STOLL
KEENON
OGDEN

300 West Vine Street
Suite 2100
Lexington, KY 40507-1801
Main: (859) 231-3000
Fax: (859) 253-1093

Robert M. Watt, III
Direct Dial: (859) 231-3043
Direct Fax: (859) 246-3643
robert.watt@skofirm.com

October 6, 2011

RECEIVED

OCT 06 2011

PUBLIC SERVICE
COMMISSION

HAND DELIVERED

Hon. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40601

Re: Delta Natural Gas Company, Inc.

Dear Mr. Derouen:

We enclose for filing an original and ten (10) copies of the Application of Delta Natural Gas Company, Inc. for an order authorizing the issuance of up to $75,000,000 of long term debt. Thank you in advance for your assistance with this matter.

Sincerely,

Robert Watt

Robert M. Watt, III

rmw:rmw
Enclosure
cc: Mr. John Brown (w/ encl.)
Dennis Howard, II, Esq. (w/encl.)

COMMONWEALTH OF KENTUCKY

RECEIVED

OCT 06 2011

PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ORDER AUTHORIZING THE ISSUANCE OF UP TO \$75,000,000 OF LONG TERM DEBT	))))	**CASE NO. 2011-________**

* * * * * * * * * *

APPLICATION

Delta Natural Gas Company, Inc. ("Delta"), pursuant to KRS 278.300 and 807 KAR 5:001, Section 11, respectfully submits its application herein as follows, to-wit:

1. Delta is a Kentucky corporation with its post office address, principal office and place of business located at 3617 Lexington Road, Winchester, Kentucky 40391. Delta's full name is Delta Natural Gas Company, Inc.

2. A certified copy of Delta's most recent Amended and Restated Articles of Incorporation has heretofore been filed with this Commission in connection with a prior proceeding of Delta, the same being Case No. 2010-00116, *In the Matter of: Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates*, filed on April 23, 2010.

3. Delta is a utility engaged in the natural gas business. Delta purchases, sells, stores and transports natural gas in Bath, Estill, Montgomery, Menifee, Madison, Powell, Garrard, Jackson, Lee, Bourbon, Jessamine, Rowan, Bell, Knox, Whitley, Laurel, Clay, Leslie, Fayette, Fleming, Clark, Robertson and Mason Counties, Kentucky.

4. As of June 30, 2011, in order to serve its customers, Delta owned approximately 2,500 miles of gas gathering, transmission, distribution and service lines ranging in size from one (1) to twelve (12) inches, compressor stations, storage wells, gas mixing equipment, regulating

equipment, metering equipment, transportation equipment, maintenance equipment communications equipment, data processing equipment, land and land rights. As of July 31, 2011, the original cost to Delta of its property was $208,811,186 as shown on Exhibit A attached hereto.

5. There is attached hereto as Exhibit B the financial exhibit of Delta as of July 31, 2011, as required by 807 KAR 5:001, Sections 6 and 11.

6. Delta desires to issue up to approximately $75,000,000 of long term debt in accordance with the draft term sheet set forth in Exhibit C attached hereto. The draft term sheet is subject to minor changes. The final determination of such amount will depend upon the market for securities and Delta's needs at the time of issuance.

7. Delta intends to call its 7% debentures in the outstanding amount of $19,410,000. It intends to call its 5.75% debentures in the outstanding amount of $38,455,006. The proceeds from the proposed issuance of long term debt will be used to refinance the 5.75% debentures and the 7% debentures. The balance of the long term debt will not be drawn unless needed by Delta for the acquisition of property, the construction, completion or improvement of facilities, the improvement of service and the maintenance of service.

8. Delta requests that the cost of issuance and other debt expenses associated with the proposed issuance of new long term debt be amortized over the life of the new debt. In addition, for the existing 5.75% Debentures and 7% Debentures, Delta requests that it be allowed to amortize any remaining unamortized debt expense over the life of any new or replacement long term debt.

9. The issuance of the long term debt described herein is for lawful objects within the corporate purposes of Delta and is necessary, appropriate for and consistent with the proper

performance by Delta of its service to the public and will not impair its ability to perform that service and is reasonably necessary and appropriate for such purpose.

10. The redemption date for the existing 5.75% Debentures and 7% Debentures will be determined by market conditions, but Delta anticipates that it will be November 28, 2011. Delta, therefore, requests expedited consideration of this Application and the issuance of an order approving the financing by November 9, 2011.

