



Second Quarter Report

As of and for the three and six months ended April 30, 2010

ORGANIZATION

Arkansas Electric Cooperative Corporation (AECC) is a generation and transmission cooperative incorporated under the laws of the state of Arkansas, headquartered in Little Rock. AECC is the wholesale power supplier for 17 electric distribution cooperatives in Arkansas. Generation resources immediately available to AECC provide 2,821 MW of capacity. The mission of AECC is to assist each of its member cooperatives in improving the quality of life in the areas they serve through the delivery of electric power and other related services which address essential consumer needs. This is to be done at the lowest possible cost consistent with sound business practices.

RESULTS OF OPERATIONS

AECC has two components of revenue: 1) a demand charge, based on each member's peak demand for energy during the four summer months, which recovers fixed costs; and 2) an energy charge, based on total members' usage, which recovers variable costs. AECC is also able to recover the actual cost of fuel through a fuel adjustment clause.

"Operating revenues" for the six months ended April 30, 2010 increased approximately \$33.3 million compared to the same period in 2009 (of which \$12.1 million is a result of a rate increase). Effective November 1, 2009, AECC was granted a 4% wholesale rate increase under Arkansas Act 676 of 2009 (Act). Based on 2009 demand levels, this rate increase is expected to generate approximately \$23.1 million annually. The Act also provided AECC member cooperatives with a means of incorporating any wholesale rate relief granted under the Act into their retail rates. The increase in operating revenue was primarily the result of an increase in energy revenue of \$29.9 million. There are two reasons for the increase in energy revenue; 1) an increase in fuel and purchased power costs during the six months ended April 30, 2010 in the amount of \$5.8 million, which was passed on through the fuel adjustment clause, and 2) a 15.7% increase in member megawatt hour consumption (\$24.1 million). In addition, other operating revenues increased from the sale of SO₂ allowances in the amount of \$2.3 million.

"Operation and maintenance, generation" and "power purchased" are categories that should be considered together for comparative purposes. On an hour-to-hour basis, AECC makes decisions whether to purchase energy on the open market or generate

energy out of its own plants based on the most economical source. "Operation and maintenance, generation" and "power purchased" increased by \$17.0 million compared to the six months ended April 30, 2009. The \$17.0 million increase in "Operation and maintenance, generation" and "power purchased" included \$5.8 million increase in total fuel costs for the six months ended April 30, 2010 compared to the same period ended April 30, 2009. The total cost of energy as a percentage of operating revenue was 68.8% for the six months ended April 30, 2010 compared to 71.2% for the six months ended April 30, 2009.

"Other income/loss" consists primarily of proceeds from AECC's investment in gas reserves which are sold on the spot market. The average price received during the six months ended April 30, 2010 for AECC's interest in these reserves was \$4.03/mcf compared to \$3.08/mcf during the same period in 2009.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the six months ended April 30, 2010, net cash and cash equivalents increased \$7.2 million. The major components consisted of the following: AECC made payments on long-term debt of \$156.4 million (which includes a reduction of \$118.9 million associated with the Independence Steam Electric Station (ISES) Unit 2 lease buyout and a reduction of \$26.5 million related to the defeasance of the Clyde T. Ellis Hydroelectric Station capital lease). AECC also made capital expenditures of \$21.7 million along with a reduction of \$10.5 million in the amount of funds held under the member line of credit. These decreases were offset by proceeds from CoBank in the amount of \$122.0 million related to the ISES Unit 2 lease buyout and issuance of additional commercial paper notes of \$50.0 million along with cash from operations of \$20.9 million.

For the calendar year 2010, AECC has budgeted \$128.4 million for capital expenditures. This amount includes \$119.0 million to be incurred for generation and \$9.4 million for transmission and other miscellaneous general capital expenditures. The budgeted capital expenditures for 2010 include \$37.6 million for environmental upgrades. However, the Environmental Protection Agency (EPA) issued a letter questioning the proposed Arkansas Department of Environmental Quality's (ADEQ) permit limits. As a result of the EPA letter, the upgrades have been suspended and will be addressed taking into consideration the revised standards once the EPA has completed its review of

the ADEQ's permit limits and the final permit limits are issued.

AECC has a \$75.0 million perpetual line-of-credit with the National Rural Utilities Cooperative Finance Corporation (NRUCFC), a \$30.0 million committed line-of-credit with CoBank that terminates on July 14, 2010, and a \$10.0 million committed line-of-credit with Regions Bank that terminates on August 15, 2010. In addition, AECC uses advances from the member line-of-credit program (\$83.9 million as of April 30, 2010) to support daily cash needs. On July 3, 2008, AECC entered into a \$210.5 million credit agreement with a syndication of financial institutions to provide a committed line-of-credit for three years as support for a commercial paper program of an equal amount. As of April 30, 2010, AECC had \$159.9 million outstanding in commercial paper notes. AECC also has a \$185.5 million loan approved from NRUCFC for construction of the John W. Turk, Jr. Power Plant, a 600 MW coal-fired ultra supercritical steam turbine generating unit, of which AECC will own 11.667% or 70 MW. AECC has until December 31, 2012 to draw funds from this loan, which matures on January 1, 2042.

