VECTREN CORP
Form 10-Q
May 01, 2009

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________________ to __________________

Commission file number: 1-15467

VECTREN CORPORATION
(Exact name of registrant as specified in its charter)

INDIANA	35-2086905
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One Vectren Square, Evansville, IN 47708
(Address of principal executive offices) (Zip Code)

812-491-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer r

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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes x No

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

Common Stock- Without Par Value	81,041,060	April 30, 2009
Class	Number of Shares	Date

Access to Information

Vectren Corporation makes available all SEC filings and recent annual reports free of charge through its website at www.vectren.com as soon as reasonably practicable after electronically filing or furnishing the reports to the SEC, or by request, directed to Investor Relations at the mailing address, phone number, or email address that follows:

Mailing Address:	Phone Number:	Investor Relations Contact:
One Vectren Square	(812) 491-4000	Steven M. Schein
Evansville, Indiana 47708		Vice President, Investor Relations
		sschein@vectren.com

Definitions

AFUDC: allowance for funds used during construction

APB: Accounting Principles Board

EITF: Emerging Issues Task Force

FASB: Financial Accounting Standards Board

FERC: Federal Energy Regulatory Commission

IDEM: Indiana Department of Environmental Management

IURC: Indiana Utility Regulatory Commission

MCF / BCF: thousands / billions of cubic feet

MDth / MMDth: thousands / millions of dekatherms

MISO: Midwest Independent System Operator

MMBTU: millions of British thermal units

MW: megawatts

MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)

OCC: Ohio Office of the Consumer Counselor

OUCC: Indiana Office of the Utility Consumer Counselor

PUCO: Public Utilities Commission of Ohio

SFAS: Statement of Financial Accounting Standards

USEPA: United States Environmental Protection Agency

Throughput: combined gas sales and gas transportation volumes

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited – In millions)

	March 31, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash & cash equivalents	$ 19.4	$ 93.2
Accounts receivable - less reserves of $6.1 & $5.6, respectively	214.9	226.7
Accrued unbilled revenues	83.0	197.0
Inventories	92.7	131.0
Recoverable fuel & natural gas costs	-	3.1
Prepayments & other current assets	40.8	124.6
Total current assets	450.8	775.6
Utility Plant		
Original cost	4,411.2	4,335.3
Less: accumulated depreciation & amortization	1,642.7	1,615.0
Net utility plant	2,768.5	2,720.3
Investments in unconsolidated affiliates	164.9	179.1
Other utility & corporate investments	26.6	25.7
Other nonutility investments	46.0	45.9
Nonutility property - net	410.3	390.2
Goodwill - net	240.3	240.2
Regulatory assets	203.1	216.7
Other assets	35.1	39.2
TOTAL ASSETS	$ 4,345.6	$ 4,632.9

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

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VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited – In millions)

	March 31, 2009	December 31, 2008
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 131.3	$ 266.1
Accounts payable to affiliated companies	38.0	75.2
Refundable fuel & natural gas costs	25.6	4.1
Accrued liabilities	217.8	175.0
Short-term borrowings	113.6	519.5
Current maturities of long-term debt	0.4	0.4
Long-term debt subject to tender	80.0	80.0
Total current liabilities	606.7	1,120.3
Long-term Debt - Net of Current Maturities & Debt Subject to Tender	1,438.6	1,247.9
Deferred Income Taxes & Other Liabilities		
Deferred income taxes	357.0	353.4
Regulatory liabilities	318.2	315.1
Deferred credits & other liabilities	239.2	244.6
Total deferred credits & other liabilities	914.4	913.1
Commitments & Contingencies (Notes 7, 9-11)		
Common Shareholders' Equity		
Common stock (no par value) – issued & outstanding 81.0 & 81.0, respectively	660.8	659.1
Retained earnings	758.5	712.8
Accumulated other comprehensive income (loss)	(33.4)	(20.3)
Total common shareholders' equity	1,385.9	1,351.6
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 4,345.6	$ 4,632.9

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

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VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited – In millions, except per share data)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
OPERATING REVENUES		
Gas utility	$ 527.4	$ 633.6
Electric utility	125.0	127.2
Nonutility revenues	142.8	141.3
Total operating revenues	795.2	902.1
OPERATING EXPENSES		
Cost of gas sold	354.6	462.0
Cost of fuel & purchased power	47.0	46.0
Cost of nonutility revenues	74.2	95.3
Other operating	122.7	115.8
Depreciation & amortization	51.4	47.4
Taxes other than income taxes	23.5	26.8
Total operating expenses	673.4	793.3
OPERATING INCOME	121.8	108.8
OTHER INCOME		
Equity in earnings of unconsolidated affiliates	12.6	14.0
Other income – net	2.4	3.0
Total other income	15.0	17.0
INTEREST EXPENSE	22.7	25.3
INCOME BEFORE INCOME TAXES	114.1	100.5
INCOME TAXES	41.3	36.5
NET INCOME	$ 72.8	$ 64.0
AVERAGE COMMON SHARES OUTSTANDING	80.6	76.0
DILUTED COMMON SHARES OUTSTANDING	80.7	76.1
EARNINGS PER SHARE OF COMMON STOCK:		
BASIC	$ 0.90	$ 0.84
DILUTED	$ 0.90	$ 0.84
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$ 0.34	$ 0.33