11. Communications related to this proceeding should be directed to the following persons:

John B. Brown
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

Robert M. Watt, III
Monica H. Braun
Stoll Keenon Ogden PLLC
300 West Vine Street, Suite 2100
Lexington, KY 40507

WHEREFORE, Delta Natural Gas Company, Inc. respectfully prays that the Public Service Commission enter its Order authorizing Delta to issue up to $75,000,000 of long term debt and for any and all other relief to which it may appear entitled. Delta requests that the cost of issuance and other debt expenses associated with the proposed issuance of new long term debt be amortized over the life of the new debt. For the existing 5.75% Debentures and 7% Debentures, Delta requests that it be allowed to amortize any remaining unamortized debt expense over the life of any new or replacement long term debt.

Respectfully submitted,

Robert M. Watt, III
Monica H. Braun
Stoll Keenon Ogden PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507
859-231-3000
robert.watt@skofirm.com
monica.braun@skofirm.com

Robert Watt

Counsel for Delta Natural Gas Company, Inc.

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF CLARK)

After having been duly sworn, John B. Brown states that he is an executive officer of Delta Natural Gas Company, Inc. having knowledge of the matters set forth in the foregoing Application, that he has been duly designated by Delta Natural Gas Company, Inc. to sign and file the foregoing Application on behalf of Delta Natural Gas Company, Inc., that he has read the statements contained in the foregoing Application and that the same are true.

John B. Brown

John B. Brown

Subscribed and sworn to before me by John B. Brown on the 5th day October 2011.

My commission expires: 6/20/12.

Emily P. Bennett

Notary Public

CERTIFICATE OF SERVICE

This is to certify that the foregoing pleading has been served by mailing a copy of same, postage prepaid, to the following person on this 6th day of October 2011:

Dennis Howard, II, Esq.
Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601

Robert Watt
Counsel for Applicant

005522.005777/3996657.1

DELTA NATURAL GAS COMPANY, INC.

DESCRIPTION OF PROPERTY AND ORIGINAL COST
JULY 31, 2011

INTANGIBLE PLANT		
Organization	$	53,151
Franchise		0
PRODUCTION PLANT		
Production Land		0
Production Structures		0
Gas Mixing Equipment		7,795
Land & Land Rights		97,021
Compressor Stations & Structures		812,574
Measuring & Regulating Equipment		158,244
Field Line – Gathering		1,944,213
STORAGE & PROCESSING PLANT		
Storage Land		74,295
Storage Right-Of-Way		186,821
Gas Rights Wells		1,495
Gas Rights Storage		0
Storage Structures & Improvements		303,795
Storage Wells		2,255,252
Storage Rights		860,396
Storage Reservoirs		1,864,731
Nonrecoverable Natural Gas		294,307
Storage Lines		5,166,293
Storage Compressor Station Equipment		2,531,347
Storage Measuring & Regulating Equipment		565,133
Purification Equipment		5,347,915
Storage Other Equipment		47,209
TRANSMISSION PLANT		
Land & Land Rights of Way		1,356,244
Land Rights		163,626
Structures & Improvements		248,656
Mains		42,218,777
Compressor Station & Equipment		7,580,586
Regulating Equipment		3,362,534
Other Equipment		466,210

DESCRIPTION OF PROPERTY AND ORIGINAL COST
JULY 31, 2011

DISTRIBUTION PLANT		
Land & Land Rights		329,732
Structure & Improvements		108,113
Mains		68,556,502
Regulating Equipment – General		1,756,997
Regulating Equipment – City Gate		853,404
Services		14,261,180
Meter & House Regulators		12,765,501
Meter & House Regulator Installations		3,158,111
Industrial Regulating Station Equipment		1,609,311
GENERAL PLANT		
Land & Land Rights		999,354
Structure & Improvements		5,514,135
Office Furniture & Equipment		141,795
Transportation Equipment		4,435,633
Tools, Shop & Garage Equipment		1,048,914
Laboratory Equipment		237,610
Power Operated Equipment		3,527,189
Communications Equipment		386,003
Miscellaneous Equipment		44,849
Other Tangible Property		6,273,623
GAS STORED UNDERGROUND		4,208,069
CONSTRUCTION WORK IN PROGRESS		1,207,300
PLANT ACQUISITION ADJUSTMENT		(580,759)
	$	208,811,186

DELTA NATURAL GAS COMPANY, INC.

