ATLANTIC TELE NETWORK INC /DE
Form 10-K
March 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

Or

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

For the transition period from to
Commission File No. 001-12593

Atlantic Tele-Network, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**47-0728886** (I.R.S. Employer Identification No.)
600 Cummings Center **Beverly, Massachusetts** (Address of principal executive offices)	**01915** (Zip Code)

(978) 619-1300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, par value $.01 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act, (Check one):

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

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

The aggregate market value of Common Stock held by non-affiliates of the registrant as of June 30, 2010, was approximately $400 million based on the closing price of the registrant's Common Stock as reported on the NASDAQ Global Select Market.

As of March 1, 2011, the registrant had 15,383,181 outstanding shares of Common Stock, $.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements about future events and expectations, or forward-looking statements, all of which are inherently uncertain. We have based those forward-looking statements on our current expectations and projections about future results. When we use words such as "anticipates," "intends," "plans," "believes," "estimates," "expects," or similar expressions, we do so to identify forward-looking statements. Examples of forward-looking statements include statements we make regarding our ongoing transition and integration of our recently acquired Alltel assets, future economic and political conditions in Guyana, the competitive environment in the markets in which we operate, legal and regulatory actions and technological changes, our future prospects for growth, our ability to maintain or increase our market share, our future operating results and our future capital expenditure levels. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. These assumptions could be proven inaccurate. These forward-looking statements may be found under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and "Business," as well as in this Report generally.

You should keep in mind that any forward-looking statement made by us in this Report or elsewhere speaks only as of the date on which we make it. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. In any event, these and other important factors may cause actual results to differ materially from those indicated by our forward-looking statements, including those set forth in Item 1A of this Report under the caption "Risk Factors." We have no duty to, and do not intend to, update or revise the forward-looking statements made by us in this Report after the date of this Report, except as may be required by law.

In this Report the words "ATN," "the Company," "we," "our," "ours" and "us" refer to Atlantic Tele-Network, Inc. and its subsidiaries. Alltel® is a licensed trademark used by one of our subsidiaries. This Report contains trademarks, service marks and trade names that are the property of Atlantic Tele-Network, Inc., and its subsidiaries or licensed from others.

Reference to dollars ($) refer to U.S. dollars unless otherwise specifically indicated.

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PART I

ITEM 1. BUSINESS

Overview

We provide wireless and wireline telecommunications services in North America, Bermuda and the Caribbean. Through our operating subsidiaries, we offer the following principal services:

Wireless. In the United States, we offer wireless voice and data services to retail customers under the "Alltel" name in rural markets located principally in the Southeast and Midwest. Additionally, we offer wholesale wireless voice and data roaming services to national, regional, local and selected international wireless carriers in rural markets located principally in the Southwest and Midwest United States. We also offer wireless voice and data services to retail customers in Guyana under the "Cellink" name, in Bermuda under the "CellularOne" name, and in other smaller markets in the Caribbean and the United States.

Wireline. Our local telephone and data services include our operations in Guyana and the mainland United States. We are the exclusive provider of domestic wireline local and long distance telephone services in Guyana and international voice and data communications into and out of Guyana. We also offer facilities-based integrated voice and data communications services to enterprise and residential customers in New England, primarily in Vermont, and wholesale transport services in New York State.

We were incorporated in Delaware in 1987 and began trading publicly in 1991. Since that time, we have engaged in strategic acquisitions and investments to grow our operations. From 1998 through 2005, a significant majority of our revenue was derived from our wireless and wireline operations in Guyana, in which we have owned an 80% interest since 1991. In the past six years, we have grown our revenue, added substantially to the diversity of our business and greatly reduced our historical dependence on our Guyana operations. We entered the U.S. mainland telecommunications market through the 2005 acquisition of an operator of a wholesale wireless network in rural portions of the Southwest and Midwest and we continued our U.S. expansion with the 2006 acquisition of a wireline voice, broadband data and dial-up Internet service provider in New England. In 2008, we increased our previous minority investment in a voice and data services provider in Bermuda to a controlling interest and began providing wholesale transport services in the U.S. and wireless services in new Caribbean markets. In addition to the growth of our business through acquisition, we have further accentuated our focus on our U.S. operations with increased capital investment in and growth of our wholesale wireless business.

