

MDU RESOURCES GROUP INC  
Form DEF 14A  
March 06, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**MDU Resources Group, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:  

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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Your **VOTE** is important

# **MDU Resources Group, Inc. Proxy Statement**

2006 Notice  
and  
Proxy  
Statement

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1200 West Century Avenue

Mailing Address:  
P.O. Box 5650  
Bismarck, ND 58506-5650  
(701) 530-1000

*Martin A. White*  
*Chairman of the Board and*  
*Chief Executive Officer*

March 9, 2006

To Our Stockholders:

Please join us for the 2006 Annual Meeting of Stockholders. The meeting will be held on Tuesday, April 25, 2006, at 11:00 a.m., Central Daylight Savings Time, at 909 Airport Road, Bismarck, North Dakota.

The formal matters are described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement. We also will have a brief report on current matters of interest. Lunch will be served following the meeting.

We were pleased with the stockholder response for the 2005 Annual Meeting at which 87.39 percent of the Common Stock was represented in person or by proxy. We hope for an even greater representation at the 2006 meeting.

You may vote your shares by telephone, by the Internet or by returning the enclosed letter proxy. Representation of your shares at the meeting is very important. We urge you to submit your proxy promptly by one of the three methods.

I hope you will find it possible to attend the meeting.

Sincerely,

Martin A. White

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**MDU RESOURCES GROUP, INC.**

1200 West Century Avenue

**Mailing Address:**

**P.O. Box 5650**

**Bismarck, ND 58506-5650**

**(701) 530-1000**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD APRIL 25, 2006**

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March 9, 2006

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MDU Resources Group, Inc. will be held at 909 Airport Road, Bismarck, North Dakota, on Tuesday, April 25, 2006, at 11:00 a.m., Central Daylight Savings Time, for the following purposes:

- (1) To elect three Directors to three year terms;
- (2) To ratify the appointment of Deloitte & Touche LLP as the Company's independent auditors for 2006;
- (3) To approve the Long-Term Performance-Based Incentive Plan; and
- (4) To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on February 27, 2006, as the record date for the determination of common stockholders who will be entitled to notice of, and to vote at, the meeting.

All stockholders who find it convenient to do so are cordially invited and urged to attend the meeting in person. Registered stockholders will receive a Request for Admission Ticket(s) with their proxy card that can be completed and returned to the Company postage free. Stockholders whose shares are held in the name of a bank or broker will not receive a Request for Admission Ticket(s). They should, instead, (1) call (701) 530-1000 to request an Admission Ticket(s), (2) come to the registration table at the Annual Meeting with a statement from their bank or broker showing proof of stock ownership as of February 27, 2006, and (3) present photo identification, such as a driver's license. We look forward to seeing you.

By order of the Board of Directors,

Paul K. Sandness  
Secretary

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## PROXY STATEMENT

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This Proxy Statement is being furnished beginning March 9, 2006, by the Board of Directors of MDU Resources Group, Inc. ("Company") to solicit proxies for use at the Annual Meeting of Stockholders. The meeting will be held on April 25, 2006.

Your proxy is solicited by the Board of Directors. The Company pays the cost of soliciting your proxy and reimburses brokers and others for forwarding proxy material to you. Georgeson & Company, Inc. additionally will solicit proxies for approximately \$7,500 plus out-of-pocket expenses.

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## VOTING INFORMATION

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**Who may vote?** You may vote if you owned shares of Common Stock at the close of business on February 27, 2006. Each share owned on that date may be voted on each matter presented at the meeting. As of February 27, 2006, the Company had 119,957,157 shares outstanding entitled to one vote per share.

**What am I voting on?** You are voting on:

The election of three Directors for three year terms each;

The ratification of Deloitte & Touche LLP as the Company's independent auditors for 2006;

Approval of the Long-Term Performance-Based Incentive Plan; and

Any other business properly brought before the meeting.

**What vote is required to pass an item of business?** A majority of the outstanding shares of Common Stock entitled to vote must be present in person or represented by proxy to hold the meeting.

A plurality of votes of the Common Stock entitled to vote and present in person or represented by proxy is required to elect a Director. "Withheld" votes are not counted in determining whether a plurality of votes was received by a Director nominee.

In an uncontested election of Directors, any nominee for Director who receives a greater number of votes "withheld" from his or her election than votes "for" his or her election shall promptly tender his or her resignation to the Chairman of the Board following certification of the stockholder vote. The Nominating and Governance Committee shall recommend to the Board of Directors whether to accept or reject the tendered resignation.

Ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors for 2006 requires a majority affirmative vote of the Common Stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against the proposal.

Under the rules of the New York Stock Exchange, the approval of the Long-Term Performance-Based Incentive Plan ("LTIP") requires a majority of the votes cast to be in favor of approval, provided that the total votes cast represent over 50 percent in interest of all securities entitled to vote on the proposal. In determining whether the number of votes cast represents over 50 percent in interest of all securities entitled to vote, abstentions will count as votes cast and broker non-votes will not count as votes cast. Broker non-votes occur if brokers are given no voting instructions from their customers with respect to the proposal, since the New York Stock Exchange rules prohibit discretionary voting on equity compensation plans.





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For purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, approval of the LTIP requires a majority of the votes cast to be in favor of approval. Under Delaware law, approval requires a majority affirmative vote of the Common Stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against the proposal and broker non-votes will have no effect.

Unless otherwise specified when the proxy is submitted, the shares of Common Stock represented by the proxy will be voted "For" each proposal. If, with regard to the election of Directors, any nominee becomes unavailable for any reason, or if a vacancy should occur before the election (which events are not anticipated), the shares represented by the proxy will be voted for another person in the discretion of the persons named in the proxy.

**How do I vote?** There are three ways to vote by proxy:

by calling the toll free telephone number on the proxy;

by using the Internet; or

by returning the enclosed letter proxy in the envelope provided.

You *may* be able to vote by telephone or the Internet if your shares are held in the name of a bank or broker. Follow their instructions.

You may have to pay electronic access charges for Internet voting.

Counsel has advised the Company that the Internet and telephone voting procedures meet legal requirements.

**Can I revoke my proxy?** Yes. You can revoke your proxy by:

filing written revocation with the Secretary before the meeting;

filing a proxy bearing a later date with the Secretary before the meeting; or

revoking a proxy at the meeting and voting in person.

