

AEP Generating Company

2011 First Quarter Report

Financial Statements



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GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below.

Term	Meaning
AEGCo	AEP Generating Company, an AEP electric utility subsidiary.
AEP or Parent	American Electric Power Company, Inc.
AEP System or the System	American Electric Power System, an integrated electric utility system, owned and operated by AEP's electric utility subsidiaries.
AEPSC	American Electric Power Service Corporation, a service subsidiary providing management and professional services to AEP and its subsidiaries.
CO ₂	Carbon Dioxide and other greenhouse gases.
Federal EPA	United States Environmental Protection Agency.
FERC	Federal Energy Regulatory Commission.
GAAP	Accounting Principles Generally Accepted in the United States of America.
MW	Megawatt.
Rockport Plant	A generating plant, consisting of two 1,300 MW coal-fired generating units near Rockport, Indiana.
Utility Money Pool	AEP System's Utility Money Pool.
VIE	Variable Interest Entity.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF INCOME
For the Three Months Ended March 31, 2011 and 2010
(in thousands)
(Unaudited)

	2011	2010
OPERATING REVENUES	\$ 126,548	\$ 95,492
EXPENSES		
Fuel Used for Electric Generation	70,930	46,645
Rent - Rockport Plant Unit 2	17,071	17,071
Other Operation	6,311	7,396
Maintenance	7,927	3,981
Depreciation and Amortization	9,262	9,140
Taxes Other Than Income Taxes	1,256	1,281
TOTAL EXPENSES	112,757	85,514
OPERATING INCOME	13,791	9,978
Other Income (Expense):		
Interest Income	-	2
Allowance for Equity Funds Used During Construction	2,264	19
Interest Expense	(3,718)	(4,176)
INCOME BEFORE INCOME TAX EXPENSE	12,337	5,823
Income Tax Expense	2,662	1,780
NET INCOME	\$ 9,675	\$ 4,043

The common stock of AEGCo is wholly-owned by AEP.

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CHANGES IN COMMON SHAREHOLDER'S EQUITY
For the Three Months Ended March 31, 2011 and 2010
(in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2009	\$ 1,000	\$ 238,184	\$ 58,580	\$ 297,764
Common Stock Dividends			(4,500)	<u>(4,500)</u>
SUBTOTAL – COMMON SHAREHOLDER'S EQUITY				<u>293,264</u>
COMPREHENSIVE INCOME				
NET INCOME			4,043	<u>4,043</u>
TOTAL COMPREHENSIVE INCOME				<u>4,043</u>
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2010	<u>\$ 1,000</u>	<u>\$ 238,184</u>	<u>\$ 58,123</u>	<u>\$ 297,307</u>
TOTAL COMMON SHAREHOLDER'S EQUITY – DECEMBER 31, 2010	\$ 1,000	\$ 238,184	\$ 57,220	\$ 296,404
COMPREHENSIVE INCOME				
NET INCOME			9,675	<u>9,675</u>
TOTAL COMPREHENSIVE INCOME				<u>9,675</u>
TOTAL COMMON SHAREHOLDER'S EQUITY – MARCH 31, 2011	<u>\$ 1,000</u>	<u>\$ 238,184</u>	<u>\$ 66,895</u>	<u>\$ 306,079</u>

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
ASSETS
March 31, 2011 and December 31, 2010
(in thousands)
(Unaudited)

	2011	2010
CURRENT ASSETS		
Accounts Receivable - Affiliated Companies	\$ 44,155	\$ 57,278
Fuel	46,368	46,422
Materials and Supplies	17,207	17,484
Accrued Tax Benefits	1,011	1,297
Prepayments and Other Current Assets	693	802
TOTAL CURRENT ASSETS	109,434	123,283
PROPERTY, PLANT AND EQUIPMENT		
Electric:		
Generation	1,455,227	1,455,131
Transmission	9,688	9,688
Other Property, Plant and Equipment	7,054	8,739
Construction Work in Progress	31,742	228,794
Total Property, Plant and Equipment	1,503,711	1,702,352
Accumulated Depreciation and Amortization	891,832	881,682
TOTAL PROPERTY, PLANT AND EQUIPMENT – NET	611,879	820,670
OTHER NONCURRENT ASSETS		
Regulatory Assets	16,528	16,694
Deferred Charges and Other Noncurrent Assets	5,111	2,069
TOTAL OTHER NONCURRENT ASSETS	21,639	18,763
Plant Held for Sale	223,328	-
TOTAL ASSETS	\$ 966,280	\$ 962,716

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY
March 31, 2011 and December 31, 2010
(Unaudited)