In the second quarter of 2010, we completed the acquisition of a portion of the former Alltel network from Verizon Wireless through our U.S. retail wireless business, which now provides wireless voice and data services in rural markets of the United States under the "Alltel" brand name (the "Alltel Acquisition"). Since 2005, revenue from our U.S. operations has significantly grown, both as a percentage of consolidated revenue and overall, and as a result of our Alltel Acquisition, a substantial majority of our consolidated revenue is now generated in the United States, mainly through mobile wireless operations. We continue to actively evaluate additional investment and acquisition opportunities in the United States and the Caribbean that meet our return-on-investment and other acquisition criteria.

We provide management, technical, financial, regulatory, and marketing services to our subsidiaries and typically receive a management fee equal to a percentage of their respective revenue which is eliminated in consolidation. For information about our financial segments and geographical information about our operating revenues and long-lived assets, see Note 14 to the Consolidated Financial Statements included in this Report.

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Our principal corporate offices are located at 600 Cummings Center, Beverly, Massachusetts, 01915. The telephone number at our principal corporate offices is (978) 619-1300.

Strategy

The key elements of our strategy consist of the following:

Focus on Providing Wireless and Wireline Telecommunications Services. We are focused on providing wireless and wireline voice and data services to residential, business and carrier customers across a variety of geographic and demographic markets. We have provided these services to our customers for almost twenty years and have demonstrated our ability to grow both customers and revenues by maintaining quality networks, improving service and increasing the number of wireline and wireless products and services offered to these customers. We believe these sectors provide significant opportunities for recurring cash flows and organic and external growth.

Target Underserved Markets Where We Can Compete Successfully. We operate in smaller, rural or underserved markets where we believe we are or will be one of the leading providers of telecommunications services. Our businesses typically have strong local brand identities and market positions. By leveraging these attributes, along with our lower cost of capital and our senior management expertise at the holding company level, we seek to improve and expand available products and services in our targeted markets to better meet the needs of our customers and expand our customer base and revenues.

Partner with Successful Local Owner/Operators. Wherever feasible, we partner with local management teams who have demonstrated a successful track record. We believe that strong local management enhances our close relationship with customers and reduces risk. Our geographically diverse businesses are all operated, and often partially owned, by local managers, employees or investors. We seek to enhance our strong market position by maintaining these partnerships and by leveraging our extensive management experience to assist them in further improving operations.

Maintain a Disciplined Earnings-Oriented Approach. We carefully assess the potential for earnings stability and growth when we evaluate the performance of our subsidiaries, new investment opportunities and prospective acquisitions. In managing our more mature businesses, we seek to solidify our brands, improve customer satisfaction, add new services, control costs and preserve cash flow. In managing newer, early stage businesses, we seek to invest capital to improve our competitive position, increase market share and generate strong revenue and cash flow. We consider new investments and acquisitions on a disciplined, return-on-investment basis.

Our Services

Wireless Services

We provide mobile wireless voice and data communications services in the United States, Bermuda and the Caribbean. Over the past few years, we have continued our trend towards growth in U.S.-sourced revenue and with the Alltel Acquisition, the U.S. portion of our business now constitutes a substantial majority of our consolidated revenue. For fiscal years 2008, 2009 and 2010, our revenues from U.S. wireless services were approximately 53%, 62% and 82%, respectively, of our consolidated revenues.

U.S. Wireless Segment

In the United States, we provide retail wireless voice and data services under the "Alltel" name in rural markets principally in the Southeast and Midwest. As of December 31, 2010, we offered retail

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wireless services in six states to approximately 718,000 customers and had a network footprint of nearly five million people. We also provide wholesale wireless voice and data roaming services in rural markets to national, regional, local and selected international wireless carriers, through our networks in markets located principally in six states in the Southwest and Midwest, and with smaller networks in eight other states, primarily in the Western United States.

We are currently in a transition period with respect to our U.S. retail wireless business as we move from the legacy Alltel information technology systems and platforms to our own, complete network separation and complete other transition activities. During this transition period, which we expect to be substantially completed by the end of the second quarter of 2011, our ability to drive subscriber additions, control churn and optimize our offerings is somewhat constrained. Once we complete the transition, we expect to refine our service offerings and gain the increased flexibility and insight to adjust our pricing and products to better meet customer needs.