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

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VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited – In millions)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 72.8	$ 64.0
Adjustments to reconcile net income to cash from operating activities:		
Depreciation & amortization	51.4	47.4
Deferred income taxes & investment tax credits	11.3	12.7
Equity in earnings of unconsolidated affiliates	(12.6)	(14.0)
Provision for uncollectible accounts	4.3	5.3
Expense portion of pension & postretirement periodic benefit cost	2.6	1.9
Other non-cash charges - net	1.0	2.0
Changes in working capital accounts:		
Accounts receivable & accrued unbilled revenues	120.7	(26.8)
Inventories	38.8	96.8
Recoverable/refundable fuel & natural gas costs	24.7	(3.4)
Prepayments & other current assets	83.2	91.7
Accounts payable, including to affiliated companies	(167.0)	(74.4)
Accrued liabilities	43.4	84.3
Unconsolidated affiliate dividends	4.3	2.9
Changes in noncurrent assets	14.8	5.9
Changes in noncurrent liabilities	(9.2)	(7.9)
Net cash flows from operating activities	284.5	288.4
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Long-term debt, net of issuance costs	191.2	171.5
Stock option exercises & other	1.5	-
Requirements for:		
Dividends on common stock	(27.1)	(24.7)
Retirement of long-term debt	(0.6)	(103.2)
Net change in short-term borrowings	(405.9)	(251.9)
Net cash flows from financing activities	(240.9)	(208.3)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Other collections	0.9	1.9
Requirements for:		
Capital expenditures, excluding AFUDC equity	(117.4)	(69.6)
Unconsolidated affiliate investments	(0.1)	(0.1)
Other investments	(0.8)	(7.7)
Net cash flows from investing activities	(117.4)	(75.5)
Net change in cash & cash equivalents	(73.8)	4.6
Cash & cash equivalents at beginning of period	93.2	20.6
Cash & cash equivalents at end of period	$ 19.4	$ 25.2

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

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VECTREN CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Nature of Operations

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana. The Company's wholly owned subsidiary, Vectren Utility Holdings, Inc. (Utility Holdings), serves as the intermediate holding company for three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren North), Southern Indiana Gas and Electric Company (SIGECO or Vectren South), and the Ohio operations (VEDO or Vectren Ohio). Utility Holdings also has other assets that provide information technology and other services to the three utilities. Utility Holdings' consolidated operations are collectively referred to as the Utility Group. Both Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005 (Energy Act). Vectren was incorporated under the laws of Indiana on June 10, 1999.

Indiana Gas provides energy delivery services to over 567,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to over 141,000 electric customers and approximately 111,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. The Ohio operations provide energy delivery services to approximately 317,000 natural gas customers located near Dayton in west central Ohio. The Ohio operations are owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc. (VEDO), a wholly owned subsidiary of Utility Holdings (53 percent ownership), and Indiana Gas (47 percent ownership). The Ohio operations generally do business as Vectren Energy Delivery of Ohio.

The Company, through Vectren Enterprises, Inc. (Enterprises), is involved in nonutility activities in three primary business areas: Energy Marketing and Services, Coal Mining and Energy Infrastructure Services. Energy Marketing and Services markets and supplies natural gas and provides energy management services. Coal Mining mines and sells coal. Energy Infrastructure Services provides underground construction and repair services and performance contracting and renewable energy services. Enterprises also has other legacy businesses that have invested in energy-related opportunities and services, real estate, and leveraged leases, among other investments. These operations are collectively referred to as the Nonutility Group. Enterprises supports the Company's regulated utilities pursuant to service contracts by providing natural gas supply services, coal, and infrastructure services.

2. Basis of Presentation

The interim consolidated condensed financial statements included in this report have been prepared by the Company, without audit, as provided in the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted as provided in such rules and regulations. The information in this report reflects all adjustments which are, in the opinion of management, necessary to fairly state the interim periods presented, inclusive of adjustments that are normal and recurring in nature. These consolidated condensed financial statements and related notes should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2008, filed with the Securities and Exchange Commission on February 19, 2009, on Form 10-K. Because of the seasonal nature of the Company's utility operations, the results shown on a quarterly basis are not necessarily indicative of annual results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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3. Comprehensive Income

Comprehensive income consists of the following:

(In millions)	Three Months Ended March 31, 2009	2008
Net income	$ 72.8	$ 64.0
Comprehensive loss of unconsolidated affiliates	(21.9)	(10.1)
Cash flow hedges		
Unrealized gains/(losses)	0.1	-
Reclassifications to net income	(0.1)	(0.2)
Income tax benefit	8.9	4.0
Total comprehensive income	$ 59.8	$ 57.7

Accumulated other comprehensive income arising from unconsolidated affiliates is primarily the Company's portion of ProLiance Holdings, LLC's accumulated comprehensive income related to use of cash flow hedges. (See Note 7 for more information on ProLiance.)

4. Earnings Per Share

Earnings per share (EPS) is calculated in accordance with SFAS 128, "Earnings Per Share" and its related interpretations. Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share includes the impact of stock options and other equity based instruments to the extent the effect is dilutive. The following table illustrates the basic and dilutive earnings per share calculations for the periods presented in these financial statements.

(In millions, except per share data)	Three Months Ended March 31, 2009	2008
Numerator:		
Reported net income	$ 72.8	$ 64.0
Less: Income allocated to participating share-based securities	(0.2)	(0.2)
Reported net income (Basic & Diluted EPS)	$ 72.6	$ 63.8
Denominator:		
Weighted average common shares outstanding (Basic EPS)	80.6	76.0
Conversion of stock options	0.1	0.1
Adjusted weighted average shares outstanding and assumed conversions outstanding (Diluted EPS)	80.7	76.1
Basic earnings per share	$ 0.90	$ 0.84
Diluted earnings per share	$ 0.90	$ 0.84

For the three months ended March 31, 2009, options to purchase 837,100 additional shares of the Company's common stock were outstanding, but were not included in the computation of diluted EPS because their effect would be antidilutive. The exercise prices for these options ranged from $23.19 to $27.15. For the three months ended March 31, 2008, all options were dilutive. For the three months ended March 31, 2008, the effect of an equity forward was

antidilutive and was therefore excluded from the calculation of diluted EPS.