	2011	2010
CURRENT LIABILITIES	(in thousands)	
Advances from Affiliates	\$ 41,050	\$ 21,178
Accounts Payable:		
General	25,071	15,458
Affiliated Companies	18,634	67,698
Long-term Debt Due Within One Year – Nonaffiliated	137,273	137,273
Accrued Taxes	16,754	9,934
Accrued Rent - Rockport Plant Unit 2	23,427	4,963
Other Current Liabilities	1,568	4,958
TOTAL CURRENT LIABILITIES	263,777	261,462
NONCURRENT LIABILITIES		
Long-term Debt – Nonaffiliated	185,446	189,074
Deferred Income Taxes	65,311	65,372
Regulatory Liabilities and Deferred Investment Tax Credits	50,412	54,746
Deferred Gain on Sale and Leaseback - Rockport Plant Unit 2	65,086	66,479
Deferred Credits and Other Noncurrent Liabilities	30,169	29,179
TOTAL NONCURRENT LIABILITIES	396,424	404,850
TOTAL LIABILITIES	660,201	666,312
Commitments and Contingencies (Note 2)		
COMMON SHAREHOLDER'S EQUITY		
Common Stock – Par Value – \$1,000 Per Share:		
Authorized – 1,000 Shares		
Outstanding – 1,000 Shares	1,000	1,000
Paid-in Capital	238,184	238,184
Retained Earnings	66,895	57,220
TOTAL COMMON SHAREHOLDER'S EQUITY	306,079	296,404
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 966,280	\$ 962,716

See Condensed Notes to Condensed Financial Statements.

AEP GENERATING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2011 and 2010
(in thousands)
(Unaudited)

	2011	2010
OPERATING ACTIVITIES		
Net Income	\$ 9,675	\$ 4,043
Adjustments to Reconcile Net Income to Net Cash Flows from (Used for) Operating Activities:		
Depreciation and Amortization	9,262	9,140
Deferred Income Taxes	656	1,094
Amortization of Deferred Gain on Sale and Leaseback - Rockport Plant Unit 2	(1,393)	(1,393)
Allowance for Equity Funds Used During Construction	(2,264)	(19)
Property Taxes	(3,159)	(3,343)
Change in Other Noncurrent Assets	(1,995)	2,608
Change in Other Noncurrent Liabilities	(417)	(249)
Changes in Certain Components of Working Capital:		
Accounts Receivable	13,123	6,610
Fuel, Materials and Supplies	331	(5,989)
Accounts Payable	(48,180)	(2,037)
Accrued Taxes, Net	7,094	5,986
Accrued Interest	(3,574)	(3,689)
Accrued Rent - Rockport Plant Unit 2	18,464	18,464
Other Current Assets	169	53
Other Current Liabilities	(833)	(57)
Net Cash Flows from (Used for) Operating Activities	(3,041)	31,222
INVESTING ACTIVITIES		
Construction Expenditures	(13,122)	(3,026)
Net Cash Flows Used for Investing Activities	(13,122)	(3,026)
FINANCING ACTIVITIES		
Change in Advances from Affiliates, Net	19,872	(20,039)
Retirement of Long-term Debt – Nonaffiliated	(3,636)	(3,636)
Principal Payments for Capital Lease Obligations	(73)	(21)
Dividends Paid on Common Stock	-	(4,500)
Net Cash Flows from (Used for) Financing Activities	16,163	(28,196)
Net Change in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents at Beginning of Period	-	-
Cash and Cash Equivalents at End of Period	\$ -	\$ -
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest, Net of Capitalized Amounts	\$ 7,052	\$ 7,673
Noncash Acquisitions Under Capital Leases	210	102
Construction Expenditures Included in Current Liabilities at March 31,	10,008	33

See Condensed Notes to Condensed Financial Statements.

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3. Business Segments
4. Fair Value Measurements
5. Income Taxes
6. Financing Activities
7. Cost Reduction Initiatives

1. SIGNIFICANT ACCOUNTING MATTERS

General

The unaudited condensed financial statements and footnotes were prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all the information and footnotes required by GAAP for complete annual financial statements.

In the opinion of management, the unaudited condensed interim financial statements reflect all normal and recurring accruals and adjustments necessary for a fair presentation of the net income, financial position and cash flows for the interim periods. Net income for the three months ended March 31, 2011 is not necessarily indicative of results that may be expected for the year ending December 31, 2011. The condensed financial statements are unaudited and should be read in conjunction with the audited 2010 financial statements and notes thereto, which are included in AEGCo's 2010 Annual Report.

Management reviewed subsequent events through May 3, 2011, the date that the 2011 first quarter report was issued.