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## ELECTION OF DIRECTORS

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The Board of Directors expresses its sincere thanks for distinguished service on the Board of Directors to Martin A. White, Chairman of the Board and Chief Executive Officer and a Director since 1998, and to Robert L. Nance, a Director since 1993 and the Chairman of the Finance Committee. Messrs. White and Nance will be retiring as Directors following the regular August 2006 meeting of the Board of Directors. Both Directors will be resigning due to attaining the mandatory retirement age for Directors as provided under the Company's Bylaws. The Company's Bylaws provide that Mr. White as a "high ranking executive" is ineligible to serve as a Director beyond the first regular meeting of the Board after the date he reaches age 65. Mr. Nance as a non-employee Director is ineligible under the Company's Bylaws to continue to serve beyond the first regular meeting of the Board after the date he reaches age 70.

Three Directors will be elected at the Annual Meeting of Stockholders for a term of three years each until 2009, and until their respective successors are elected. All nominees are incumbent Directors and nominated for reelection, except Mr. Lewis who was elected by the Board of Directors in November 2005 and is a nominee for election for the first time. Your proxy holder will vote your shares for the Board's nominees unless you instruct otherwise. If a nominee is unable to serve as a Director, your proxy holder may vote for any substitute nominee proposed by the Board. Unless

specifically noted, no corporation or organization named below is a parent, subsidiary, or other affiliate of the Company. Information concerning the nominees, including their ages, years of service as Directors, and business experience as furnished to the Company by each nominee, is as follows:

**DIRECTOR NOMINEES FOR THREE YEAR TERM**

**Richard H. Lewis**  
Age 56

Director Since 2005  
Nominated for Term Expiring in 2009

Mr. Lewis has been the General Partner of Brakemaka LLLP, a private investment partnership for managing personal investments, and President of the Lewis Family Foundation since August 2004. He founded Prima Energy Corporation, a natural gas and oil exploration and production company, in 1980 and served as Chairman, President and Chief Executive Officer of the company until its sale in July 2004. Mr. Lewis serves as Chairman of the Board of Entre Pure Industries, Inc., a privately held company involved in the purified water and ice business. He is past President and a current Board member of the Colorado Oil and Gas Association and serves as a Director of Colorado State Bank and Trust. He currently serves on the Audit and Compensation Committees.

**Harry J. Pearce**  
Age 63

Director Since 1997  
Nominated for Term Expiring in 2009

Mr. Pearce was named Chairman of the Board of Nortel Networks Corporation, a telecommunications equipment manufacturer, on June 29, 2005. He retired on December 19, 2003, as Chairman of Hughes Electronics Corporation, a General Motors Corporation subsidiary and provider of digital television entertainment, broadband satellite network, and global video and data broadcasting. He had served as Chairman since June 1, 2001. Mr. Pearce formerly was Vice Chairman and a Director of General Motors Corporation, the world's largest vehicle manufacturer, from January 1, 1996 to May 31, 2001. He is a Director of Marriott International, Inc., a major hotel chain, and the U.S. Air Force Academy Association of Graduates, and is Chairman of The Marrow Foundation and the National Defense University Foundation, Inc. He is President of the Leukemia & Lymphoma Society Research Foundation, a Fellow of the American College of Trial Lawyers, and a member of the International Society of Barristers. He also serves on the Board of Trustees of Howard University and Northwestern University. He currently serves as Lead Director and on the Compensation and Nominating and Governance Committees.

**Sister Thomas Welder, O.S.B.**  
Age 65

Director Since 1988  
Nominated for Term Expiring in 2009

Sister Welder has been the President of the University of Mary, Bismarck, North Dakota, since 1978. She is a Director of St. Alexius Medical Center of Bismarck, the Bismarck-Mandan Development Association, and the Bismarck-Mandan Area Chamber of Commerce. She also is a member of the North Dakota Higher Education Roundtable, and the Theodore Roosevelt Medora Founder's Society, and is a past member of the Consultant-Evaluator Corps for the North Central Association of Colleges and Schools. She currently serves on the Audit and Nominating and Governance Committees.

**The Board recommends a vote "For" each nominee.**

A plurality of votes of the Common Stock entitled to vote and present in person or represented by proxy is required to elect a Director. "Withheld" votes are not counted in determining whether a plurality of votes was received by a Director nominee.

In an uncontested election, any nominee for Director who receives a greater number of votes "withheld" from his or her election than votes "for" his or her election shall promptly tender his or her resignation to the Chairman of the Board following certification of the stockholder vote. The Nominating and Governance Committee shall recommend to the Board of Directors whether to accept or reject the tendered resignation.

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**CONTINUING INCUMBENT DIRECTORS**

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Information concerning the continuing incumbent Directors, whose terms expire in 2007 or 2008, including their ages, years of service as Directors, and business experience as furnished to the Company by each Director, is as follows:

**DIRECTOR TERMS EXPIRING IN 2007**

**Dennis W. Johnson**  
Age 56

Director Since 2001  
Term Expires in 2007

Mr. Johnson is Chairman, Chief Executive Officer and President of TMI Corporation, and Chairman and Chief Executive Officer of TMI Systems Design Corporation, TMI Transport Corporation and TMI Storage Systems Corporation, all of Dickinson, North Dakota, manufacturers of casework and architectural woodwork. He has been employed at TMI since 1974 serving as President or Chief Executive Officer since 1982 and majority stockholder since 1985. Mr. Johnson serves as President of the Dickinson City Commission. He previously was a Director of the Federal Reserve Bank of Minneapolis. He currently serves on the Audit and Compensation Committees.

**John L. Olson**

Age 66

Director Since 1985

Term Expires in 2007

Mr. Olson has been President and Chief Executive Officer of Blue Rock Products Company and of Blue Rock Distributing Company, a beverage bottling company and a distributing company, respectively, in Sidney, Montana since 1965. He also is Chairman of Admiral Beverage Corporation, Worland, Wyoming, and Ogden, Utah; former Chairman and Director of the Foundation for Community Care, Sidney, Montana; Chairman and a member of the Executive Committee of the University of Montana Foundation; a Director of BlueCross BlueShield of Montana; and trustee for Blue Rock Products Company Profit Sharing Trust, Sidney, Montana. He currently serves on the Audit and Nominating and Governance Committees.

