and Laclede Gas Company for the year ended September 30, 2002.

We also consent to the incorporation by reference in Registration Statement No. 333-40362 of The Laclede Group, Inc. and Laclede Gas Company on Form S-3 of our report dated November 19, 2002 (relating to the financial statements of Laclede Gas Company) appearing in Exhibit 99.1 of this Annual Report on Form 10-K of The Laclede Group, Inc. and Laclede Gas Company for the year ended September 30, 2002.

Deloitte & Touche  
St. Louis, MO  
December 5, 2002

## Exhibit 99.1

Selected Financial Data

Laclede Gas Company

(Thousands, Except Per Share Amounts)	Fiscal Years Ended September 30				
	2002	2001	2000	1999	1998
<b>Summary of Operations</b>					
<b>Operating Revenues:</b>					
Utility	\$ 592,097	\$ 923,242	\$ 529,250	\$ 473,031	\$ 547,229
Other	2,521	78,867	36,878	18,287	14,614
<b>Total operating revenues</b>	<b>594,618</b>	<b>1,002,109</b>	<b>566,128</b>	<b>491,318</b>	<b>561,843</b>
<b>Operating Expenses:</b>					
<b>Utility:</b>					
Natural and propane gas	340,045	640,006	294,717	246,294	311,759
Other operation expenses	106,027	101,915	86,970	83,661	86,128
Maintenance	17,813	19,262	18,556	19,517	18,665
Depreciation & amortization	24,215	26,193	24,672	21,470	25,304
Taxes, other than income taxes	48,342	65,062	42,788	41,660	43,773
<b>Total utility operating expenses</b>	<b>536,442</b>	<b>852,438</b>	<b>467,703</b>	<b>412,602</b>	<b>485,629</b>
Other	2,572	77,346	35,082	17,497	12,894
<b>Total operating expenses</b>	<b>539,014</b>	<b>929,784</b>	<b>502,785</b>	<b>430,099</b>	<b>498,523</b>
<b>Operating Income</b>	<b>55,604</b>	<b>72,325</b>	<b>63,343</b>	<b>61,219</b>	<b>63,320</b>
<b>Allowance for Funds Used</b>					
During Construction	(149)	749	397	739	609
<b>Other Income and Income Deductions - Net</b>					
	699	668	338	(942)	674
<b>Income Before Interest and Income Taxes</b>	<b>56,154</b>	<b>73,742</b>	<b>64,078</b>	<b>61,016</b>	<b>64,603</b>
<b>Interest Charges:</b>					
Interest on long-term debt	20,820	18,372	15,164	13,966	14,797
Other interest charges	4,285	10,067	8,844	6,627	6,473
<b>Total interest charges</b>	<b>25,105</b>	<b>28,439</b>	<b>24,008</b>	<b>20,593</b>	<b>21,270</b>
<b>Income Before Income Taxes</b>	<b>31,049</b>	<b>45,303</b>	<b>40,070</b>	<b>40,423</b>	<b>43,333</b>
<b>Income Taxes</b>	<b>10,720</b>	<b>14,831</b>	<b>14,105</b>	<b>14,361</b>	<b>15,441</b>
<b>Net Income</b>	<b>20,329</b>	<b>30,472</b>	<b>25,965</b>	<b>26,062</b>	<b>27,892</b>
<b>Dividends on Redeemable Preferred Stock</b>	<b>68</b>	<b>87</b>	<b>93</b>	<b>97</b>	<b>97</b>
<b>Earnings Applicable to Common Stock</b>	<b>\$ 20,261</b>	<b>\$ 30,385</b>	<b>\$ 25,872</b>	<b>\$ 25,965</b>	<b>\$ 27,795</b>

## Selected Financial Data (continued)

## Laclede Gas Company

(Thousands, Except Per Share Amounts)	Fiscal Years Ended September 30				1998
	2002	2001	2000	1999	
	----	----	----	----	----
Dividends Declared- Common Stock	\$ 25,311	\$ 25,296	\$ 25,297	\$ 24,459	\$ 23,229
Utility Plant					
Gross Plant-End of Period	\$ 988,747	\$ 949,775	\$ 915,998	\$ 872,527	\$ 833,685
Net Plant-End of Period	594,376	569,640	545,715	517,635	490,585
Construction Expenditures	48,765	46,952	51,635	48,698	47,254
Property Retirements	9,769	13,141	6,663	8,190	6,205
Total Assets	\$ 985,821	\$ 975,910	\$ 931,740	\$ 837,664	\$ 777,291
Capitalization- End of Period					
Common Stock and Paid-In Capital	\$ 82,579	\$ 106,590	\$ 106,579	\$ 106,570	\$ 82,460
Retained Earnings	180,719	205,512	200,423	199,848	198,342
Accumulated Other Comprehensive Income (Loss)	(339)	-	-	(77)	-
Treasury Stock	-	(24,017)	(24,017)	(24,017)	(24,017)
	-----	-----	-----	-----	-----
Common stock equity	262,959	288,085	282,985	282,324	256,785
Redeemable Preferred Stock	1,266	1,588	1,763	1,923	1,960
Long-Term Debt	259,545	284,459	234,408	204,323	179,238
	-----	-----	-----	-----	-----
Total capitalization	\$ 523,770	\$ 574,132	\$ 519,156	\$ 488,570	\$ 437,983
	=====	=====	=====	=====	=====

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

## LACLEDE GAS COMPANY

### INTRODUCTION

This management's discussion analyzes the financial condition and results of operations of Laclede Gas Company (Laclede Gas or the Utility) and its subsidiaries, under the corporate organizational structure that was in place during the three fiscal years ended September 30, 2002. It includes management's view of factors that affect its business, explanations of past financial results including changes in earnings and costs from the prior year, and their effects on overall financial condition and liquidity. Effective October 1, 2001, the corporation reorganized, such that Laclede Gas and its subsidiaries became separate subsidiaries of The Laclede Group, Inc. (Laclede Group), an exempt holding company under the Public Utility Holding Company Act of 1935. The Consolidated Financial Statements included in this report present the consolidated financial position, results of operation and cash flows of Laclede Gas, as well as the consolidated financial position, results of operation and cash flows of Laclede Gas' former subsidiaries prior to the October 1, 2001 restructuring. Note 2 to the Consolidated Financial Statements discusses the new holding company structure.

Certain matters discussed in this report, excluding historical information, include forward-looking statements. Certain words, such as "may," "anticipate," "believe," "estimate," "expect," "intend," "plan," "seek," and similar words and expressions identify forward-looking statements that involve uncertainties and risks. Future developments may not be in accordance with our expectations or beliefs and the effect of future developments may not be those anticipated. Among the factors that may cause results to differ materially from those contemplated in any forward-looking statement are:

- o weather conditions and catastrophic events;
- o economic, competitive, political and regulatory conditions;
- o legislative, regulatory and judicial mandates and decisions, some of which may be retroactive, including those affecting
- o allowed rates of return
- o incentive regulation
- o industry and rate structures
- o purchased gas adjustment provisions
- o franchise renewals
- o environmental or safety matters
- o taxes
- o accounting standards;
- o the results of litigation;
- o retention, ability to attract, ability to collect from and conservation efforts of customers;
- o capital and energy commodity market conditions including the ability to obtain funds for necessary capital expenditures and general operations and the terms and conditions imposed for obtaining sufficient gas supply; and
- o employee workforce issues.

Readers are urged to consider the risks, uncertainties and other factors that could affect our business as described in this report. All forward-looking statements made in this report rely upon the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. We do not, by including this statement, assume any obligation to review or revise any particular forward-looking statement in light of future events.

The Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's Consolidated Financial Statements and the combined notes thereto.

### RESULTS OF OPERATIONS

#### Earnings

Laclede Gas' earnings are generated by the sale of heating energy, which historically have been heavily influenced by the weather. Earnings applicable to common stock for fiscal 2002 was \$20.3 million, compared with \$30.4 million for fiscal 2001, and \$25.9 million for fiscal 2000. Temperatures in the Laclede Gas service area during fiscal 2002, the fifth warmest on record, were 15% warmer than normal and 22% warmer than fiscal 2001. Temperatures during fiscal 2001 were 10% colder than normal and 30% colder than in fiscal 2000--which was the third warmest over the last 100 years. The \$10.1 million decrease in earnings in fiscal 2002 (from 2001) was primarily attributable to the adverse impact of (1) lower gas sales arising from temperatures in the Utility's service area that were significantly warmer than last year; and, (2) the Missouri Public Service Commission's decision not to extend the Utility's Gas Supply Incentive Plan (GSIP) beyond September 30, 2001. The GSIP produced significant benefits for customers and shareholders during the past five years during which the program was in effect. These factors were partially offset by (1) the benefit of the general rate increase effective on December 1, 2001; (2) nearly \$4.9 million of pre-tax income from the Utility's Price Stabilization Program (PSP)

recorded this year; and (3) higher income from off-system sales and capacity release revenues. The PSP is discussed further in the Regulatory Matters section below.

As a result of the colder weather experienced during fiscal 2001 (compared with fiscal 2000), consolidated earnings, at \$30.4 million, were up 17% over fiscal 2000 earnings of \$25.9 million. The \$4.5 million increase in fiscal 2001 earnings versus fiscal 2000 was primarily due to the benefit of the colder weather experienced during 2001. This benefit was partially offset by higher expenses resulting from high wholesale natural gas prices during fiscal 2001. These included a higher provision for uncollectible accounts and higher carrying costs reflecting the interest and other costs incurred by Laclede Gas from the date it purchased gas in the wholesale market to the time it received payment from its customers. Laclede Gas does not benefit from higher wholesale natural gas prices, which are set in a competitive national market, but passes its actual purchased gas costs through to customers. In addition to the increased costs related to the high wholesale gas prices, fiscal 2001 expenses were higher, when compared with fiscal 2000, due to higher pension costs, expenses related to the formation of the holding company, and other increased costs of doing business.

## **Operating Revenues**

Operating revenues for fiscal year 2002 decreased \$331.1 million, or 35.9%, below fiscal 2001, reflecting both the return to a more traditional level of wholesale gas prices and a weather-related reduction in natural gas sales. Wholesale natural gas prices are passed on to Utility customers, subject to prudence review, under the Purchased Gas Adjustment (PGA) Clause. The decrease in operating revenues was primarily comprised of lower wholesale natural gas costs of \$228.2 million and lower natural gas sales levels and other variations of \$125.3 million. These factors were slightly offset by the benefit of the Utility's general rate increase, implemented December 1, 2001, amounting to \$9.2 million, and higher off-system sales, capacity release and incentive revenues of \$13.2 million.

Fiscal 2001 operating revenues increased \$394.0 million, or 74.4%, above fiscal 2000 primarily due to higher wholesale gas costs of \$317.3 million (reflecting an unprecedented rise in market prices during the fiscal 2001 winter), higher gas sales volumes and other variations amounting to \$83.0 million, and the remaining effect of the Laclede Gas 1999 general rate increase of \$3.6 million. These factors were slightly offset by lower off-system sales and incentive revenues of \$9.9 million.

Other operating revenues decreased \$76.3 million reflecting exclusion of subsidiary revenues in the presentation of this year's amounts subsequent to the October 1, 2001 restructuring. Fiscal 2001 other operating revenues increased \$42.0 million above fiscal 2000 primarily due to higher gas marketing sales by Laclede Energy Resources, Inc.

Total therms sold and transported in 2002 were 1.06 billion compared with 1.12 billion in 2001 and 1.04 billion in 2000.

## **Operating Expenses**

Operating expenses in fiscal 2002 decreased \$316.0 million, or 37.1%, from fiscal 2001. Natural and propane gas expense decreased \$300.0 million primarily due to decreased rates charged by suppliers and lower volumes purchased for sendout due to the warmer weather, partially offset by higher off-system gas expense. Other operation and maintenance expenses increased \$2.7 million, or 2.2%, primarily due to higher group insurance charges, higher wage rates, increased insurance premiums, lower net pension credits, and costs to remove retired utility plant. These factors were partially offset by a lower provision for uncollectible accounts and reduced distribution and maintenance charges. Depreciation and amortization expense decreased \$2.0 million primarily due to the effect of lower depreciation rates instituted December 1, 2001 and negative amortization of a portion of the depreciation reserve effective July 1, 2002, as authorized by the MoPSC (see Note 1 related to Utility Plant, Depreciation and Amortization). These effects were partially offset by increased depreciable property. Taxes, other than income, decreased \$16.7 million, or 25.7%, primarily due to lower gross receipts taxes, reflecting the decreased revenues.

