

VECTREN UTILITY HOLDINGS INC
Form 10-Q
August 11, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014
OR

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

For the transition period from _____ to _____

Commission file number: 1-16739

VECTREN UTILITY HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

INDIANA
(State or other jurisdiction of incorporation or
organization)

35-2104850
(IRS Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Common Stock- Without Par Value Class	10 Number of Shares	July 31, 2014 Date
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Access to Information

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

Mailing Address:
One Vectren Square
Evansville, Indiana 47708

Phone Number:
(812) 491-4000

Investor Relations Contact:
Robert L. Goocher
Treasurer and Vice President, Investor Relations
vvcir@vectren.com

Definitions

AFUDC: allowance for funds used during construction	MDth / MMDth: thousands / millions of dekatherms
DOT: Department of Transportation	MISO: Midcontinent Independent System Operator (formerly Midwest Independent System Operator)
EPA: Environmental Protection Agency	MMBTU: millions of British thermal units
FAC: Fuel Adjustment Clause	MW: megawatts
FASB: Financial Accounting Standards Board	MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)
FERC: Federal Energy Regulatory Commission	OCC: Ohio Office of the Consumer Counselor
IDEM: Indiana Department of Environmental Management	OUCC: Indiana Office of the Utility Consumer Counselor
IURC: Indiana Utility Regulatory Commission	PUCO: Public Utilities Commission of Ohio
Kv: Kilovolt	Throughput: combined gas sales and gas transportation volumes
MCF / BCF: thousands / billions of cubic feet	XBRL: eXtensible Business Reporting Language

Table of Contents

Item Number		Page Number
	PART I. FINANCIAL INFORMATION	
1	<u>Financial Statements (Unaudited)</u> Vectren Utility Holdings, Inc. and Subsidiary Companies <u>Condensed Consolidated Balance Sheets</u> <u>Condensed Consolidated Statements of Income</u> <u>Condensed Consolidated Statements of Cash Flows</u> <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	3- 4 5 6 7
2	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	25
3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
4	<u>Controls and Procedures</u>	42
	PART II. OTHER INFORMATION	
1	<u>Legal Proceedings</u>	43
1A	<u>Risk Factors</u>	43
2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
3	<u>Defaults Upon Senior Securities</u>	43
4	<u>Mine Safety Disclosures</u>	43
5	<u>Other Information</u>	43
6	<u>Exhibits</u> <u>Signatures</u>	44 45

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited – In millions)

	June 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash & cash equivalents	\$4.9	\$8.6
Accounts receivable - less reserves of \$6.1 & \$5.0, respectively	77.8	112.1
Accrued unbilled revenues	42.8	113.5
Inventories	73.5	89.9
Recoverable fuel & natural gas costs	25.6	5.5
Prepayments & other current assets	33.0	42.4
Total current assets	257.6	372.0
Utility Plant		
Original cost	5,514.4	5,389.6
Less: accumulated depreciation & amortization	2,228.2	2,165.3
Net utility plant	3,286.2	3,224.3
Investments in unconsolidated affiliates	0.2	0.2
Other investments	26.1	27.3
Nonutility plant - net	151.3	150.5
Goodwill - net	205.0	205.0
Regulatory assets	122.2	136.2
Other assets	21.9	25.3
TOTAL ASSETS	\$4,070.5	\$4,140.8

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

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited – In millions)

	June 30, 2014	December 31, 2013
LIABILITIES & SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	\$80.1	\$172.1
Payables to other Vectren companies	29.1	24.6
Accrued liabilities	121.5	127.4
Short-term borrowings	3.7	28.6
Current maturities of long-term debt	5.0	—
Total current liabilities	239.4	352.7
Long-Term Debt - Net of Current Maturities	1,252.2	1,257.1
Deferred Credits & Other Liabilities		
Deferred income taxes	627.5	627.4
Regulatory liabilities	400.2	387.3
Deferred credits & other liabilities	85.4	83.5
Total deferred credits & other liabilities	1,113.1	1,098.2
Commitments & Contingencies (Notes 7 - 9)		
Common Shareholder's Equity		
Common stock (no par value)	790.8	787.7
Retained earnings	675.0	645.1
Total common shareholder's equity	1,465.8	1,432.8
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	\$4,070.5	\$4,140.8