**Martin A. White**

Age 64

Director Since 1998

Term Expires in 2007

Mr. White is Chairman of the Board and Chief Executive Officer of the Company. He has served as Chairman of the Board since February 2001 and as Chief Executive Officer since April 1, 1998. Mr. White joined the Company in November 1991 as Vice President-Corporate Development and was named Senior Vice President-Corporate Development in November 1995. Effective April 1, 1998, Mr. White became President and Chief Executive Officer, serving as President until May 1, 2005. He also serves as Chairman, a Director and/or an officer of all principal subsidiaries, and as Chairman of the Managing Committees of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. He is a Director of First Interstate BancSystem, Inc., a bank operating in Montana and Wyoming, Chair of the University of Mary Board of Trustees, a member of the Missouri Slope Areawide United Way Board of Trustees and the North Dakota Lewis & Clark Bicentennial Foundation Board, Chairman of the North Dakota Economic Development Foundation, and a member of the executive council of The Conference Board.

**John K. Wilson**

Age 51

Director Since 2003

Term Expires in 2007

Mr. Wilson has been President of Durham Resources, LLC, a privately held financial management company, in Omaha, Nebraska since 1994. He also serves as President of the Durham Foundation and is a Director of Bridges Investment Fund, a mutual fund, the Greater Omaha Chamber of Commerce and the Durham Western Heritage Museum, all in Omaha. He additionally serves on the community relations board of US Bank NA Omaha and is a governor of the Joslyn Art Museum in Omaha. He previously was President of Great Plains Energy Corp., a public utility holding company and an affiliate of Durham Resources, LLC, from 1994 to July 1, 2000. He also was Vice President of Great Plains Natural Gas Co., an affiliate company of Durham Resources, LLC, until July 1, 2000. Great Plains Energy Corp. and Great Plains Natural Gas Co. were sold to the Company on July 1, 2000. He currently serves on the Audit and Nominating and Governance Committees.

**DIRECTOR TERMS EXPIRING IN 2008**

**Thomas Everist**

Age 56

Director Since 1995

Term Expires in 2008

Mr. Everist has served as President and Chairman of The Everist Company, Sioux Falls, South Dakota, an aggregate, concrete and asphalt production company, since April 15, 2002. He previously was President and Chairman of L.G. Everist, Inc., Sioux Falls, South Dakota, an aggregate production company, from 1987 to April 15, 2002. He is a Director of Showplace Wood Products, Sioux Falls, South Dakota, a custom cabinets manufacturer; and a Director of Raven Industries, Inc., Sioux Falls, South Dakota, a general manufacturer of electronics, sewn products, flow controls, and engineered films. He currently serves on the Compensation and Nominating and Governance Committees.

**Karen B. Fagg**

Age 52

Director Since 2005

Term Expires in 2008

Ms. Fagg has been President since April 1, 1995 and majority owner since June 2000 of HKM Engineering, Inc., Billings, Montana, an engineering and physical science services firm. She was employed with Mountain States Energy, Inc. (MSE, Inc.), Butte, Montana, an environmental technology research and development company, as Business Development Director and Vice President of Operations from June 1976 through December 1988. Ms. Fagg also served a four-year term as Director of the Montana Department of Natural Resources and Conservation, Helena, Montana, from January 1989 through December 1992. From January 1993 through March 1995, she served as Corporate Development Director for MSE, Inc. She serves on the Montana Board of Investments, the Board of the Montana State University Advanced Technology Park, and the Board of ZooMontana. Ms. Fagg is a member of the Board of Trustees for Carroll College and for St. Vincent's Healthcare. Ms. Fagg currently serves on the Compensation and Nominating and Governance Committees.

**Patricia L. Moss**

Age 52

Director Since 2003

Term Expires in 2008

Ms. Moss has been President, Chief Executive Officer, and a Director of Cascade Bancorp, a financial holding company, and Bank of the Cascades, Bend, Oregon, since 1998. She also serves as a Director of North Pacific Products, Inc., a distributor of wood products, building materials and agricultural commodities, the Oregon Investment Fund Advisory Council, a state sponsored program to encourage the growth of small businesses within Oregon, and Central Oregon Independent Health Services, a ten-county health insurance company. She currently serves on the Audit and Compensation Committees.

**Robert L. Nance**

Age 69

Director Since 1993

Term Expires in 2008

Mr. Nance has been President, Chief Executive Officer, and a Director of Nance Petroleum Corporation, Billings, Montana, an oil and gas exploration and production company, since 1969. He also is a Director of First Interstate BancSystem, Inc., President, Chief Executive Officer, and a Director of Ronan, Inc., a family corporation, and Senior Vice President of St. Mary Land and Exploration Co. of Denver, Colorado. He serves as Chairman of the Land and Royalty Committee of the Independent Petroleum Association of America and is past Chairman of the Petroleum Technology Transfer Council. He currently serves on the Audit and Nominating and Governance Committees.

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## DIRECTORS' COMPENSATION

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Each non-employee Director receives \$20,000 (\$53,000 for the Lead Director) and 2,700 shares of Company Common Stock as an annual retainer for Board service.

The Audit Committee Chairman receives an additional \$8,000 annual retainer. The Nominating and Governance, Finance and Compensation Committee Chairmen each receive an additional \$4,000 annual retainer.

Each non-employee Director also receives \$1,500 for each Board meeting attended and each Committee member receives \$1,500 for each Committee meeting attended.

In addition to liability insurance, the Company maintains group life insurance in the amount of \$100,000 on each non-employee Director for the benefit of each Director's beneficiaries during the time each Director serves on the Board. The annual cost per Director is \$276.

Directors may defer all or any portion of the annual cash retainer, meeting fees and any other cash compensation paid for service as a Director. Deferred amounts are held as phantom stock and paid out in cash over a five year period after the Director leaves the Board.

Directors are reimbursed for all reasonable travel expenses including spousal expenses in connection with attendance at meetings of the Board and its committees. There were approximately 21 spousal trips in 2005.

The Company post-retirement income plan for Directors was terminated in May 2001 for current and future Directors. The net present value of each Director's benefit was calculated and converted into phantom stock. Payment is deferred pursuant to the Deferred Compensation Plan for Directors and will be made in cash over a five-year period after the Director's retirement from the Board.