Operating expenses in fiscal 2001 increased \$384.7 million, or 82.3%, from fiscal 2000. Natural and propane gas expense increased \$345.3 million in fiscal 2001 from fiscal 2000 primarily due to nationwide increases in natural gas rates charged by our suppliers and higher volumes purchased for sendout arising from the colder weather, the effects of which were slightly offset by lower off-system sales gas expense. Other operation and maintenance expenses in 2001 increased \$15.7 million, or 14.8%, over 2000 primarily due to increased net pension costs, a higher provision for uncollectible accounts, increased distribution and maintenance costs, higher wage rates, and other increases in the costs of doing business. Depreciation and amortization expense in 2001 increased \$1.5 million, or 6.2%, primarily due to additional depreciable property. Taxes, other than income taxes, increased \$22.3 million in 2001 compared with 2000. The increase was principally attributable to higher gross receipts taxes, reflecting increased gas sales revenues.

Other operating expenses decreased \$74.8 million reflecting exclusion of subsidiary expenses in the presentation of this year's amounts subsequent to the October 1, 2001 restructuring. Other operating expenses in fiscal 2001 increased \$42.3 million above fiscal 2000 primarily due to higher gas expenses associated with gas marketing sales by Laclede Energy Resources, Inc.

## **Other Income and Income Deductions - Net**

Other income and income deductions - net decreased \$.9 million in fiscal 2002 (compared with fiscal 2001), and increased \$.7 million in fiscal 2001 (compared with fiscal 2000). The variations for both periods primarily reflect higher interest income recorded in fiscal 2001, partially offset by expenses related to the holding company formation and strategic planning initiatives also recorded in that same year.

## **Interest Charges**

Interest expense decreased \$3.3 million, or 11.7%, in fiscal 2002 (compared with fiscal 2001) primarily due to decreased short-term interest expense (reflecting lower rates and reduced average borrowings), partially offset by higher interest on long-term debt resulting from the issuance of \$50 million of 6 5/8% first mortgage bonds in June 2001.

Interest expense increased \$4.4 million, or 18.5%, in fiscal 2001 (compared with fiscal 2000) primarily due to the issuance of \$30 million of 7.90% first mortgage bonds in September 2000, the issuance of \$50 million of 6 5/8% first mortgage bonds in June 2001, and increased short-term interest expense (reflecting the net effect of higher average borrowings and lower rates).

## **Income Taxes**

The variations in income taxes for all periods reported are primarily due to changes in pre-tax income.

## **Labor Agreement**

On July 30, 2000, Laclede Gas and Union representatives reached a new four-year labor agreement replacing the prior agreement that was to expire July 31, 2000. The new contract extends through July 31, 2004. The settlement resulted in wage increases of 2.75% in all four years, along with lump-sum payment provisions and other benefit improvements.

## **CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition, results of operations, liquidity and capital resources is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Generally accepted accounting principles require that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Laclede Gas accounts for its regulated operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement sets forth the application of accounting principles generally accepted in the United States of America for those companies whose rates are established by or are subject to approval by an independent third-party regulator. The provisions of SFAS No. 71 require, among other things, that financial statements of a regulated enterprise reflect the actions of regulators, where appropriate. These actions may result in the recognition of revenues and expenses in time periods that are different than non-regulated enterprises. When this occurs, costs are deferred as assets in the balance sheet (regulatory assets) and recorded as expenses when those amounts are reflected in rates. Also, regulators can impose liabilities upon a regulated company for amounts previously collected from customers and for recovery of costs that are expected to be incurred in the future (regulatory liabilities).

## **REGULATORY MATTERS**

At the state level, there have been several important developments during the fiscal year affecting Laclede Gas, some of which are still pending.

On January 25, 2002, Laclede filed a request with the Missouri Public Service Commission (MoPSC or Commission) for a general rate increase of \$36.1 million annually to recover costs related to the operation of its gas distribution system. As part of this rate increase filing, the Utility proposed a weather mitigation plan that would protect its customers from weather-related fluctuations in their bills and help stabilize its annual revenues in that regard. On October 3, 2002, the Commission approved a settlement reached among the parties to the case. The terms of the settlement include (1) an annual rate increase of \$14 million effective on November 9, 2002; (2) a moratorium on additional rate filings until March 1, 2004; and (3) an innovative rate design that is expected to provide the Utility with the ability to recover its distribution costs, which are essentially fixed, in a manner that is significantly less sensitive to weather. The settlement also provided for, among other things, changes



resulting in negative amortization of the depreciation reserve of \$3.4 million annually effective from July 1, 2002 until the Utility's next rate case proceeding, minor changes in depreciation rates effective January 1, 2003, and changes in the regulatory treatment of pension costs primarily designed to stabilize such costs, effective during fiscal 2003. Also approved was an incentive program beginning in fiscal 2003 under which the Utility may achieve, under specific conditions, income related to management of its gas supply commodity costs.

On March 8, 2002, Laclede Gas filed an application requesting that the MoPSC issue an Accounting Authority Order (AAO) that would allow Laclede Gas to defer for future recovery consideration unrecovered costs due solely to the negative impact of the extraordinarily warm weather experienced in the Utility's service area during the winter of 2001-2002. Laclede Gas has filed to withdraw its application in conjunction with the 2002 rate case settlement.

On May 18, 2001, Laclede Gas filed a request with the Missouri Public Service Commission for a general rate increase of \$39.8 million annually to recover costs related to the operation of its distribution system. This filing culminated in a settlement among the parties to the case, which was approved by the Commission on November 29, 2001. The settlement provided Laclede Gas an annual increase of about \$12 million effective December 1, 2001. Additionally, effective on December 1, 2001 Laclede Gas was permitted to charge customers \$36 to cover the cost of initiating service at a particular address. This new charge was anticipated to generate additional revenue of approximately \$3 million annually. The settlement also provided for the continued deferral of certain costs related to the Laclede Gas pipe replacement program as well as recovery of costs previously deferred under that program. The cost of removing retired utility plant is treated as an expense pursuant to this settlement, rather than being included in depreciation rates. However, Laclede Gas will continue to pursue a reversal of the Commission's treatment of depreciation rates in the courts as discussed in greater detail below. As part of the settlement, Laclede Gas agreed to implement the terms of a rulemaking promulgated by the Commission on November 8, 2001 that relaxed the requirements for the fiscal 2002 heating season for reinstatement of certain customers who had been disconnected for nonpayment. The settlement provides for a recovery mechanism under which Laclede Gas will be reimbursed for any incremental costs associated with the new rule. Finally, under the terms of the agreement, Laclede Gas continues to be permitted to retain all income resulting from sales made outside its traditional service area, and is permitted to retain all income from releases of available pipeline capacity.

Laclede Gas previously appealed the MoPSC's decision in its 1999 rate case relative to the calculation of its depreciation rates. The Circuit Court remanded the decision to the MoPSC based on inadequate findings of fact. The MoPSC upheld its previous order and Laclede Gas appealed this second order to the Circuit Court. On April 29, 2002, the Court ruled that the MoPSC's second order was lawful and reasonable. On June 7, 2002, Laclede Gas appealed the Circuit Court's decision to the Missouri Western District Court of Appeals. All briefs to the Court of Appeals have been submitted and oral arguments have been scheduled for December 2002.

Under the GSIP of Laclede Gas, the Utility shared with its customers certain gains and losses related to the acquisition and management of its gas supply assets. In fiscal 2001, the GSIP contributed \$.29 per share to consolidated earnings. The provisions of the GSIP extended through September 30, 2001. In September 2001, the MoPSC ruled that the GSIP should be allowed to expire. On February 19, 2002, the MoPSC denied Laclede Gas' application for rehearing. Laclede Gas filed a petition for judicial review of the MoPSC's decision with the Cole County Circuit Court, together with a motion requesting that the MoPSC's decision be stayed. The request for stay was denied on May 13, 2002. The petition for judicial review is still pending. However, pursuant to the 2001 rate case settlement approved by the MoPSC in November 2001, and consistent with the 2002 rate case settlement, the MoPSC authorized Laclede Gas to retain all income from releases of pipeline capacity effective December 1, 2001, which previously was shared with customers under the GSIP. Laclede Gas continues to retain all income resulting from sales outside of its traditional service area, as previously authorized by the MoPSC. However, Laclede Gas was not able to retain any of the savings it obtains relative to gas supply costs or any savings it obtains from pipeline discounts. Income related to releases of available pipeline capacity and sales made outside its traditional service area are volatile in nature and subject to market conditions. See Note 4 for more information on the GSIP.

The Price Stabilization Program (PSP) authorized Laclede Gas to purchase certain financial instruments in an effort to hedge against significant increases in the cost of natural gas. The cost of such financial instruments, however, like the cost of natural gas itself, increased significantly during fiscal 2001. As a result, the MoPSC granted the request of Laclede Gas to reduce the amount of natural gas purchases required to be covered by such financial instruments for that heating season. In February 2001, the MoPSC approved modifications to the PSP, including a provision that \$4 million in supplemental funding be added to the PSP for the purchase of financial instruments for the fiscal 2002 heating season. Concurrently, Laclede Gas relinquished a claim on \$4 million arising from gains realized from the purchase and sale of such instruments during the fiscal 2001 heating season and offered to utilize a similar amount to provide for future funding for such instruments in the event the program was allowed to continue. The MoPSC also approved modifications to the PSP to reduce the fiscal 2002 percentage of gas requirements to be covered by the PSP. The PSP was allowed to expire at the end of the fiscal 2002 heating season, at which time the Utility recorded nearly \$4.9 million of pre-tax income produced through the program.

On June 28, 2002, the Staff of the MoPSC filed its recommendation in a proceeding established to review Laclede Gas' gas costs for fiscal 2001. In its recommendation, the Staff proposed to disallow the approximately \$4.9 million of pre-tax income achieved under the PSP. Laclede Gas believes that Staff's position lacks merit and continues to vigorously oppose the adjustment in a proceeding before the MoPSC, the hearing for which is currently scheduled to occur in February 2003. Regulatory proceeding results are uncertain, and to the extent that a final Commission decision sustains Staff's recommended disallowance, the outcome of the proceeding could have a material effect on the future financial position and results of operations of Laclede Gas. Missouri statutes provide an opportunity for court review of Commission decisions.

The PGA clause allows Laclede Gas to flow through to customers, subject to prudence review, the cost of purchased gas supplies. The Utility is allowed to file to modify, on a periodic basis, the level of gas costs in its PGA. Previously, the Commission allowed two scheduled PGA filings each year, one for the summer months and another for the winter period, plus one unscheduled winter filing if certain conditions were met. The significant fluctuations in natural gas prices during fiscal 2001 necessitated additional unscheduled filings, which were approved by the MoPSC, to better match customer billings with market natural gas prices. In February 2002, the MoPSC approved Laclede Gas' proposal to revise its PGA clause to adjust the gas cost component of its rates more frequently to recover its costs. The new approved tariffs allow scheduled gas cost adjustments in November, January, March and June, thereby enabling Laclede Gas to more closely recover its costs of gas, especially during the high-volume winter months. As part of the same ruling, the MoPSC clarified that costs, cost reductions and carrying costs associated with the Utility's use of natural gas financial instruments (except as provided previously under the PSP) are gas costs recoverable through the PGA mechanism.

On March 15, 2002, the Staff of the MoPSC recommended in a proceeding to review Laclede Gas' gas costs for fiscal 2000 to disallow the recovery of approximately \$2.6 million in gas costs. The alleged grounds were that Laclede Gas had slightly more transportation capacity than necessary to serve its customers. The Utility demonstrated to the Staff the appropriateness of the then-current level of transportation capacity. On May 9, 2002, the Staff revised its recommendation to withdraw the \$2.6 million proposed disallowance.