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

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited – In millions)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
OPERATING REVENUES				
Gas utility	\$ 132.4	2016	2015	
Interest income:				
Interest and fees on loans	\$ 50,418	\$ 41,625	\$ 100,328	\$ 81,205
Interest on taxable securities	764	551	1,494	1,160
Interest on nontaxable securities	444	449	895	863
Interest on interest-bearing deposits and other	315	122	688	255
Total interest income	51,941	42,747	103,405	83,483
Interest expense:				
Interest on deposits	3,923	3,018	7,574	5,727
Interest on FHLB advances	998	718	1,999	1,470
Interest on repurchase agreements and other borrowings	987	1,096	1,990	2,165
Interest on junior subordinated debentures	150	135	299	263
Total interest expense	6,058	4,967	11,862	9,625
Net interest income	45,883	37,780	91,543	73,858
Provision for loan losses	2,123	1,659	5,120	3,329
Net interest income after provision for loan losses	43,760	36,121	86,423	70,529
Noninterest income:				
Service charges on deposit accounts	1,752	1,679	3,447	3,264
Mortgage fee income	2,021	1,429	3,397	2,729
Gain on sale of other real estate	10	49	53	179
Gain on sale of securities available for sale	4	90	4	90
Gain on sale of premises and equipment	3	—	41	—
Increase in cash surrender value of BOLI	270	268	535	538
Other	869	594	1,922	1,275
Total noninterest income	4,929	4,109	9,399	8,075
Noninterest expense:				
Salaries and employee benefits	19,567	14,650	36,341	29,074
Occupancy	4,041	4,027	8,081	7,937
Data processing	1,203	666	2,385	1,354
FDIC assessment	869	493	1,595	1,012
Advertising and public relations	251	253	546	599
Communications	550	554	1,085	1,093
Net other real estate owned expenses (including taxes)	2	37	35	96
Other real estate impairment	—	25	55	25
Core deposit intangible amortization	492	367	980	739
Professional fees	977	677	1,637	1,167
Acquisition expense, including legal	90	28	729	500
Other	2,981	2,678	6,073	5,245

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Total noninterest expense	31,023	24,455	59,542	48,841
Income before taxes	17,666	15,775	36,280	29,763
Income tax expense	5,857	5,204	12,019	9,740
Net income	\$ 11,809	\$ 10,571	\$ 24,261	\$ 20,023
Basic earnings per share	\$ 0.64	\$ 0.61	\$ 1.31	\$ 1.16
Diluted earnings per share	\$ 0.64	\$ 0.61	\$ 1.31	\$ 1.16

See Notes to Consolidated Financial Statements

2

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
 Three and Six Months Ended June 30, 2016 and 2015 (unaudited)
 (Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 11,809	\$ 10,571	\$ 24,261	\$ 20,023
Other comprehensive income (loss) before tax:				
Change in net unrealized gains (losses) on available for sale securities during the year	1,407	(2,087)	2,612	(706)
Reclassification adjustment for gain on sale of securities available for sale included in net income	(4)	(90)	(4)	(90)
Other comprehensive income (loss) before tax	1,403	(2,177)	2,608	(796)
Income tax expense (benefit)	491	(821)	913	(338)
Other comprehensive income (loss), net of tax	912	(1,356)	1,695	(458)
Comprehensive income	\$ 12,721	\$ 9,215	\$ 25,956	\$ 19,565

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2016 and 2015 (unaudited)
(Dollars in thousands, except for par value, share and per share information)

	Series A Preferred Stock \$.01 Par Value 10 million shares authorized	Common Stock \$.01 Par Value 100 million shares authorized Shares	Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2015	\$ —	18,399,194	\$ 184	\$530,107	\$70,698	\$ 2,382	\$603,371
Net income	—	—	—	—	24,261	—	24,261
Other comprehensive income, net of tax	—	—	—	—	—	1,695	1,695
Restricted stock forfeited	—	(6,036)	—	—	—	—	—
Restricted stock granted	—	82,820	1	(1)	—	—	—
Stock based compensation expense	—	—	—	3,641	—	—	3,641
Income tax deficiency on restricted stock vested	—	—	—	(378)	—	—	(378)
Preferred stock dividends	—	—	—	—	(8)	—	(8)
Cash dividends (\$0.16 per share)	—	—	—	—	(2,954)	—	(2,954)
Balance, June 30, 2016	\$ —	18,475,978	\$ 185	\$533,369	\$91,997	\$ 4,077	\$629,628
Balance, December 31, 2014	\$ 23,938	17,032,669	\$ 170	\$476,609	\$37,731	\$ 2,403	\$540,851
Net income	—	—	—	—	20,023	—	20,023
Other comprehensive loss, net of tax	—	—	—	—	—	(458)	(458)
Offering costs related to acquired bank	—	—	—	(144)	—	—	(144)
Restricted stock forfeited	—	(11,399)	—	—	—	—	—
Restricted stock granted	—	87,124	1	(1)	—	—	—
Income tax deficiency on restricted stock vested	—	—	—	(66)	—	—	(66)
Stock based compensation expense	—	—	—	2,099	—	—	2,099
Preferred stock dividends	—	—	—	—	(120)	—	(120)
Cash dividends (\$0.16 per share)	—	—	—	—	(2,738)	—	(2,738)
Balance, June 30, 2015	\$ 23,938	17,108,394	\$ 171	\$478,497	\$54,896	\$ 1,945	\$559,447