AECC has a rating of AA-/A2/A+ for its secured facility bonds/issuer rating and a commercial paper rating of A-1, Prime-1, and F-1 from Standard and Poor's, Moody's Investors Service and Fitch Ratings respectively.

OTHER FINANCIAL INFORMATION

The interim financial statements for April 30, 2010 and 2009 are unaudited. In the opinion of AECC management, the accompanying unaudited financial information furnished herewith reflects all adjustments (consisting primarily of normal recurring accruals) necessary for a fair statement of its financial position and its results of operations for the interim periods presented; however, the business of AECC is subject to rate changes, seasonal fluctuations in sales and other factors. Accordingly, the results for the interim periods presented should not be used as a basis for estimating results of operations for a full year.

It is suggested that these interim financial statements be read in conjunction with financial statements and notes thereto included in AECC's October 31, 2009 Annual Report.

Gary Voigt, President/CEO
Michael Henderson, Vice President/CFO
Arkansas Electric Cooperative Corporation

ARKANSAS ELECTRIC COOPERATIVE CORPORATION BALANCE SHEETS

As of April 30, 2010 (Unaudited) and October 31, 2009

	April 30, 2010 (Unaudited) (In Thousands)	October 31, 2009 (In Thousands)		April 30, 2010 (Unaudited) (In Thousands)	October 31, 2009 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 1,470,245	\$ 1,471,386	Membership fees	\$ 2	\$ 2
Construction work in progress	224,323	200,608	Patronage capital	290,160	290,160
	1,694,568	1,671,994	Accumulated margins	40,075	25,791
Less accumulated depreciation	851,074	831,782	Other equities	118,140	118,140
Net utility plant	843,494	840,212	Net unrealized loss on investments	-	(2)
			Total members' equities	448,377	434,091
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	10,000	13,906	Rural Utilities Service	1,120	1,385
Gas reserves	43,644	44,975	Federal Financing Bank	238,445	251,067
Other	26,272	26,059	CoBank	109,703	-
Total long-term investments	79,916	84,940	Independence Steam Electric Station finance obligation	-	105,472
			Ellis finance obligation	-	18,066
CURRENT ASSETS:			Other long-term debt	48	56
Cash and cash equivalents	40,032	32,797	Total long-term debt	349,316	376,046
Short-term marketable securities	2,000	1,005	CURRENT LIABILITIES:		
Accounts receivable, members	31,878	34,681	Notes payable, members	114,881	125,427
Fuel inventories and prepaid fuel supply	23,234	22,488	Notes payable, others	159,932	109,950
Material and supply inventories	17,180	16,857	Current maturities of long-term debt	35,299	43,014
Other current assets	6,741	4,110	Accounts payable and other accrued liabilities	30,854	42,162
Total current assets	121,065	111,938	Patronage capital payable	-	-
			Accrued property taxes	7,819	6,095
DEFERRED CHARGES	112,312	112,238	Accrued interest	1,690	4,060
			Total current liabilities	350,475	330,708
Total assets	\$ 1,156,787	\$ 1,149,328	DEFERRED CREDITS	8,619	8,483
			COMMITMENTS AND CONTINGENCIES		
			Total members' equities and liabilities	\$ 1,156,787	\$ 1,149,328

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS**

For the three and six months ended April 30, 2010 and 2009 (Unaudited)

	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
	(In Thousands)		(In Thousands)	
OPERATING REVENUES	\$ 128,569	\$ 114,539	\$ 277,651	\$ 244,361
OPERATING EXPENSES:				
Operation and maintenance, generation	62,274	57,100	133,009	125,182
Power purchased	24,783	27,019	57,975	48,789
Operation and maintenance, transmission	12,484	10,222	26,519	23,866
Administrative and general	5,355	4,791	9,975	9,125
Depreciation	10,905	10,854	21,832	21,652
Taxes, other than income taxes	35	35	71	71
Interest	8,084	8,840	16,687	17,937
Total operating expenses	123,920	118,861	266,068	246,622
MARGIN (LOSS) FROM OPERATIONS	4,649	(4,322)	11,583	(2,261)
INTEREST INCOME	1,462	530	1,984	1,057
OTHER INCOME (LOSS)	309	(470)	173	(816)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	270	293	545	546
NET MARGIN (LOSS)	\$ 6,690	\$ (3,969)	\$ 14,285	\$ (1,474)

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS**

For the three and six months ended April 30, 2010 and 2009 (Unaudited)