In addition, the revenue and profits of our U.S. wholesale wireless business contribute to our overall U.S. Wireless revenue and are primarily driven by the number of sites and base stations we operate, the amount of voice and data traffic that each of these sites generates, and the rate we get paid from our carrier customers on that traffic. We currently have roaming agreements with more than 65 United States-based wireless service providers and as of December 31, 2010, we were a preferred roaming carrier in selected markets for AT&T and Verizon Wireless. Our reported wholesale wireless revenue includes roaming revenue generation in areas of our retail wireless operations from our Alltel Acquisition and we also provide roaming services in a number of areas in the U.S. (mainly in the western United States) where we do not have retail wireless operations. Many of our sites are located in popular tourist and seasonal visitor areas, which has resulted in higher call volumes and revenue in those areas during the summer months.

Retail Products and Services. Our service is based on providing our customers with high quality, reliable wireless voice and data service in rural America at prices generally lower than those offered by our primary wireless competitors for similar usage and that are competitive with unlimited wireline plans. Our Alltel service offerings provide rate plans, advanced devices and features that include local and nationwide voice and data services on either a postpaid or prepaid basis. Our service revenues are derived primarily from monthly access and airtime charges, data services, and other enhanced service features. We offer several rate plans designed to give customers the flexibility that they desire in choosing their rate plan and services. We believe that the ability to offer nationwide calling to our customers is a key factor in our ability to remain competitive in the telecommunications market and we are able to provide nationwide calling to our customers at competitive rates due to reciprocal roaming arrangements with other wireless carriers. Our customers can choose monthly access plans with unlimited or a fewer amount of minutes, and we also offer several family service plans designed to give customers the ability to share minutes by adding lines of service at a discounted rate. We offer additional features to enhance our wireless plans, including call waiting, call forwarding, caller ID, three-way calling, directory assistance call completion, voicemail, text and picture messaging, and a variety of other features to add value for our customers. We also offer a line of data plans for customers who prefer to use smartphones that allow customers to access mobile content and a range of features, such as high quality video and music downloads. Our wireless Internet service uses our data network to provide customers with broadband access to the Internet using a mobile phone for tethering, a smartphone for Internet access, or a data card. We believe these plans and bundled data, voice and Internet plans are attractive to many of our existing customers and expect customer demand for data offerings in our services to increase.

Handsets and Accessories. We offer a variety of handsets to our customers, in a range meant to meet price points required by all of our customers. Our device lineup features handset models, including a wide range of smartphones that feature mobile web browsers, high resolution cameras and video capture, Bluetooth connectivity, music playback capability and other features facilitating digital data usage. In the past year, we have aggressively added smartphone handsets to our existing lineup, increasing the amount of Android and RIM (Blackberry) devices to nearly 50% of devices offered by the end of 2010. We plan to further enhance our handset offerings in 2011, which we expect will include a greater addition and variety of smartphone devices. In addition, we offer numerous accessories to complement our handset lineup, including Bluetooth headsets, handset skins and protective covers and numerous charging devices.

Network and Operations. We currently operate our main retail network with CDMA technologies in both the 850 MHz and 1900 MHz bands. The majority of our CDMA network has been upgraded with EV-DO data technology to deliver improved quality that can be easily upgraded to support enhanced capacity. Our wholesale roaming network also uses GSM technology that often will be deployed at a single cell site along with CDMA coverage in order to maximize revenue opportunities. The majority of our GSM sites are also equipped with GPRS and/or EDGE data technologies. Our networks comprise base stations and radio transceivers located on owned or leased towers and buildings, telecommunications switches and leased transport facilities.

In 2010 we increased the number of base stations and sites in service, primarily as a result of our Alltel Acquisition. At the closing of the acquisition, we acquired a regional, non-contiguous wireless network that we anticipate will require network expansion and improvements once separation and transition activities are complete, as well as roaming support to ensure ongoing nationwide coverage. As of December 31, 2010, we owned and operated a total of 1,625 base stations on 1,301 owned and leased sites, a Network Operations Center, or NOC, and multiple switching centers. Our switching centers route calls, supervise call originations and terminations at cell sites and manage call handoffs. These locations also house platforms that enable our customers to use a variety of services, including text messaging, picture messaging, voice mail and data services. Our NOC provides dedicated, 24 hour, year-round monitoring of our network to ensure quality and reliable service to our customers. In the second half of 2011, following the conclusion of our network separation and transition, we expect to continue expanding and improving our network with the addition of new sites and we plan to consolidate some of our current switching and data centers to gain efficiency and provide increased redundancy. We are also currently conducting technical evaluations of Long Term Evolution ("LTE") or "4G" technology, to further improve our network.