On May 31, 2002, the Staff of the Commission filed a Motion to Investigate Laclede Gas Company's alleged transfer of its gas supply function to Laclede Energy Services, Inc. (LES), a subsidiary of Laclede Group, and such action's ramifications, including whether such alleged transfer required Commission approval or was otherwise lawful. On June 10, 2002 Laclede Gas responded, pointing out that it had not transferred its gas supply functions to LES but had instead delegated six employees to LES with responsibility for performing various gas supply administrative duties, many of which had been performed in prior years by an outside party. Laclede Gas remains primarily responsible for the gas supply function. Laclede Gas urged the Commission to deny Staff's Motion on this and other grounds. The Commission concluded that a case should be established to investigate the issues raised by the Staff. The Commission also ordered the Staff to file a status report regarding progress of the investigation and Laclede Gas to file any responses to the Staff's status report. Laclede Gas believes its actions comply with applicable law and intends to vigorously defend its position. The outcome of any regulatory proceeding is uncertain. However, Laclede Gas does not believe that the eventual outcome of the case will have a material effect on the financial results of Laclede Gas.

On July 29, 2002, Laclede Gas filed a proposed Catch-Up/Keep-Up Program with the MoPSC that would permit the Company to use a portion of the savings from its negotiated pipeline discounts to fund a low-income energy assistance program. Pursuant to, and among revisions to the Program filed by the Utility on September 23, 2002, the amount of discount savings that could be used for this purpose would be limited to \$6 million per year. In response to certain objections filed by the MoPSC Staff and Missouri Office of the Public Counsel, the Commission has suspended the tariffs implementing the Program and scheduled a prehearing conference that occurred on October 23, 2002. Evidentiary hearings are scheduled for early December, 2002.

## **ACCOUNTING PRONOUNCEMENTS**

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," which requires all business combinations in the scope of this Statement to be accounted for using the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets," which addresses how acquired goodwill and other intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon acquisition and after they have been initially recognized in the financial statements. The provisions of this Statement are required to be applied at the beginning of fiscal 2003. The adoption of SFAS Nos. 141 and 142 did not have a material effect on the financial position and results of operations of Laclede Gas.

The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for fiscal 2003. The provisions of the Statement provide for rate-regulated entities that meet the criteria for

application of SFAS No. 71, such as Laclede Gas, to recognize regulatory assets or liabilities for differences in the timing of recognition of the period costs associated with asset retirement obligations for financial reporting pursuant to this Statement and rate-making purposes. The effect of the adoption of this Statement on October 1, 2002 did not have a material effect on the financial position and results of operations of Laclede Gas.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to consolidate accounting guidance on various issues related to this matter. This Statement is effective for fiscal 2003. Adoption of this Statement is not expected to have a material effect on the financial position and results of operations of Laclede Gas.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the financial position or results of operations of Laclede Gas.

In October 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The consensus rescinded EITF Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The consensus precludes mark-to-market accounting for all energy trading contracts not within the scope of SFAS No. 133, "Accounting for Derivative and Hedging Activities." The consensus to rescind EITF 98-10 is applicable for fiscal periods beginning after December 15, 2002, except that energy trading contracts not within the scope of SFAS No. 133 purchased after October 25, 2002, but prior to the implementation of the consensus, are not permitted to apply mark-to-market accounting. The EITF also reached a consensus that gains and losses on derivative instruments within the scope of SFAS No. 133 should be shown net in the income statement if the derivative instruments are purchased for trading purposes. Application of these consensus is not expected to have a material effect on the financial position or results of operations of Laclede Gas.

## INFLATION

The accompanying consolidated financial statements reflect the historical costs of events and transactions, regardless of the purchasing power of the dollar at the time. Due to the capital-intensive nature of the business of Laclede Gas, the most significant impact of inflation is on the depreciation of utility plant. Rate regulation, to which Laclede Gas is subject, allows recovery through its rates of only the historical cost of utility plant as depreciation. While no plans exist to undertake replacements of plant in service other than normal replacements and those under existing replacement programs, Laclede Gas believes that any higher costs experienced upon replacement of existing facilities would be recovered through the normal regulatory process.

## CREDIT RATINGS

As of September 30, 2002, credit ratings for outstanding securities for Laclede Gas issues were as follows:

Type of Facility	S&P	Moody's	Fitch
Laclede Gas First Mortgage Bonds	A+	A3	A+
Laclede Gas Commercial Paper	A-1	P-2	

On April 24, 2002, Standard & Poor's (S&P) downgraded the rating for Laclede Gas' First Mortgage Bonds from AA- to A+, and also downgraded the commercial paper rating from A-1+ to A-1. S&P cited bondholder protection parameters that have eroded due to several successive warmer-than-normal winters and increasing debt leverage as reasons for the downgrade. S&P ratings outlook is currently stable.

Moody's Investors Service (Moody's) downgraded Laclede Gas' First Mortgage Bonds from Aa3 to A1 on May 2, 2002. Moody's cited concerns regarding Laclede's weakened credit measures due to increased earnings pressure and near-term regulatory risk. On August 6, 2002, Moody's announced additional downgrades, as the Laclede Gas' First Mortgage Bonds were lowered from A1 to A3 and its commercial paper rating was lowered from P-1 to P-2. The outlook indication from Moody's is now stable. Moody's cited Laclede Gas' declining debt protection measures and the continuing sensitivity of its earnings and cash flow to weather fluctuations in the absence of regulatory relief for warmer-than-normal winters, as well as other pending regulatory matters. Moody's indicated that it would review the potential impact of pending regulatory decisions as they occur.

Ratings from Fitch Ratings remained unchanged from the past year. However, on October 8, 2002, Fitch Ratings revised the rating outlook from stable to negative, citing recent deterioration in consolidated credit measures.

Despite these recent downgrades, the Company's ratings remain investment grade, and the Company believes that it will have adequate access to the markets to meet its capital requirements. These ratings remain subject to review and change by the rating agencies.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash flow from the operations of Laclede Gas, net of dividend payments, has generally provided the principal liquidity to meet operating requirements and to fund the majority of its construction program. Any remaining funding requirements for construction or other needs have been provided by long-term and short-term financing. The issuance of long-term financing is dependent on management's evaluation of need, financial market conditions, and other factors. Short-term financing is used to meet seasonal cash requirements and/or to defer long-term financing until market conditions are favorable.

Short-term borrowing requirements typically peak during colder months when Laclede Gas borrows money to cover the gap between when it purchases its natural gas and when its customers pay for that gas. These short-term cash requirements have traditionally been met through the sale of commercial paper supported by lines of credit with banks.

During the fiscal year 2002 heating season, Laclede Gas had lines of credit in place of up to \$170 million. Laclede Gas sold commercial paper aggregating to a maximum of \$139.7 million at any one time during the fiscal year, but did not borrow from the banks under the aforementioned agreements. At this writing, Laclede Gas has aggregate lines of credit totaling \$230 million. Short-term commercial paper borrowings outstanding at September 30, 2002 were \$118.9 million at a weighted average interest rate of 1.9%. Based on short-term borrowings at September 30, 2002, a change in interest rates of 100 basis points would increase or decrease pre-tax earnings and cash flows by approximately \$1.2 million on an annual basis.

Most of Laclede Gas' lines of credit include a covenant limiting total debt, including short-term debt, to no more than 70% of total capitalization. On September 30, 2002, total debt was 60% of total capitalization.

On June 26, 2001, Laclede Gas issued \$50 million of first mortgage bonds with an interest rate of 6 5/8% at an overall cost of 6.968%. The bonds were dated June 15, 2001 and mature June 15, 2016. The proceeds were used to repay short-term debt. The bonds were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's in consideration of insurance issued by Ambac Assurance covering the timely payment of the principal of, and interest on, the bonds. These ratings apply only to these insured bonds, and not to the other outstanding uninsured bonds of Laclede Gas. These bonds were issued under Laclede Gas' shelf registration statement on Form S-3 and MoPSC authorization obtained in 2000. Of the \$350 million of securities originally registered under this S-3, \$270 million of debt securities remained registered and unissued as of September 30, 2002. The amount, timing and type of securities remaining to be issued under the shelf registration will depend on cash requirements and market conditions.

At September 30, 2002, Laclede Gas had fixed-rate long-term debt, including current portion, totaling \$285 million. While these long-term debt issues are fixed-rate, they are subject to changes in fair value as market interest rates change. However, increases or decreases in fair value would impact earnings and cash flows only if Laclede Gas were to reacquire any of these issues in the open market prior to maturity.

Construction expenditures were \$48.8 million in fiscal 2002 compared with \$47.0 million in fiscal 2001 and \$51.6 million in fiscal 2000. Laclede Gas expects fiscal 2003 utility construction expenditures to approximate \$53 million.

Consolidated capitalization at September 30, 2002 consisted of 50.2% common stock equity, .2% preferred stock and 49.6% long-term debt.

The ratio of earnings to fixed charges was 2.2 for 2002, 2.6 for 2001 and 2.6 for 2000.

It is management's view that the Company has adequate access to capital markets and will have sufficient capital resources, both internal and external, to meet anticipated capital requirements.

## **MARKET RISK**

The management of Laclede Gas has adopted a risk management policy that provides for the purchase of natural gas financial instruments with the goal of managing price risk associated with purchasing natural gas on behalf of its customers. This policy prohibits speculation. Costs and cost reductions, including carrying costs, associated with the Utility's use of natural gas financial instruments (except as provided for previously under the PSP) are allowed to be passed on to the Utility's customers through the operation of its Purchased Gas Adjustment Clause, through which the MoPSC allows the Utility to recover gas supply costs. Accordingly, Laclede Gas does not expect any earnings impact as a result of the use of these financial instruments. At September 30, 2002, the Utility held approximately 15 million MmBtu of futures contracts at an average price of \$3.83 per MmBtu. Additionally, approximately

12 million MmBtu of price risk mitigation was in place through the use of option-based strategies. These positions have various expiration dates, the longest of which extends through March 2003.

## **ENVIRONMENTAL MATTERS**

Laclede Gas is subject to various environmental laws and regulations that, to date, have not materially affected the Company's financial position and results of operations. As these laws, regulations, and their interpretation evolve, however, additional costs may be incurred.

With regard to a former manufactured gas plant site located in Shrewsbury, Missouri, Laclede Gas and state and federal environmental regulators have agreed upon certain actions and those actions are nearing completion. Laclede Gas currently estimates the overall costs of these actions will be approximately \$2.3 million. As of September 30, 2002, Laclede Gas has paid or reserved for these actions. If regulators require additional actions, Laclede Gas will incur additional costs.

Laclede Gas enrolled a second former manufactured gas plant site into the Missouri Voluntary Cleanup Program (VCP). The VCP provides opportunities to minimize the scope and cost of site cleanup while maximizing possibilities for site development. This site is located in and is presently owned by the City of St. Louis, Missouri. The City of St. Louis has separately authorized a developer to prepare both a Remedial Action Plan (RAP), for submission to the VCP, and a site development plan. Laclede Gas is presently meeting with the developer to determine what role, if any, it might play in these efforts. Laclede Gas continues to evaluate other options as well, including, but not limited to, the submission of its own RAP to the VCP. Laclede Gas currently estimates that the cost of site investigations, agency oversight and related legal and engineering consulting may be approximately \$629,000. Currently, Laclede Gas has paid or reserved for these actions. Laclede has requested that other former site owners and operators share in these costs and one party has agreed to participate and has reimbursed Laclede Gas to date for \$173,000. Laclede Gas anticipates additional reimbursement from this party. Laclede Gas plans to seek proportionate reimbursement of all costs relative to this site from other potentially responsible parties if practicable.

Costs incurred are charged to expense or capitalized in accordance with generally accepted accounting principles. A predetermined level of expense is included in Laclede Gas' rates.

Laclede Gas has been advised that a third former manufactured gas plant site previously operated but no longer owned by Laclede Gas may contain gas plant waste that may require remediation. Laclede Gas is working to determine the nature and extent of such waste, if any, and its responsibility, if any, for any remediation costs.

While the scope of costs relative to the Shrewsbury site will not be significant, the scope of costs relative to the other sites is unknown and may be material. Laclede Gas has notified its insurers that it seeks reimbursement of its costs at these three manufactured gas plant sites. In response, the majority of insurers have reserved their rights. While some of the insurers have denied coverage, Laclede Gas continues to seek reimbursement from them. With regard to the Shrewsbury site, denials of coverage are not expected to have any material impact on the financial position and results of operations of Laclede Gas. With regard to the other two sites, since the scope of costs are unknown and they may be significant, denials of coverage may have a material impact on the financial position and results of operations of Laclede Gas. Such costs, if incurred, have typically been subject to recovery in rates.

