

**FILE**

29

# Confidential Release

**Case Number: 02-2549-GA-CRS**

**Date of Confidential Document: 11/6/2006**

**Today's Date: 1/27/2011**

**Exhibit Exhibits B-3, C-3, C-4, C-6 and C-7**

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**B-3 Exhibit B-3 "Summary of Experience,"** provide a concise and current summary of the applicant's experience in providing the service(s) for which it is seeking renewed certification (e.g., number and types of customers served, utility service areas, volume of gas supplied, etc.).

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**Answer: FILED UNDER SEAL.**

Stand Energy Corporation currently serves approximately 1400 commercial and industrial customers and approximately 100 choice customers (mostly mercantile) behind the following utilities:

- Ohio
  - Cincinnati Gas & Electric
  - Columbia Gas of Ohio
  - Dominion East Ohio
  - Dominion East Ohio (West Ohio Division)
  - Vectren Energy Delivery of Ohio
- Illinois
  - Ameren- Illinois Power
  - NICOR Inc.
- Indiana
  - Batesville Gas & Water
  - Citizens Gas
  - Northern Indiana Public Service Company
- Kentucky
  - Columbia Gas of Kentucky
  - Louisville Gas and Electric
  - Richmond Utilities
  - Union Light Heat and Power
- Maryland
  - Baltimore Gas and Electric
- Michigan
  - Consumers Power
  - Michigan Consolidated
  - SEMCO Energy Gas Company
- New York
  - New York State Electric & Gas
- Pennsylvania
  - Columbia Gas of Pennsylvania
  - Dominion Peoples
- Virginia
  - Columbia Gas of Virginia
  - Washington Gas Light
- West Virginia
  - Blacksville Oil and Gas
- Washington, D.C.
  - Washington Gas Light

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**C-3 Exhibit C-3 "Financial Statements,"** provide copies of the applicant's two most recent years of audited financial statements (balance sheet, income statement, and cash flow statement). If audited financial statements are not available, provide officer-certified financial statements. If the applicant has not been in business long enough to satisfy this requirement, it shall file audited or officer-certified financial statements covering the life of the business.

**Answer: FILED UNDER SEAL**

Copies of Stand Energy Corporation Audited Financials for the years ending December 31, 2004 and December 31, 2005 are enclosed.

*Pgs 19-31*

EXHIBIT B  
CLOSING LETTER  
THIS DOCUMENT MUST BE SIGNED AND RETURNED!!

Lender: Fifth Third Bank (Northern Kentucky)

Closing Date: September 5, 2006

Principal Amount of Loan: \$60,000,000.00

Effective Date: September 5, 2006

Maturity Date: July 1, 2008

Obligor No.: \_\_\_\_\_

Obligation No.: \_\_\_\_\_

Officer: Hollenkamp-4898

Borrower: Stand Energy Croperation

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In connection with the closing of the above referenced Loan, Borrower acknowledges receipt of the loan documents listed below ("Loan Documents") and further acknowledges that should Borrower fail to execute and deliver or fail to coordinate the execution and delivery of any one or more of the Loan Documents to Lender at Closing and Lender elects to close the Loan notwithstanding, Borrower shall execute and deliver or coordinate the execution and delivery of such outstanding Loan Document(s) within thirty (30) days of the date hereof. Failure to comply with the foregoing obligation is an Event of Default and Lender may pursue any and all remedies available at law or in equity.

Document Name	Responsible Party
Eighth Amended & Restated Revolving Credit & Security Agreement	
Eighth Amended & Restated Continuing Guaranty Agreement	
Eighth Amended and Restated Revolving Note	
Certificate of Borrower, with exhibits:	
a) Articles of Incorporation	
b) Bylaws	
c) Resolution	
d) Certificate of Existence from Kentucky	
e) Certificate of Foreign corporation from Ohio	
f) Certificate of Foreign corporation from New York	
g) Certificate of Foreign corporation from Virginia	
h) Certificate of Foreign corporation from West Virginia	
i) Certificate of Foreign corporation from Pennsylvania	
j) Certificate of Foreign corporation from Indiana	

STAND ENERGY CORPORATION

By: Judith A. Phillips  
Judith A. Phillips  
Its: President

Date: September 5, 2006

1174512.1

**C-4 Exhibit C-4 "Financial Arrangements,"** provide copies of the applicant's current financial arrangements to conduct competitive retail natural gas service (CRNGS) as a business activity (e.g., guarantees, bank commitments, contractual arrangements, credit agreements, etc.)

**Answer: FILED UNDER SEAL**

Enclosed is the Closing Letter from Fifth Third Bank (Northern Kentucky) indicating Stand Energy Corporation's current credit line was recently increased from \$30 million dollars to \$60 million dollars. Complete loan documents are available upon request.

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**C-6 Exhibit C-6 "Credit Rating,"** provide a statement disclosing the applicant's current credit rating as reported by two of the following organizations: Duff & Phelps, Dun and Bradstreet Information Services, Fitch IBCA, Moody's Investors Service, Standard & Poors, or a similar organization. In instances where an applicant does not have its own credit ratings, it may substitute the credit ratings of a parent or affiliate organization, provided the applicant submits a statement signed by a principal officer of the applicant's parent or affiliate organization that guarantees the obligations of the applicant.

**Answer: FILED UNDER SEAL**

Stand Energy Corporation's Dun and Bradstreet Information Services rating is enclosed as responsive to combined Exhibits C-6 and C-7.

**C-7 Exhibit C-7 "Credit Report,"** provide a copy of the applicant's current credit report from Experion, Dun and Bradstreet, or a similar organization.