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Six Months Ended June 30, 2016 and 2015 (unaudited)
(Dollars in thousands)

	Six Months Ended June 30, 2016		2015
Cash flows from operating activities:			
Net income	\$ 24,261		\$ 20,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	3,306		3,074
Accretion of income recognized on acquired loans	(3,362)	)	(1,211)
Amortization of core deposit intangibles	980		739
Amortization of premium on securities, net	812		772
Amortization of discount and origination costs on other borrowings	64		75
Stock based compensation expense	3,641		2,099
FHLB stock dividends	(103)	)	(22)
Gain on sale of securities available for sale	(4)	)	(90)
Gain on sale of premises and equipment	(41))	—
Gain recognized on other real estate transactions	(53)	)	(179)
Impairment of other real estate	55		25
Deferred tax (benefit) expense	(388)	)	194
Provision for loan losses	5,120		3,329
	(535)	)	(538)

Increase in cash surrender value of life insurance				
Loans originated for sale	(133,684	)	(113,721)
Proceeds from sale of loans	132,041		110,937	
Net change in other assets	446		6,243	
Net change in other liabilities	2,068		36,111	
Net cash provided by operating activities	34,624		67,860	
Cash flows from investing activities:				
Proceeds from maturities, calls and pay downs of securities available for sale	399,799		171,680	
Proceeds from sale of securities available for sale	5,399		12,128	
Purchases of securities available for sale	(417,911	)	(156,599)
Proceeds from maturities of certificates held in other banks	48,860		—	
Purchase of bank owned life insurance contracts	(15,000)	—	
Net (purchases) redemptions of FHLB stock	(12,020	)	402	
Net loans originated	(259,286	)	(172,760)
Additions to premises and equipment	(3,564	)	(4,290)
Proceeds from sale of premises and equipment	163		—	
Proceeds from sale of other real estate owned	1,122		1,437	
Capitalized additions to other real estate owned	—		(10)
Net cash used in investing activities	(252,438	)	(148,012)

Cash flows from financing activities:			
Net increase in demand deposits, NOW and savings accounts	213,324		175,533
Net (decrease) increase in time deposits	(53,886	)	42,353
Proceeds from FHLB advances	525,000		105,000
Repayments of FHLB advances	(342,541	)	(140,039
Net change in repurchase agreements	8,528		1,362
Repayments of other borrowings	(5,798	)	(966
Proceeds from other borrowings	43,413		—
Redemption of preferred stock	(23,938)	—
Offering costs paid in connection with acquired banks	—		(144
Dividends paid	(2,962	)	(2,798
Net cash provided by financing activities	361,140		180,301
Net change in cash and cash equivalents	143,326		100,149
Cash and cash equivalents at beginning of year	293,279		324,047
Cash and cash equivalents at end of period	\$ 436,605		\$ 424,196

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)
(Dollars in thousands, except for share and per share information)

Note 1. Summary of Significant Accounting Policies

Nature of Operations: Independent Bank Group, Inc. (IBG) through its subsidiary, Independent Bank, a Texas state banking corporation (Bank) (collectively known as the Company), provides a full range of banking services to individual and corporate customers in the North Texas, Central Texas and Houston areas through its various branch locations in those areas. The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, investment and liquidity management activities. The Company's primary deposit products are demand deposits, money market accounts and certificates of deposit, and its primary lending products are commercial business and real estate, real estate mortgage and consumer loans.

Basis of Presentation: The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank and IBG Adriatica Holdings, Inc. (Adriatica) and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc., IBG Aircraft Company III, Preston Grand, Inc, and McKinney Avenue Holdings, Inc. and its wholly owned subsidiary, McKinney Avenue SPE 1, Inc. McKinney Avenue Holdings, Inc. and its subsidiary were formed during the first quarter 2016 for the purpose of possible future asset holdings. Adriatica became inactive in 2014. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I) and Community Group Statutory Trust I (CGI Trust I). The Trusts were formed to issue trust preferred securities and do not meet the criteria for consolidation.