Wholesale Services. We have long-term, preferred roaming agreements with several major wireless carriers, including AT&T and Verizon Wireless. Under these preferred roaming agreements, we typically agree to build a new mobile network at a specified location and offer the preferred carrier long-term pricing certainty in exchange for priority designation with respect to their customers' wireless traffic. Once we complete building a rural network, we then benefit from existing roaming agreements with other international, national, regional, and local carriers to supplement our initial revenues. These non-preferred roaming agreements are usually terminable within 30 days. In 2010, four national wireless service providers together accounted for substantially all of the wholesale wireless portion of our revenues.

Marketing. Our marketing strategy is to build and maintain brand awareness in our markets while emphasizing our customer-focused approach to providing quality and reliable wireless services. We combine mass and local marketing strategies to build brand awareness within our current markets. In order to reach our target segments, we strategically advertise new products, price promotions and customer benefits on television, radio stations, through local print media, billboards and on the Internet. We believe that the Alltel brand has strong consumer recognition and that our continued use of the brand preserves customer loyalty and our reputation of customer-focused service. We have the right to use the Alltel brand and related service marks for up to twenty-eight years through a license provided by Verizon Wireless.

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Sales and Distribution. Our sales and distribution strategy is designed to cost effectively maximize new customer additions, minimize customer churn and service the account maintenance needs of our existing customer base via multiple direct and indirect channels. We sell our products and services directly through our owned retail stores and kiosks, strategically placed in neighborhood shopping centers and local shopping malls to target retail traffic patterns, and indirectly through dealers and direct sales representatives. As of December 31, 2010, we had approximately 40 direct locations, which were responsible for approximately 60% of our gross customer additions in 2010. Our indirect channel consists of our authorized dealers and distributors at local and mass-market retailers and specialty stores. Similar to our retail stores and kiosks, we train and provide promotional support for our dealers to offer additional services, features, accessories and process bill payments for our customers at their locations. Our goal with respect to mass-market retailers is to take advantage of high traffic already generated by retailers to attract new customers and provide expanded and convenient service to our existing customer base. As of December 31, 2010, we had approximately 120 indirect dealer locations, which accounted for approximately 40% of our gross customer additions in 2010. We also make products and services available for purchase through Alltel's online web store, alltelwireless.com, and by phone through our customer care call centers.

Competition. In general, we compete with national and regional retail wireless providers that offer both prepaid and postpaid services, including Verizon Wireless, whose scale, resources and U.S. network footprint are significantly greater than ours. We also compete in our markets with non-facilities based mobile virtual network operators, or MVNOs, and WiMax, wireline, Internet, VoIP and other communications service providers. Many of these competitors have the ability to offer bundled service offerings such as cable television, Internet or landline calling services, which we may not be able to duplicate. In addition, many of our competitors also advertise unlimited service plans at competitive prices to the local or rural demographic that we target. We expect these service offerings to present strong competition in the markets where our offerings overlap with both large and mid-sized carriers. Our ability to remain competitive and to maintain reasonable profit margins will depend, in part, on our ability to provide competitive pricing for our customers, to provide the latest mobile voice and data services in all of the areas where they wish to access those services through roaming arrangements or the expansion of our own network and to anticipate and respond to various other competitive factors.

In our wholesale wireless business, we compete with wireless service providers that operate networks in our markets and offer wholesale roaming services. However, the most significant competitive factor we face in our U.S. wholesale wireless business is the extent to which our carrier customers elect to build or acquire their own infrastructure (including exercising buy-out options on networks that we built on their behalf pursuant to certain roaming agreements) in a market in which we operate, reducing or eliminating their need for our services in those markets. For example, the 2009 acquisition by Verizon Wireless of Alltel Corporation and subsequent 2010 acquisition of certain divested Alltel assets by AT&T resulted in our wholesale customers gaining their own infrastructure in certain markets where they were previously served by us. This has already resulted in some loss, and is expected to continue to result in a significant loss, of wireless wholesale revenue and operating income in future periods, which, if not offset by growth in other revenue, could reduce our overall operating profits, specifically in the second quarter of 2011. We believe we compete for wholesale roaming customers based on price, network coverage and quality of service. We expect competition in the rural wireless sector to be dynamic, as competitors expand their networks and as new products and services that require supporting connectivity are developed.