Variable Interest Entities

The accounting guidance for "Variable Interest Entities" is a consolidation model that considers if a company has a controlling financial interest in a VIE. A controlling financial interest will have both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities are required to consolidate a VIE when it is determined that they have a controlling financial interest in a VIE and therefore, are the primary beneficiary of that VIE, as defined by the accounting guidance for "Variable Interest Entities." In determining whether AEGCo is the primary beneficiary of a VIE, management considers factors such as equity at risk, the amount of the VIE's variability AEGCo absorbs, guarantees of indebtedness, voting rights including kick-out rights, the power to direct the VIE and other factors. Management believes that significant assumptions and judgments were applied consistently. There have been no changes to the reporting of VIEs in the financial statements where it is concluded that AEGCo is the primary beneficiary. In addition, AEGCo has not provided financial or other support to any VIE that was not previously contractually required.

AEPSC provides certain managerial and professional services to AEP's subsidiaries. AEP is the sole equity owner of AEPSC. AEP management controls the activities of AEPSC. The costs of the services are based on a direct charge or on a prorated basis and billed to the AEP subsidiary companies at AEPSC's cost. AEP subsidiaries have not provided financial or other support outside the reimbursement of costs for services rendered. AEPSC finances its operations through cost reimbursement from other AEP subsidiaries. There are no other terms or arrangements between AEPSC and any of the AEP subsidiaries that could require additional financial support from an AEP subsidiary or expose them to losses outside of the normal course of business. AEPSC and its billings are subject to regulation by the FERC. AEP subsidiaries are exposed to losses to the extent they cannot recover the costs of AEPSC through their normal business operations. AEP subsidiaries are considered to have a significant interest in AEPSC due to their activity in AEPSC's cost reimbursement structure. However, AEP subsidiaries do not have control over AEPSC. AEPSC is consolidated by AEP. In the event AEPSC would require financing or other support outside the cost reimbursement billings, this financing would be provided by AEP. AEGCo's total billings from AEPSC for the three months ended March 31, 2011 and 2010 were \$3 million and \$2 million, respectively. The carrying amount of liabilities associated with AEPSC as of March 31, 2011 and December 31, 2010 were \$1 million and \$1.1 million, respectively. Management estimates the maximum exposure of loss to be equal to the amount of such liability.

Dresden Plant Held for Sale

During the first quarter of 2011, APCo and AEGCo filed with the Virginia and West Virginia regulatory commissions seeking approval for APCo's purchase of the partially completed Dresden Plant from AEGCo at cost. AEGCo reported the Dresden Plant as held for sale at March 31, 2011. The held for sale amount was reclassified from Property, Plant and Equipment, primarily CWIP. Allowance for equity funds used during construction related

to Dresden Plant was \$2.1 million for the three months ended March 31, 2011 and none in 2010. If Dresden Plant had been classified as held for sale at December 31, 2010, \$202 million and \$2 million would have been moved from CWIP and Other Property, Plant and Equipment, respectively, to held for sale for a total of \$204 million. AEGCo resumed construction in the first quarter of 2011 following a suspension in 2009 due to economic conditions. AEGCo stopped recording AFUDC during the suspension of construction. The Dresden Plant is located near Dresden, Ohio and is a natural gas, combined cycle power plant. When completed, the Dresden Plant will have a generating capacity of 580 MW.

2. COMMITMENTS, GUARANTEES AND CONTINGENCIES

AEGCo is subject to certain claims and legal actions arising in its ordinary course of business. In addition, AEGCo's business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation cannot be predicted. For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material adverse effect on the financial statements. The Commitments, Guarantees and Contingencies note within the 2010 Annual Report should be read in conjunction with this report.

GUARANTEES

Liabilities for guarantees are recorded in accordance with the accounting guidance for "Guarantees." There is no collateral held in relation to any guarantees. In the event any guarantee is drawn, there is no recourse to third parties.

Indemnifications and Other Guarantees

Contracts

AEGCo enters into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of March 31, 2011, there are no material liabilities recorded for any indemnifications.

CONTINGENCIES

Carbon Dioxide Public Nuisance Claims

In 2004, eight states and the City of New York filed an action in Federal District Court for the Southern District of New York against AEP, AEPSC, Cinergy Corp, Xcel Energy, Southern Company and Tennessee Valley Authority. The Natural Resources Defense Council, on behalf of three special interest groups, filed a similar complaint against the same defendants. The actions allege that CO₂ emissions from the defendants' power plants constitute a public nuisance under federal common law due to impacts of global warming and sought injunctive relief in the form of specific emission reduction commitments from the defendants. The trial court dismissed the lawsuits.