**Answer: FILED UNDER SEAL**

Stand Energy Corporation credit report from Dun & Bradstreet is attached as combined Exhibits C-6 and C-7.



Small Business  
Solutions

Comprehensive Insight Plus Report for  
**STAND ENERGY CORPORATION**  
Report Printed: November 2, 2006

D-U-N-S #: 12-129,3039

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► [Print this report](#)

► **To save this report to your PC:** Select File and then Save As from the browser menu bar. Click on the Save in: drop-down menu and select a location for your file. Enter a file name and save the report as a .html or .txt file.

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## Company Snapshot

### Business Summary

#### Profile

**STAND ENERGY CORPORATION**  
1077 Celestial Street #110  
Cincinnati, OH 45202

Tel: 513 621-1113

Fax: 513 621-3773

[www.standenergy.com](http://www.standenergy.com)

D-U-N-S #: 12-129-3039

D&B Rating: 1R2

#### Company Stats

Year incorporated	1984
Year started	1984
Employees	25 ( 20 here)
Financing	SECURED
Financial statement date	Dec 31, 2004
Net worth E	\$3,117,468
Sales F	\$98,230,164
Chief Executive	Matth Toebben , Chb
S.I.C.	4911
	4924

#### Industry

Electric services, natural gas distribution

This is a **headquarters** location.  
Branch(es) or division(s) exist.

The Net worth amount in this section may have been adjusted by D&B to reflect typical deductions, such as certain intangible assets.

Likelihood this company will not pay on time over the next 12 months

LOW ☒

Credit Score Class: 1



Likelihood this company will experience financial distress in the next 12 months

LOW ☒

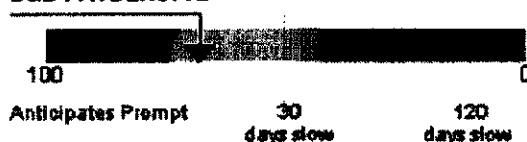
Financial Stress Class: 1



Timeliness of historical payments for this company\*\*

SLOW ☐

D&B PAYDEX®: 72



Industry benchmark: Slow

\*\*Based on 21 trade experiences on file with D&B

Payment performance trend over the past 90 days

**UNCHANGED**

D&B offers guidance on credit limits for this company based on its profile as well as profiles of other companies similar in size, industry, and credit usage

[Get details](#)

Evidence of bankruptcy, fraud, or criminal proceedings in the history of this business or its management

NO ☒

Noteworthy special events in this company's file

YES ☐

Total number of suits, liens and judgments in this company's file

0 ☒

Value of open suits, liens and judgments for this company

\$0 ☒



Value of open records refers only to 10 most recent filings for each record type.

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## Creditworthiness

### Summary

**Likelihood this company will experience financial distress in the next 12 months**

LOW ☒

**D&B Rating: 1R2**

Formerly: 3A2

Number of employees: 1R is 10 or more employees.

Composite credit appraisal: 2 is good.

The 1R and 2R ratings categories reflect company size based on the total number of employees for the business. They are assigned to business files that do not contain a current financial statement. In 1R and 2R Ratings, the 2, 3, or 4 creditworthiness indicator is based on analysis by D&B of public filings, trade payments, business age and other important factors. 2 is the highest Composite Credit Appraisal a company not supplying D&B with current financial information can receive. For more information, see the D&B Rating Key.

**Likelihood this company will not pay on time over the next 12 months**

LOW ☒

### Default on Payment: Financial Stress Summary

**Likelihood this company will experience financial distress in the next 12 months**

LOW ☒

Financial Stress Class: 1



During the prior year, firms in this Financial Stress Class had a failure rate of 1.2%, which is 0.46 times lower than the national average.

Financial stress national percentile: 99 (high risk: 1%; low risk: 100%)

National percentile industry norm: 49 (high risk: 1%; low risk: 100%)

#### Key Factors

- 21 trade experiences exist for this company.
- Financial Stress Score: 1558 (high risk: 1,001; low risk: 1,875)
- No record of open suit(s), lien(s), or judgment(s) in the D&B files.
- Control age or date entered in D&B files indicates lower risk.
- Current Liabilities to Net Worth Ratio suggests higher risk of financial stress.
- 29% of trade dollars indicate slow payment(s) are present.
- Return on Assets Ratio suggests lower risk of financial stress.
- Current Ratio suggests higher risk of financial stress.

### Payment within Terms: Credit Score Summary

**Likelihood this company will not pay on time over the next 12 months**

LOW ☒

Credit Score Class: 1



The Credit Score class of 1 for this company shows that 2.0% of firms with this classification paid one or more bills severely delinquent, which is lower than the average of businesses in D&B's database.

Credit score percentile: 98 (high risk: 1%; low risk: 100%)

Industry norm percentile: 42 (high risk: 1%; low risk: 100%)

#### Key Factors

- 21 trade experiences exist for this company.
- No record of open suit(s), lien(s), or judgment(s) in the D&B files.

### Additional Information

**CONFIDENTIAL****Financial Stress Summary**

- The Financial Stress Class indicates that this firm shares some of the same business and financial characteristics of other companies with this classification. It does not mean the firm will necessarily experience financial stress.
- The Incidence of Financial Stress shows the percentage of firms in a given Class that discontinued operations over the past year with loss to creditors. The Incidence of Financial Stress - National Average represents the national failure rate and is provided for comparative purposes.
- The Financial Stress National Percentile reflects the relative ranking of a company among all scorable companies in D&B's file.
- The Financial Stress Score offers a more precise measure of the level of risk than the Class and Percentile. It is especially helpful to customers using a scorecard approach to determining overall business performance.
- All Financial Stress Class, Percentile, Score and Incidence statistics are based on 2004.