**AMOUNT AND KINDS OF STOCK AUTHORIZED,
ISSUED AND OUTSTANDING
JULY 31, 2011**

Common Stock, par value $1.00 per share	--	Authorized - 20,000,000 shares Issued and Outstanding – 3,366,240 shares
Cumulative Preferred	--	Authorized - 312,500 shares Issued and Outstanding - 0

DELTA NATURAL GAS COMPANY, INC.

LONG-TERM DEBT OUTSTANDING AND MORTGAGE DESCRIPTIONS JULY 31, 2011

There are no mortgages outstanding.

The following long-term debts are in existence:

(1) On February 18, 2003, as authorized by Delta's Board of Directors and approved by an Order of the Kentucky Public Service Commission, Delta issued $20,000,000 of unsecured 7.0% Debentures that mature in February 2023. The proceeds were used to repay short-term debt and to redeem the Company's 8.3% Debentures that would have matured in 2026, in the amount of $14,806,000. Each holder may require redemption of up to $25,000 of 7.0% Debentures annually, subject to an annual aggregate limitation of $400,000. Such redemption will also be made on behalf of deceased holders within sixty days of notice, subject to the annual aggregate $400,000 limitation. The Company may redeem all or part of the notes at any time. If Delta redeems fewer than all the notes, the trustee will select by lot the particular notes to be redeemed. Restrictions under this indenture include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity of the Company exceeds $25,800,000. Interest paid during the twelve months ending July 31, 2011 was $1,360,800. At July 31, 2011 there was $1,122,017 of unamortized debt associated with these debentures. The Bank of New York Trust Company, N.A. is the Trustee and interest-paying agent for these debentures. The balance at July 31, 2011 was $19,410,000.

(2) On April 6, 2006, as authorized by Delta's Board of Directors and approved by an order of the Kentucky Public Service Commission, Delta issued $40,000,000 of unsecured 5.75% Insured Quarterly Notes that mature in April 2021. These proceeds were used to redeem Delta's outstanding 7.15% Debentures due in 2018 in the amount of $23,672,000, Delta's outstanding 6.625% Debentures due in 2023 in the amount of $10,169,000 and to reduce our short-term indebtedness. Each holder may require redemption of up to $25,000 of 5.75% Insured Quarterly Notes annually, subject to an annual aggregate limitation of $800,000. Such redemption will also be made on behalf of deceased holders within sixty days of notice, subject to the annual aggregate $800,000 limitation. The Company may redeem all or part of the notes at any time. If Delta redeems fewer than all the notes, the trustee will select by lot the particular notes to be redeemed. Restrictions under this indenture include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity is at least equal to $25,800,000. Interest paid during the twelve months ending July 31, 2011 was $2,224,512. At July 31, 2011 there was $2,807,199.61 of unamortized debt associated with these 5.75% Insured Quarterly Notes. The Bank of New York Trust Company, N.A. is the Trustee and interest paying agent for these notes. The balance at July 31, 2011 was $38,478,006.

DELTA NATURAL GAS COMPANY, INC.

SHORT-TERM DEBT OUTSTANDING
JULY 31, 2011

Delta had outstanding at July 31, 2011 short-term debt as follows:

LENDER	DUE DATE	RATE	AMOUNT
Branch Banking and Trust Company (BB&T)	Demand [(1)]	1.3351% [(2)]	$ -0-

Short-term interest paid in the 12 months ended July 31, 2011 was $80,579

[(1)] This is a demand grid note dated June 30, 2011 with a maturity date of June 30, 2013. It can be increased or decreased daily up to a maximum of $40,000,000.

[(2)] The interest on this line is determined monthly at the thirty day LIBOR Rate plus 1.5% on the used line of credit. The cost of the unused line of credit is 0.125%.

DELTA NATURAL GAS COMPANY, INC.

OTHER INDEBTEDNESS
JULY 31, 2011

There is no other indebtedness outstanding.

DELTA NATURAL GAS COMPANY, INC.