Participating Securities

On January 1, 2009, the Company adopted FSP EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” (FSP EITF 03-6-1). FSP EITF 03-6-1 clarified that unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature that impact the EPS calculation are participating securities. The presence of a participating security requires EPS to be calculated using the two-class method.

Of the approximate 81 million shares outstanding as of March 31, 2009, unvested share-based payment awards that contain rights to nonforfeitable dividends comprise less than one percent. The Company recently prospectively changed share-based payment awards such that dividends on awards granted in 2009 and beyond are subject to forfeiture.

As a result of the insignificant level of participating securities subject to the two-class method of computing earnings per share, the adoption of FSP EITF 03-6-1 had immaterial impacts to both current and prior period earnings per share calculations.

5. Excise and Utility Receipts Taxes

Excise taxes and a portion of utility receipts taxes are included in rates charged to customers. Accordingly, the Company records these taxes received as a component of operating revenues, which totaled $15.9 million and $19.3 in the three months ended March 31, 2009 and 2008, respectively. Expenses associated with excise and utility receipts taxes are recorded as a component of Taxes other than income taxes.

6. Retirement Plans & Other Postretirement Benefits

The Company maintains three qualified defined benefit pension plans, a nonqualified supplemental executive retirement plan (SERP), and three other postretirement benefit plans. The qualified pension plans and the SERP are aggregated under the heading “Pension Benefits.” Other postretirement benefit plans are aggregated under the heading “Other Benefits.”

Net Periodic Benefit Cost

A summary of the components of net periodic benefit cost follows:

	Three Months Ended March 31,			
	Pension Benefits		Other Benefits	
(In millions)	2009	2008	2009	2008
Service cost	$ 1.6	$ 1.5	$ 0.1	$ 0.1
Interest cost	3.9	3.8	1.1	1.0
Expected return on plan assets	(4.1)	(4.1)	(0.1)	(0.1)
Amortization of prior service cost	0.4	0.4	(0.2)	(0.2)
Amortization of transitional obligation	-	-	0.3	0.3
Amortization of actuarial loss	0.6	-	0.1	-
Net periodic benefit cost	$ 2.4	$ 1.6	$ 1.3	$ 1.1

Employer Contributions to Qualified Pension Plans

Currently, the Company expects to contribute approximately $25 to $30 million to its pension plan trusts for 2009. Through March 31, 2009, contributions of $4.7 million have been made to the pension plan trusts.

7. Transactions with ProLiance Holdings, LLC

ProLiance Holdings, LLC (ProLiance), a nonutility energy marketing affiliate of Vectren and Citizens Energy Group (Citizens), provides services to a broad range of municipalities, utilities, industrial operations, schools, and healthcare institutions located throughout the Midwest and Southeast United States. ProLiance’s customers include Vectren’s Indiana utilities and nonutility gas supply operations as well as Citizens’ utilities. ProLiance’s primary businesses include gas marketing, gas portfolio optimization, and other portfolio and energy management services. Consistent with its ownership percentage, Vectren is allocated 61 percent of ProLiance’s profits and losses; however, governance and voting rights remain at 50 percent for each member; and therefore, the Company accounts for its investment in ProLiance using the equity method of accounting.

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Summarized Financial Information

Summarized financial information related to ProLiance is presented below:

(In millions)	Three Months Ended March 31, 2009	2008
Summarized statement of income information:		
Revenues	$ 658.8	$ 809.6
Operating income	21.3	23.3
ProLiance's earnings	21.8	23.6

(In millions)	As of March 31, 2009	As of December 31, 2008
Summarized balance sheet information:		
Current assets	$ 442.9	$ 661.5
Noncurrent assets	104.3	104.2
Current liabilities	316.7	514.0
Noncurrent liabilities	3.7	3.6
Members' equity	310.5	295.8
Accumulated other comprehensive income (loss)	(83.7)	(47.7)

Vectren records its 61 percent share of ProLiance’s earnings after income taxes and an interest expense allocation.

Regulatory Matter

ProLiance self reported to the Federal Energy Regulatory Commission (FERC) in October 2007 possible non-compliance with the FERC’s capacity release policies. ProLiance has taken corrective actions to assure that current and future transactions are compliant. ProLiance is committed to full regulatory compliance and is cooperating fully with the FERC regarding these issues. ProLiance believes that it has adequately reserved for this matter. Although the outcome of any legal or regulatory proceedings resulting from these matters cannot be predicted, the final resolution of these matters is not expected to have a material impact on the Company’s consolidated operating results, financial position or cash flows.

Investment in Liberty Gas Storage

Liberty Gas Storage, LLC (Liberty) is a joint venture between a subsidiary of ProLiance and a subsidiary of Sempra Energy (SE). ProLiance is the minority member with a 25 percent interest, which it accounts for using the equity method. Liberty, as currently permitted, is a 17 BCF salt dome facility in southern Louisiana, near Sulphur, Louisiana. Liberty also owns a second site near Hackberry, Louisiana with the potential to develop an additional 17 BCF of storage. ProLiance has a long term contract for approximately 5 Bcf of working gas capacity. The total project cost incurred at the Sulphur site through March 31, 2009 is approximately $200 million. ProLiance’s portion of the cost incurred is approximately $50 million.

In late 2008, SE advised ProLiance that the completion of this phase of Liberty’s development at the Sulphur site has been delayed by subsurface and well-completion problems. To date, corrective measures have been unsuccessful. Among other options, other corrective measures are being evaluated but it is possible that the salt-cavern facility may not go into service, or may have reduced capacity when placed in service. ProLiance estimates the maximum exposure of its investment in the Sulphur site is $35 million. The Company’s proportionate share would be $12 million after tax. The Company believes that such a charge, should it occur, would not have a material adverse effect on either the Company’s or ProLiance’s financial position, cash flows, or liquidity, but it could be material to net income in any one accounting period. Further, it is not expected that the delay in Liberty’s development will impact ProLiance’s ability to meet the needs of its customers.