The Board adopted stock ownership guidelines for Directors in November 2005. Each Director is expected to own Company Common Stock equal in value to five times the Director's annual cash retainer, provided that a Director, with good cause and with the knowledge of the Board, may donate or assign all of the Director's Company Common Stock to a charitable, religious, or non-profit organization in lieu of ownership. Shares acquired through purchases on the open market and participation in the Company's Director stock plans will be considered in ownership calculations as will ownership of Company Common Stock by a spouse. A Director is allowed five years commencing January 1 of the year following the year of that Director's initial election to the Board to meet the guideline requirements. The level of Common Stock ownership is monitored with an annual report made to the Compensation Committee of the Board at the February meeting.

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**ACCOUNTING AND AUDITING MATTERS**


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**Fees**

The following table summarizes the aggregate fees billed or expected to be billed to the Company by its independent auditors, Deloitte & Touche LLP, for professional services rendered for 2005 and 2004:

	2005	2004*
Audit Fees(a)	\$1,822,500	\$2,002,770
Audit Related Fees(b)	223,607	362,693
Tax Fees(c)	74,720	0
All Other Fees(d)	0	0
<b>Total Fees</b>	<b>\$2,120,827</b>	<b>\$2,365,463</b>
Ratio of Tax and All Other Fees to Audit and Audit Related Fees	3.65%	0%

All the 2005 fees for Audit and Audit Related Fees were pre-approved in accordance with the pre-approval policy adopted by the Audit Committee.

- (a) Audit fees for both 2005 and 2004 consisted of services rendered for the audit of the Company's annual financial statements; reviews of the Company's quarterly financial statements; comfort letters; statutory and regulatory audits; and consents and other services related to Securities and Exchange Commission matters.
- (b) Audit Related fees for 2005 and 2004 consisted of services rendered for the audit of the Company's employee benefit plans; due diligence associated with mergers and acquisitions; and consultation on accounting issues.
- (c) Tax fees for 2005 consisted of services related to tax credit filings. No Tax fees were incurred during 2004.
- (d) No All Other fees were incurred during 2005 or 2004.

\*

The 2004 amounts were adjusted from amounts shown in the 2005 proxy statement to reflect actual amounts.

**Pre-Approval Policy**

The services performed by Deloitte & Touche LLP in 2005 were pre-approved in accordance with the pre-approval policy and procedures adopted by the Audit Committee at its August 12, 2003 Audit Committee meeting. This policy is designed to achieve the continued independence of Deloitte & Touche LLP and to assist the Company's compliance with Sections 201 and 202 of the Sarbanes-Oxley Act of 2002 and related rules promulgated by the Securities and Exchange Commission.

The policy defines the permitted services in each of the Audit, Audit Related, Tax and All Other services categories as well as prohibited services. The pre-approval policy requires management to submit annually for approval to the Audit Committee a Service Plan describing the scope of work and anticipated cost associated with each category of service. At each regular Audit Committee meeting, management reports on services performed by Deloitte & Touche LLP and the fees paid or accrued through the end of the



quarter preceding the meeting. Additional services contemplated to be performed before the next scheduled Audit Committee meeting may be submitted to the Designated Member of the Audit Committee (Chairman Dennis W. Johnson) for approval. The Designated Member is required to update the Audit Committee at the next regularly scheduled meeting regarding any services approved during the interim period. At each regular Audit Committee meeting, management submits to the Audit Committee for approval a supplement to the Service Plan containing a request for any additional permitted services required of Deloitte & Touche LLP as determined necessary by management that were not already pre-approved by the Audit Committee, including services approved by the Designated Member.

In addition, prior to approving any request for Audit Related, Tax or All Other services of more than \$50,000, Deloitte & Touche will provide a statement setting forth the reasons why the rendering of the proposed services does not compromise Deloitte & Touche LLP's independence. This description and statement by Deloitte & Touche LLP may be incorporated into the Service Plan or as an exhibit thereto or may be delivered in a separate written statement.

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## RATIFICATION OF INDEPENDENT AUDITORS

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The Board of Directors amended the Company's Corporate Governance Guidelines at its February 2005 meeting to provide for annual stockholder ratification of the appointment of the Company's independent auditors by the Audit Committee.

The Audit Committee at its February 2006 meeting appointed Deloitte & Touche LLP as the Company's independent auditors for fiscal year 2006. The Board of Directors concurred with the Audit Committee's decision. Deloitte & Touche LLP has served as the Company's independent auditors since fiscal year 2002.

Although the stockholders' ratification vote will not affect the current year's appointment or retention, the Audit Committee will consider the stockholders' vote in determining its appointment of the Company's independent auditors for the next fiscal year. The Audit Committee, in appointing the Company's independent auditors, reserves the right, in its sole discretion, to change an appointment at any time during a fiscal year if it determines that such a change would be in the best interests of the Company and its stockholders.

A representative of Deloitte & Touche LLP will be present at the Annual Meeting of Stockholders and will be available to respond to appropriate questions. It is not anticipated that the representative will make a prepared statement at the meeting. However, he or she will be free to do so if he or she chooses.

### **The Board of Directors recommends a vote "For" the ratification of Deloitte & Touche LLP as the Company's independent auditors for 2006.**

Ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors for 2006 requires a majority affirmative vote of the Common Stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against the proposal.

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## AUDIT COMMITTEE REPORT

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The Audit Committee is governed by a written charter adopted in 1979 and amended and restated on February 17, 2005. The Audit Committee Charter is attached as Exhibit "C."

The Audit Committee assists the Board in fulfilling its oversight responsibilities to the stockholders, and serves as a communication link among the Board, management, the independent auditors, and the internal auditors. The Audit Committee (a) assists the Board's oversight of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditors' qualifications and independence, and (iv) the performance of the Company's internal audit function and independent auditors; and (b) prepares the report that Securities and Exchange Commission rules require to be included in the Company's annual proxy statement.

In connection with the Company's financial statements for the year ended December 31, 2005, the Audit Committee has (1) reviewed and discussed the audited financial statements with management; (2) discussed with the independent auditors the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU §380); (3) received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and discussed with the independent accountant the independent accountant's independence.

Based on the review and discussions referred to in items (1) through (3) of the above paragraph, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the Securities and Exchange Commission.