## **Independent Auditors' Report**

To the Board of Directors and Shareholders of Laclede Gas Company:

We have audited the consolidated balance sheets and statements of consolidated capitalization of Laclede Gas Company and its subsidiaries ("the Company") as of September 30, 2002 and 2001, and the related statements of consolidated income, retained earnings, comprehensive income, and cash flows for each of the three years in the period ended September 30, 2002. Our audits also included the financial statement schedule listed in the Index at Part IV, Item 15(a) 2. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Laclede Gas Company and its subsidiaries as of September 30, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

### **DELOITTE & TOUCHE LLP**

St. Louis, Missouri  
November 19, 2002

## Management Report

Management is responsible for the preparation, presentation and integrity of the consolidated financial statements and other financial information in this report. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts that are based on management's best estimates and judgments. In the opinion of management, the financial statements fairly reflect Laclede Gas' financial position, results of operations and cash flows.

Laclede Gas maintains internal accounting systems and related administrative controls that are designed to provide reasonable assurance, on a cost-effective basis, that transactions are executed in accordance with management's authorization, that consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and that Laclede Gas' assets are properly accounted for and safeguarded. Laclede Gas' Internal Audit Department, which has unrestricted access to all levels of Laclede Gas management, monitors compliance with established controls and procedures.

Deloitte & Touche LLP, Laclede Gas' independent auditors, whose report is contained herein, are responsible for auditing Laclede Gas' financial statements in accordance with auditing standards generally accepted in the United States of America. Such standards include obtaining an understanding of the internal control structure in order to design the audit of the financial statements.

The Audit Committee of the Board of Directors, which consists of five outside directors, meets periodically with management, the internal auditor, and the independent auditors to review the manner in which they are performing their responsibilities. Both the internal auditor and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Douglas H. Yaeger  
Chairman of the Board,  
President and Chief Executive Officer

Barry C. Cooper  
Chief Financial Officer

LACLEDE GAS COMPANY  
STATEMENTS OF CONSOLIDATED INCOME

(Thousands, Except Per Share Amounts)

Years Ended September 30	2002	2001	2000
Operating Revenues:			
Utility	\$ 592,097	\$ 923,242	\$ 529,250
Other	2,521	78,867	36,878
Total operating revenues	594,618	1,002,109	566,128
Operating Expenses:			
Utility			
Natural and propane gas	340,045	640,006	294,717
Other operation expenses	106,027	101,915	86,970
Maintenance	17,813	19,262	18,556
Depreciation and amortization	24,215	26,193	24,672
Taxes, other than income taxes	48,342	65,062	42,788
Total utility operating expenses	536,442	852,438	467,703
Other	2,572	77,346	35,082
Total operating expenses	539,014	929,784	502,785
Operating Income	55,604	72,325	63,343
Other Income and Income Deductions- Net	550	1,417	735
Income Before Interest and Income Taxes	56,154	73,742	64,078
Interest Charges:			
Interest on long-term debt	20,820	18,372	15,164
Other interest charges	4,285	10,067	8,844
Total interest charges	25,105	28,439	24,008
Income Before Income Taxes	31,049	45,303	40,070
Income Taxes	10,720	14,831	14,105
Net Income	20,329	30,472	25,965
Dividends on Redeemable Preferred Stock	68	87	93
Earnings Applicable to Common Stock	\$ 20,261	\$ 30,385	\$ 25,872

See the accompanying notes to consolidated financial statements.



LACLEDE GAS COMPANY  
STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

(Thousands, Except Per Share Amounts)

Years Ended September 30	2002	2001	2000
Balance at Beginning of Year	\$205,512	\$200,423	\$199,848
Add - Net Income	20,329	30,472	25,965
Deduct -			
Cash Dividends Declared:			
Common stock, \$1.34 per share in 2002, 2001 and 2000	25,311	25,296	25,297
Preferred stock at required annual rates	68	87	93
Equity in subsidiaries dividended to Laclede Group	19,743	-	-
Balance at End of Year	\$180,719	\$205,512	\$200,423

See the accompanying notes to consolidated financial statements.

LACLEDE GAS COMPANY  
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(Thousands)

Years Ended September 30	2002	2001	2000
Net Income	\$20,329	\$30,472	\$25,965
Other Comprehensive Income (Loss):			
Minimum pension liability adjustment	(553)	-	125
Income tax expense (benefit)	(214)	-	48
Other Comprehensive Income (Loss)	(339)	-	77
Comprehensive Income	\$19,990	\$30,472	\$26,042

See the accompanying notes to consolidated financial statements.

LACLEDE GAS COMPANY  
CONSOLIDATED BALANCE SHEETS

(Thousands)

September 30	2002	2001
<b>Assets</b>		
Utility Plant	\$988,747	\$949,775
Less - Accumulated depreciation and amortization	394,371	380,135
Net utility plant	594,376	569,640
Other Property and Investments (net of accumulated depreciation and amortization, 2002, \$0; and 2001, \$4,798)	27,132	32,893
<b>Current Assets:</b>		
Cash and cash equivalents	1,317	3,223
Accounts receivable:		
Gas customers - Billed and unbilled	51,419	74,604
Other	13,839	13,103
Less - Allowances for doubtful accounts	(3,718)	(9,216)
Inventories:		
Natural gas stored underground at LIFO cost	77,087	76,661
Propane gas at FIFO cost	14,712	14,213
Materials, supplies and merchandise at average cost	4,326	5,393
Deferred income taxes	12,305	8,556
Prepayments and other	2,515	3,999
Total current assets	173,802	190,536
<b>Deferred Charges:</b>		
Prepaid pension cost	114,313	110,475
Regulatory assets	72,484	68,599
Other	3,714	3,767
Total deferred charges	190,511	182,841
Total Assets	\$985,821	\$975,910

See the accompanying notes to consolidated financial statements.

LACLEDE GAS COMPANY  
CONSOLIDATED BALANCE SHEETS (continued)  
(Thousands)

September 30	2002	2001
Capitalization and Liabilities		
Capitalization:		
Common stock equity	\$262,959	\$288,085
Redeemable preferred stock	1,266	1,588
Long-term debt	259,545	284,459
Total capitalization	523,770	574,132
Current Liabilities:		
Notes payable	118,870	117,050
Accounts payable	30,838	32,087
Advance customer billings	24,832	11,679
Current portion of long-term debt and preferred stock	25,000	79
Wages and compensation accrued	11,794	11,785
Dividends payable	6,340	6,400
Customer deposits	4,226	4,404
Interest accrued	7,820	7,963
Taxes accrued	9,495	14,912
Unamortized purchased gas adjustments	22,976	9,026
Other	2,417	2,311
Total current liabilities	264,608	217,696
Deferred Credits and Other Liabilities:		
Deferred income taxes	156,924	142,515
Unamortized investment tax credits	5,629	5,948
Pension and postretirement benefit costs	14,658	15,847
Other	20,232	19,772
Total deferred credits and other liabilities	197,443	184,082
Commitments and Contingencies (Note 14)		
Total Capitalization and Liabilities	\$985,821	\$975,910

See the accompanying notes to consolidated financial statements.

LACLEDE GAS COMPANY  
STATEMENTS OF CONSOLIDATED CAPITALIZATION

(Thousands)

September 30	2002	2001
Common Stock Equity:		
Common stock, par value \$1 per share and Paid-in Capital:		
Authorized - 2002 and 2001, 50,000,000 shares		
Issued - 2002, 100 shares; and 2001, 20,743,625 shares	\$ 82,579	\$106,590
Retained earnings	180,719	205,512
Accumulated other comprehensive income (loss)	(339)	-
Treasury stock, at cost - 2002, no shares; and 2001, 1,865,638 shares	-	(24,017)
Total common stock equity	262,959	288,085
Redeemable Preferred Stock:		
par value \$25 per share (1,480,000 shares authorized)		
Issued and outstanding:		
5% Series B - 2002, 44,749 shares; and 2001, 60,755 shares	1,118	1,440
4.56% Series C - 2002 and 2001, 5,906 shares	148	148
Total redeemable preferred stock	1,266	1,588
Long-Term Debt:		
First mortgage bonds:		
6-1/4% Series, due May 1, 2003	-	25,000
8-1/2% Series, due November 15, 2004	25,000	25,000
8-5/8% Series, due May 15, 2006	40,000	40,000
7-1/2% Series, due November 1, 2007	40,000	40,000
6-1/2% Series, due November 15, 2010	25,000	25,000
6-1/2% Series, due October 15, 2012	25,000	25,000
6-5/8% Series, due June 15, 2016	50,000	50,000
7% Series, due June 1, 2029	25,000	25,000
7.90% Series, due September 15, 2030	30,000	30,000
Total	260,000	285,000
Unamortized discount, net of premium, on long-term debt	(455)	(541)
Total long-term debt	259,545	284,459
Total	\$523,770	\$574,132

Long-term debt and preferred stock amounts are exclusive of current portion.

See the accompanying notes to consolidated financial statements.

LACLEDE GAS COMPANY  
STATEMENTS OF CONSOLIDATED CASH FLOWS

(Thousands)

Years Ended September 30	2002	2001	2000
<b>Operating Activities:</b>			
Net Income	\$ 20,329	\$ 30,472	\$ 25,965
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,001	26,425	24,875
Deferred income taxes and investment tax credits	6,374	(3,454)	14,295
Other - net	832	(1,745)	112
Changes in assets and liabilities:			
Accounts receivable - net	15,191	(23,284)	(13,179)
Unamortized purchased gas adjustments	13,950	23,933	(23,863)
Deferred purchased gas costs	185	(3,332)	4,028
Accounts payable	(1,955)	(13,572)	13,944
Advance customer billings	13,153	(3,611)	(375)
Taxes accrued	(6,067)	2,868	6,240
Natural gas stored underground	(457)	18,126	(30,675)
Other assets and liabilities	(11,797)	(14,927)	(18,321)
Net cash provided by operating activities	74,739	37,899	3,046
<b>Investing Activities:</b>			
Construction expenditures	(48,765)	(46,952)	(51,635)
Employee benefit trusts	(1,342)	(3,522)	(448)
Other investments	(2,598)	(2,948)	(2,877)
Net cash used in investing activities	(52,705)	(53,422)	(54,960)
<b>Financing Activities:</b>			
Issuance of first mortgage bonds	-	50,000	30,000
Issuance of short-term debt - net	1,820	(9,950)	42,300
Dividends paid	(25,365)	(25,383)	(25,387)
Redemption of preferred stock	(395)	(136)	(136)
Net cash (used in) provided by financing activities	(23,940)	14,531	46,777
Net Decrease in Cash and Cash Equivalents	(1,906)	(992)	(5,137)
Cash and Cash Equivalents at Beginning of Year	3,223	4,215	9,352
Cash and Cash Equivalents at End of Year	\$ 1,317	\$ 3,223	\$ 4,215
<b>Supplemental Disclosure of Cash Paid (Refunded) During the Year for:</b>			
Interest	\$ 22,349	\$ 26,508	\$ 23,631
Income taxes	11,387	12,462	(6,721)

See the accompanying notes to consolidated financial statements.

LACLEDE GAS COMPANY  
 SCHEDULE OF INCOME TAXES

(Thousands)

Years Ended September 30	2002	2001	2000
Included in Statements of Consolidated Income:			
Federal			
Current	\$ 3,643	\$ 15,639	\$ 202
Deferred	5,666	(2,778)	11,987
Investment tax credit adjustments - net	(319)	(319)	(319)
State and local			
Current	703	2,646	(392)
Deferred	1,027	(357)	2,627
Total	\$ 10,720	\$ 14,831	\$ 14,105

See the accompanying notes to consolidated financial statements.