DIVIDENDS FOR LAST FIVE YEARS
JULY 31, 2011

MONTH AND YEAR PAID	RATE	ON SHARES OR VALUE	PAR VALUE	DIVIDEND AMOUNT
September 2006	.305	3,257,784	3,257,784	$ 993,319
December 2006	.305	3,263,560	3,263,560	$ 995,386
March 2007	.305	3,268,380	3,268,380	$ 996,857
June 2007	.305	3,273,273	3,273,273	$ 998,349
September 2007	.310	3,277,729	3,277,729	$1,016,096
December 2007	.310	3,282,393	3,282,393	$1,017,542
March 2008	.310	3,287,542	3,287,542	$1,019,138
June 2008	.310	3,291,943	3,291,943	$1,020,502
September 2008	.320	3,297,433	3,297,433	$1,055,178
December 2008	.320	3,302,946	3,302,946	$1,056,943
March 2009	.320	3,308,444	3,308,444	$1,058,702
June 2009	.320	3,313,798	3,313,798	$1,060,415
September 2009	.325	3,319,374	3,319,374	$1,078,797
December 2009	.325	3,324,019	3,325,019	$1,080,307
March 2010	.325	3,327,966	3,327,966	$1,081,590
June 2010	.325	3,331,531	3,331,531	$1,082,748
September 2010	.340	3,346,369	3,346,369	$1,137,766
December 2010	.340	3,350,569	3,350,569	$1,139,193
March 2011	.340	3,358,636	3,358,636	$1,141,936
June 2011	.340	3,362,907	3,362,907	$1,143,388

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME
12 MONTHS ENDED JULY 31, 2011
(UNAUDITED)

OPERATING REVENUES	$52,703,756
OPERATING EXPENSES AND TAXES	
Gas Purchased	$21,045,184
Operations	11,860,278
Maintenance	625,926
Depreciation	5,189,593
Property & Other Taxes	1,821,652
Income Taxes	2,999,453
Total	$43,542,086
Operating Income	$ 9,161,670
INTEREST EXPENSES	$ 4,026,952
NET INCOME	$ 5,134,718

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
12 MONTHS ENDED JULY 31, 2011
(UNAUDITED)

ASSETS		
Gas Utility Plant, at Cost	$	209,739,472
Less - Reserve for Depreciation		76,446,343
Net Gas Plant	$	133,293,129
Current Assets		
Cash	$	3,830,313
Receivables		2,182,662
Deferred Gas Cost		4,072,601
Gas in Storage, at Average Cost		5,067,733
Materials and Supplies, at Average Cost		535,379
Prepayments		939,756
Total Current Assets	$	16,628,444
Other Assets		
Cash Surrender Value of Life Insurance	$	508,808
Unamortized Expenses		3,929,217
Receivable/Investment in Subsidiaries		3,807,627
Other		9,659,097
Total Other Assets	$	17,904,749
TOTAL ASSETS	$	**167,826,322**
LIABILITIES		
Capitalization		
Common Shareholders' Equity	$	63,674,162
Long-Term Debt		56,688,006
Total Capitalization	$	120,362,168
Current Liabilities		
Notes Payable	$	0
Current Portion of Long-Term Debt		1,200,000
Accounts Payable		3,880,860
Accrued Taxes		(101,690)
Customers' Deposits		501,915
Refunds Due Customers		162,711
Current Deferred Income Taxes		1,538,669
Accrued Interest		599,011
Other		1,015,960
Total Current Liabilities	$	8,797,436
Deferred Credits & Others		
Deferred Income Taxes	$	35,198,119
Deferred Investment Tax Credit		84,700
Regulatory Items		612,737
Advances for Construction and Other		2,771,162
Accumulated Provision for Pension		0
Total Deferred Credits and Other	$	38,666,718
TOTAL LIABILITIES	$	**167,826,322**

EXHIBIT C

CONFIDENTIAL

October 4, 2011
For Discussion Purposes Only

DELTA NATURAL GAS COMPANY, INC.
PruShelf Facility
Preliminary Term Sheet

Issuer:	Delta Natural Gas Company, Inc. (the "**Company**").
Purchaser:	Prudential Investment Management, Inc. or its affiliates or investment funds or managed accounts ("**Prudential**").
Facility Amount:	Up to [$75,000,000]
Form of Facility:	Senior Unsecured Notes (the "**Notes**") to be issued from time to time under a Master Shelf Agreement (the "**Agreement**" or "**Facility**"). The Notes shall be *pari passu* with all other indebtedness of the Company (and shall not be structurally subordinated to any other indebtedness.)
Facility Closing Date:	Approximately six weeks from execution of a commitment letter.
Guarantors:	All subsidiaries, if any, guaranteeing the Company's primary Bank Facility.
Type of Securities:	Private placement of senior unsecured notes.
Minimum Draw Amount:	[$5,000,000] subsequent to the issuance of the Initial Notes.