**Dennis W. Johnson, Chairman**

**Richard H. Lewis**

**Patricia L. Moss**

**Robert L. Nance**

**John L. Olson**

**Sister Thomas Welder**

**John K. Wilson**

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## APPROVAL OF THE LONG-TERM PERFORMANCE-BASED INCENTIVE PLAN

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The Board recommends that stockholders approve the Long-Term Performance-Based Incentive Plan (the "LTIP").

The 1997 Executive Long-Term Incentive Plan (the "plan") was approved by the Board of Directors on February 7, 1997, and became effective upon approval by the Company's stockholders at the annual meeting on April 22, 1997. The plan provided that no awards may be made after the tenth anniversary of its effective date.

On February 16, 2006, the Board of Directors approved amendments to the plan (as amended, the "LTIP"), subject to stockholder approval, to (i) change the name of the plan to the Long-Term Performance-Based Incentive Plan, (ii) extend the term until such time as all shares subject to the LTIP have been issued according to the terms of the LTIP, (iii) add minimum vesting requirements for full value awards (i.e., awards other than stock options or stock appreciation rights) and (iv) make other non-material changes. No additional shares for the LTIP were authorized.

Stockholder approval of the LTIP also will constitute re-approval of the material terms of the performance goals under which compensation intended to constitute performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), may be paid. The material terms of the performance goals include (i) the employees eligible to receive awards under the LTIP, (ii) a description of the business criteria on which the performance goals are based and (iii) either the maximum amount of compensation that could be paid to any employee or the formula used to calculate the amount of compensation to be paid to the employee if the performance goals are attained.

### Description of LTIP

The following description of the material features of the LTIP is qualified in its entirety by reference to the text of the LTIP, a copy of which is attached as Exhibit "A" hereto.

### Purpose of the LTIP

The purpose of the LTIP is to promote the success and enhance the value of the Company by linking the personal interests of officers and key employees to those of the Company's stockholders and customers. The LTIP is further intended to assist the Company in its ability to motivate, attract and retain highly qualified individuals to serve as officers and key employees of the Company and its subsidiaries.

### Effective Date and Duration

The LTIP was amended by the Board of Directors on February 16, 2006 subject to approval by stockholders at the annual meeting. The LTIP will remain in effect, subject to the right of the Board of Directors to terminate the LTIP at any time, until all shares subject to the LTIP have been issued.

### Amendment and Termination

The Board may, at any time and from time to time, alter, amend, suspend or terminate the LTIP in whole or in part, provided that no amendment will be made without stockholder approval if the amendment would (i) increase the total number of shares that may be issued under the LTIP, (ii) materially modify the requirements for participation in the LTIP or (iii) materially increase the benefits accruing to participants under the LTIP. The Board also is authorized to amend the LTIP and stock options granted thereunder to maintain qualification as "incentive stock options" within the meaning of Section 422 of the Code, if applicable.

### Administration of the LTIP

The LTIP is administered by the Compensation Committee of the Board or by any other

committee appointed by the Board of Directors (the "Committee").

### Shares Subject to the LTIP

When it originally became effective in 1997, the plan authorized the issuance of up to 1,200,000 shares of MDU Resources Group, Inc. common stock. In 2001, the stockholders approved an amendment to increase the number of shares that could be issued under the plan by 4,000,000 shares. On February 17, 2005, the Board of Directors amended the plan to reduce the number of shares that could be issued by 2,000,000 shares. As of February 17, 2006, 4,297,961 shares remain available for issuance under the plan.

Shares underlying lapsed or forfeited restricted stock awards are not treated as having been issued under the LTIP. Shares withheld from a restricted stock award to satisfy tax withholding obligations are counted as shares issued under the LTIP. Shares that are potentially deliverable under an award that expires or is canceled, forfeited, settled in cash or otherwise settled without the delivery of shares are not treated as having been issued under the LTIP. Shares that are withheld to satisfy the exercise price of a stock option or tax withholding obligations related to a stock option, stock appreciation right or other award under which the shares withheld have not yet been issued are not treated as having been issued under the LTIP.

Shares issued under the LTIP may be authorized but unissued shares of common stock, treasury stock or shares purchased on the open market. The market value of a share of Company common stock as of January 31, 2006 was \$36.20.

In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock split, reverse stock split, stock dividend, split-up, spin-off, share combination, share exchange, extraordinary dividend or any change in the corporate structure of the Company affecting shares, the Committee shall make appropriate adjustments to the number and kind of shares of common stock that may be issued under the LTIP, including the individual annual grant limits for Section 162(m), and the number, kind and/or price of shares of common stock subject to outstanding awards under the LTIP, as it deems appropriate and equitable to prevent dilution or enlargement of participants' rights. Unless otherwise determined by the Committee, the number of shares subject to any adjusted award will always be rounded down to a whole number.

### Eligibility and Participation

Employees eligible to participate in the LTIP include all officers and key employees of the Company and its subsidiaries, as determined by the Committee, including employees who are members of the Board of Directors, but excluding directors who are not employees. The approximate number of employees who are currently eligible to participate under the LTIP is 51.

### Grants under the LTIP

Grants under the LTIP may be made in the form of stock, stock options, stock appreciation rights ("SARs"), performance unit/performance share awards, dividend equivalents, restricted stock and "other awards" defined under Article 10 of the LTIP. The per share exercise price of stock options and the grant price of SARs awarded under the LTIP will not be less than the fair market value of the Company's common stock on the date of grant.

### Individual Annual Grant Limits

The total number of shares with respect to which options or SARs may be granted in any calendar year to any covered employee under Section 162(m) of the Code shall not exceed 1,500,000 shares; (ii) the total number of shares of restricted stock intended to qualify as performance-based compensation that may be granted in any calendar year to any covered employee shall not exceed 1,500,000 shares; (iii) the total number of performance shares or performance units that may be granted in any calendar year to any covered employee shall not exceed 1,500,000 performance shares or performance units, as the case may be; (iv) the total number of shares that are intended to qualify as performance-based compensation granted pursuant to Article 10 of the LTIP in any calendar year to any covered employee shall not exceed 1,500,000 shares; (v) the total cash award that is intended to qualify as performance-based compensation that may be

paid pursuant to Article 10 of the LTIP in any calendar year to any covered employee shall not exceed \$6,000,000; and (vi) the aggregate number of dividend equivalents that are intended to qualify as performance-based compensation that a covered employee may receive in any calendar year shall not exceed \$6,000,000.