In September 2009, the Second Circuit Court of Appeals issued a ruling on appeal remanding the cases to the Federal District Court for the Southern District of New York. The Second Circuit held that the issues of climate change and global warming do not raise political questions and that Congress' refusal to regulate CO₂ emissions does not mean that plaintiffs must wait for an initial policy determination by Congress or the President's administration to secure the relief sought in their complaints. The court stated that Congress could enact comprehensive legislation to regulate CO₂ emissions or that the Federal EPA could regulate CO₂ emissions under existing Clean Air Act authorities and that either of these actions could override any decision made by the district court under federal common law. The Second Circuit did not rule on whether the plaintiffs could proceed with their state common law nuisance claims. In December 2010, the defendants' petition for review by the U.S. Supreme Court was granted. The case was heard in April 2011. Management believes the actions are without merit and intends to continue to defend against the claims.

In October 2009, the Fifth Circuit Court of Appeals reversed a decision by the Federal District Court for the District of Mississippi dismissing state common law nuisance claims in a putative class action by Mississippi residents asserting that CO₂ emissions exacerbated the effects of Hurricane Katrina. The Fifth Circuit held that there was no exclusive commitment of the common law issues raised in plaintiffs' complaint to a coordinate branch of government and that no initial policy determination was required to adjudicate these claims. The court granted petitions for rehearing. An additional recusal left the Fifth Circuit without a quorum to reconsider the decision and the appeal was dismissed, leaving the district court's decision in place. Plaintiffs filed a petition with the U.S. Supreme Court asking the court to remand the case to the Fifth Circuit and reinstate the panel decision. The petition was denied in January 2011.

Management is unable to determine a range of potential losses that are reasonably possible of occurring.

Alaskan Villages' Claims

In 2008, the Native Village of Kivalina and the City of Kivalina, Alaska filed a lawsuit in Federal Court in the Northern District of California against AEP, AEPSC and 22 other unrelated defendants including oil and gas companies, a coal company and other electric generating companies. The complaint alleges that the defendants' emissions of CO₂ contribute to global warming and constitute a public and private nuisance and that the defendants are acting together. The complaint further alleges that some of the defendants, including AEP, conspired to create a false scientific debate about global warming in order to deceive the public and perpetuate the alleged nuisance. The plaintiffs also allege that the effects of global warming will require the relocation of the village at an alleged cost of \$95 million to \$400 million. In October 2009, the judge dismissed plaintiffs' federal common law claim for nuisance, finding the claim barred by the political question doctrine and by plaintiffs' lack of standing to bring the claim. The judge also dismissed plaintiffs' state law claims without prejudice to refile in state court. The plaintiffs appealed the decision. Briefing is complete and no date has been set for oral argument. The defendants requested that the court defer setting this case for oral argument until after the Supreme Court issues its decision in the CO₂ public nuisance case discussed above. The court entered an order deferring argument until after June 2011. Management believes the action is without merit and intends to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

3. BUSINESS SEGMENTS

AEGCo has one reportable segment, an electricity generation business. AEGCo's other activities are insignificant.

4. FAIR VALUE MEASUREMENTS

Fair Value Measurements of Long-term Debt

The fair values of Long-term Debt are based on quoted market prices, without credit enhancements, for the same or similar issues and the current interest rates offered for instruments with similar maturities. These instruments are not marked-to-market. The estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange.

The book values and fair values of AEGCo's Long-term Debt as of March 31, 2011 and December 31, 2010 are summarized in the following table:

	<u>March 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
	(in thousands)			
Long-term Debt	\$ 322,719	\$ 336,052	\$ 326,347	\$ 341,036

5. INCOME TAXES

AEGCo joins in the filing of a consolidated federal income tax return with its affiliates in the AEP System. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses to the AEP System companies giving rise to such losses in determining their current tax expense. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the loss of the Parent, the method of allocation reflects a separate return result for each company in the consolidated group.

AEGCo and other AEP subsidiaries are no longer subject to U.S. federal examination for years before 2001. AEGCo and other AEP subsidiaries have completed the exam for the years 2001 through 2006 and have issues that are being pursued at the appeals level. In April 2011, the Internal Revenue Service examination of the years 2007 and 2008 was concluded with a settlement of all outstanding issues. The settlement will not have a material impact on net income, cash flows or financial condition. Although the outcome of tax audits is uncertain, in management's opinion, adequate provisions for federal income taxes have been made for potential liabilities resulting from such matters. In addition, AEGCo accrues interest on these uncertain tax positions. Management is not aware of any issues for open tax years that upon final resolution are expected to have a material adverse effect on net income.