Transactions with ProLiance
Purchases from ProLiance for resale and for injections into storage for the three months ended March 31, 2009 and 2008 totaled $202.9 million and $289.4 million, respectively. Amounts owed to ProLiance at March 31, 2009, and December 31, 2008, for those purchases were $38.0 million and $75.1 million, respectively, and are included in Accounts payable to affiliated companies. Vectren received regulatory approval on April 25, 2006, from the IURC for ProLiance to provide natural gas supply services to the Company's Indiana utilities through March 2011. Amounts charged by ProLiance for gas supply services are established by supply agreements with each utility.

8. 2009 Long-Term Debt Transactions

Post March 31, 2009 Utility Holdings Debt Issuance
On April 7, 2009, Utility Holdings entered into a private placement Note Purchase Agreement pursuant to which institutional investors purchased from Utility Holdings $100 million in 6.28 percent senior unsecured notes due April 7, 2020 (2020 Notes). The 2020 Notes are guaranteed by Utility Holdings' three utilities: SIGECO, Indiana Gas, and VEDO. These guarantees are full and unconditional and joint and several. The proceeds from the sale of the 2020 Notes and net of issuance costs totaled approximately $99.3 million. Since this issuance occurred after March 31, 2009, its impact is not reflected in the consolidated balance sheet.

The 2020 Notes have no sinking fund requirements, and interest payments are due semi-annually. The 2020 Notes contain customary representations, warranties and covenants, including a leverage covenant consistent with leverage covenants contained in the Utility Holdings' $515 million short-term credit facility.

SIGECO 2009 Debt Issuance
On March 26, 2009, SIGECO remarketed the remaining $41.3 million of long-term debt held in treasury at December 31, 2008, receiving proceeds, net of issuance costs of approximately $40.6 million. The remarketed notes have a variable rate interest rate which is reset weekly and are supported by a standby letter of credit backed by Utility Holdings' $515 million short-term credit facility. The notes are collateralized by SIGECO's utility plant, and $9.8 million are due in 2015 and $31.5 million are due in 2025. The initial interest rate paid to investors was 0.55 percent. The equivalent rate of the debt at inception, inclusive of interest, weekly remarketing fees, and letter of credit fees approximated 1 percent.

Vectren Capital Corp. 2009 Debt Issuance
On March 11, 2009, Vectren and Vectren Capital Corp., its wholly-owned subsidiary (Vectren Capital), entered into a private placement Note Purchase Agreement (the "2009 Note Purchase Agreement") pursuant to which various institutional investors purchased the following tranches of notes from Vectren Capital: (i) $30 million in 6.37 percent senior notes, Series A due 2014, (ii) $60 million in 6.92 percent senior notes, Series B due 2016 and (iii) $60 million in 7.30 percent senior notes, Series C due 2019. These senior notes are unconditionally guaranteed by Vectren, the parent of Vectren Capital. These notes have no sinking fund requirements, and interest payments are due semi-annually. The proceeds from the sale of the notes and net of issuance costs totaled approximately $149.0 million.

The 2009 Note Purchase Agreement contains customary representations, warranties and covenants, including a leverage covenant consistent with leverage covenants contained in the Vectren Capital $255 million short-term credit facility.

On March 11, 2009, Vectren and Vectren Capital also entered into a first amendment with respect to prior note purchase agreements for the remaining outstanding Vectren Capital debt, other than the $22.5 million series due in 2010, to conform the covenants in certain respects to those contained in the 2009 Note Purchase Agreement.

9. Commitments & Contingencies

Guarantees

In the normal course of business, Vectren Corporation issues guarantees supporting the performance of its consolidated subsidiaries as well as its unconsolidated affiliates. Such guarantees which contain varying terms generally allow those subsidiaries and affiliates to execute transactions on more favorable terms than the subsidiaries and affiliates could obtain without such a guarantee. Guarantees may include posted letters of credit, leasing guarantees, and contract performance guarantees.

Related specifically to guarantees supporting the performance and activities of unconsolidated affiliates, as of March 31, 2009, such guarantees approximated $3 million. These guarantees relate primarily to arrangements between ProLiance and various natural gas pipeline operators. The Company has accrued no liabilities for these unconsolidated affiliate guarantees as they were executed prior to the adoption of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

Legal Proceedings

The Company is party to various legal proceedings arising in the normal course of business. In the opinion of management, there are no legal proceedings pending against the Company that are likely to have a material adverse effect on its financial position, results of operations or cash flows.

10. Environmental Matters

Clean Air Act

The Clean Air Interstate Rule (CAIR) is an allowance cap and trade program requiring further reductions from coal-burning power plants in NOx emissions beginning January 1, 2009 and SO2 emissions beginning January 1, 2010, with a second phase of reductions in 2015. On July 11, 2008, the US Court of Appeals for the District of Columbia vacated the federal CAIR regulations. Various parties filed motions for reconsideration, and on December 23, 2008, the Court reinstated the CAIR regulations and remanded the regulations back to the USEPA for promulgation of revisions in accordance with the Court's July 11, 2008 Order. Thus, the original version of CAIR promulgated in March of 2005 remains effective while USEPA revises it per the Court's guidance. It is possible that a revised CAIR will require further reductions in NOx and SO2 from SIGECO's generating units. SIGECO is in compliance with the current CAIR Phase I annual NOx reduction requirements in effect on January 1, 2009. Utilization of the Company's inventory of NOx and SO2 allowances may also be impacted if CAIR is further revised; however, most of the these allowances were granted to the Company at zero cost, so a reduction in carrying value is not expected.