**Credit Score Summary**

- The Incidence of Delinquent Payment is the percentage of companies with this classification that were reported 90 days past due or more by creditors. The calculation of this value is based on an inquiry weighted sample.
- The Percentile ranks this firm relative to other businesses. For example, a firm in the 80th percentile has a lower risk of paying in a severely delinquent manner than 79% of all scorable companies in D&B's files.

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**Payment History****Summary**

Average payment performance trend when weighted by dollar amount

UNCHANGED 

Company's payment performance over the past 12 months compared with its peers

MIXED 

**Payment History Overview**

Payment experiences on file with D&B:	21	Average highest credit:	\$3,930
Payments made within terms:	20 (93%)	Largest high credit:	\$45,000
Amount placed for collections:	0 (0%)	Highest now owing:	\$15,000
		Highest past due:	\$50

**Historical Payment Trends: PAYDEX®**

Average payment performance trend when weighted by dollar amount

Last 3 months: Trend is unchanged

 **UNCHANGED**

Last 12 months: 12 days beyond terms  
Industry benchmark: Slow

D&B PAYDEX®: 72



Based on payments collected over last 12 months.

Indications of slowness can be the result of dispute over merchandise, skipped invoices, etc. Accounts are sometimes placed for collection even though the existence or amount of the debt is disputed.

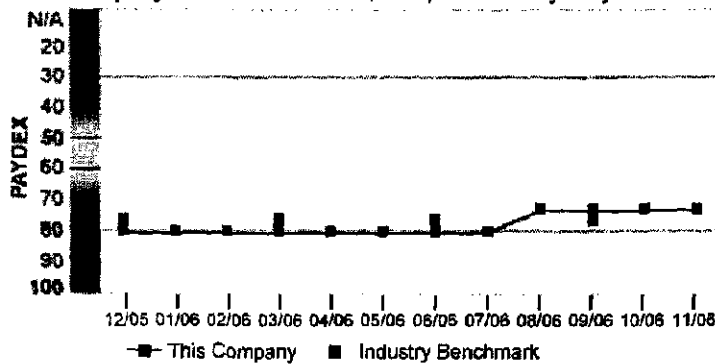
**Historical Payment Trends: PAYDEX® Comparison to Industry**

Company's payment performance over the past 12 months compared with its peers

MIXED 

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This company's 12-month high: 80, or equal to generally within terms  
 This company's 12-month low: 72, or equal to 12 days beyond terms



Shows PAYDEX scores of this Business compared to the Primary Industry from each of the last four quarters. The Primary Industry is Electric services, natural gas distribution, based on SIC code 4911.

### Payment History Details

Date Reported	Paying Record	High Credit (\$)	Now Owes (\$)	Past Due (\$)	Selling Terms	Last Sale Within (months)
10/06	Prompt	50	50	0		1
10/06	Prompt-Slow 30	750	0	0		2-3
09/06	Prompt	25,000	15,000	0	Net30	1
09/06	Prompt	2,500	250	0	Net30	1
09/06	Prompt	1,000	50	0	Net30	1
09/06	Prompt	750	750	0		1
09/06	Prompt	750	500	0	Net60	1
09/06	Prompt	500	0	0		6-12
09/06	Prompt	500	500	0		1
09/06	Prompt	250	0	0		6-12
09/06	Prompt	250	0	0	Net30	2-3
09/06	Prompt	50	50	0		1
09/06	Prompt	50	0	0		6-12
09/06	Prompt-Slow 30	45,000	5,000	0	Net30	1
09/06	Prompt-Slow 60	100	50	50		4-5
07/06	Prompt	500	0	0	Net30	2-3
07/06	(017) Satisfactory.	50				6-12
05/06	Prompt	250	0	0		4-5
02/06	(019) Satisfactory.	50				6-12
11/05	Prompt	0	0	0		6-12
08/05	Prompt	250	0	0		6-12

Payment experiences reflect how bills are met in relation to the terms granted. In some instances payment beyond terms can be the result of dispute over merchandise, skipped invoices, etc.

Each experience shown is from a separate supplier. Updated trade experiences replace those previously reported.

### Payment Analysis By Industry

Company's dollar-weighted payments listed by the primary industries of its suppliers

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	Total Received (#)	Total Dollar Amount (\$)	Largest High Credit (\$)	Within Terms	Slow 1-30   Slow 31- 60                      Slow 61-   Slow 90                      91+			
					(% of dollar amount)			
Industry								
Natural gas distrib	4	73,500	45,000	69	31	0	0	0
Telephone communictns	4	2,000	750	100	0	0	0	0
Ret mail-order house	2	1,000	750	100	0	0	0	0
Nonclassified	2	300	250	100	0	0	0	0
Mfg misc office eqpt	1	750	750	50	50	0	0	0
Whol office supplies	1	500	500	100	0	0	0	0
Management services	1	250	250	100	0	0	0	0
Data processing svcs	1	100	100	50	0	50	0	0
Short-frm busn credit	1	50	50	100	0	0	0	0
Executive office	1	50	50	100	0	0	0	0
Electric services	1	50	50	100	0	0	0	0
Misc general gov't	1	50	50	100	0	0	0	0
Misc publishing	1	0	0	0	0	0	0	0
Other payment categories								
Cash experiences	0	0	0					
Payment record unknown	0	0	0					
Unfavorable comments	0	0	0					
Placed for collection								
With D&B	0	0	0					
Other	0	N/A	0					
Total in D&B's file	21	78,600	45,000					

There are 21 payment experiences in D&B's file for the most recent 12 months, with 15 experiences reported during the last three month period.