AEGCo, along with other AEP subsidiaries, files income tax returns in various state and local jurisdictions. These taxing authorities routinely examine the tax returns and AEGCo and other AEP subsidiaries are currently under examination in several state and local jurisdictions. Management believes that previously filed tax returns have positions that may be challenged by these tax authorities. However, management believes that adequate provisions for income taxes have been made for potential liabilities resulting from such challenges and that the ultimate resolution of these audits will not materially impact net income. With few exceptions, AEGCo is no longer subject to state or local income tax examinations by tax authorities for years before 2000.

Federal Tax Legislation

The Small Business Jobs Act (the Act) was enacted in September 2010. Included in the Act was a one-year extension of the 50% bonus depreciation provision. The Tax Relief, Unemployment Insurance Reauthorization and the Job Creation Act of 2010 extended the life of research and development, employment and several energy tax credits originally scheduled to expire at the end of 2010. In addition, the Act extended the time for claiming bonus depreciation and increased the deduction to 100% for part of 2010 and 2011. The enacted provisions will not have a material impact on AEGCo's net income or financial condition.

6. FINANCING ACTIVITIES

Long-term Debt

Long-term debt principal payments made during the first three months of 2011 are shown in the table below.

<u>Type of Debt</u>	<u>Principal Amount Paid</u> (in thousands)	<u>Interest Rate</u> (%)	<u>Due Date</u>
Senior Unsecured Notes	\$ 3,636	6.33	2037 (a)

- (a) AEGCo's Senior Unsecured Notes due 2037 are payable over the life of the notes as a \$7.3 million annual principal amount plus accrued interest paid semiannually in March and September.

Dividend Restrictions

Federal Power Act

The Federal Power Act prohibits AEGCo from participating “in the making or paying of any dividends of such public utility from any funds properly included in capital account.” The term “capital account” is not defined in the Federal Power Act or its regulations. Management understands “capital account” to mean the par value of the common stock multiplied by the number of shares outstanding. This restriction does not limit the ability of AEGCo to pay dividends out of retained earnings.

Utility Money Pool – AEP System

The AEP System uses a corporate borrowing program to meet the short-term borrowing needs of its subsidiaries. The corporate borrowing program includes a Utility Money Pool, which funds the utility subsidiaries. The AEP System Utility Money Pool operates in accordance with the terms and conditions approved in a regulatory order. The amount of outstanding borrowings from the Utility Money Pool as of March 31, 2011 and December 31, 2010 is included in Advances from Affiliates on AEGCo’s balance sheets. AEGCo’s Utility Money Pool activity and corresponding authorized borrowing limits for the three months ended March 31, 2011 are described in the following table:

Maximum Borrowings from Utility Money Pool	Maximum Loans to Utility Money Pool	Average Borrowings from Utility Money Pool	Average Loans to Utility Money Pool	Borrowings from Utility Money Pool as of March 31, 2011	Authorized Short-Term Borrowing Limit
(in thousands)					
\$ 88,077	\$ -	\$ 39,538	\$ -	\$ 41,050	\$ 200,000

Maximum, minimum and average interest rates for funds either borrowed from or loaned to the Utility Money Pool for the three months ended March 31, 2011 and 2010 are summarized in the following table:

Year	Maximum Interest Rates for Funds Borrowed from Utility Money Pool	Minimum Interest Rates for Funds Borrowed from Utility Money Pool	Maximum Interest Rates for Funds Loaned to Utility Money Pool	Minimum Interest Rates for Funds Loaned to Utility Money Pool	Average Interest Rates for Funds Borrowed from Utility Money Pool	Average Interest Rates for Funds Loaned to Utility Money Pool
2011	0.56 %	0.06 %	- %	- %	0.32 %	- %
2010	0.34 %	0.09 %	- %	- %	0.16 %	- %

7. COST REDUCTION INITIATIVES

In April 2010, management began initiatives to decrease both labor and non-labor expenses with a goal of achieving significant reductions in operation and maintenance expenses. A total of 2,461 positions were eliminated across the AEP System as a result of process improvements, streamlined organizational designs and other efficiencies. Most of the affected employees terminated employment May 31, 2010. The severance program provided two weeks of base pay for every year of service along with other severance benefits.

AEGCo recorded a charge of \$3.9 million to Other Operation expense in 2010 primarily related to the headcount reduction initiatives. These costs related primarily to severance benefits. Management does not expect additional costs to be incurred related to this initiative.

AEGCo has no employees but receives allocated expenses.

Balance at December 31, 2010	Incurred	Settled	Adjustments	Balance at March 31, 2011
(in thousands)				
\$ 85	\$ -	\$ (80)	\$ (5)	\$ -