A "covered employee" means a person specified in Section 162(m) of the Code generally the chief executive officer and the next four most highly-compensated officers.

### Types of Awards

Following is a general description of the types of awards that may be granted under the LTIP. Terms and conditions of awards will be determined on a grant-by-grant basis by the Committee, subject to limitations contained in the LTIP.

**Stock Options.** The Committee may grant incentive stock options ("ISOs"), nonqualified stock options ("NQSOs") or a combination thereof under the LTIP. The exercise price for each such award shall be not less than the average of the high and low sale prices of Company common stock on the date of grant. Options shall expire at such times and shall have such other terms and conditions as the Committee may determine at the time of grant, provided, however, that no ISO shall be exercisable later than the tenth anniversary of its grant. Dividend equivalents may also be granted.

The option exercise price is payable in cash, in shares of common stock of the Company having a fair market value equal to the exercise price, by share withholding, cashless exercise or any combination of the foregoing.

**Stock Appreciation Rights.** SARs granted under the LTIP may be in the form of freestanding SARs, tandem SARs or a combination thereof. The base value of a freestanding SAR shall be equal to the average of the high and low sale prices of a share of Company common stock on the date of grant. The base value of a tandem SAR shall be equal to the option exercise price of the related option.

Freestanding SARs may be exercised upon such terms and conditions as are imposed by the Committee and as set forth in the SAR award agreement. A tandem SAR may be exercised only with respect to the shares of Company common stock for which its related option is exercisable.

Upon exercise of a SAR, a participant will receive the product of the excess of the fair market value of a share of Company common stock on the date of exercise over the base value multiplied by the number of shares with respect to which the SAR is exercised, subject to satisfaction of applicable tax withholding. Payment due to the participant upon exercise may be made in cash, in shares of Company common stock having a fair market value equal to such cash amount, or in a combination of cash and shares, as determined by the Committee.

**Restricted Stock.** Restricted stock may be granted in such amounts and subject to such terms and conditions as determined by the Committee, including time-based or performance-based vesting restrictions. The Committee may establish performance goals, as described below, for restricted stock.

Participants holding restricted stock may exercise full voting rights with respect to those shares during the restricted period and, subject to the Committee's right to determine otherwise at the time of grant, will receive regular cash dividends. All other distributions paid with respect to the restricted stock shall be credited subject to the same restrictions on transferability and forfeitability as the shares of restricted stock with respect to which they were paid.

**Performance Units and Performance Shares.** Performance units and performance shares may be granted in the amounts and subject to such terms and conditions as determined by the Committee. The Committee shall set performance goals, which, depending on the extent to which they are met during the performance periods established by the Committee, will determine the number and/or value of performance units/shares that will be paid out to participants.

Participants shall receive payment of the value of performance units/shares earned after the end of the performance period. Payment of performance units/shares shall be made in cash and/or shares of common stock which have an aggregate fair market value equal to the value of

the earned performance units/shares at the end of the applicable performance period, in such combination as the Committee determines. Such shares may be granted subject to any restrictions deemed appropriate by the Committee.

*Other Awards.* The Committee may make other awards which may include, without limitation, the grant of shares of common stock based upon attainment of performance goals established by the Committee as described below, the payment of shares in lieu of cash, the payment of cash based on attainment of performance goals and the payment of shares in lieu of cash under other Company incentive or bonus programs.

### Minimum Vesting Requirements

Under the LTIP, the minimum vesting period for full value awards (i.e., awards other than options or SARs) that have no performance-based vesting characteristics is three years (vesting may occur ratably each month, quarter or anniversary of the grant date), and the minimum vesting period for full value awards with performance-based vesting characteristics is one year. The Committee does not have discretion to accelerate vesting of full value awards except in the event of a change in control of the Company or similar transaction, or the death, disability or termination of employment of a participant. The Committee may grant a "*de minimis*" number of full value awards that have a shorter vesting period. For this purpose, "*de minimis*" means 331,279 shares, which is five percent (5%) of the total number of shares reserved for issuance under the LTIP.

### Performance Goals

Performance goals, which are established by the Committee, will be based on one or more of the following measures: sales or revenues, earnings per share, shareholder return and/or value, funds from operations, operating income, gross income, net income, cash flow, return on equity, return on capital, earnings before interest, operating ratios, stock price, customer satisfaction, accomplishment of mergers, acquisitions, dispositions or similar extraordinary business transactions, profit returns and margins, financial return ratios and/or market performance. Performance goals may be measured solely on a corporate, subsidiary or business unit basis, or a combination thereof. Performance goals may reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group of entities or other external measure.

### Termination of Employment

Each award agreement shall set forth the participant's rights with respect to each award following termination of employment.

### Transferability

Except as otherwise determined by the Committee at the time of grant and subject to the provisions of the LTIP, awards may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and a participant's rights shall be exercisable only by the participant or the participant's legal representative during his or her lifetime.

### Change in Control

Upon a change in control, as defined below,

- (a) Any and all options and SARs granted under the LTIP will become immediately exercisable;
- (b) Any restriction periods and restrictions imposed on restricted stock or awards granted pursuant to Article 10 of the LTIP (if not performance-based) will be deemed to have expired, and such restricted stock or awards will become immediately vested in full; and
- (c) The target payout opportunity attainable under all outstanding awards of performance units, performance shares and other awards granted pursuant to Article 10 of the LTIP (if performance-based) will be deemed to have been fully earned for the entire performance period(s) as of the effective date of the change in control and will be paid out promptly in shares or cash pursuant to the terms of the award agreement, or in the absence of such designation, as the Committee shall determine.

A change in control of the Company means the earliest of the following events to occur: (i) the public announcement by the Company or by any person (which shall not include the Company, any subsidiary of the Company, or any employee benefit plan of the Company or of any subsidiary of the Company) ("Person") that such Person, who or which, together with all Affiliates and Associates (within the meanings ascribed to such terms in the Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended) of such Person, shall be the beneficial owner of twenty percent (20%) or more of the voting stock of the Company outstanding; (ii) the commencement of, or after the first public announcement of any Person to commence, a tender or exchange offer the consummation of which would result in any Person becoming the beneficial owner of voting stock aggregating thirty percent (30%) or more of the then outstanding voting stock of the Company; (iii) the announcement of any transaction relating to the Company required to be described pursuant to the requirements of Item 6(e) of Schedule 14A of Regulation 14A under the Securities Exchange Act of 1934; (iv) a proposed change in constituency of the Board such that, during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election or nomination for election by the stockholders of the Company of each new Director was approved by a vote of at least two-thirds ( $\frac{2}{3}$ ) of the Directors then still in office who were members of the Board at the beginning of the period; or (v) any other event which shall be deemed by a majority of the Committee to constitute a "change in control".