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## Public Filings

### Summary of Court Actions

The following data includes both open and closed filings found in D&B's database on the subject company.

Record Type	Open Records	Open Value	Total Records	Most Recent Filing Date
Suits	0	0	0	-
Liens	0	0	0	-
Judgments	0	0	0	-
UCC Filings	1	N/A	4	06/04/2004
Bankruptcy Proceedings	0	N/A	0	-

Public filing data is for informational purposes only and is not the official record. Certified copies can only be obtained from the official source. Number and value of open records refers only to 10 most recent filings for each record type.

### Special Events

10/16/2006   A Rating change has occurred on this company.

**CONFIDENTIAL****UCC Filings**

<b>Collateral</b>	<b>Type</b>	<b>Sec. Party</b>	<b>Debtor</b>	<b>Date Filed</b>	<b>Additional Details</b>
All Assets including proceeds and products - All Inventory including proceeds and products - All Account(s) including proceeds and products - All Farm products/crops including proceeds and products - and OTHERS	Original	FIFTH THIRD BANK, FLORENCE, KY	STAND ENERGY CORPORATION	06/04/2004	Filing number: 2004201664328 Filed with: SECRETARY OF STATE/UCC DIVISION, FRANKFORT, KY Latest info Received: 06/23/2004
All Accounts receivable including proceeds and products - All Inventory including proceeds and products - All Account(s) including proceeds and products - All General intangibles(s) including proceeds and products - and OTHERS	Original	FIFTH THIRD BANK NORTHERN KENTUCKY INC, FLORENCE, KY	STAND ENERY CORPORATION	01/12/2001	Filing number: AP312371 Filed with: SECRETARY OF STATE/UCC DIVISION, COLUMBUS, OH Latest info Received: 03/26/2001
Inventory including proceeds and products - Account(s) including proceeds and products - Vehicles including proceeds and products - Business machinery/equipment including proceeds and products - and OTHERS	Original	FIFTH THIRD BANK NORTHERN KENTUCKY INC, FLORENCE, KY	STAND ENERGY CORPORATION	01/02/2001	Filing number: AP315979 Filed with: SECRETARY OF STATE/UCC DIVISION, COLUMBUS, OH Latest info Received: 03/26/2001
Unavailable	Original	IOS CAPITAL, MACON, GA	STAND ENERGY	11/30/1998	Filing number: AP0103404 Filed with: SECRETARY OF STATE/UCC DIVISION, COLUMBUS, OH Latest info Received: 09/14/1999

The public record items contained in this report may have been paid, terminated, vacated or released prior to the date this report was printed. Any public filings displayed in red are open.

**Government Activity**

<b>Activity Summary</b>		<b>Possible Candidate for Socio-Economic Program Consideration</b>	
Borrower (Dir/Guar)	No	Labor Surplus Area	N/A
Administrative Debt	No	Small Business	N/A
Contractor	No	8(A) Firm	N/A
Grantee	No		
Party Excluded from Federal Program(s)	No		

The details provided in the Government Activity section are as reported to D&B by the federal government and other sources.

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**History & Operations**

<b>Topic</b>	<b>Description</b>
<b>History</b>	Detailed information on the history of a company, including background information on the management team and key principals, and information on related companies.
<b>Corporate Family</b>	Detailed information on all related companies, including subsidiaries, affiliates and branches.

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<b>Registration &amp; Incorporation</b>	Detailed registration and incorporation information, including the date and state of incorporation and the type of corporation formed.
<b>Company Operations</b>	Detailed information on a company's operations, including the identity of the parent company, the geographic scope of the business, and the key holdings.
<b>Industry Classification</b>	Details on the specific industry within which a company is classified.

**History**

**Officer(s):**                **Director(s):**  
 MATTH TOEBBEN, CHB   THE OFFICER(S)  
 JUDITH PHILLIPS, PRES

Business started 1984. 37% of capital stock is owned by Matth Toebben's family. 13% of capital stock is owned by Matth Toebben. 25% of capital stock is owned by Judith Phillips. 25% of capital stock is owned by Judith Phillip's family.

MATTH TOEBBEN born 1931. 1984-present active here.

JUDITH PHILLIPS born 1936. 1984-present active here.

**RELATED COMPANIES:**

The following are related via common management and/or financial interest.

Toebben Builders & Developers Inc, Covington, KY. Started 1956. General contractor of single family homes. DUNS #382-0305. Net worth at Dec 31 1995 reported as \$967,871.

Matth Toebben Construction Company (Inc), Covington, KY. Started 1956. General contractor of commercial and industrial buildings. DUNS #986-9646. Net worth at Dec 31 1995 reported as \$828,366.

Kendow Energies Inc, Cincinnati, OH. Started 1980. Wholesale bulk energy fuels. DUNS #180-2296. Current financial information unavailable.

Southern Tier Transmission, 1077 Celestial St #110 Cincinnati, OH, Started 1987. Operates as a gas pipeline.

Management reports no intercompany relations.