Similarly, in March of 2005, USEPA promulgated the Clean Air Mercury Rule (CAMR). CAMR is an allowance cap and trade program requiring further reductions in mercury emissions from coal-burning power plants. The CAMR regulations were vacated by the US Court of Appeals for the DC Circuit in July 2008. It is possible that the vacatur of the CAMR regulations will lead to increased support for the passage of a multi-pollutant bill in Congress. It is also possible that the USEPA will promulgate a revised mercury regulation in 2009.

To comply with Indiana's implementation plan of the Clean Air Act of 1990, the CAIR regulations, and to comply with potential future regulations of mercury and further NOx and SO2 reductions, SIGECO has IURC authority to invest in clean coal technology. Using this authorization, SIGECO has invested approximately $307 million in pollution control equipment, including Selective Catalytic Reduction (SCR) systems and fabric filters. SCR technology is the most effective method of reducing NOx emissions where high removal efficiencies are required and fabric filters control particulate matter emissions. These investments were included in rate base for purposes of determining new base rates that went into effect on August 15, 2007. Prior to being included in base rates, return on investments made and recovery of related operating expenses were recovered through a rider mechanism.

Further, the IURC granted SIGECO authority to invest in an SO2 scrubber at its generating facility that is jointly owned with ALCOA (the Company's portion is 150 MW). The order allows SIGECO to recover an approximate 8 percent return on capital investments through a rider mechanism which is periodically updated for actual costs incurred less post in-service depreciation expense. Through March 31, 2009, the Company has invested approximately $100 million in this project. The scrubber was placed into service on January 1, 2009. Recovery through a rider mechanism of associated operating expenses including depreciation expense associated with the scrubber also began on January 1, 2009. With the SO2 scrubber fully operational, SIGECO is positioned for compliance with the additional SO2 reductions required by Phase I CAIR commencing on January 1, 2010.

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SIGECO's coal fired generating fleet is 100 percent scrubbed for SO2 and 90 percent controlled for NOx. SIGECO's investments in scrubber, SCR and fabric filter technology allows for compliance with existing regulations and should position it to comply with future reasonable pollution control legislation, if and when, reductions in mercury and further reductions in NOx and SO2 are promulgated by USEPA.

Climate Change

There are currently several forms of legislation being circulated at the federal level addressing the climate change issue. These proposals generally involve either: 1) a "cap and trade" approach where there is a progressive cap on greenhouse gas emissions and an auctioning and subsequent trading of allowances among those that emit greenhouse gases or 2) a carbon tax. Most proposed legislation also includes a federal renewable energy portfolio standard. Currently no legislation has passed either house of Congress. However, The U.S. House of Representatives is currently debating a comprehensive energy bill proposal that includes a carbon cap and trade program, a federal renewable portfolio standard, and utility energy efficiency targets.

In the absence of federal legislation, several regional initiatives throughout the United States are in the process of establishing regional cap and trade programs. While no climate change legislation is pending in the State of Indiana, the State is an observer of the Midwestern Regional Greenhouse Gas Reduction Accord, and in the recently completed 2009 session, its legislature debated, but did not pass, a renewable energy portfolio standard.

In April of 2007, the US Supreme Court determined that greenhouse gases meet the definition of "air pollutant" under the Clean Air Act and ordered the USEPA to determine whether greenhouse gas emissions from new motor vehicles cause or contribute to air pollution that may reasonably be anticipated to endanger public health or welfare. In April of 2009, the USEPA published its proposed endangerment finding for public comment. The proposed endangerment finding concludes that carbon emissions from mobile sources pose an endangerment to public health and the environment. Upon finalization, the endangerment finding is the first step toward USEPA regulating carbon emissions through the existing Clean Air Act in the absence of specific carbon legislation from Congress. Therefore, any new regulations would likely also impact major stationary sources of greenhouse gases. The USEPA has also proposed a significant new mandatory greenhouse gas emissions registry.

Impact of Legislative Actions and Other Initiatives is Unknown

If legislation requiring reductions in CO2 and other greenhouse gases or legislation mandating a renewable energy portfolio standard is adopted, such regulation could substantially affect both the costs and operating characteristics of the Company's fossil fuel generating plants, nonutility coal mining operations, and possibly natural gas distribution businesses. Further, any legislation would likely impact the Company's generation resource planning decisions. At this time and in the absence of final legislation, compliance costs and other effects associated with reductions in greenhouse gas emissions or obtaining renewable energy sources remain uncertain. The Company has gathered preliminary estimates of the costs to comply with a cap and trade approach to controlling greenhouse gas emissions. A preliminary investigation demonstrated costs to comply would be significant, first to operating expenses for the purchase of allowances, and later to capital expenditures as technology becomes available to control greenhouse gas emissions. However, these compliance cost estimates are very sensitive to highly uncertain assumptions, including allowance prices and energy efficiency targets. Costs to purchase allowances that cap greenhouse gas emissions should be considered a cost of providing electricity, and as such, the Company believes recovery should be timely reflected in rates charged to customers. Approximately 22 percent of electric volumes sold in 2008 were delivered to municipal and other wholesale customers. As such, the Company has some flexibility to modify the level of these transactions to reduce overall emissions and reduce costs associated with complying with new environmental regulations.

Environmental Remediation Efforts

In the past, Indiana Gas, SIGECO, and others operated facilities for the manufacture of gas. Given the availability of natural gas transported by pipelines, these facilities have not been operated for many years. Under currently applicable environmental laws and regulations, those that owned or operated these facilities may now be required to

take remedial action if certain contaminants are found above the regulatory thresholds at these sites.