The consolidated interim financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report of Form 10-K for the year ended December 31, 2015. The consolidated statement of condition at December 31, 2015 had been derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

Segment Reporting: The Company has one reportable segment. The Company's chief operating decision-maker uses consolidated results to make operating and strategic decisions.

Reclassifications: Certain prior period financial statement amounts have been reclassified to conform to current period presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.

Redemption of Small Business Lending Fund Series A Preferred Stock: On January 14, 2016, the Company redeemed all outstanding shares of its Senior Non-Cumulative Perpetual Small Business Lending Fund Series A Preferred Stock held by the Treasury and related accrued dividends.

Subsequent events: Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the date of filing these financial statements with the Securities and Exchange Commission (SEC) and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 12.

Earnings per share: Basic earnings per common share are net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment awards that contain rights to non forfeitable dividends are considered participating securities for this calculation.

Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock warrants. The participating nonvested common stock was not included in dilutive shares as it was anti-dilutive. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

6

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic earnings per share:				
Net income	\$11,809	\$ 10,571	\$24,261	\$ 20,023
Less: Preferred stock dividends	—	(60	) (8	) (120
Net income after preferred stock dividends	11,809	10,511	24,253	19,903
Less:				
Undistributed earnings allocated to participating securities	174	183	385	362
Dividends paid on participating securities	25	27	53	58
Net income available to common shareholders	\$11,610	\$ 10,301	\$23,815	\$ 19,483
Weighted-average basic shares outstanding	18,157,376	16,769,194	18,123,585	16,740,881
Basic earnings per share	\$0.64	\$ 0.61	\$ 1.31	\$ 1.16
Diluted earnings per share:				
Net income available to common shareholders	\$11,610	\$ 10,301	\$23,815	\$ 19,483
Total weighted-average basic shares outstanding	18,157,376	16,769,194	18,123,585	16,740,881
Add dilutive stock warrants	77,892	87,023	70,721	82,852
Total weighted-average diluted shares outstanding	18,235,268	16,856,217	18,194,306	16,823,733
Diluted earnings per share	\$0.64	\$ 0.61	\$ 1.31	\$ 1.16
Anti-dilutive participating securities	35,504	24,379	38,533	43,661

7

Note 2. Statement of Cash Flows

As allowed by the accounting standards, the Company has chosen to report on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, and loans made to customers and principal collections on those loans. The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information is presented below:

	Six Months Ended	
	June 30,	
	2016	2015
Cash transactions:		
Interest expense paid	\$10,855	\$9,805
Income taxes paid	\$12,010	\$12,900
Noncash transactions:		
Accrued preferred stock dividends	\$—	\$60
Transfers of loans to other real estate owned	\$523	\$—
Loans to facilitate the sale of other real estate owned	\$—	\$159
Securities purchased, not yet settled	\$—	\$3,000
Excess tax deficiency on restricted stock vested	\$(378)	\$(66)
Transfer of repurchase agreements to deposits	\$20,688	\$—

The supplemental schedule of noncash investing activities from Company acquisition activity includes the following measurement-period adjustments made during the period:

	Six Months	
	Ended June	
	30,	
	2016	2015
Assets acquired:		
Loans	\$735	\$—
Goodwill	(324)	361
Other real estate owned	—	(373)
Core deposit intangibles	(216)	—
Deferred tax asset	(175)	193
Total assets	\$20	\$181
Liabilities assumed:		
Other liabilities	20	181
Total liabilities	\$20	\$181

Note 3. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at June 30, 2016 and December 31, 2015, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
June 30, 2016				
U.S. treasuries	\$ 1,000	\$ 1	\$ —	\$ 1,001
Government agency securities	137,766	653	(5)	138,414
Obligations of state and municipal subdivisions	80,781	3,014	(87)	83,708
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	63,069	1,799	(15)	64,853
	\$ 282,616	\$ 5,467	\$ (107)	\$ 287,976
December 31, 2015				
U.S. treasuries	\$ 999	\$ 3	\$ —	\$ 1,002
Government agency securities	135,630	237	(567)	135,300
Obligations of state and municipal subdivisions	83,442	2,222	(248)	85,416
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	50,640	1,202	(97)	51,745
	\$ 270,711	\$ 3,664	\$ (912)	\$ 273,463

Securities with a carrying amount of approximately \$197,429 and \$195,479 at June 30, 2016 and December 31, 2015, respectively, were pledged to secure public fund deposits and repurchase agreements.

Proceeds from sale of securities available for sale and gross gains and gross losses for the three months and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Proceeds from sale	5,399	\$ 12,128	\$ 5,399	\$ 12,128
Gross gains	4			