**Corporate Family****Branches (US):**

Stand Energy Corporation	142 Courtland St, Elyria, OH	DUNS # 02-718-6726
Stand Energy Corporation	12920 STONECREEK DR STE C, Pickerington, OH	DUNS # 00-570-6577

**Registration & Incorporation**

**Registered Name:** Stand energy corporation  
**Business Type:** Corporation  
**Corporation Type:** Profit  
**Date incorporated:** December 28, 1984  
**State of incorporation:** Kentucky  
**Status:** Active

**Filing Date:** December 28, 1984  
**Registration ID:** 0196832  
**Where filed:** SECRETARY OF STATE/CORPORATE  
 DIVISION, FRANKFORT, KY  
**Registered Agent:** MATTH. TOEBBEN, 2536 HAZELWOOD  
 DR., CRESCENT SPRINGS, KY,  
 410170000  
**Principals:** Judith Phillips, DIRECTOR  
 Matth Toebben, DIRECTOR  
 Judith Phillips, PRESIDENT  
 Matth Toebben, SECRETARY  
 Matth Toebben, TREASURER  
 Robert Embry, VICE PRESIDENT

Corporate and business registrations provided by management or other source.

**CONFIDENTIAL****Company Operations****Description:** Provides electric services (60%). Provides natural gas distribution (40%).

Has 825-84 account(s). Terms are net 10 days. Sells to manufacturers, non profit organizations, commercial concerns and government. Territory : Regional.

Nonseasonal.

**Employees:** 25 which includes officer(s). 20 employed here.**Facilities:** 4,200 sq. ft. on 1st floor of a two story brick building.**Location:** Suburban business section on side street.**Branches:** Maintains branch location at Elyria, OH and Pickerington, OH.**Industry Classification**

SIC		NAICS	
49110000	Electric services	221119	Other Electric Power Generation
49240000	Natural gas distribution	221210	Natural Gas Distribution
49240200	Gas power marketers	221122	Electric Power Distribution

Based on information in our file, D&B has assigned this company an extended 8-digit SIC. D&B's use of 8-digit SICs enables us to be more specific to a company's operations than if we use the standard 4-digit code.  
 The 4-digit SIC numbers link to the description on the Occupational Safety & Health Administration (OSHA) Web site. Links open in a new browser window.

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**Banking & Finance****Key Business Ratios****Statement date:** Dec 31 2004**Industry Norms based on 30 establishments**

	This Business	Industry Median	Industry Quartile
<b>Profitability</b>			
Return on Sales	2.7	7.1	4
Return on Net Worth	85.0	5.2	1
<b>Short-Term Solvency</b>			
Current Ratio	1.2	1.6	3
Quick Ratio	0.9	0.9	2
<b>Efficiency</b>			
Assets Sales	18.0	259.9	1
Sales / Net Working Capital	34.9	6.4	1
<b>Utilization</b>			
Total Liabilities / Net Worth	466.1	112.8	4

**Finance**

06/21/2006

**CONFIDENTIAL****Three-year statement comparative:**

	<b>Fiscal Dec 31 2001</b>	<b>Fiscal Dec 31 2003</b>	<b>Fiscal Dec 31 2004</b>
Current Assets	9,752,900	13,617,144	17,322,934
Current Liab	9,462,725	11,471,425	14,506,879
Current Ratio	1.03	1.19	1.19
Working Capital	290,175	2,145,719	2,816,055
Other Assets	294,730	318,361	324,429
Net Worth	584,905	2,307,151	3,117,468
Sales	88,050,284	91,580,043	98,230,164
Long Term Liab	0	156,929	23,016
Net Profit (Loss)	2,058,908	2,591,616	2,649,150

**Fiscal statement dated DEC 31 2004:**

<b>Assets</b>		<b>Liabilities</b>	
Cash	1,035,926	Accts pay	13,906,103
Accts rec	12,512,557	Notes pay	290,000
Inventory	3,136,589	Accruals	169,461
Mktble securities	17,393	Taxes	7,402
Prepaid	66,465	L.t. liab-(1yr)	133,913
Other curr assets	554,004		
<b>Current Assets</b>	<b>\$17,322,934</b>	<b>Current Liabilities</b>	<b>\$14,506,879</b>
Fixt & equip	323,241	L.t. liab-other	23,016
Deposits	1,188	Total stock holders equity	3,117,468
<b>Total Assets</b>	<b>\$17,647,363</b>	<b>Total Liabilities</b>	<b>\$17,647,363</b>

From JAN 01 2004 to DEC 31 2004 annual sales \$98,230,164; cost of goods sold \$91,346,802. Gross profit \$6,883,362; operating expenses \$4,389,448. Operating income \$2,493,914; other income \$155,236. Net income \$2,649,150.

Statement obtained from Robert A Embry by Phone on November 9, 2005. Submitted NOV 09 2005 by Robert A Embry, Controller. Prepared from statement(s) by Accountant: Novikoff, Manheimer Co., Cincinnati, Ohio.

**Accountant's Opinion**

A review of the accountant's opinion indicates the financial statements meet generally accepted accounting principles and that the audit contains no qualifications.

Accounts receivable shown net less \$150,000 allowance. Fixed assets shown net less \$823,811 depreciation.

On JUN 21 2006 Paulette Jaahnke, Admn Asst, referred to the above figures as still representative.

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Combined Financial Statements  
and Independent Auditors' Report

Stand Energy Corporation  
and  
Affiliates

Years ended December 31, 2005 and 2004

Novikoff, Manheimer & Co.  
*Certified Public Accountants*

**NOVIKOFF, MANHEIMER CO.**

*Certified Public Accountants*

GREGORY F. SCHAPKER, CPA  
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WALTER NOVIKOFF, CPA (1919-2002)  
RICHARD L. MANHEIMER, CPA (1939-1994)

July 22, 2006

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Stand Energy Corporation and Affiliates  
Cincinnati, Ohio

We have audited the accompanying combined balance sheets of Stand Energy Corporation and Affiliates as of December 31, 2005 and 2004, and the related combined statements of earnings, stockholders' equity, and cash flows for the years then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Stand Energy Corporation and Affiliates at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The additional information on page eleven is presented only for supplementary analysis purposes and has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled without audit or review from information that is the representation of management, and we do not express an opinion or any other form of assurance on such information.