Indiana Gas identified the existence, location, and certain general characteristics of 26 gas manufacturing and storage sites for which it may have some remedial responsibility. Indiana Gas completed a remedial investigation/feasibility study (RI/FS) at one of the sites under an agreed order between Indiana Gas and the IDEM, and a Record of Decision was issued by the IDEM in January 2000. Indiana Gas submitted the remainder of the sites to the IDEM's Voluntary Remediation Program (VRP) and is currently conducting some level of remedial activities, including groundwater monitoring at certain sites, where deemed appropriate, and will continue remedial activities at the sites as appropriate and necessary.

Indiana Gas accrued the estimated costs for further investigation, remediation, groundwater monitoring, and related costs for the sites. While the total costs that may be incurred in connection with addressing these sites cannot be determined at this time, Indiana Gas has recorded cumulative costs that it reasonably expects to incur totaling approximately $22.2 million. The estimated accrued costs are limited to Indiana Gas' share of the remediation efforts. Indiana Gas has arrangements in place for 19 of the 26 sites with other potentially responsible parties (PRP), which limit Indiana Gas' costs at these 19 sites to between 20 percent and 50 percent.

With respect to insurance coverage, Indiana Gas has received and recorded settlements from all known insurance carriers under insurance policies in effect when these plants were in operation in an aggregate amount approximating $20.5 million.

In October 2002, SIGECO received a formal information request letter from the IDEM regarding five manufactured gas plants that it owned and/or operated and were not enrolled in the IDEM's VRP. In October 2003, SIGECO filed applications to enter four of the manufactured gas plant sites in IDEM's VRP. The remaining site is currently being addressed in the VRP by another Indiana utility. SIGECO added those four sites into the renewal of the global Voluntary Remediation Agreement that Indiana Gas has in place with IDEM for its manufactured gas plant sites. That renewal was approved by the IDEM in February 2004. SIGECO is also named in a lawsuit filed in federal district court in May 2007, involving another site subject to potential environmental remediation efforts.

SIGECO has filed a declaratory judgment action against its insurance carriers seeking a judgment finding its carriers liable under the policies for coverage of further investigation and any necessary remediation costs that SIGECO may accrue under the VRP program and/or related to the site subject to the May 2007 lawsuit. While the total costs that may be incurred in connection with addressing these sites cannot be determined at this time, SIGECO has recorded cumulative costs that it reasonably expects to incur totaling approximately $9.2 million. With respect to insurance coverage, SIGECO has received and recorded settlements from insurance carriers under insurance policies in effect when these sites were in operation in an aggregate amount of $8.1 million.

Environmental remediation costs related to Indiana Gas' and SIGECO's manufactured gas plants and other sites have had a minor impact on results of operations or financial condition since cumulative costs recorded to date approximate PRP and insurance settlement recoveries. Such cumulative costs are estimated by management using assumptions based on actual costs incurred, the timing of expected future payments, and inflation factors, among others. While the Company's utilities have recorded all costs which they presently expect to incur in connection with activities at these sites, it is possible that future events may require some level of additional remedial activities which are not presently foreseen and those costs may not be subject to PRP or insurance recovery. As of March 31, 2009 and December 31, 2008, approximately $6.0 million and $6.5 million, respectively, of accrued, but not yet spent, remediation costs are included in Other Liabilities related to both the Indiana Gas and SIGECO sites.

11. Rate & Regulatory Matters

Vectren Energy Delivery of Ohio, Inc. (VEDO) Gas Base Rate Order Received

On January 7, 2009, the PUCO issued an order approving the stipulation reached in the VEDO rate case. The order provides for a rate increase of nearly $14.8 million, an overall rate of return of 8.89 percent on rate base of about $235 million; an opportunity to recover costs of a program to accelerate replacement of cast iron and bare steel pipes, as well as certain service risers; and base rate recovery of an additional $2.9 million in conservation program spending.

The order also adjusted the rate design used to collect the agreed-upon revenue from VEDO's customers. The order allows for the phased movement toward a straight fixed variable rate design which places substantially all of the fixed cost recovery in the customer service charge. A straight fixed variable design mitigates most weather risk as well as the effects of declining usage, similar to the Company's lost margin recovery mechanism, which expired when this new rate design went into effect on February 22, 2009. In 2008, annual results include approximately $4.3 million of revenue from a lost margin recovery mechanism that does continue once this base rate increase is in effect. After year

one, nearly 90 percent of the combined residential and commercial base rate margins will be recovered through the customer service charge. The OCC has filed a request for rehearing on the rate design finding by the PUCO. The rehearing request mirrors similar requests filed by the OCC in each case where the PUCO has approved similar rate designs, and all such requests have been denied.

With this rate order the Company has in place for its Ohio gas territory rates that allow for the phased implementation of a straight fixed variable rate design that mitigates both weather risk and lost margin; tracking of bad debt and percent of income payment plan (PIPP) expenses; base rate recovery of pipeline integrity management expense; timely recovery of costs associated with the accelerated replacement of bare steel and cast iron pipes, as well as certain service risers; and expanded conservation programs now totaling up to $5 million in annual expenditures.

MISO

Since 2002 and with the IURC's approval, the Company has been a member of the Midwest Independent System Operator, Inc. (MISO), a FERC approved regional transmission organization. The MISO serves the electrical transmission needs of much of the Midwest and maintains operational control over the Company's electric transmission facilities as well as that of other Midwest utilities. Since April 1, 2005, the Company has been an active participant in the MISO energy markets, bidding its owned generation into the Day Ahead and Real Time markets and procuring power for its retail customers at Locational Marginal Pricing (LMP) as determined by the MISO market.