I. INITIAL NOTES:

Principal Amount:	Up to [$60,000,000] or such other amount as the Company and Prudential shall mutually agree, but in no event less than [$10,000,000].
Use of Proceeds:	The proceeds from the sale of the Initial Notes will be used by the Company for refinancing existing indebtedness and general corporate purposes.
Price:	100 (par)
Average Life:	Up to [20] years.
Maturity:	Up to [20] years.

Funding Date: On the Facility Closing Date.

Required Prepayments: Will be determined based on the structure of the notes priced.

Interest Rate: [215-230] basis points over the respective on-the-run or off-the-run U.S. Treasury Note or interpolated U.S. Treasury Note yield for the average life of the Notes, with interest payable quarterly in arrears. Indicative spreads at which Prudential would currently be interested in purchasing the Notes are as follows:

Avg. Life/Final Maturity	Credit Spread[A]	Treasury Rate[B]	Indicative Coupon
10 yrs / 10 yrs	[2.15-2.20%]	1.74%	[3.89-3.94%]
12 yrs / 12 yrs	[2.15-2.20%]	1.84%	[3.99-4.04%]
15 yrs / 15 yrs	[2.20-2.25%]	1.98%	[4.18-4.23%]
20 yrs / 20 yrs	[2.25-2.30%]	2.22%	[4.47-4.52%]

A. The above spreads are only preliminary indications and may change based on market conditions existing at the time a firm rate is requested.
B. As of October 4, 2011.

Interest will be paid quarterly in arrears.

II. PRIVATE SHELF FACILITY

Price: 100 (par)

Average Life: The average life for each Note shall be selected by the Company at the time the rate is fixed, provided, however, that no Note shall have an average life of more than [20] years from the date of issue. Different Notes may have different average lives.

Maturity: The maturity for each Note shall be selected by the Company at the time the rate is fixed, provided, however, that no Note shall have a maturity of more than [20] years from the date of issue. Different Notes may have different maturities.

Termination: Notes can continue to be issued under the Facility until two years from execution of the Agreement. Either party can terminate the Agreement upon 30 days notice.

Interest Rate: A variety of rate alternatives will be identified by Prudential. The rate shall be equal to the yield to maturity on a U.S. Treasury Note having a maturity equal or closest to the average life of the Note proposed to be issued (or an interpolated yield using specified U.S. Treasury Notes), plus a credit spread. The interpolated Treasury rate and the spread used in calculating the interest rate will be determined on the date the spread and coupon are fixed.

The rates indicated reflect both "market" conditions and Prudential's investment appetite. The Facility shall in no way be construed as a firm capital commitment by Prudential nor a commitment to purchase Notes at a predetermined credit spread.

Interest will be paid quarterly or semiannually, at the Company's discretion, in arrears.

Interest Rate Notification: Periodically, on such basis as the Company and Prudential shall mutually agree, Prudential shall communicate to the Company (by fax or phone) the various spreads at which Prudential might be interested in purchasing Notes of different maturities and average lives. The rates communicated shall be mere indications of interest and shall not be construed as offers to purchase any Notes.

Notwithstanding the above, Prudential can suspend such communication of spreads if it, in its sole discretion, concludes that the credit quality of the Company has changed since the Facility was instituted.

Request for Purchase: The Company may request that Prudential purchase Notes under the Facility by making a request in writing (a "**Request for Purchase**") which shall specify:

(1) the principal amount;

(2) the maturity;
(3) the prepayment schedule, if any;
(4) interest payment periods;
(5) the use of proceeds;
(6) the proposed closing day, which shall be a date not less than 10 and not more than 25 business days from the date of such notice (the "**Closing Day**");
(7) the account and depository institution to which such funds should be wired at closing; and
(8) an undertaking that the proceeds shall not be used for the purpose of financing a hostile tender offer.

The actual Closing Day can be advanced by mutual agreement.

Each Request for Purchase shall reaffirm the representations and warranties made by the Company in the Agreement.

Pricing Quote:

Upon receipt of a Request for Purchase, Prudential may provide the Company with an interest rate quote (generally within five business days). If the Company elects to accept the quoted rate, the Company shall, within 30 minutes (or such shorter period as Prudential may elect) after receipt of the quote, notify Prudential of its acceptance ("**Acceptance**"), but in no case can a rate be fixed earlier than 9:30 am or later than 1:30 pm Eastern Time. Notwithstanding the above, such rate shall be suspended (*i.e.*, Prudential shall not be bound by such rate) in the event that any Market Disruption (defined as any suspension, material limitation, or significant disruption in trading in securities generally on the New York Stock Exchange or in the market for U.S. Treasury Notes and other financial instruments) occurs between the time Prudential quotes a rate and the Acceptance of such rate is communicated by the Company.