*Novikoff, Manheimer & Co.*

STAND ENERGY CORPORATION AND AFFILIATES  
COMBINED BALANCE SHEET

**CONFIDENTIAL**

	December 31	
	2005	2004
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash in bank and cash equivalents (Notes A-4 and A-5)	\$ 2,276,961	\$ 1,035,926
Trade accounts receivable, less allowance for doubtful accounts of \$409,821 and \$286,047 (Note A-6)	23,333,088	12,512,557
Inventory (Note A-7)	3,772,059	3,136,589
Marketable equity securities (Note A-8)	13,281	17,393
Prepaid expenses and deposits	34,868	66,465
Loans receivable, other (Note A-9)	124,292	199,812
Loans receivable, stockholders (Note B)	-0-	354,192
<b>TOTAL CURRENT ASSETS</b>	<b>29,554,549</b>	<b>17,322,934</b>
PROPERTY AND EQUIPMENT: (Note A-10)		
Pipeline	347,511	347,511
Equipment	448,918	430,847
Furniture and fixtures	118,916	118,916
Autos	310,151	310,151
Leasehold improvements	11,251	11,251
	<u>1,236,747</u>	<u>1,218,676</u>
Less accumulated depreciation	974,111	895,435
	<u>262,636</u>	<u>323,241</u>
OTHER ASSETS:		
Deposits	<u>1,188</u>	<u>1,188</u>
	<u>\$ 29,818,373</u>	<u>\$ 17,647,363</u>

NOVIKOFF, MANHEIMER CO.  
CERTIFIED PUBLIC ACCOUNTANTS

CONFIDENTIAL

December 31

2005

2004

LIABILITIES AND STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES:

Trade accounts payable	\$ 21,952,982	\$ 13,906,103
Payroll taxes and taxes withheld	8,468	7,402
Accrued expenses	48,272	169,461
Deferred income	33,043	-0-
Loans payable, stockholders (Note B)	22,019	-0-
Notes payable to banks (Note C)	2,100,000	290,000
Current maturities of long-term obligations (Note F)	23,018	133,913
TOTAL CURRENT LIABILITIES	24,187,802	14,506,879

## LONG-TERM OBLIGATIONS;

Less current maturities (Note F)	-0-	23,016
----------------------------------	-----	--------

## STOCKHOLDERS' EQUITY:

Common stock	451,500	451,500
Members' equity	48,377	47,137
Additional paid in capital	83,220	83,220
Retained earnings	5,036,863	2,520,711
Unrealized gain on equity securities (Note A-8)	10,611	14,900
	5,630,571	3,117,468

\$ 29,818,373

\$ 17,647,363

The accompanying notes and accountants' report  
should be read in connection with these combined  
financial statements

STAND ENERGY CORPORATION AND AFFILIATES  
COMBINED STATEMENT OF EARNINGS

**CONFIDENTIAL**

	Year Ended December 31			
	2005		2004	
	Amount	Percent to Sales	Amount	Percent Sales
SALES	\$151,085,112	100.0%	\$ 98,230,164	100.0%
COST OF SALES	140,170,790	92.8	91,346,802	93.0
GROSS MARGIN	10,914,322	7.2	6,883,362	7.0
EXPENSES:				
Selling	3,238,417	2.1	2,112,466	2.2
General and administrative	3,392,572	2.3	2,247,634	2.3
Interest expense	17,755	0.0	29,348	0.0
	6,648,744	4.4	4,389,448	4.5
EARNINGS FROM OPERATIONS	4,265,578	2.8	2,493,914	2.5
OTHER INCOME:				
Interest and dividend income	39,813	0.0	5,917	0.0
Bad debt recovery	96,390	0.1	149,319	0.2
	136,203	0.1	155,236	0.2
NET INCOME	\$ 4,401,781	2.9%	\$ 2,649,150	2.7%

The accompanying notes and accountants' report  
should be read in connection with these combined  
financial statements.

STAND ENERGY CORPORATION AND AFFILIATES  
COMBINED STATEMENT OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2005 AND 2004

	Common Stock	Additional Paid in Capital	Retained Earnings	Members' Equity	Unrealized Gain on Equity Securities	Total
Balance at January 1, 2004						
Stand Energy Corporation	\$450,500					
Southern Tier Transmission Corporation	1,000					
Energy Credit Group, L.L.C. (Note A-2)				\$ 98,906		
Combined balance at January 1, 2004	451,500	\$ 83,220	\$ 1,663,119	98,906	\$ 10,406	\$ 2,307,151
Unrealized gain on marketable securities					4,494	4,494
Net income			2,633,592	15,558		2,649,150
Distributions			( 1,776,000)	( 67,327)		( 1,843,327)
Balance at December 31, 2004	451,500	83,220	2,520,711	47,137	14,900	3,117,468
Unrealized loss on marketable securities					( 4,289)	( 4,289)
Net Income			4,400,152	1,629		4,401,781
Distributions			( 1,884,000)	( 389)		( 1,884,389)
Balance at December 31, 2005	\$451,500	\$ 83,220	\$ 5,036,863	\$ 48,377	\$ 10,611	\$ 5,630,571

Stand Energy Corporation has 1,000 authorized shares of no-par common stock. Of the 600 outstanding shares, 200 are held in treasury. Southern Tier Transmission Corporation has 100 authorized shares of no-par common stock, of which 90 shares are issued and outstanding. Energy Credit Group, L.L.C. has Members' Equity of \$48,377.