The Company is typically in a net sales position with MISO as generation capacity is in excess of that needed to serve native load and is only occasionally in a net purchase position. When the Company is a net seller such net revenues are included in Electric Utility revenues and when the Company is a net purchaser such net purchases are included in Cost of fuel and purchased power. Net positions are determined on an hourly basis. Since the Company became an active MISO member, its generation optimization strategies primarily involve the sale of excess generation into the MISO day ahead and real-time markets. Net revenues from wholesale activities included in Electric Utility revenues totaled $12.9 million and $21.4 million in the three months ended March 31, 2009 and 2008 respectively.

The Company also receives transmission revenue that results from other members' use of the Company's transmission system. These revenues are also included in Electric Utility revenues. Generally, these transmission revenues along with costs charged by the MISO are considered components of base rates and any variance from that included in base rates is recovered/refunded through tracking mechanisms.

As a result of MISO's operational control over much of the Midwestern electric transmission grid, including SIGECO's transmission facilities, SIGECO's continued ability to import power, when necessary, and export power to the wholesale market has been, and may continue to be, impacted. Given the nature of MISO's policies regarding use of transmission facilities, as well as ongoing FERC initiatives, and a Day 3 ancillary services market (ASM), where MISO began providing a bid-based regulation and contingency operating reserve markets on January 6, 2009, it is difficult to predict near term operational impacts. The IURC has approved the Company's participation in the ASM and has granted authority to defer costs associated with ASM. To date impacts from the ASM have been minor.

The need to expend capital for improvements to the regional transmission system, both to SIGECO's facilities as well as to those facilities of adjacent utilities, over the next several years is expected to be significant. Beginning in June 2008, the Company began timely recovering its investment in certain new electric transmission projects that benefit the MISO infrastructure at a FERC approved rate of return. Such revenues recorded in Electric Utility revenues associated with projects meeting the criteria of MISO's transmission expansion plans totaled $2.1 million for the three months March 31, 2009.

Vectren South Electric Lost Margin Recovery Filing
In 2008, the Company made an initial filing with the IURC requesting a multi-year program to promote energy conservation and expanded demand side management programs within its Vectren South electric utility. As proposed, costs associated with these programs would be recovered through a tracking mechanism. The implementation of these programs is designed to work in tandem with a lost margin recovery mechanism. This mechanism, as proposed, allows recovery of a portion of rates from residential and commercial customers based on the level of customer revenues established in Vectren South's last electric general rate case. This program is similar to programs authorized by the IURC in the Company's Indiana natural gas service territories. In April of 2009, all filings were completed, and the Company would expect an IURC decision to occur during 2009.

12. Derivatives

Adoption of SFAS 161
In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133" (SFAS 161). SFAS 161 describes enhanced disclosures under SFAS 133 and requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation in order to better convey the purpose of derivative use in terms of the risks that the entity is intending to manage. The Company adopted the qualitative and quantitative disclosures required in both interim and annual financial statements described in SFAS 161 on January 1, 2009.

Accounting Policy for Derivatives
The Company occasionally executes derivative contracts in the normal course of operations while buying and selling commodities to be used in operations, optimizing its generation assets, and managing risk. The Company accounts for its derivative contracts in accordance with SFAS 133, "Accounting for Derivatives" and its related amendments and interpretations. In most cases, SFAS 133 requires a derivative to be recorded on the balance sheet as an asset or liability measured at its market value and that a change in the derivative's market value be recognized currently in earnings unless specific hedge criteria are met.

When an energy contract that is a derivative is designated and documented as a normal purchase or normal sale (NPNS), it is exempted from mark-to-market accounting. Most energy contracts executed by the Company are subject to the NPNS exclusion. Such energy contracts include real time and day ahead purchase and sale contracts with the MISO, natural gas purchases from ProLiance and others, and wind farm and other electric generating capacity contracts.

When the Company engages in energy contracts and financial contracts that are derivatives and are not subject to the NPNS or other exclusions identified in SFAS 133, such contracts are recorded at market value as current or noncurrent assets or liabilities depending on their value and on when the contracts are expected to be settled. Contracts and any associated collateral with counter-parties subject to master netting arrangements are presented net in the Consolidated Balance Sheets. The offset resulting from carrying the derivative at fair value on the balance sheet is charged to earnings unless it qualifies as a hedge or is subject to SFAS 71. When hedge accounting is appropriate, the Company assesses and documents hedging relationships between the derivative contract and underlying risks as well as its risk management objectives and anticipated effectiveness. When the hedging relationship is highly effective, derivatives are designated as hedges. The market value of the effective portion of the hedge is marked to market in accumulated other comprehensive income for cash flow hedges. Ineffective portions of hedging arrangements are marked-to-market through earnings. For fair value hedges, both the derivative and the underlying hedged item are marked to market through earnings. The offset to contracts affected by SFAS 71 are marked-to-market as a regulatory asset or liability. Market value for derivative contracts is determined using quoted market prices from independent sources. The Company rarely enters into contracts where internal models are used calculate fair values that impact the financial statements.

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Derivative Use in Risk Mitigation Strategies

Following is a more detailed discussion of activities where the Company may use derivatives to mitigate risk.

Emission Allowance Risk Management

The Company's wholesale power marketing operations are exposed to price risk associated with emission allowances. To mitigate this risk, the Company executed call options to hedge wholesale SO2 emission allowance utilization in future periods. The Company designated and documented these derivatives as cash flow hedges. At March 31, 2009, a deferred gain of approximately $0.1 million remains in accumulated comprehensive income related to these call options which will be recognized in earnings as emission allowances are utilized. As of and for the periods reported in these financial statements, ending values and activity relating to emission allowance derivatives affecting the statements of income and cash flows were not significant.