LACLEDE GAS COMPANY  
SCHEDULE OF INTERIM FINANCIAL INFORMATION  
(Unaudited)

(Thousands, Except Per Share Amounts)

THREE MONTHS ENDED	DEC. 31	MARCH 31	JUNE 30	SEPT. 30
2002				
TOTAL OPERATING REVENUES	\$183,818	\$257,398	\$ 87,968	\$65,434
OPERATING INCOME (LOSS)	17,579	43,066	(212)	(4,829)
NET INCOME (LOSS)	7,880	22,581	(3,379)	(6,753)

Three Months Ended	Dec. 31	March 31	June 30	Sept. 30
2001				
Total Operating Revenues	\$345,025	\$442,742	\$122,901	\$91,441
Operating Income (Loss)	35,747	40,972	(750)	(3,644)
Net Income (Loss)	18,495	20,685	(3,695)	(5,100)

See the accompanying notes to consolidated financial statements.

## NOTES TO FINANCIAL STATEMENTS

### LACLEDE GAS COMPANY

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF CONSOLIDATION** - The consolidated financial statements include the accounts of Laclede Gas Company (Laclede Gas or the Utility) and its subsidiary companies under the corporate organizational structure that was in place during the three years ended September 30, 2002. Effective October 1, 2001, the corporation reorganized such that Laclede Gas and its subsidiaries became separate subsidiaries of The Laclede Group, Inc., an exempt holding company under the Public Utility Holding Company Act of 1935. See Note 2 for a discussion of the holding company structure.

The Laclede Gas Financial Statements included in this report present the consolidated financial position, results of operations and cash flows of Laclede Gas throughout the reported periods, as well as the consolidated financial position, results of operations and cash flows of Laclede Gas' former subsidiaries prior to restructuring. In conjunction with the October 1, 2001 restructuring, Laclede Gas dividdened its equity in its subsidiaries of \$19.7 million to Laclede Group. Also as of that same date, Laclede Gas cancelled its treasury stock of \$24.0 million.

All subsidiaries were wholly owned and material intercompany transactions between Laclede Gas and its affiliates that occurred prior to the October 1, 2001 restructuring have been eliminated from the consolidated financial statements of Laclede Gas.

In compliance with generally accepted accounting principles, transactions between Laclede Gas and its affiliates that occurred after the October 1, 2001 restructuring, as well as intercompany balances remaining on Laclede Gas' balance sheet on September 30, 2002, have not been eliminated from the Laclede Gas consolidated financial statements. These amounts are not disclosed on the face of the Laclede Gas consolidated financial statements, since they are not material.

Laclede Gas provides administrative and general support to affiliates and has filed consolidated tax returns, which include affiliated company tax obligations. All such costs, which are not material, are billed to the appropriate affiliates and are reflected in accounts receivable on Laclede Gas' Consolidated Balance Sheet. Laclede Gas may also, on occasion, borrow funds from, or lend funds to, affiliated companies. At September 30, 2002, the Laclede Gas Consolidated Balance Sheet reflected a total of \$5.2 million of intercompany receivables and \$1.1 million intercompany payables.

**NATURE OF OPERATIONS** - Laclede Gas is a public utility engaged in the retail distribution of natural gas. Laclede Gas serves an area in eastern Missouri, with a population of approximately 2.0 million, including the City of St. Louis, St. Louis County, and parts of eight other counties. As an adjunct to its gas distribution business, Laclede Gas operates underground natural gas storage fields. Laclede Gas has also made investments in some non-utility businesses as part of a diversification program. Most of these activities were conducted through the wholly owned subsidiaries that became subsidiaries of Laclede Group effective with the October 1, 2001 restructuring.

**USE OF ESTIMATES** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SYSTEM OF ACCOUNTS** - The accounts of Laclede Gas are maintained in accordance with the uniform system of accounts prescribed by the Missouri Public Service Commission (MoPSC or Commission), which system substantially conforms to that prescribed by the Federal Energy Regulatory Commission.

**UTILITY PLANT, DEPRECIATION AND AMORTIZATION** - Utility plant is stated at original cost. The cost of additions to utility plant includes contracted work, direct labor and materials, allocable overheads, and an allowance for funds used during construction. The costs of units of property retired, replaced, or renewed are removed from utility plant and are charged to accumulated depreciation. Maintenance and repairs of property and replacement and renewal of items determined to be less than units of property are charged to maintenance expenses. Effective December 1, 2001, the MoPSC ordered the cost of removing retired utility plant to be recovered as an expense when incurred rather than being included in depreciation rates. Prior to December 1, 2001, the Utility's removal costs, net of salvage, were charged to accumulated depreciation. As ordered by the MoPSC, Laclede Gas instituted lower depreciation rates effective December 1, 2001 and began expensing all removal costs, net of salvage, as incurred. These costs are included in the Other Operation Expenses line on the income statement. Effective July 1, 2002, the MoPSC ordered the negative amortization on a straight-line basis of a portion of the Utility's depreciation reserve, amounting to \$3.4 million annually, until implementation of rates in the Utility's next rate case proceeding during which the parties have agreed to review the depreciation issue in light of Statement of Financial Accounting Standard (SFAS) No. 143 implementation.

Utility plant is depreciated on a straight-line basis at rates based on estimated service lives of the various classes of property. Annual depreciation and amortization in 2002, 2001 and 2000 averaged approximately 2.8%, 2.9% and 2.8%, respectively, of the original cost of depreciable and amortizable property.

**REGULATED OPERATIONS** - Laclede Gas accounts for its regulated operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement sets forth the application of accounting principles generally accepted in the United States of America for those companies whose rates are established by or are subject to approval by an independent third-party regulator. The provisions of SFAS No. 71 require, among other things, that financial statements of a regulated enterprise reflect the actions of regulators, where appropriate. These actions may result in the recognition of revenues and expenses in time periods that are different than non-regulated enterprises. When this occurs, costs are deferred as assets in the balance sheet (regulatory assets) and



recorded as expenses when those amounts are reflected in rates. Also, regulators can impose liabilities upon a regulated company for amounts previously collected from customers and for recovery of costs that are expected to be incurred in the future (regulatory liabilities). The following regulatory assets and regulatory liabilities were reflected in the Consolidated Balance Sheets as of September 30:

(Thousands)	2002	2001
-----	-----	-----
Regulatory Assets:		
Future income taxes due from customers	\$50,662	\$45,240
Pension and postretirement benefit costs	6,167	6,671
Purchased gas costs	2,212	2,396
Compensated absences	6,390	6,472
Other	7,924	9,133
	-----	-----
Total Regulatory Assets	\$73,355	\$69,912
	=====	=====
Regulatory Liabilities:		
Unamortized investment tax credits	\$ 5,629	\$ 5,948
Unamortized purchased gas adjustments	22,976	9,026
Other	384	304
	-----	-----
Total Regulatory Liabilities	\$28,989	\$15,278
	=====	=====

As authorized by the MoPSC, Laclede Gas discontinued deferring certain costs for future recovery, as expenses associated with those specific areas were included in approved rates effective December 27, 1999. Previously deferred costs, of \$10.5 million and \$2.1 million, are being recovered and amortized on a straight-line basis over fifteen-year and ten-year periods, respectively, without return on investment.

Approximately \$1.9 million and \$.6 million has been amortized, respectively, from December 27, 1999 through September 30, 2002. The Commission also authorized previously deferred costs of \$2.8 million to be recovered and amortized on a straight-line basis over a ten-year period, without return on investment, effective December 1, 2001. Approximately \$230,000 has been amortized through September 30, 2002.

**GAS STORED UNDERGROUND** - Inventory of Utility gas in storage is priced on a last-in, first-out (LIFO) basis. The replacement cost of gas stored underground for current use at September 30, 2002 exceeded the LIFO cost by \$10.0 million and at September 30, 2001 was less than the LIFO cost by \$13.5 million. The inventory carrying value is not adjusted to the lower of cost or market prices because, pursuant to the Laclede Gas Purchased Gas Adjustment (PGA) Clause, actual gas costs are recovered in customer rates.

**REGULATED GAS DISTRIBUTION REVENUES** - Laclede Gas records revenues from gas sales and transportation service on the accrual basis which includes estimated amounts for gas delivered, where applicable, but not yet billed.

**PURCHASED GAS ADJUSTMENTS AND DEFERRED ACCOUNT** - The PGA Clause allows Laclede Gas to flow through to customers, subject to prudence review, the cost of purchased gas supplies. The Utility is allowed to file to modify, on a periodic basis, the level of gas costs in its PGA. Previously, the Commission allowed two scheduled PGA filings each year, one for the summer months and another for the winter period, plus one unscheduled winter filing if certain conditions were met. The significant fluctuations in natural gas prices during fiscal 2001 necessitated additional unscheduled filings, which were approved by the MoPSC, to better match customer billings with market natural gas prices. In February 2002, the MoPSC approved Laclede Gas' proposal to revise its PGA clause to adjust the gas cost component of its rates more frequently to recover its costs. The new approved tariffs allow scheduled gas cost adjustments in November, January, March and June, thereby enabling Laclede Gas to more closely recover its costs of gas, especially during the high-volume winter months. As part of the same ruling, the MoPSC clarified that costs, cost reductions and carrying costs associated with the Utility's use of natural gas financial instruments (except as provided previously under the PSP) are gas costs recoverable through the PGA mechanism. In order to better match customer billings with market natural gas prices, Laclede Gas also requested, and received approval, to implement additional special unscheduled PGA filings allowing Laclede Gas to change rates charged to its customers in response to significant fluctuations in market prices during fiscal years 2001 and 2000.

The provisions of the PGA Clause also included operation of the Gas Supply Incentive Plan (GSIP or Plan), which extended through September 30, 2001. See Note 4 for additional information on the operation of the Plan.

Operation of the Price Stabilization Program (PSP or Program) was also included in the provisions of the PGA Clause. Under those provisions, the MoPSC authorized Laclede Gas to purchase financial instruments to protect itself and its customers from unusually large winter period gas price increases. The costs of purchasing these instruments and financial gains derived from such activities were passed on to Laclede Gas customers through the operation of its PGA Clause. Laclede Gas had an opportunity to benefit from gains and cost reductions achieved under the Program. During fiscal 2000, Laclede Gas recorded approximately \$27,000 of pre-tax income under the provisions of the Program. The cost of financial instruments for the fiscal 2001 heating season, however, like the cost of natural gas itself, increased significantly. As a result, the MoPSC granted a request made by Laclede Gas to reduce the amount of natural gas purchases required to be covered by such financial instruments for that particular heating season. In February 2001, the MoPSC approved modifications to the program for the fiscal 2002

heating season. The modifications allowed a total of \$4.0 million in supplemental funding to be added to the program for the purchase of financial instruments for the fiscal 2002 heating season and that the percentage of gas requirements to be covered be reduced. Concurrently, Laclede Gas relinquished a claim on \$4.0 million arising from gains realized from purchases and sales of financial instruments made during fiscal 2001 and offered to utilize a similar amount to provide for future funding for such instruments in the event the program was allowed to continue. The PSP was allowed to expire at the end of the fiscal 2002 heating season, at which time, the Utility recorded nearly \$4.9 million in pre-tax income produced through the Program. See Note 14 for further discussion of the PSP.

Pursuant to the provisions of the PGA Clause, the difference between actual costs incurred and costs recovered through the application of the PGA, amounts due to or from customers related to the operation of the GSIP, and amounts related to the PSP are reflected as a deferred charge or credit until fiscal year end. At that time the balance is classified as a current asset or liability and is recovered from or credited to customers over an annual period commencing in November. The balance in the current account is amortized as amounts are reflected in customer billings.

**INCOME TAXES** - Laclede Gas has elected, for tax purposes only, various accelerated depreciation provisions of the Internal Revenue Code. In addition, certain other costs are expensed currently for tax purposes while being deferred for book purposes. The provision for current income taxes reflects the tax treatment of these items. Laclede Gas records deferred tax liabilities and assets measured by enacted tax rates for the net tax effect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. Changes in enacted tax rates, if any, will be reflected by entries to regulatory asset or liability accounts for regulated companies, and will be reflected as income or loss for non-regulated companies.

Laclede Gas' investment tax credits utilized prior to 1986 have been deferred and are being amortized in accordance with regulatory treatment over the useful life of the related property.

**CASH AND CASH EQUIVALENTS** - All highly liquid debt instruments purchased are considered to be cash equivalents. Such instruments are carried at cost, which approximates market value.