The accompanying notes and accountants' report  
should be read in connection with these combined  
financial statements.

STAND ENERGY CORPORATION AND AFFILIATES  
COMBINED STATEMENT OF CASH FLOWS

**CONFIDENTIAL**

	Year Ended December 31	
	2005	2004
OPERATING ACTIVITIES:		
Cash received from customers	\$ 140,360,971	\$ 96,713,277
Cash paid to suppliers	(132,759,381)	( 88,107,128)
Cash paid for operating expenses	( 6,529,777)	( 4,272,412)
Interest paid	( 17,755)	( 29,348)
Interest and dividends received	39,813	5,917
Net cash provided by operating activities	1,093,871	4,310,306
INVESTING ACTIVITIES:		
Purchase of investments	( 176)	-0-
Purchase of furniture and fixtures	-0-	( 3,553)
Purchase of autos	-0-	( 62,285)
Purchase of equipment	( 18,071)	( 12,754)
Net cash used in investing activities	( 18,247)	( 78,592)
FINANCING ACTIVITIES:		
Net loans to stockholders	373,711	( 228,379)
Net proceeds from bank loans	25,335,000	-0-
Principal payments on notes payable to bank	( 23,525,000)	( 2,410,000)
Dividends paid	( 1,884,389)	( 1,843,327)
Payments on long-term obligations	( 133,911)	( 133,250)
Net cash provided by (used in) financing activities	165,411	( 4,614,956)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,241,035	( 383,242)
CASH AND CASH EQUIVALENTS - Beginning of year	1,035,926	1,419,168
CASH AND CASH EQUIVALENTS - End of year	\$ 2,276,961	\$ 1,035,926

The accompanying notes and accountants' report  
should be read in connection with these combined  
financial statements.

STAND ENERGY CORPORATION AND AFFILIATES  
COMBINED RECONCILIATION OF NET INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES

**CONFIDENTIAL**

	Year Ended December 31	
	2005	2004
NET INCOME	\$ 4,401,781	\$ 2,649,150
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	78,675	71,625
Changes in current assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable	(10,820,531)	( 1,666,206)
Inventory	( 635,470)	( 2,076,506)
Prepaid expenses	31,597	( 31,399)
Loans receivable, other	78,020	( 82,049)
Deposits	-0-	900
Increase (decrease) in:		
Trade accounts payable	8,046,879	5,316,180
Payroll taxes and taxes withheld	1,066	( 17,513)
Accrued expenses	( 121,189)	146,124
Deferred income	33,043	-0-
	<u>\$ 1,093,871</u>	<u>\$ 4,310,306</u>

The accompanying notes and accountants' report  
should be read in connection with these combined  
financial statements.



STAND ENERGY CORPORATION AND AFFILIATES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

**CONFIDENTIAL**

Note A - Summary of Significant Accounting Policies

- (1) Principles of Combination - Stand Energy Corporation, Energy Credit Group, L.L.C., and Southern Tier Transmission Corporation (together "the Company") are under the common control of a single group of shareholders. Accordingly, these financial statements are combined and include the accounts of Stand Energy Corporation, Energy Credit Group, L.L.C., and Southern Tier Transmission Corporation. All significant intercompany balances and transactions have been eliminated.
- (2) Description of the Business - Stand Energy Corporation is an independent energy marketer providing gas to customers. The Company operates primarily in the Eastern and Midwestern United States. The Company began selling natural gas and related services in 1984. Stand Energy's sales were \$148,721,615 in 2005 and \$97,178,518 in 2004.

Energy Credit Group, L.L.C. is an independent energy marketer providing gas to customers. The Company was formed in 2000 and its customers are primarily in Ohio. Energy Credit Group's sales were \$2,270,439 in 2005 and \$952,662 in 2004. The Company's equity at December 31, 2005 and 2004 was \$48,377 and \$47,137.

Southern Tier Transmission Corporation owns and operates a natural gas pipeline located in New York State. Southern Tier Transmission's sales were \$93,058 in 2005 and \$98,984 in 2004. Southern Tier Transmission's taxable income for 2005 and 2004 was \$466 and \$851 respectively, and their net assets at December 31, 2005 and 2004 were \$6,849 and \$6,441.

- (3) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the report amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (4) Cash and Cash Equivalents - The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.
- (5) Uninsured Cash Balances - The Company maintains cash balances at three banks. Cash accounts at banks are insured by the FDIC for up to \$100,000. Amounts in excess of insured limits were \$2,214,239 at The Bank of Kentucky at December 31, 2005 and \$536,768 at Fifth Third Bank and \$209,975 at The Bank of Kentucky at December 31, 2004.

STAND ENERGY CORPORATION AND AFFILIATES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

**CONFIDENTIAL**

Note A - Summary of Significant Accounting Policies (Continued)