Funding:

In the event the Company notifies Prudential of its Acceptance, but fails to issue any Notes on the Closing Day, and either the Company notifies Prudential of its intention not to issue any Notes, or Prudential determines that the Company will not issue any Notes, then the

Company shall immediately render to Prudential a cancellation payment.

Such payment shall equal the product of (a) the price increase determined by Prudential as the excess, if any, of the ask price of the Treasury Note(s) (the "**Hedge Treasury Note**") with the duration that most closely approximates the duration of the Notes proposed to be issued, on the date of cancellation, over the bid price of the Hedge Treasury Note on the date of the Acceptance, divided by such bid price, and (b) the principal amount of such Notes.

If after an Acceptance, the closing fails to occur on or before the Closing Day, a Delayed Delivery Fee (the "**Delayed Delivery Fee**") shall be charged to the Company to offset Prudential's hedging costs and to preserve its anticipated yield. The Delayed Delivery Fee shall be determined by Prudential as the product of (i) the bond equivalent yield of the Notes proposed to be issued minus the bond equivalent yield of an alternative investment selected by Prudential with a maturity date approximately equal to the new Closing Day, (ii) the principal amount of the Notes proposed to be issued, and (iii) a fraction the numerator of which is equal to the number of days from the originally scheduled Closing Day to the day the fee is paid and the denominator of which is 360.

Structuring Fee: A structuring fee of [$25,000] will be paid by the Company to Prudential on the Facility Closing Date. To the extent that legal fees exceed $80,000, the structuring fee will be reduced by 50% of the variance between actual legal fees and the $80,000 threshold. However, in no instance shall the structuring fee be less than $10,000.

Facility Fee: [0.125%] of the principal amount of Notes issued at each draw down payable on any Closing Day occurring six months after the Facility Closing Date.

Required Prepayments: As chosen by the Company in the Request for Purchase and accepted by Prudential.

Optional Prepayments: The Notes may be prepaid, at the option of the Company, in whole or in part (in a minimum amount of [$1,000,000] and integral multiples of $100,000), on any interest payment date, at par plus accrued interest and a Yield-Maintenance Amount equal to the excess, if any, of (a) the net present value of the future debt service (principal plus interest) on the Notes being redeemed, discounted at a rate equal to the sum of 50 bps and the current yield on the U.S. Treasury Note(s) having a maturity comparable to the weighted average life remaining on such Notes over (b) the principal amount of the Notes being prepaid plus interest accrued thereon to the date of prepayment. The difference between such price and the par value being the "**Yield-Maintenance Amount**". Prepayments are applied in the inverse order of maturities.

III. GENERAL PROVISIONS OF THE MASTER SHELF AGREEMENT

Conditions Precedent: The conditions precedent to funding would be typical for transactions of this type including, without limitation, the following:

(1) no material adverse change;
(2) absence of Default;
(3) representations and warranties true and correct;
(4) payment of the fees;
(5) receipt of any regulatory approvals, licenses or permits; and
(6) other customary provisions and documentation (including appropriate legal opinions) for an agreement of this nature.

The conditions precedent shall apply anew for each new borrowing.

Affirmative Covenants: Affirmative covenants will include, but not be limited to, the following:

(1) Information Requirements:

(a) furnish unaudited quarterly interim financial statements (to include consolidated and consolidating balance sheet, income and cash flow statements, if applicable) certified by an officer of the Company within 45 days after the date the quarterly period ends;
(b) furnish audited annual financial statements (to include consolidated and consolidating (which shall not be required to be audited) balance sheet, income and cash flow statements) within 90 days after the date the year ends together with compliance certificate;
(c) other information delivered to public stockholders or the SEC;
(d) deliver auditor's reports given in connection with any audit;
(e) notice of material events;
(f) furnish ERISA reports;
(g) furnish other operating and financial information and documents as may reasonably be requested; and
(h) deliver quarterly compliance certificates and annual no Default certificates;

(2) deliver Rule 144A information;
(3) provide inspection rights;
(4) maintain covenant to secure notes equally;
(5) comply with laws, including environmental laws;
(6) maintain insurance coverage that is satisfactory to the Note holders;
(7) maintain existence;
(8) maintain owned properties in good repair;
(9) pay taxes and liabilities when due;
(10) ERISA compliance; and
(11) maintain *pari passu* nature of the Notes;