International Integrated Telephony Segment

We offer wireless telephone service in the vast majority of populated areas in Guyana, including Georgetown (Guyana's capital and largest city) and the surrounding area and substantially all of the country's coastal plain where 70% of its population is concentrated. Although approximately 40% of the population subscribes to our wireless service, our largely prepaid subscriber base makes it difficult to determine how many of our subscribers also subscribe to competing services. As of December 31, 2010, we had approximately 305,000 wireless subscribers, up 6% from approximately 289,000 subscribers as of December 31, 2009. As of December 31, 2010, more than 95% of our wireless subscribers in Guyana were on prepaid plans.

Network. Our GSM network operates in approximately 12 MHz of spectrum in the 900 MHz band and 36 MHz of spectrum in the 1800 MHz band. We estimate that over 90% of the country's population resides in areas covered by our wireless network.

Sales and Marketing. We actively market our wireless services through widespread radio, television and outdoor advertising, sponsored events, and merchandise giveaways as well as through our close, promotional relationships with leading disc jockeys and radio personalities and other local celebrities. We do not maintain any traditional retail stores, although all postpaid wireless customers set up accounts at one of our six business centers and prepaid customers may do so as well. Our handsets, prepaid cards and prepaid accounts are sold primarily through independent dealers whom we pay on a commission basis. Wireless postpaid subscribers are offered various calling plans and are charged a monthly fee plus airtime based on the selected plan. Payments by our prepaid customers can be made by the purchase of disposable prepaid calling cards, which come in fixed Guyanese dollar amounts, or by recharging an account via our "C-Point" electronic terminals available at authorized vendors.

Competition. We provide wireless services in Guyana pursuant to a non-exclusive license. Digicel, our primary competitor, has spent aggressively since early 2007 to gain market share, including promotional pricing, the use of extensive giveaways and handset subsidies. In turn, we have countered with our own promotions and by continuing to invest heavily in our network. In 2007 and 2008, this heightened competition resulted in our losing significant market share. In 2009 and 2010, however, we believe we were able to hold on to our share of the market and resumed our growth in wireless subscribers. We expect competition for subscribers and usage to remain strong in 2011. We believe we compete for customers based on price, promotions, coverage and quality of service.

Island Wireless Segment

We provide wireless voice and data service to retail and business customers under the name "Cellular One" in Bermuda. In May 2008, we increased our investment in our Bermuda business from 43% to a controlling 58% interest, and began consolidating its financial results with our own. In September 2008, we acquired an early-stage business in Turks and Caicos and launched retail voice and wireless services in June 2010 under the "Islandcom" name. In the U.S. Virgin Islands, we launched retail wireless voice and data services to customers in August 2010 and have been a provider of Internet services since 1999. In June 2010, we acquired equity interests in a wireless company in Aruba.

Products and Services. A substantial majority of our customers in the Caribbean subscribe to our prepaid plans, which allow customers to choose the number of voice minutes per month, as well as use text messaging, data and other features to supplement the plans. In Bermuda, a majority of our customers subscribe to one of our postpaid plans, which are distinguished from prepaid plans largely by the number of minutes and the enhanced features included in the plan. At December 31, 2010, we had approximately 20,000 retail subscribers in Bermuda and the Caribbean.

We also provide roaming services for other carriers' customers visiting the islands, and are typically the primary roaming provider for North American visitors using CDMA handsets, such as customers of Verizon Wireless and other carriers. In the U.S. Virgin Islands, we provide Internet access services via a variety of wireless broadband technologies, including dial-up.

Network. We currently operate our networks in Bermuda and the Caribbean with CDMA technologies in the 850 MHz frequency band and 1900 MHz frequency bands. In Bermuda, we also deploy GSM services with a UMTS overlay, a "3G" (third generation) wireless technology based on the GSM standard, that has allowed us to offer advanced mobile voice and data services to a segment of the Bermuda market that we had not previously addressed. We have extensive backbone facilities linking our sites, switching facilities and international interconnection points. Off-island connectivity is provided by leased, fiber-based interconnections.