- (6) Trade Accounts Receivable - The Company provides an allowance for doubtful accounts based upon prior experience and management's assessment of the collectibility of existing specific accounts. The Company performs initial and ongoing credit evaluations of its customers' financial condition and does not require collateral.
- (7) Inventory - Inventory consists of natural gas and is stated at the lower of cost or market determined using the first-in, first-out (FIFO) method.
- (8) Marketable Securities - The marketable securities portfolio is comprised of equity securities classified as available for sale. In accordance with SFAS 115, available for sale securities are stated at market value and unrealized gains or losses are presented as a separate component of stockholders' equity. The aggregate market value of marketable securities exceeded their aggregate cost by \$10,611 at December 31, 2005 and \$14,900 at December 31, 2004.
- (9) Loans receivable, other - Loans receivable, other consists of loans to employees and outside sales agents. These loans are non-interest bearing.
- (10) Property and Equipment - Property and equipment are stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, computed principally on the declining balance method. Expenses include depreciation charges of \$78,675 for 2005 and \$71,625 for 2004.
- (11) Income Taxes - Stand Energy Corporation, with the consent of its shareholders, has elected to have its income taxed under Section 1361 of the Internal Revenue Code as an S corporation, which provides that, in lieu of corporation income taxes, the shareholders are taxed on their proportionate share of the Company's taxable income. Southern Tier Transmission Corporation is a "C" corporation with no tax liability. Energy Credit Group, L.L.C., with the consent of its members, has elected to be taxed as a partnership, which provides that, in lieu of corporation income taxes, the members are taxed on their proportionate share of the Company's taxable income. As a result, no provision or liability for Federal income taxes is separately disclosed in these financial statements.
- (12) Revenue Recognition - The Company recognizes revenue when the gas has been provided to the customer.

Note B - Related Party Transactions

Loans receivable, stockholders and loans payable, stockholders are advances to and from stockholders. These advances are non-interest bearing loans.

STAND ENERGY CORPORATION AND AFFILIATES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

**CONFIDENTIAL**

**Note C - Financing Agreements**

At December 31, 2005 the Company has a \$30,000,000 revolving line of credit with Fifth Third Bank. The note is personally guaranteed by two stockholders up to a maximum of \$1,000,000. The line has an outstanding balance of \$2,100,000 and is due to mature on July 1, 2008. All outstanding advances shall bear interest at a rate one-half of one percent above the bank's prime rate. The line is first secured by trade accounts receivable, inventory, and property and equipment. The loan agreement requires the Company to meet certain restrictive covenants, all of which were met at December 31, 2005 and 2004. At December 31, 2004 the Company had a \$25,000,000 revolving line of credit with Fifth Third Bank that had an outstanding balance of \$290,000.

The line of credit will primarily be used to support letters of credit for purchases of energy. Outstanding letters of credit were \$23,775,800 at December 31, 2005 and \$11,786,000 at December 31, 2004.

**Note D - Retirement Plan**

Effective April 1, 1998 the Company adopted a 401(k) plan under which eligible employees could save from 1% to 15% of their eligible earnings on a pre-tax basis, subject to certain IRS limits. The Company did not make a voluntary matching contribution for 2005 or 2004.

**Note E - Lease Commitment**

The Company was obligated, under a lease, for its office facilities, through January 31, 2006. Annual rentals were approximately \$56,000 for 2005 and 2004.

Beginning in February 2006, in consideration for substantial leasehold improvements, the Company entered into a five year lease agreement for the office facilities that they had leased previously and for additional office space in the same location. Under the new lease the Company is obligated to pay base rent of approximately \$5,750 per month until January 2007. The base rent increases approximately two percent per year until the lease ends in January 2011.

Future minimum annaul rental payments on the new lease agreement are as follows:

Year ending <u>December 31</u>	
2006	\$ 63,283
2007	70,301
2008	71,901
2009	73,169
2010	74,603
2011	6,227
	<u>\$ 359,484</u>

STAND ENERGY CORPORATION AND AFFILIATES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

**CONFIDENTIAL**

Note F - Long-term Debt

	<u>2005</u>	<u>2004</u>
Power settlement, no stated interest rate, payable in annual installments of \$105,000 until December, 2005	\$ -0-	\$ 105,000
Financing of auto loans		
3.7 percent in monthly installments of \$1,599 including interest; final payment due September 15, 2006	14,176	32,478
0.0 percent in monthly installments of \$884; final payment due on October 24, 2006	8,842	19,451
	<u>23,018</u>	<u>156,929</u>
Less current portion:	23,018	133,913
	<u>\$ -0-</u>	<u>\$ 23,016</u>

Maturities of long term debt are as follows:

Year ending  
December 31  
 2006

23,018
<u>\$ 23,018</u>

**CONFIDENTIAL**

STAND ENERGY CORPORATION AND AFFILIATES  
COMBINED ADDITIONAL INFORMATION ON OPERATIONS

	<u>Year Ended December 31</u>	
	<u>2005</u>	<u>2004</u>
<b>SELLING EXPENSES:</b>		
Commissions	\$ 2,983,359	\$ 1,953,632
Consulting	22,456	31,446
Customer/supplier relations	78,309	21,181
Advertising	45,926	34,672
Travel and entertainment	78,787	41,945
Telephone	29,580	29,590
	<u>\$ 3,238,417</u>	<u>\$ 2,112,466</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES:</b>		
Officers' salaries	\$ 275,000	\$ 273,393
Officers' bonuses	600,000	-0-
Office salaries	1,365,371	1,149,741
Payroll taxes	141,556	108,497
Office	34,962	28,761
Contract labor	1,916	19,557
Rent and utilities	74,368	70,821
Professional services	284,728	113,419
Dues and permits	24,768	10,247
Bank fees	46,203	49,675
Depreciation	78,675	71,625
Contributions	9,881	10,038
Auto	25,191	29,247
Employee benefits	79,085	63,538
Bad debts	183,837	163,682
Maintenance and repairs	372	1,526
Miscellaneous	9,754	1,057
Postage	12,830	15,923
General taxes	94,963	21,035
Insurance	31,266	25,889
Computer expense	17,846	19,963
	<u>\$ 3,392,572</u>	<u>\$ 2,247,634</u>

The accompanying notes and accountants' report should be read in connection with this combined additional information.