	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
	(In Thousands)		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Margin (Loss)	\$ 6,690	\$ (3,969)	\$ 14,285	\$ (1,474)
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	10,905	10,854	21,832	21,652
Amortization of gas reserves	737	643	1,331	1,216
Allowance for funds used during construction	(270)	(293)	(545)	(546)
Allocation of patronage from associated organizations	(58)	(59)	(69)	(83)
Changes in operating assets and liabilities-				
Accounts receivable	26,298	13,450	2,803	4,904
Fuel inventories	(3,284)	(5,106)	(746)	(2,905)
Other current assets	(1,049)	1,778	(2,631)	1,802
Material and supply inventories	(322)	(164)	(323)	(524)
Deferred charges	2,708	5,036	(74)	4,194
Accounts payable and accrued liabilities	(20,237)	(3,711)	(14,785)	1,202
Other deferred credits	(12)	36	(185)	(710)
Net cash provided by operating activities	22,106	18,495	20,893	28,728
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net sales (purchases) of marketable securities	-	1,607	2,914	(8,803)
Net sales purchases of other investments	32	32	176	153
Capital expenditures	(13,253)	(86,185)	(21,739)	(92,973)
Net cash used in investing activities	(13,221)	(84,546)	(18,649)	(101,623)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings (payments) on notes payable, members	19,228	55,499	(10,546)	63,415
Borrowings on notes payable, other	5	-	49,982	-
Principal payments on long-term debt	(8,592)	(5,942)	(156,445)	(15,562)
Proceeds from long-term debt	-	-	122,000	-
Net cash provided by financing activities	10,641	49,557	4,991	47,853
Net increase (decrease) in cash and cash equivalents	19,526	(16,494)	7,235	(25,042)
CASH AND CASH EQUIVALENTS, beginning of period	20,506	36,715	32,797	45,263
CASH AND CASH EQUIVALENTS, end of period	\$ 40,032	\$ 20,221	\$ 40,032	\$ 20,221

Member Systems and Board of Directors

Ron Moore, Chairman
Sam Davis, Vice Chairman
Mitchell Johnson, Secretary-Treasurer

Arkansas Valley Electric
Ozark
Sam Davis
Bill Peters

Carroll Electric
Berryville
Alan Hunnicutt
Rob Boaz

Farmers Electric
Newport
James Pigg
Gene Sweat

North Arkansas Electric
Salem
Mike Dover
Mel Coleman

Petit Jean Electric
Clinton
Donnie Collins
Bill Conine

Southwest Arkansas Electric
Texarkana
Don Stemple
Wayne Whitaker

Ashley-Chicot Electric
Hamburg
Jerry Pahal
Ron Moore

Clay County Electric
Corning
John Dalton
David Smith

First Electric
Jacksonville
Robert Hill
Don Crabbe

Ouachita Electric
Camden
Walt Piggott
Mark Cayce

Rich Mountain Electric
Mena
Donald Manning
Leon Philpot

Woodruff Electric
Forrest City
J. A. Wampler
Billy Martin

C & L Electric
Star City
Ray Morrison
W. H. Frizzell

Craighead Electric
Jonesboro
Tom Sloan
Brian Duncan

Mississippi County Electric
Blytheville
Robert E. Davis
Larry Hellums

Ozarks Electric
Fayetteville
Jerry Bolinger
Mitchell Johnson

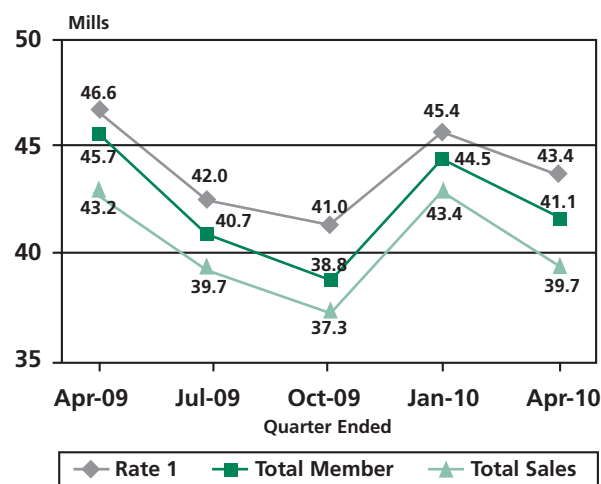
South Central Arkansas Electric
Arkadelphia
Elton Buck
Kevin Brownlee

Selected Financial Highlights

As of April 30, 2010 and October 31, 2009

	April 30, 2010	October 31, 2009
Equity as a Percent of Assets	38.76%	37.77%
Debt/Equity Ratio	0.86	0.97
Current Ratio	0.35	0.34
Times Interest Earned Ratio	2.36	0.87
Margins for Interest Ratio	2.55	0.80
Debt Service Coverage Ratio	2.15	1.00
Average Cost of Long-term debt	5.190%	5.511%

Revenue Per MWH Sold



Management Team

President/CEO
Gary Voigt

Sr. VP & General Counsel
Robert M. Lyford

VP Planning, Rates and Dispatching
Ricky Bittle

VP Information Technology
Robert McClanahan

VP/CFO
Michael Henderson

VP Engineering, Construction and Operations
Jonathan Oliver

VP Systems Services
Doug White

VP Strategic Affairs
Sandra Byrd



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Your Local Energy Partner

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