**NEW ACCOUNTING STANDARDS** - In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," which requires all business combinations in the scope of this Statement to be accounted for using the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets," which addresses how acquired goodwill and other intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon acquisition and after they have been initially recognized in the financial statements. The provisions of this Statement are required to be applied at the beginning of fiscal 2003. The adoption of SFAS Nos. 141 and 142 did not have a material effect on the financial position and results of operations of Laclede Gas.

The FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for fiscal 2003. The provisions of the statement provide for rate-regulated entities that meet the criteria for application of SFAS No. 71, such as Laclede Gas, to recognize regulatory assets or liabilities for differences in the timing of recognition of the period costs associated with asset retirement obligations for financial reporting pursuant to this Statement and rate-making purposes. The effect of the adoption of this Statement on October 1, 2002 did not have a material effect on the financial position and results of operations of Laclede Gas.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to consolidate accounting guidance on various issues related to this matter. This statement is effective for fiscal 2003. Adoption of this Statement is not expected to have a material effect on the financial position and results of operations of Laclede Gas.

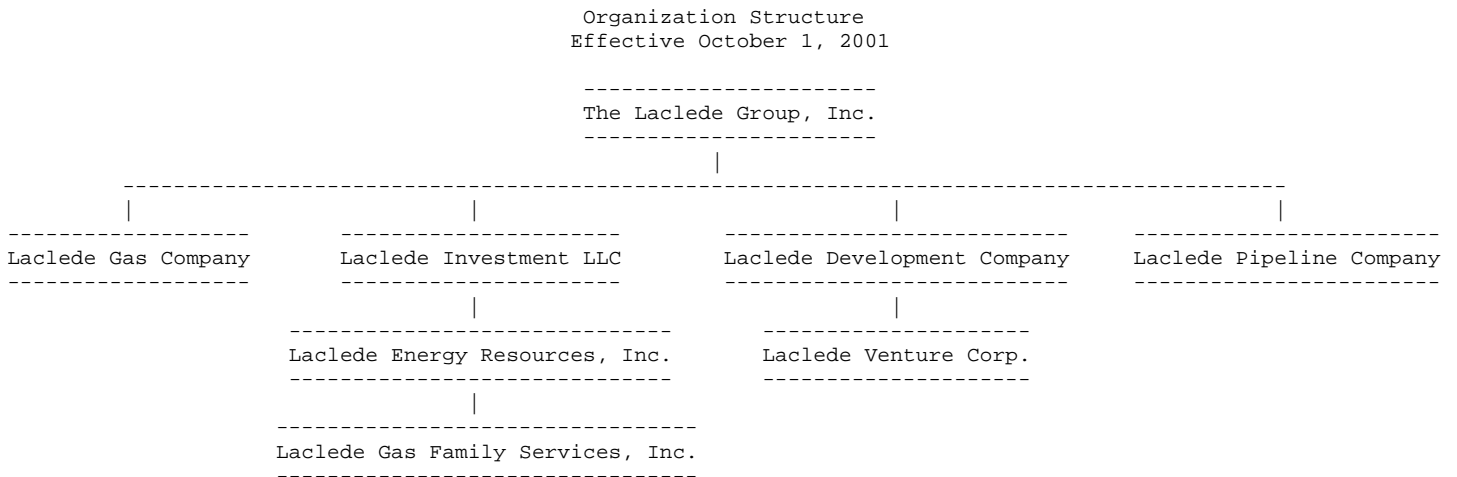
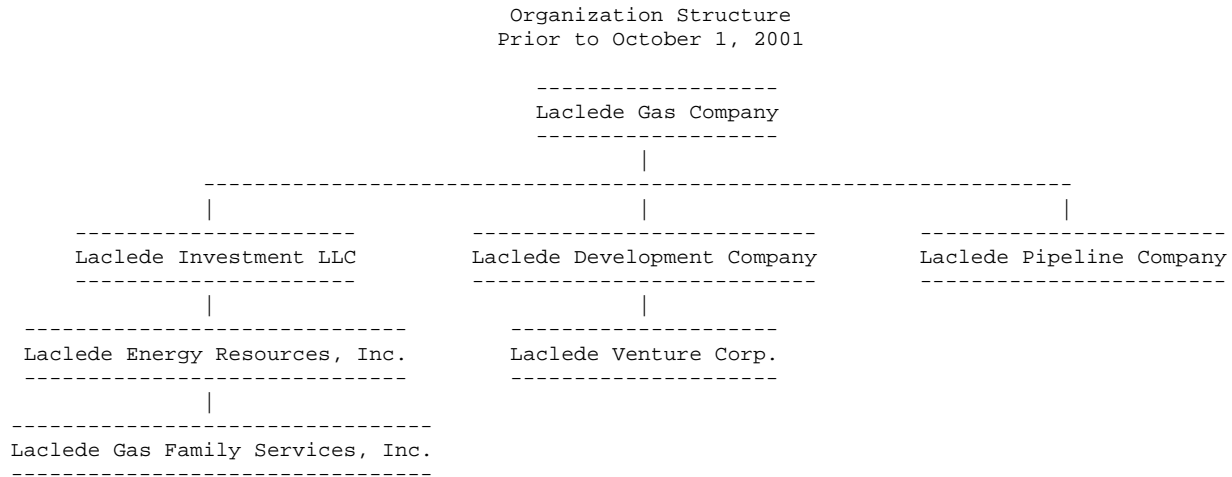
In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the financial position or results of operations of Laclede Gas.

In October 2002, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The consensus rescinded EITF Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The consensus precludes mark-to-market accounting for all energy trading contracts not within the scope of SFAS No. 133, "Accounting for Derivative and Hedging Activities." The consensus to rescind EITF 98-10 is applicable for fiscal periods beginning after December 15, 2002, except that energy trading contracts not within the scope of SFAS No. 133 purchased after October 25, 2002, but prior to the implementation of the consensus, are not permitted to apply mark-to-market accounting. The EITF also reached a consensus that gains and losses on derivative instruments within the scope of SFAS No. 133 should be shown net in the income statement if the derivative instruments are purchased for trading purposes. Application of these consensus is not expected to have a material effect on the financial position or results of operations of Laclede Gas.

**RECLASSIFICATION** - Certain prior-period amounts have been reclassified to conform to current-period presentation.

## 2. CORPORATE RESTRUCTURING

Effective October 1, 2001, Laclede Gas and its subsidiaries became subsidiaries of Laclede Group, an exempt holding company under the Public Utility Holding Company Act of 1935. Under the new structure, Laclede Gas and its former subsidiaries operate as separate subsidiaries of Laclede Group. The following charts illustrate the major organizational changes resulting from this restructuring.



Since the October 1, 2001 restructuring, stock certificates previously representing shares of Laclede Gas common stock have represented the same number of shares of Laclede Group common stock. All serial preferred stock issued by Laclede Gas remains issued and outstanding as shares of Laclede Gas serial preferred stock. The dividend rate for the preferred stock has not changed and those dividends will continue to be paid by Laclede Gas. All outstanding indebtedness and other obligations of Laclede Gas prior to the restructuring remain outstanding as obligations of Laclede Gas.

## 3. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Laclede Gas has non-contributory defined benefit, trustee forms of pension plans covering substantially all employees over the age of twenty-one. Benefits are based on years of service and the employee's compensation during the last three years of employment. The funding policy of Laclede Gas is to contribute an amount not less than the minimum required by government funding standards, nor more than the maximum deductible amount for federal income tax purposes. Plan assets consist primarily of corporate and U.S. government obligations and pooled equity funds. Pension credits in 2002, 2001 and 2000 amounted to \$3.5 million, \$5.2 million and \$7.6 million, respectively, including amounts recorded in construction.

The net periodic pension costs (credits) include the following components:

(Thousands)	2002	2001	2000
Service cost - benefits earned during the period	\$ 9,441	\$ 9,575	\$ 9,281
Interest cost on projected benefit obligation	14,653	15,331	14,714
Expected return on plan assets	(24,749)	(25,517)	(25,649)
Amortization of transition obligation	(602)	(662)	(716)
Amortization of prior service cost	1,127	1,174	1,024
Amortization of actuarial gain	(3,768)	(5,544)	(6,606)
Regulatory	435	435	332
Net pension cost (credit)	\$ (3,463)	\$ (5,208)	\$ (7,620)

Effective with the implementation of rates (from the 1999 rate case) on December 27, 1999, the Commission authorized amounts that were deferred pursuant to provisions in previous general rate cases, to be included in rates without return on investment and amortized over a fifteen-year period. Additionally, pursuant to MoPSC order, the return on plan assets is based on the market value of plan assets and the unrecognized net gain or loss balances subject to amortization are based upon the most recent five-year average of the unrecognized gain or loss balance. Net gains and losses subject to amortization are amortized over a five-year period, as ordered by the MoPSC. Other variances in net pension costs are primarily attributable to actuarial and investment experience.

The following table sets forth the reconciliation of the beginning and ending balances of the pension benefit obligation recognized in the Consolidated Balance Sheets at September 30:

(Thousands)	2002	2001
Benefit obligation at beginning of year	\$ 197,773	\$ 200,463
Service cost	9,441	9,575
Interest cost	14,653	15,331
Plan amendments	4,897	162
Actuarial loss	24,401	1,684
Settlements	-	(20,652)
Gross benefits paid	(23,075)	(8,790)
Benefit obligation at end of year	\$ 228,090	\$ 197,773

The following table sets forth the reconciliation of the beginning and ending balances of the fair value of plan assets recognized in the Consolidated Balance Sheets at September 30:

(Thousands)	2002	2001
Fair value of plan assets at beginning of year	\$299,437	\$307,820
Actual return on plan assets	(4,486)	9,214
Employer contributions	1,354	11,845
Settlements	-	(20,652)
Gross benefits paid	(23,075)	(8,790)
Fair value of plan assets at end of year	\$273,230	\$299,437
Funded status at end of year	\$ 45,140	\$101,664
Unrecognized net actuarial (gain)/loss	46,872	(10,532)
Unrecognized prior service cost	18,655	14,885
Unrecognized net transition asset	(236)	(838)
Fourth quarter contribution adjustment	989	56
Net amount recognized at end of year	\$111,420	\$105,235
Amounts recognized in the Consolidated Balance Sheets consist of:		
Prepaid pension cost	\$114,313	\$110,475
Accrued benefit liability	(3,456)	(5,451)
Intangible asset	10	211
Accumulated other comprehensive income	553	-
Net amount recognized at end of year	\$111,420	\$105,235

The pension benefit obligation and the fair value of plan assets are based on a June 30 measurement date. The projected benefit obligation was determined using a weighted average discount rate of 7.25% for 2002 and 7.75% for 2001, and a weighted average rate of future compensation increase of 4.00% for 2002 and 2001. The effect of the above changes in pension assumptions was to increase the projected benefit obligation by \$16.9 million. The expected long-term rate of return on plan assets was 8.50% for both 2002 and 2001.

The aggregate projected benefit obligation and fair value of plan assets for plans with benefit obligations in excess of plan assets were \$5.2 million and \$0, respectively, for fiscal 2002 and \$54.2 million and \$38.6 million, respectively, for fiscal 2001. The aggregate accumulated benefit obligation and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were \$5.0 million and \$0 respectively, for fiscal 2002 and \$4.2 million and \$0, respectively, for fiscal 2001.

Pursuant to the provisions of the Laclede Gas pension plans, pension obligations may be settled by lump-sum cash payments. Settlements in 2002, 2001 and 2000 resulted in pre-tax gains of approximately \$0, \$.6 million, and \$2.2 million, respectively. In 2001 and 2000, all such lump sum payments were recognized as settlements. Pursuant to MoPSC order in the 2001 rate case, effective for fiscal 2002, lump sum payments are recognized as settlements only if the total of such payments exceeds 100% of the sum of service and interest costs. No lump sum payments were recognized as settlements in fiscal 2002.

The cost of the defined contribution plans of Laclede Gas, which cover substantially all employees, amounted to \$2.9 million, \$3.0 million, and \$2.6 million, respectively, for the years 2002, 2001 and 2000.

Laclede Gas also provides certain life insurance benefits at retirement. Medical insurance is available after early retirement until age 65. Missouri state law provides for the recovery in rates of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (OPEB), accrued costs provided that such costs are funded through an independent, external funding mechanism. Laclede Gas established the Voluntary Employees' Beneficiary Association (VEBA) and Rabbi trusts as its external funding mechanisms. VEBA and Rabbi trusts assets consist primarily of money market securities. The unrecognized transition obligation is being amortized over 20 years.