### Accounting Restatements

The LTIP provides that if the Company's audited financial statements are restated, the Committee may, in accordance with the Company's *Guidelines for Repayment of Incentives Due to Accounting Restatements*, take certain actions with respect to (a) outstanding awards or (b) vested, earned or exercised awards, if the terms of such awards are or would have been impacted by the restatement. Permissible actions include, without limitation, (i) securing repayment of awards, (ii) granting additional awards, (iii) rescinding vesting of outstanding awards, and/or (iv) causing the forfeiture of outstanding awards. The Committee may take different actions with respect to different awards and different participants, but is not obligated to take any action.

### Section 409A

To the extent applicable, it is intended that the LTIP and any awards made under the LTIP comply with the requirements of Section 409A of the Code. Any provision that would cause the LTIP or any award to fail to satisfy Section 409A will have no force or effect until amended to comply with Section 409A, which amendment may be retroactive to the extent permitted by Section 409A.

### Option Grant Information

It is not possible at this time to determine awards that will be made in the future pursuant to the LTIP. Options that have been granted in the past are set forth in the following table.

## Option Grants Under 1997 Executive Long-Term Incentive Plan

Name and Position	Number of Securities Underlying Options Granted	Exercise Price per Share (\$)	Expiration Date
Martin A. White Chairman of the Board & CEO	270,000	19.8267	2/15/11
Terry D. Hildestad President & Chief Operating Officer	49,680	19.8267	2/15/11
Warren L. Robinson Executive Vice President & Chief Financial Officer (retired)(1)	93,600	19.8267	2/15/11
John K. Castleberry CEO of WBI Holdings, Inc.(2)	94,500	19.8267	2/15/11
Bruce T. Imsdahl President & CEO of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co.	50,625	19.8267	2/15/11
All current executive officers as a group	664,275	19.8267	2/15/11
All current directors who are not executive officers as a group	0	0	0
Each nominee for election as a director	0	0	0
Each associate of such persons	0	0	0
Each other person who received 5% of such options	0	0	0
All employees, including all current officers who are not executive officers, as a group	684,045	19.8267	2/15/11
	147,330	24.2933	2/15/11
	15,030	18.4167	2/15/11
	28,020	19.6333	2/15/11
	25,515	17.2933	2/15/11

- (1) Mr. Robinson resigned as Executive Vice President and Chief Financial Officer effective January 3, 2006 and retired effective February 17, 2006.
- (2) Mr. Castleberry was elected Executive Vice President-Administration of the Company effective March 4, 2006.

## Federal Income Tax Consequences

The following is a brief description of the principal federal income tax consequences relating to options awarded under the LTIP. This summary is based on the Company's understanding of present federal income tax law and regulations. The summary does not purport to be complete or applicable to every specific situation.

## Consequences to the Optionholder

**Grant.** There are no federal income tax consequences to the optionholder solely by reason of the grant of ISOs or NQSOs under the LTIP.

**Exercise.** The exercise of an ISO is not a taxable event for regular federal income tax purposes if certain requirements are satisfied, including the requirement that the optionholder generally must exercise the ISO no later than three months following the termination of the optionholder's employment with the Company. However, such exercise may give rise to alternative minimum tax liability (see "Alternative Minimum Tax" below).

Upon the exercise of a NQSO, the optionholder will generally recognize ordinary income in an amount equal to the excess of the fair market value of the shares of Company common stock at the time of exercise over the amount paid therefor by the optionholder as the exercise





price. The ordinary income, if any, recognized in connection with the exercise by an optionholder of a NQSO will be subject to both wage and employment tax withholding.

The optionholder's tax basis in the shares acquired pursuant to the exercise of an option will be the amount paid upon exercise plus, in the case of a NQSO, the amount of ordinary income, if any, recognized by the optionholder upon exercise thereof.

**Qualifying Disposition.** If an optionholder disposes of shares of Company common stock acquired upon exercise of an ISO in a taxable transaction, and such disposition occurs more than two years from the date on which the option was granted and more than one year after the date on which the shares were transferred to the optionholder pursuant to the exercise of the ISO, the optionholder will recognize long-term capital gain or loss equal to the difference between the amount realized upon such disposition and the optionholder's adjusted basis in such shares (generally the option exercise price).

**Disqualifying Disposition.** If the option-holder disposes of shares of Company common stock acquired upon the exercise of an ISO (other than in certain tax-free transactions) within two years from the date on which the ISO was granted or within one year after the transfer of shares to the optionholder pursuant to the exercise of the ISO, at the time of disposition the optionholder will generally recognize ordinary income equal to the lesser of (i) the excess of each such share's fair market value on the date of exercise over the exercise price paid by the optionholder or (ii) the optionholder's actual gain (i.e., the excess, if any, of the amount realized on the disposition over the exercise price paid by the optionholder). If the total amount realized in a taxable disposition (including return of capital and capital gain) exceeds the fair market value on the date of exercise of the shares of Company common stock purchased by the optionholder under the option, the optionholder will recognize a capital gain in the amount of such excess. If the optionholder incurs a loss on the disposition (i.e., if the total amount realized is less than the exercise price paid by the optionholder), the loss will be a capital loss.

**Other Disposition.** If an optionholder disposes of shares of Company common stock acquired upon exercise of a NQSO in a taxable transaction, the optionholder will recognize capital gain or loss in an amount equal to the difference between the optionholder's basis (as discussed above) in the shares sold and the total amount realized upon disposition. Any such capital gain or loss (and any capital gain or loss recognized on a disqualifying disposition of shares of Company common stock acquired upon exercise of ISOs as discussed above) will be short-term or long-term depending on whether the shares of Company common stock were held for more than one year from the date such shares were transferred to the optionholder.