Negative Covenants: Negative covenants will include, but not be limited to, the following:

(1) Financial Ratios:

(a) *Fixed Charge Coverage* - The Company will not permit, at the end of any fiscal quarter, the ratio of (i) EBITDA plus operating lease and rent payments to (ii) the sum of Interest Expense plus operating lease and rent payments in each case for the period of four fiscal quarters ended on such date, to be less than [1.20] to 1.00;

(b) *Total Debt to Capitalization* - The Company will not permit, at the end of any fiscal quarter, the ratio of (i) Total Debt to (ii) Capitalization to be greater than [70%];

(c) *Tangible Net Worth* - The Company will not permit Tangible Net Worth to be less than [$25,800,000].

(2) *Restricted Payments* - The Company will not, and will not permit any Subsidiary to, make or declare any Restricted Payments if at the time of the Restricted Payment the aggregate amount of all Restricted Payments made, paid or delivered since the Closing Date would exceed the sum of (i) $15,000,000 plus (ii) 100% of Consolidated Net Income for the period beginning July 1, 2011 and ending on the date of the proposed Restricted Payment, computed on a cumulative basis.

(3) *Limitations on Liens and Encumbrances* - The Company will not create, incur, assume or suffer to exist any Lien other than:

(a) Liens for taxes not yet due;
(b) statutory Liens of landlords, carriers, mechanics and materialmen incurred in the ordinary course of business for sums not yet due;
(c) Liens (other than any Lien imposed by ERISA) incurred, in the ordinary course of business in connection with workers' compensation, unemployment insurance or

to secure the performance of tenders, statutory obligations, surety bonds, appeal bonds (not in excess of $2,500,000);

(d) judgment Liens securing obligations less than $1,000,000 at any time, unless the judgments secured have been discharged within 30 days;

(e) easements, rights-of-way and other similar charges or encumbrances incidental to the ordinary conduct of the business of the Company, provided that such Liens do not materially detract from the use or value of the property encumbered;

(f) Liens on property or assets of a Subsidiary to secure obligations of such Subsidiary to the Company; and

(g) Liens in addition to the above securing Indebtedness that do not exceed [10%] of Tangible Net Worth; provided such Liens may not secure bank credit agreements and may not encumber inventory or receivables.

(4) The Company will not permit Priority Debt to exceed [10%] of Tangible Net Worth.

(5) *Loans, Advances, Investments and Contingent Liabilities* - The Company will not, and will not permit any Subsidiary to, make or permit to remain outstanding any loan or advance to, or extend credit or own, purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any Person, except for Permitted Investments.

(6) *Sale of Stock and Indebtedness of Subsidiaries* - The Company will not, and will not permit any Subsidiary to, sell or otherwise dispose of, or part with control of, any shares of stock or Indebtedness of any Subsidiary, except to the Company or a Wholly Owned Subsidiary, except any Subsidiary may be sold as an entirety for a cash consideration, provided that such sale or other disposition is treated as a sale of assets.

(7) *Merger and Consolidation* - The Company will not consolidate with or merge into any other corporation, or transfer its properties and assets substantially as an entirety to any person, unless: (a) the surviving corporation is organized and existing under the laws of a state of the United States with a majority of its assets and business located in the United States and, if the Company is not the survivor, expressly assumes the obligations of the Company under the Agreement and the Notes, (b) no Default or Event of Default exists before or after such event and (c) the Tangible Net Worth of the surviving corporation is at least as great as the Tangible Net Worth of the Company immediately prior to such merger or consolidation. No Subsidiary shall merge or consolidate with any other person unless (a) the surviving corporation is the Company or a Wholly Owned Subsidiary of the Company organized and existing under the laws of a state of the United States (b) no Default or Event of Default, exists before or after such event and (c) the Tangible Net Worth of the Company following the merger or consolidation is no less than the Tangible Net Worth of the Company immediately prior to such merger or consolidation.

(8) *Sale of Assets* - The Company and the Subsidiaries will not sell, lease, transfer, or otherwise dispose of any assets of the Company and the Subsidiaries except (a) transfers of assets to the Company or a Wholly Owned Subsidiary, (b) inventory sold in the ordinary course of business, (c) obsolete or worn out equipment and (d) assets transferred in any year if the aggregate value of such disposed assets does not exceed (i) for any fiscal year [5%] of the Tangible Assets of the Company and its Subsidiaries as of end of the prior fiscal year quarter or (ii)[15 %] of the Tangible Assets of the Company and its Subsidiaries over the life of the Notes (determined at any time by aggregating the dollar value of all sales as of such time as a percentage of Tangible Assets of the Company and its

Subsidiaries as of the end of the fiscal year ended immediately prior to such time).