Postretirement benefit costs in 2002, 2001 and 2000 amounted to approximately \$6.5 million, \$6.2 million, and \$6.0 million, respectively, including amounts charged to construction.

Net periodic postretirement benefit costs consisted of the following components:

(Thousands)	2002	2001	2000
Service cost - benefits earned during the period	\$2,205	\$2,063	\$1,973
Interest cost on accumulated postretirement benefit obligation	3,266	3,055	2,814
Expected return on plan assets	(853)	(704)	(574)
Amortization of transition obligation	1,267	1,267	1,267
Amortization of prior service cost	365	365	365
Amortization of actuarial loss	227	66	64
Regulatory adjustment	69	69	53
Net postretirement benefit cost	\$6,546	\$6,181	\$5,962

The following table sets forth the reconciliation of the beginning and ending balances of the postretirement benefit obligation at September 30:

(Thousands)	2002	2001
Benefit obligation at beginning of year	\$ 39,958	\$ 37,123
Service cost	2,205	2,063
Interest cost	3,266	3,055
Plan amendments	(476)	-
Actuarial loss	8,731	1,787
Gross benefits paid	(3,657)	(4,070)
Benefit obligation at end of year	\$ 50,027	\$ 39,958

The following table sets forth the reconciliation of the beginning and ending balances of the fair value of plan assets recognized in the Consolidated Balance Sheets at September 30:

(Thousands)	2002	2001
Fair value of plan assets at beginning of year	\$ 9,715	\$ 7,866
Actual return on plan assets	114	310
Employer contributions	5,909	5,609
Gross benefits paid	(3,657)	(4,070)
Fair value of plan assets at end of year	\$ 12,081	\$ 9,715
Funded status at end of year	\$ (37,946)	\$ (30,243)
Unrecognized net actuarial loss	11,073	1,829
Unrecognized prior service cost	1,997	2,839
Unrecognized net transition obligation	13,912	15,179
Net amount recognized at end of year as postretirement benefit cost	\$ (10,964)	\$ (10,396)

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation for 2002 was 8.00% in 2002, and gradually decreases each successive year until it reaches 5.00% in 2005 and future years. Such rate for 2001 was 5.00% in 2001 and future years. A one-percentage-point increase or (decrease) in the assumed health care cost trend rate for each future year would have increased or (decreased) the aggregate of the service and interest cost components of the

2002 net periodic postretirement benefit cost by approximately \$.3 million or \$(.3) million and would have increased or (decreased) the postretirement benefit obligation by \$1.6 million or \$(1.5) million. The accumulated postretirement benefit obligation was determined using a weighted average discount rate of 7.25% for 2002 and 7.75% for 2001, and a weighted average rate of future compensation increase of 4.00% for both 2002 and 2001. These changes in assumptions increased the postretirement benefit obligation by \$3.1 million. The weighted average rate for the expected return on medical plan assets was 7.75% for both 2002 and 2001 and the weighted average rate for the expected return on life insurance plan assets was 8.50% for both 2002 and 2001.

In the 1999 rate case settlement, the Commission authorized previously deferred costs to be included in rates without return on investment and amortized over a fifteen-year period, effective with the implementation of new rates on December 27, 1999. Deferrals ceased September 30, 1999 and all OPEB costs are being charged to expense.

#### 4. GAS SUPPLY INCENTIVE PLAN AND OFF-SYSTEM SALES

The provisions of the Utility's Gas Supply Incentive Plan (GSIP) extended through September 30, 2001. In September 2001, the MoPSC ruled that the GSIP should be allowed to expire. The Utility requested clarification and rehearing. On February 19, 2002, the MoPSC denied Laclede Gas' application for rehearing. Laclede Gas filed a petition for judicial review of the MoPSC's decision with the Cole County Circuit Court, together with a motion requesting that the MoPSC's decision be stayed. The request for stay was denied on May 13, 2002. The petition for judicial review is still pending. However, pursuant to the 2001 rate case settlement approved by the MoPSC in November 2001, and consistent with the 2002 rate case settlement, the MoPSC authorized Laclede Gas to retain all income from releases of pipeline capacity effective December 1, 2001, which previously was shared with customers under the GSIP. Laclede Gas continues to retain all income resulting from sales outside of its traditional service area, as previously authorized by the MoPSC. However, Laclede Gas does not retain any of the savings it obtains relative to gas supply costs or any savings it obtains from pipeline discounts. Income related to releases of pipeline capacity and sales made outside its traditional service area are volatile in nature and subject to market conditions.

As modified for fiscal 2001, total pre-tax income derived from all sharing provisions of GSIP, excluding income generated by sales outside of the Laclede Gas service area, could not exceed \$9.0 million. Of that amount, pre-tax income derived from sharing gains and losses as measured against a benchmark level of gas costs could not exceed \$5.3 million. Under the provisions of the Plan during fiscal 2001 and fiscal 2000, Laclede Gas and its customers shared as follows:

- o releases of pipeline capacity, of which 70% to 90% of the revenues were allocated to its customers and the balance to its shareholders
- o savings from discounts off of maximum pipeline transportation rates, of which the excess over a predetermined baseline of \$13 million was allocated 70% to its customers and the balance to its shareholders
- o gains and losses as measured against a benchmark level of gas cost, of which 50% to 90% (depending on the change from a predetermined cost) was allocated to its customers and the balance to its shareholders, and
- o increases or decreases in costs related to changes in the mix of pipeline services, of which 70% was allocated to its customers and the balance to its shareholders. GSIP and off-system sales revenues are included in the gas distribution operating revenues line in the accompanying financial statements. Expenses related to the GSIP and off-system sales are included in the natural and propane gas expense line in the accompanying financial statements. Pre-tax income of the Plan, capacity release and off-system sales activities are set forth below.

(Thousands)	2002	2001	2000
GSIP (including Capacity Release)	\$ -	\$ 9,000	\$ 7,166
Capacity Release (post-GSIP)	1,402	-	-
Off-System Sales	3,718	1,035	2,477
<b>Total Pre-Tax Income</b>	<b>\$5,120</b>	<b>\$10,035</b>	<b>\$9,643</b>

5. COMMON STOCK AND PAID-IN CAPITAL Laclede Gas issued no shares of its common stock during fiscal 2002 or fiscal 2001. Paid-in capital decreased \$22.2 million in 2002 primarily due to the cancellation of 1,865,638 shares of treasury stock totaling \$22.2 million by Laclede Gas. Paid-in capital increased slightly in 2001 due to gains recorded on reacquired preferred stock. Total shares of common stock outstanding were 100 and 18.88 million at September 30, 2002 and 2001, respectively. On March 14, 1996, Laclede Gas declared a dividend of one common share purchase right for each outstanding share of common stock as of May 1, 1996. Each common share purchase right gave the

Rightholder the right to purchase one common share for a purchase price of \$60, subject to adjustment. The rights expired on May 1, 2006, and could be redeemed by Laclede for one cent each at any time before they became exercisable. The rights were not exercisable or transferable apart from the common stock, until ten days after (i) a person or group acquired or obtained the right to acquire 20% or more of the common stock, or (ii) commenced or announced its intention to commence a tender or exchange offer for 20% or more of the common stock. Following the former event, a right would entitle its holder to purchase, at the purchase price, the number of shares equal to the purchase price divided by one-half of the market price. Alternatively, Laclede Gas could exchange each right for one share of Laclede Gas common stock. A total of 18.88 million rights were outstanding at September 30, 2001. Concurrent with implementation of the holding company structure, ownership of these rights transferred to Laclede Group.

## 6. REDEEMABLE PREFERRED STOCK

The preferred stock, which is non-voting except in certain circumstances, may be redeemed at the option of the Laclede Gas Board of Directors. The redemption price is equal to par of \$25.00 a share.

During 2002, 16,006 shares of 5% Series B preferred stock were reacquired; in 2001, 5,257 shares of 5% Series B preferred stock and 601 shares of 4.56% Series C preferred stock were reacquired.

Any default in a sinking fund payment must be cured before Laclede Gas may pay dividends on or acquire any common stock. Sinking fund requirements on preferred stock for the next five years subsequent to September 30, 2002 are \$0 in 2003 and 2004 and \$.2 million in 2005, 2006 and 2007.

## 7. LONG-TERM DEBT

Maturities on long-term debt, including current portion, for the five fiscal years subsequent to September 30, 2002 are as follows:

2003	\$25 million
2004	-
2005	\$25 million
2006	\$40 million
2007	-

On June 26, 2001, Laclede Gas issued \$50 million of first mortgage bonds with an interest rate of 6 5/8%, at an overall cost of 6.968%. The bonds were dated June 15, 2001 and mature June 15, 2016. The proceeds were used to repay short-term debt. The bonds were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's in consideration of insurance issued by Ambac Assurance covering the timely payment of the principal of, and interest on, the bonds. These ratings apply only to these insured bonds, and not to the other outstanding uninsured bonds of Laclede Gas. These bonds were issued under the Laclede Gas shelf registration Statement on Form S-3 and MoPSC authorization obtained in fiscal 2000, of which \$270 million remained registered and unissued as of September 30, 2002.

Substantially all of the utility plant of Laclede Gas is subject to the liens of its mortgage. Its mortgage contains provisions that restrict retained earnings from declaration or payment of cash dividends. As of September 30, 2002 and 2001, all of the consolidated retained earnings of Laclede Gas were free from such restrictions.

## 8. NOTES PAYABLE AND CREDIT AGREEMENTS

In September 2002, Laclede Gas renewed and increased its syndicated line of credit to \$215 million for a period of 364 days. Laclede Gas also has supplemental 364-day lines totaling \$15 million through January 2003. No seasonal lines were used during the fiscal year 2002.

Laclede Gas has an arrangement for the issuance of commercial paper which is supported by the bank lines of credit. During fiscal year 2002, short-term borrowing requirements, which peaked at \$139.7 million, were met by the sale of commercial paper. Laclede Gas had \$118.9 million in commercial paper outstanding as of September 30, 2002, at a weighted average interest rate of 1.9%, and \$117.1 million outstanding as of September 30, 2001, at a weighted average interest rate of 3.2%.



## 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of financial instruments at September 30, 2002 and 2001 are as follows:

(Thousands)	Carrying Amount	Fair Value
2002:		
CASH AND CASH EQUIVALENTS	\$ 1,317	\$ 1,317
SHORT-TERM DEBT	118,870	118,870
LONG-TERM DEBT, INCLUDING CURRENT PORTION	284,545	315,178
REDEEMABLE PREFERRED STOCK	1,266	1,266
2001:		
Cash and cash equivalents	\$ 3,223	\$ 3,223
Short-term debt	117,050	117,050
Long-term debt	284,459	301,761
Redeemable preferred stock, including current portion	1,667	1,296

The carrying amounts for cash and cash equivalents and short-term debt approximate fair value due to the short maturity of these investments. Fair value of long-term debt and preferred stock is estimated based on market prices for similar issues.

## 10. INCOME TAXES

Net provisions for income taxes were charged during the years ended September 30, 2002, 2001 and 2000 as shown on the Schedule of Income Taxes.