Sales and Marketing. We maintain retail stores in our markets and allow customers to pay their bills and "top up", or add additional minutes to their prepaid plans, via payment terminals at local stores, and via our website. We advertise frequently through print and electronic media, radio station spots and sponsor various events and initiatives.

Competition. We believe we compete for wireless retail customers in our island properties based on features, price, technology deployed, network coverage (including through roaming arrangements), quality of service and customer care. We compete against the wireless division of the incumbent telephone companies in the Caribbean and Bermuda and against Digicel, which is a large mobile telecommunications company in several Caribbean countries.

Wireline Services

Our wireline services include our operations in Guyana, the mainland United States and the U.S. Virgin Islands. For fiscal years 2008, 2009 and 2010, our revenues from wireline services were approximately 45%, 37% and 14%, respectively, of our consolidated revenues.

International Integrated Telephony Segment

We are the exclusive provider of domestic wireline local and long distance telephone services into and out of Guyana. As of December 31, 2010, we had approximately 150,000 access lines in service, which represents both residential and commercial subscribers. This represents approximately 19 lines per 100 inhabitants (based on an estimated population of approximately 770,000), an increase of approximately 2%, or 3,000 net new lines, compared to lines in service at December 31, 2009. Of all fixed lines in service, the majority are in the largest urban areas, including Georgetown, Linden, New Amsterdam, Diamond and Beterverwagting. As a result of our continued network expansion into smaller communities and more recently, newly developed housing areas and residential parks, residential customers now account for approximately two thirds of the wireline local telephone service revenue while commercial customers account for approximately one third.

With respect to our international long distance business, we collect a payment from foreign carriers for handling international long distance calls originating from the foreign carriers' country and terminating in Guyana. We also make payments to foreign carriers for international calls from Guyana terminating in the foreign carrier's country and are entitled to collect from our subscribers (and from competing wireless carriers), a rate that is regulated by the Public Utilities Commission of Guyana.

Network. Through December 31, 2010, we have invested nearly $344 million in Guyanese telecommunications infrastructure and in 2010 began utilizing our newly built fiber optic submarine cable in Guyana. As of December 31, 2010 we had approximately 150,000 fixed access lines, all of which are digitally switched lines. In addition, we estimate that we have installed over 700 public telephones in locations across the country providing telecommunications for both local and international calls in areas that previously did not have service. During 2010, we continued to extend our network to cover newly developed housing areas and residential parks and additional rural towns and communities, although at a lesser rate than in previous years.

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Our international long distance network is linked with the rest of the world principally through our new fiber optic submarine cable into Guyana, our ownership of a portion of the Americas II undersea fiber optic cable and by leasing capacity on several other cables. In 2010 we began utilizing our newly constructed Suriname-Guyana Submarine Cable System (SGSCS) that runs from Trinidad into both Guyana and Suriname. The SGSCS, which we co-own with Telesur, the government owned telecommunications provider in Suriname, provides us with more robust redundancy, the capacity to meet growing data demands in Guyana, and the opportunity to provide new and enhanced IP centric services. We also lease capacity on Intelsat satellites and have two Standard B earth stations, which provide both international and local backhaul services.

Sales and Marketing. Our revenues for fixed access domestic service are derived from installation charges for new lines, monthly line rental charges, monthly measured service charges based on the number and duration of calls and other charges for maintenance and other customer services. For each category of revenues, rates differ for residential and commercial customers and are set by regulatory authorities. Customers desiring to obtain an access line submit written applications to one of our customer service offices. Service representatives process the applications and service is installed within about two weeks (or, if service is not yet available in that area, the applicant is placed on a waiting list). We employ a minimal sales force for our wireline offering, as wireline sales are primarily driven by network expansion and availability of service. Our wireline subscribers typically pay for telephone service (including international long distance) after being billed for it. Customers can pay their bills at any one of our six business centers, any Western Union branch, commercial banks and post offices. Customers can also utilize our prepaid card services on their landline phones.

Competition. We have the exclusive right to provide domestic fixed and international voice and data services in Guyana. As the initial term of our license was scheduled to expire in December 2010, we notified the Government of Guyana in November 2009 of our election to renew our exclusive license for an additional 20 years. Although the right to extend the license, including exclusivity terms, was at our sole option, the exclusivity provisions of our license have been, and currently are, the subject of negotiations with the Government of Guyana. On December 15, 2010, we received correspondence from the Government of Guyana indicating that our exclusive license had been renewed until such time that new legislation is in place with regard to the Government's intention to liberalize the sector, however, we believe the license to be valid until such time as we enter into a negotiated settlement with the Government. See " Regulation of Our GT&T Subsidiary Other Regulatory Developments" and "Risk Factors Our exclusive license to provide local exchange and international voice and data services in Guyana is subject to significant political and regulatory risk."