(9) limitations on leases;
(10) limitation on sale and lease-back transactions;
(11) limitations on sales of receivables;
(12) restrictions on change of current business;
(13) limitation on transactions with affiliates;
(14) restrictions on issuance of stock by Subsidiaries;
(15) prohibition on agreements limiting ability of Subsidiaries to transfer assets or dividends to the Company; and
(16) Terrorism Sanctions Regulations;

All covenants will be calculated without giving effect to SFAS 159.

Events of Default: To include, with appropriate grace period to apply in certain instances, the following:

(1) Failure to pay principal, interest or Yield-Maintenance Amount when due;
(2) Default on any other indebtedness;
(3) Any representation or warranty untrue in any material respect when made;
(4) Default on any covenant;
(5) Bankruptcy or similar proceedings;
(6) ERISA Defaults;
(7) A judgment or judgments for the payment of money in excess of $2,500,000 is rendered against the Company or any of its Subsidiaries and is not discharged or stayed pending appeal;
(8) Court-ordered divestiture of assets; and
(9) Loss of any required regulatory permits, licenses or approvals.

Remedies Upon Default: Upon the occurrence and during the continuance of any Event of Default, the Notes will bear interest at the Default Rate. Upon any Event of Default (a) specified in (1), any note holder may accelerate its Notes at par, together with outstanding interest; (b) specified in (5), the Notes shall automatically become due at par, together with outstanding interest plus the Yield-Maintenance Amount; (c) other than specified in (5), the holders of a majority of the outstanding principal amount of the Notes may accelerate all Notes at par together with outstanding interest plus the Yield-Maintenance Amount. In addition, the holders of the Notes may exercise any other rights under the Agreement. Default Rate shall mean the lesser of (i) the maximum rate permitted by law and (ii) the greater of (a) 2% over the rate on the Notes prior to the Event of Default and (b) 2% over the Prime Rate of The Bank of New York.

Representations and Warranties: Customary for an agreement of this nature, including absence of material adverse change.

The representations and warranties given by the Company in the Agreement would be reaffirmed at each closing.

Expenses: The Company shall pay all legal and other out-of-pocket expenses of the Purchasers, including the fees and expenses of special counsel and local counsel.

Governing Law: State of New York.

SELECTED DEFINITIONS

Consolidated Net Income: Shall mean consolidated net income of the Company and its Subsidiaries during such period determined in accordance with GAAP, plus non-recurring one-time expenses related to accounting changes, acquisition costs incurred in connection with a business combination, one-time unfavorable legal or environmental judgments, fines or penalties or other one-time non-operating related losses.

Tangible Net Worth: Shall mean Net Worth less, without duplication, (i) all intangible items, including, without limitation, goodwill, licenses, organizational expense, unamortized debt discount and expense carried as an asset and any write-up in the book value of assets, (ii) net gains or losses attributed to cumulative translation adjustments, (iii) minority interests and (iv) guarantees of Indebtedness of third parties. For the avoidance of doubt, any assets of the

Company classified as Regulatory Assets in accordance with GAAP will not be considered intangible.

The foregoing represents the preliminary terms of a proposed financing to determine if the Company and Prudential are mutually interested in proceeding with further discussions and is not intended to represent all terms and conditions to be included in the Agreement, the Notes, and related documents.

Any agreement as to a financing is subject to (a) satisfactory completion of Prudential's due diligence investigation, including the investigation of the financial condition, operations and prospects of the Company and its Subsidiaries; (b) Prudential and the Company reaching final agreement upon terms, conditions, covenants, and other provisions satisfactory to Prudential to be included in the Agreement, the securities to be purchased by Prudential and the other documents relating to the transaction; (c) final documentation in form satisfactory to Prudential; (d) authorization by (or pursuant to authority delegated by) the Investment Committee of Prudential's Board of Directors; and (e) the absence of any material adverse change in the financial condition, operations or prospects of the Company and its Subsidiaries. Accordingly, this term sheet is not a binding commitment on the part of Prudential.

As indicated, pricing indications are subject to approval of the Pricing Committee of Prudential Capital Group and may change based on market conditions at such time a firm rate is requested by the Company.