The effective income tax rate varied from the federal statutory income tax rate for each year due to the following:

	2002	2001	2000
Federal income tax statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefits	3.6	3.3	3.6
Certain expenses capitalized on books and deducted on tax return	(4.9)	(2.5)	(2.5)
Taxes related to prior years	1.4	.3	.2
Other items - net	(.6)	(3.3)	(1.1)
Effective income tax rate	34.5%	32.8%	35.2%

The significant items comprising the net deferred tax liability recognized in the Consolidated Balance Sheets as of September 30 are as follows:

(Thousands)	2002	2001
-----	-----	-----
Deferred tax assets:		
Reserves not currently deductible	\$ 14,826	\$ 16,278
Deferred gas cost	9,037	5,639
Unamortized investment tax credits	3,544	3,745
Other	3,541	1,885
	-----	-----
Total deferred tax assets	30,948	27,547
	-----	-----
Deferred tax liabilities:		
Relating to utility property	123,773	111,057
Pension	44,380	41,942
Other	7,413	8,507
	-----	-----
Total deferred tax liabilities	175,566	161,506
	-----	-----
Net deferred tax liability	144,619	133,959
Net deferred tax asset - current	12,305	8,556
	-----	-----
Net deferred tax liability - non-current	\$156,924	\$142,515
	=====	=====

#### 11. OTHER INCOME AND INCOME DEDUCTIONS - NET

(Thousands)	2002	2001	2000
-----	-----	-----	-----
Allowance for Funds			
Used During Construction	\$ (149)	\$ 749	\$ 397
Other Income	850	2,298	1,209
Other Income Deductions	(151)	(1,630)	(871)
	-----	-----	-----
Other Income and			
Income Deductions - Net	\$ 550	\$ 1,417	\$ 735
	=====	=====	=====

## 12. INFORMATION BY OPERATING SEGMENT

The Regulated Gas Distribution segment consists of the regulated operations of Laclede Gas. Laclede Gas is a public utility engaged in the retail distribution of natural gas serving an area in eastern Missouri, with a population of approximately 2.0 million, including the City of St. Louis, St. Louis County, and parts of eight other counties. The Non-Regulated Other segment includes merchandise sales activities, and in fiscal 2001 and 2000 (prior to restructuring) included the transportation of liquid propane, gas marketing, the sale of insurance related products, real estate development, the compression of natural gas, and financial investments in other enterprises. Accounting policies are as described in Note 1. There are no material intersegment revenues.

(Thousands)	Regulated Gas Distribution	Non-Regulated Other	Eliminations	Consolidated
	-----	-----	-----	-----
<b>FISCAL 2002</b>				
OPERATING REVENUES	\$ 592,097	\$ 2,521	\$ -	\$ 594,618
DEPRECIATION & AMORTIZATION	24,215	-	-	24,215
INTEREST CHARGES	25,105	-	-	25,105
INCOME TAX EXPENSE	10,740	(20)	-	10,720
NET INCOME	20,360	(31)	-	20,329
TOTAL ASSETS	984,374	1,447	-	985,821
CONSTRUCTION EXPENDITURES	48,765	-	-	48,765
<b>Fiscal 2001</b>				
Operating revenues	\$ 923,242	\$ 78,867	\$ -	\$1,002,109
Depreciation & amortization	26,193	-	-	26,193
Interest charges	28,792	-	(353)	28,439
Income tax expense	14,170	661	-	14,831
Net income	29,541	931	-	30,472
Total assets	963,676	29,800	(17,566)	975,910
Construction expenditures	46,952	-	-	46,952
<b>Fiscal 2000</b>				
Operating revenues	\$ 529,250	\$ 36,878	\$ -	\$ 566,128
Depreciation & amortization	24,672	-	-	24,672
Interest charges	24,326	-	(318)	24,008
Income tax expense	13,755	350	-	14,105
Net income	25,501	464	-	25,965
Total assets	919,721	26,901	(14,882)	931,740
Construction expenditures	51,635	-	-	51,635

## 13. COMMITMENTS AND CONTINGENCIES

Laclede Gas estimates fiscal year 2003 utility construction expenditures at approximately \$53 million. The lease agreement covering the general office space of Laclede Gas extends through February 2005 with options to renew for up to 15 additional years. The aggregate rental expense for fiscal years 2002, 2001 and 2000 was \$838,000, \$830,000 and \$821,000, respectively. The annual minimum rental payment for fiscal year 2003 is anticipated to be approximately \$847,000 with a maximum annual rental payment escalation of \$8,800 per year for each year through fiscal 2005. Laclede Gas has other relatively minor rental arrangements that provide for minimum rental payments. At the end of fiscal 2002, Laclede Gas entered into various operating lease agreements for the rental of vehicles and power operated equipment. The rental costs will be \$456,000 in fiscal 2003 through 2005, \$262,000 in fiscal 2006, and \$52,000 in fiscal 2007. Laclede Gas has entered into various contracts, which in the aggregate require it to pay approximately \$75 million on an annual basis, at present rate levels, for the reservation of gas supplies and pipeline transmission and storage capacity. These costs are recovered from customers in accordance with the PGA Clause. The contracts have various expiration dates ranging from 2003 to 2011.

Laclede Gas is subject to various environmental laws and regulations that, to date, have not materially affected the Company's financial position and results of operations. As these laws, regulations, and their interpretation evolve, however, additional costs may be incurred.

With regard to a former manufactured gas plant site located in Shrewsbury, Missouri, Laclede Gas and state and federal environmental regulators have agreed upon certain actions and those actions are nearing completion. Laclede Gas currently estimates the overall costs of these actions will be approximately \$2.3 million. As of September 30, 2002, Laclede Gas has paid or reserved for these actions. If regulators require additional actions, Laclede Gas will incur additional costs.

Laclede Gas enrolled a second former manufactured gas plant site into the Missouri Voluntary Cleanup Program (VCP). The VCP provides opportunities to minimize the scope and cost of site cleanup while maximizing possibilities for site development. This site is located in and is presently owned by the City of St. Louis, Missouri. The City of St. Louis has separately authorized a developer to prepare both a Remedial Action Plan (RAP), for submission to the VCP, and a site development plan. Laclede Gas is presently meeting with the developer to determine what role, if any, it might play in these efforts. Laclede Gas continues to evaluate other options as well, including, but not limited to, the submission of its own RAP to the VCP. Laclede Gas currently estimates that the cost of site investigations, agency oversight and related legal and engineering consulting may be approximately \$629,000. Currently, Laclede Gas has paid or reserved for these actions. Laclede Gas has requested that other former site owners and operators share in these costs and one party has agreed to participate and has reimbursed Laclede Gas to date for \$173,000. Laclede Gas anticipates additional reimbursement from this party. Laclede Gas plans to seek proportionate reimbursement of all costs relative to this site from other potentially responsible parties if practicable.

Costs incurred are charged to expense or capitalized in accordance with generally accepted accounting principles. A predetermined level of expense is included in Laclede Gas' rates.

Laclede Gas has been advised that a third former manufactured gas plant site previously operated but no longer owned by Laclede Gas may contain gas plant waste that may require remediation. Laclede Gas is working to determine the nature and extent of such waste, if any, and its responsibility, if any, for any remediation costs.

While the scope of costs relative to the Shrewsbury site will not be significant, the scope of costs relative to the other sites is unknown and may be material. Laclede Gas has notified its insurers that it seeks reimbursement of its costs at these three manufactured gas plant sites. In response, the majority of insurers have reserved their rights. While some of the insurers have denied coverage, Laclede Gas continues to seek reimbursement from them. With regard to the Shrewsbury site, denials of coverage are not expected to have any material impact on the financial position and results of operations of Laclede Gas. With regard to the other two sites, since the scope of costs are unknown and they may be significant, denials of coverage may have a material impact on the financial position and results of operations of Laclede Gas. Such costs, if incurred, have typically been subject to recovery in rates.

On June 28, 2002, the Staff of the MoPSC filed its recommendation in a proceeding established to review Laclede Gas' gas costs for fiscal 2001. In its recommendation, the Staff proposed to disallow the approximately \$4.9 million of pre-tax income achieved under the PSP. Laclede Gas believes that Staff's position lacks merit and continues to vigorously oppose the adjustment in a proceeding before the MoPSC, the hearing for which is currently scheduled to occur in February 2003. Regulatory proceeding results are uncertain, and to the extent that a final Commission decision sustains Staff's recommended disallowance, the proceeding's outcome could have a material effect on the future financial position and results of operations of Laclede Gas. Missouri statutes provide an opportunity for court review of Commission decisions.

In late August 2001, Laclede Gas was named a defendant in a lawsuit in the Circuit Court of the City of St. Louis, Missouri, Ronald J. Johnson vs. Laclede Gas Company, alleging that a class of persons residing in homes provided natural gas by Laclede Gas through direct buried copper service lines have, among other things, suffered diminution in property values and annoyance and discomfort due to residing in homes served by such allegedly corroded lines. The suit sought actual and punitive damages and an injunction requiring the repair and/or replacement of all such lines, which were alleged to number approximately 78,000. By letter dated September 21, 2001, its liability insurer advised Laclede Gas that the claims in the lawsuit, as pled, failed to qualify for any coverage under its excess general liability policy. Laclede Gas disagrees and continues to assert its right to coverage under the policy. The gas distribution business of Laclede Gas is regulated by the MoPSC, including as to safe and adequate service and rate matters. Under a current program, the Commission has provided for the monitoring and replacement of such lines. The costs of replacement, including carrying costs, have been included in rates established by the Commission. The MoPSC filed a Motion to Intervene and a Motion to Strike Plaintiff's Prayer for Injunctive Relief and to Stay Matters Within the Primary Jurisdiction of the MoPSC. The court subsequently granted the MoPSC's request for intervention. Laclede Gas filed a Motion to Dismiss which urged, among other things, the exclusive jurisdiction of the MoPSC as to gas safety matters generally and the direct buried copper service replacement program in particular. Laclede Gas filed a motion to dismiss the lawsuit that was granted by the Court on February 22, 2002. The plaintiff did not file an amended petition within the time granted by the Court but filed an appeal on April 3, 2002. On May 13, 2002, the plaintiff dismissed the appeal.

Laclede Gas is involved in litigation, claims, and investigations arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, after discussion with counsel, believes the final outcome will not have a material adverse effect on the consolidated financial position and results of operations reflected in the financial statements presented herein.

#### 14. INTERIM FINANCIAL INFORMATION (UNAUDITED)

In the opinion of Laclede Gas, the quarterly information presented in the Schedule of Interim Financial Information for fiscal years 2002 and 2001 includes all adjustments, consisting of normal recurring accruals necessary for a fair statement of the results of operations for such periods. Variations in consolidated operations reported on a quarterly basis primarily reflect the seasonal nature of the business of Laclede Gas.

**Exhibit 99.2**

Certificate Furnished Under Section 906 Of the Sarbanes-Oxley Act of 2002

I, Douglas H. Yaeger, Chairman of the Board, President and Chief Executive Officer of The Laclede Group, Inc., hereby certify that

(a) To the best of my knowledge, the accompanying report on Form 10-K for the year ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(b) To the best of my knowledge, the information contained in the accompanying report on Form 10-K for the year ended September 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of The Laclede Group, Inc.

*Date: December 5, 2002*

*/s/ Douglas H. Yaeger*

-----

*Douglas H. Yaeger  
Chairman of the Board, President  
and Chief Executive Officer*

**Exhibit 99.3**

Certificate Furnished Under Section 906 Of the Sarbanes-Oxley Act of 2002

I, Barry C. Cooper, Chief Financial Officer of The Laclede Group, Inc., hereby certify that

(a) To the best of my knowledge, the accompanying report on Form 10-K for the year ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(b) To the best of my knowledge, the information contained in the accompanying report on Form 10-K for the year ended September 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of The Laclede Group, Inc.

*Date: December 3, 2002*

*/s/ Barry C. Cooper*

-----

*Barry C. Cooper*  
*Chief Financial Officer*

**Exhibit 99.4**

Certificate Furnished Under Section 906 Of the Sarbanes-Oxley Act of 2002

I, Douglas H. Yaeger, Chairman of the Board, President and Chief Executive Officer of Laclede Gas Company, hereby certify that

(a) To the best of my knowledge, the accompanying report on Form 10-K for the year ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(b) To the best of my knowledge, the information contained in the accompanying report on Form 10-K for the year ended September 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of Laclede Gas Company.

*Date: December 5, 2002*

*/s/ Douglas H. Yaeger*

-----

*Douglas H. Yaeger  
Chairman of the Board, President  
and Chief Executive Officer*



**Exhibit 99.5**

Certificate Furnished Under Section 906 Of the Sarbanes-Oxley Act of 2002

I, Barry C. Cooper, Chief Financial Officer of Laclede Gas Company, hereby certify that

(a) To the best of my knowledge, the accompanying report on Form 10-K for the year ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(b) To the best of my knowledge, the information contained in the accompanying report on Form 10-K for the year ended September 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of Laclede Gas Company.

*Date: December 3, 2002*

*/s/ Barry C. Cooper*

-----

*Barry C. Cooper  
Chief Financial Officer*

---

**End of Filing**

Powered By **EDGAR**  
Online

**© 2005 | EDGAR Online, Inc.**