Since 2008 there has been a substantial and ongoing increase in efforts to illegally bypass our international exchange, and therefore our international license, and avoid paying us origination and termination fees. We have taken action against some local companies and individuals who are engaging in these efforts, including taking action against unlicensed operators in Guyana and complaints to various foreign carriers and regulatory bodies in an effort to protect our network and our rights under our license. We believe the largest amount of bypass is occurring with respect to calls terminating on our competitor Digicel's local wireless network and in the first quarter of 2010, we took legal action to defend our exclusive rights to provide international voice and data services. See "Legal Proceedings" and "Risk Factors Any significant decline in the price or volume, including bypass activities, of international long distance calls to Guyana could adversely affect our financial results."

U.S. Wireline Segment

We are a leading provider of competitive integrated voice and broadband data communications services in Vermont and New Hampshire under the "Sovernet" name. In August 2008, we acquired a fiber based wholesale transport service provider in New York State that provides services under the "ION" name.

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Network. We provide voice and data services using a network comprising telecommunications switching and related equipment that we own and telecommunications lines that we typically lease from the incumbent telephone company. We operate a high capacity fiber-optic ring network in Vermont that we use to connect 10 of our largest markets in the state. As of December 31, 2010, we had approximately 50,500 business and 6,500 residential access line equivalents, or ALEs, in billing. ALEs are calculated by determining the number of individual voice or data lines that generate a monthly recurring charge within an end user circuit or circuits. As of December 31, 2010, we also provided DSL broadband services to approximately 3,300 business accounts and 1,500 residential accounts in Vermont and western New Hampshire.

Our wholesale telecommunications transport business operates several linked self-healing fiber rings comprising more than 2,000 fiber miles that connect major New York metropolitan hubs with rural communities within the state. In 2010, we received two grants from the National Telecommunications and Information Administration of the U.S. Department of Commerce to expand our existing network by constructing ten new segments of fiber-optic, middle-mile broadband infrastructure in upstate New York and to construct and operate a 773 mile fiber-optic middle mile network in Vermont. We began construction on our New York project in late 2010 and expect to begin construction in Vermont in 2011.

Sales and Marketing. We sell our services primarily through a direct sales force that assists customers in choosing tailored solutions for their unique communication needs. Our direct sales staff focuses on selling integrated voice and data to small and medium-sized businesses and other organizations, while residential services are largely sold through advertising and word of mouth. We advertise on television and radio through cooperative arrangements and engage in other promotional activities from time to time.

Our wholesale transport and capacity customers are predominately telecommunications carriers such as local exchange carriers, wireless carriers and interstate integrated providers, which are served by our direct sales force. We expect to expand our customer base in New York State to include more large-scale end users such as large enterprises, governmental agencies and educational institutions.

Competition. We compete for retail customers by offering customized voice and data solutions designed to meet the specific needs of our two targeted subsets of customers and provide superior customer service and competitive pricing. Our primary retail competitor is Fairpoint Communications, which acquired the incumbent local exchange business of Verizon Communications in northern New England. We also compete with cable companies, such as Comcast, and other competitive service providers who target small and medium sized businesses. In New York State, we compete against other providers of wholesale high-capacity transport such as Verizon Communications and the multi-state long-haul providers.

Employees

As of December 31, 2010, we had 1,765 employees, of whom 1,037 were employed in the United States (including in the U.S. Virgin Islands). At the holding company level, we employ the executive management team and staff. More than half of our Guyana full-time work force is represented by the Guyana Postal and Telecommunications Workers Union. Although our contract with the union expired in October 2010, we are currently operating under the expired contract's terms and conditions until we are able to renegotiate a new contract. We do not have any other union employees. We believe we have good relations with our employees.