Natural Gas Procurement Risk Management

The Company's regulated operations have limited exposure to commodity price risk for purchases and sales of natural gas and electricity for retail customers due to current Indiana and Ohio regulations which, subject to compliance with those regulations, allow for recovery of such purchases through natural gas and fuel cost adjustment and other mechanisms. Although regulated operations are exposed to limited commodity price risk, volatile natural gas prices can still have negative economic impacts, including higher interest costs. The Company may mitigate these economic risks by using derivative contracts. These contracts are subject to regulation which allows for reasonable and prudent hedging costs to be recovered through rates. When regulation is involved, SFAS 71 controls when the offset to mark-to-market accounting is recognized in earnings.

The Company's wholly owned gas retail operations also mitigate price risk associated with forecasted natural gas purchases by using derivatives. These nonregulated gas retail operations may also from time-to-time execute weather derivatives to mitigate extreme weather affecting unregulated gas retail sales.

As of and for the periods reported in these financial statements, ending values and activity relating to natural gas procurement derivatives affecting the statements of income and cash flows were not significant.

Interest Rate Risk Management

The Company is exposed to interest rate risk associated with its borrowing arrangements. Its risk management program seeks to reduce the potentially adverse effects that market volatility may have on interest expense. The Company has used interest rate swaps and treasury locks to hedge forecasted debt issuances and other interest rate swaps to manage interest rate exposure.

As of March 31, 2009 and December 31, 2008, no interest rate swaps were outstanding. Related to derivative instruments associated with completed debts issuances, an approximate $7.8 million net regulatory asset remains at March 31, 2009. In the three months ended March 31, 2009 and 2008, $0.1 million was reclassified as a decrease to interest expense. The Company estimates a $0.3 million reduction to interest expense will occur in 2009 related to the amortization of this net position.

Credit Features

Master agreements in place with certain counterparties contain provisions involving the Company's credit ratings. If ratings were to fall below investment grade, counterparties to these arrangements could request immediate payment or demand immediate and ongoing full overnight collateralization on net liability positions. Currently, contracts to purchase natural gas by the Company's nonutility retail gas marketer to fulfill its retail sales are the only significant derivative-like instruments impacted by credit contingent features. Such contracts are subject to the NPNS exclusion. Generally, the natural gas supply period supported by these arrangements is 60 days, but in some instances, may include forecasted purchases up to 12 months in advance. If the credit-risk-related contingent features underlying these agreements were triggered, the Company would be required to post approximately $5 million of additional collateral at March 31, 2009.

13. Fair Value Measurements

Financial assets and liabilities and certain nonfinancial assets and liabilities that are revalued at fair value on a recurring basis are valued and disclosed in accordance with SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines a hierarchy for disclosing fair value measurements based primarily on the level of public data used in determining fair value. Level 1 inputs include quoted market prices in active markets for identical assets or liabilities; Level 2 inputs include inputs other than Level 1 inputs that are directly or indirectly observable; and Level 3 inputs include unobservable inputs using estimates and assumptions developed using internal models, which reflect what a market participant would use to determine fair value. For the balance sheet dates presented in these financial statements, other than $75 million invested in money market funds and included in Cash and cash equivalents as of December 31, 2008, the Company had no material assets or liabilities recorded at fair value outstanding, and none outstanding valued using Level 3 inputs. The money market investments were valued using Level 1 inputs, and none were outstanding at March 31, 2009.

On January 1, 2009, the Company adopted the provisions of SFAS 157 as they relate to nonfinancial assets and nonfinancial liabilities that are measured at fair value on a nonrecurring basis, such as the initial measurement of an asset retirement obligation or the use of fair value goodwill, intangible assets and long-lived assets impairment tests. This adoption had no significant impact on the Company's operating results or financial condition.

14. Impact of Other Newly Adopted and Newly Issued Accounting Principles

SFAS 141R

On January 1, 2009, the Company adopted SFAS No. 141, "Business Combinations" (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of an entity (1) recognizes and measures the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree (2) recognizes and measures acquired goodwill or a bargain purchase gain and (3) determines what information to disclose in its financial statements in order to enable users to assess the nature and financial effects of the business combination. SFAS 141R applies to all transactions or other events in which one entity acquires control of one or more businesses and applies to all business entities. Because the provisions of this standard are applied prospectively, the impact to the Company cannot be determined until the transactions occur.

SFAS 160

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements-an Amendment of ARB No. 51" (SFAS 160). SFAS 160 establishes accounting and reporting standards that require ownership percentages in material subsidiaries held by parties other than the parent be clearly identified, labeled, and presented separately from the parent's equity in the equity section of the consolidated balance sheet; the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated income statement; that changes in the parent's ownership interest while it retains control over its subsidiary be accounted for consistently; that when a subsidiary is deconsolidated, any retained noncontrolling equity investment be initially measured at fair value; and that sufficient disclosure is made to clearly identify and distinguish between the interests of the parent and the noncontrolling owners. The adoption of SFAS 160 on January 1, 2009 had an immaterial impact to the Company's presentation of its financial position and operating results.

EITF 08-05

On January 1, 2009, the Company adopted EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement" (EITF 08-5). EITF 08-5 states that companies should not include the effect of third-party credit enhancements in the fair value measurement of the related liabilities. EITF 08-5 also requires companies with outstanding liabilities measured or disclosed at fair value to disclose the existence of credit

enhancements, to disclose valuation techniques used to measure liabilities and to include a discussion of changes, if any, from the valuation techniques used to measure liabilities in prior periods.

As of March 31, 2009, the Company has approximately $251.1 million of debt instruments that are supported by a third party credit enhancement feature such as insurance from a monoline insurer or a letter of credit posted by third party that supports the Company's credit facilities. It is not anticipated, the Company's valuation techniques will change materially at a result of the adoption of EITF 08-5.

FASB