**Alternative Minimum Tax.** Alternative minimum tax ("AMT") is payable if and to the extent the amount thereof exceeds the amount of the taxpayer's regular tax liability, and any AMT paid generally may be credited against future regular tax liability (but not future AMT liability). AMT applies to alternative minimum taxable income.

For AMT purposes, the spread upon exercise of an ISO (but not a NQSO) will be included in alternative minimum taxable income, and the taxpayer will receive a tax basis equal to the fair market value of the shares of Company common stock at such time for subsequent AMT purposes. However, if the optionholder disposes of the ISO shares in the year of exercise, the AMT income cannot exceed the gain recognized for regular tax purposes, provided that the disposition meets certain third-party requirements for limiting the gain on a disqualifying disposition. If there is a disqualifying disposition in a year other than the year of exercise, the income on the disqualifying disposition is not considered alternative minimum taxable income.

### Consequences to the Company

There are no federal income tax consequences to the Company by reason of the grant of ISOs or NQSOs or the exercise of an ISO (other than disqualifying dispositions).

At the time the optionholder recognizes ordinary income from the exercise of a NQSO, the Company will be entitled to a federal income tax deduction in the amount of the ordinary income

so recognized (as described above), provided that the Company satisfies its reporting obligations described below. To the extent the optionholder recognizes ordinary income by reason of a disqualifying disposition of the stock acquired upon exercise of an ISO, the Company will be entitled to a corresponding deduction in the year in which the disposition occurs.

The Company will be required to report to the Internal Revenue Service any ordinary income recognized by any optionholder by reason of the exercise of a NQSO or upon a disqualifying disposition of an ISO. The Company will be required to withhold income and employment taxes (and pay the employer's share of employment taxes) with respect to ordinary income recognized by the optionholder upon the exercise of a NQSO, but not upon a disqualifying disposition of an ISO.

### Other Tax Consequences

The foregoing discussion is not a complete description of the federal income tax aspects of options granted under the LTIP. In addition, administrative and judicial interpretations of the application of the federal income tax laws are subject to change. Furthermore, the foregoing discussion does not address state or local tax consequences.

### **The Board of Directors recommends a vote "For" this proposal.**

Under the rules of the New York Stock Exchange, approval of the Long-Term Performance-Based Incentive Plan requires a majority of the votes cast to be in favor of approval, provided that the total votes cast represent over 50 percent in interest of all securities entitled to vote on the proposal. In determining whether the number of votes cast represents over 50 percent in interest of all securities entitled to vote, abstentions will count as votes cast and broker non-votes will not count as votes cast. Broker non-votes occur if brokers are given no voting instructions from their customers with respect to the proposal, since the New York Stock Exchange rules prohibit discretionary voting on equity compensation plans.

For purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, approval requires a majority of the votes cast to be in favor of approval. Under Delaware law, approval requires a majority affirmative vote of the Common Stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against the proposal and broker non-votes will have no effect.

**Equity Compensation Plan Information**

The following table includes information as of December 31, 2005 with respect to the Company's equity compensation plans:

**Equity Compensation Plan Information**

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation plans approved by stockholders(1)	1,615,809(2)\$	20.87	5,405,783(3)(4)
Equity Compensation plans not approved by stockholders(5)	674,775 \$	19.25	1,521,100(6)
<b>Total</b>	<b>2,290,584 \$</b>	<b>20.39</b>	<b>6,926,883</b>

(1) Consists of the 1992 Key Employee Stock Option Plan, the 1997 Non-Employee Director Long-Term Incentive Plan, the 1997 Executive Long-Term Incentive Plan and the Non-Employee Director Stock Compensation Plan.

(2) Includes 432,602 performance shares.

(3) In addition to being available for future issuance upon exercise of options, 238,500 shares under the 1997 Non-Employee Director Long-Term Incentive Plan may instead be issued in connection with stock appreciation rights, restricted stock, performance units, performance shares or other equity-based awards, and 4,343,295 shares under the 1997 Executive Long-Term Incentive Plan may instead be issued in connection with stock appreciation rights, restricted stock, performance units, performance shares or other equity-based awards.

(4) This amount also includes 372,538 shares available for issuance under the Non-Employee Director Stock Compensation Plan. Under this plan, in addition to a cash retainer, non-employee Directors are awarded 2,700 shares following the Company's annual meeting of stockholders. Additionally, a non-employee Director may acquire additional shares under the plan in lieu of receiving the cash portion of the Director's retainer or fees.

(5) Consists of the 1998 Option Award Program and the Group Genius Innovation Plan.

(6) In addition to being available for future issuance upon exercise of options, 147,700 shares under the Group Genius Innovation Plan may instead be issued in connection with stock appreciation rights, restricted stock, restricted stock units, performance units, performance stock or other equity-based awards.

The following equity compensation plans have not been approved by the Company's stockholders.

**The 1998 Option Award Program**

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The 1998 Option Award Program is a broad-based plan adopted by the Board of Directors, effective February 12, 1998. The plan permits the grant of nonqualified stock options to employees of the Company and its subsidiaries. The maximum number of shares that may be issued under the plan is 2,809,342. Shares granted may be authorized but unissued shares, treasury shares, or shares purchased on the open market. Option exercise prices are equal to the market value of the Company's shares on the date of the option grant. Optionees receive dividend equivalents on their options, with any credited dividends paid in cash to the optionee if the option vests, or forfeited if the option is forfeited.

Vested options

remain exercisable for one year following termination of employment due to death or disability and for three months following termination of employment for any other reason.

Unvested options are forfeited upon termination of employment. Subject to the terms and conditions of the plan, the plan's administrative committee determines the number of shares subject to options granted to each participant and the other terms and conditions pertaining to such options, including vesting provisions. All options become immediately exercisable in the event of a change in control of the Company.

In 1998, 225 options (adjusted for the three-for-two stock split in July 1998 and the three-for-two stock split in October 2003) were granted to each of approximately 2,200 employees. No officers received grants. These options vested on March 2, 2001. In 2001, 300 options (adjusted for the three-for-two stock split in October 2003) were granted to each of approximately 5,900 employees. No officers received grants. These options vested on February 13, 2004. As of December 31, 2005, options on 674,775 shares of Common Stock were outstanding under the plan. 1,373,400 shares remained available for future grant and options on 761,167 shares had been exercised.

### **The Group Genius Innovation Plan**

The Group Genius Innovation P