Regulation

Our telecommunications operations are subject to extensive governmental regulation in each of the jurisdictions in which we provide services. The following summary of regulatory developments and legislation does not purport to describe all present and proposed federal, state, local, and foreign regulation and legislation that may affect our businesses. Legislative or regulatory requirements currently applicable to our businesses may change in the future and legislative or regulatory requirements may be adopted by those jurisdictions that currently have none. Any such changes could impose new obligations on us that would adversely affect our operating results.

U.S. Federal Regulation

Our wireless and wireline operations in the United States and the U.S. Virgin Islands are governed by the Communications Act of 1934, as amended (or Communications Act), the implementing regulations adopted thereunder by the FCC, judicial and regulatory decisions interpreting and implementing the Communications Act, and other federal statutes.

Wireless Services

The FCC regulates, among other things, the licensed and unlicensed use of radio spectrum; the ownership, lease, transfer of control and assignment of wireless licenses; the ongoing technical, operational and service requirements; the timing, nature and scope of network construction; the provision of certain services, such as E-911; and the interconnection of communications networks in the United States.

Licenses. We provide our wireless services under various commercial mobile radio services (or CMRS) licenses, such as cellular and broadband Personal Communications Services (or PCS) licenses, and broadband radio service (or BRS) licenses granted by the FCC and pursuant to leases of spectrum from FCC-licensed operators. Some of these licenses are site-based while others cover specified geographic market areas, typically Cellular Market Areas (or CMAs) and Basic Trading Areas (or BTAs), as defined by the FCC. The technical and service rules, the specific radio frequencies and the authorized spectrum amounts vary depending on the licensed service. The FCC generally grants all CMRS and BRS licenses through periodic auctions, after determining how many licenses to make available in particular frequency ranges, what service rules will apply, and the terms on which the license auction will be conducted.

Future Spectrum Allocations. In 2010, the FCC released its National Broadband Plan, which indicates that the FCC will seek to allocate 300 to 500 MHz of additional spectrum below 2.5 GHz over the next 5 to 10 years to meet a perceived need for additional spectrum to support the provision of wireless broadband services. To that end, the FCC has initiated a series of proceedings designed to identify additional spectrum that can be repurposed or reallocated and has proposed that Congress give it authority to establish mechanisms to encourage existing licensees, including television broadcasters, to make spectrum available for wireless broadband services. In addition, the National Telecommunications and Information Administration, or NTIA, has issued a report identifying 155 MHz of spectrum for fast track evaluation and sets a timetable for making a total of 500 MHz of spectrum available through government coordination and reallocation. There is no certainty as to whether or not such additional spectrum will be made available for wireless broadband services, the amount of spectrum that might ultimately be made available, the timing of the auction of any such spectrum, whether Congress will enact legislation regarding spectrum, the likely configuration of any such additional spectrum and conditions that might apply to it, or the usability of any of this spectrum for wireless services competitive with our services or by us.

Construction Obligations. The FCC conditions licenses on the satisfaction of certain construction obligations. The obligations vary depending on the licensed service. Failure to satisfy an applicable construction requirement can result in the assessment of fines and forfeitures by the FCC, a reduced license term, or automatic license cancellation. We are in compliance with the applicable construction

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requirements that have arisen for the licenses we currently hold and expect to meet all future construction requirements as well.

With respect to some of our licenses, if we were to discontinue operation of a wireless system for a period of time, at least 90 consecutive days for cellular licenses, our license for that area would be automatically forfeited.

License Renewals. Licenses generally have a 10-year term and are renewable upon application to the FCC. License renewal applications may be denied if the FCC determines, after appropriate notice and hearing, that renewal would not serve the public interest, convenience, or necessity. At the time of renewal, if a competing application is filed and if we can demonstrate that we have provided "substantial" service during the past license term and have complied with the Commutation Act and applicable FCC rules and policies, then the FCC will award a renewal expectancy to us and will generally renew our existing licenses without considering any competing applications. The FCC defines "substantial" service as service that is sound, favorable and substantially above a level of mediocre service that might only minimally warrant renewal. If we do not receive a renewal expectancy, then the FCC will accept competing applications for the license and conduct a comparative hearing. In that situation, the FCC may award the license to another applicant. While our licenses have been renewed regularly by the FCC in the past, there can be no assurance that all of our licenses will be renewed in the future. The FCC recently initiated a rule making proceeding that may result in changes to the license renewal standards and processes, but the outcome of that proceeding and its possible impact on us are uncertain.

The FCC may deny license applications and, in extreme cases, revoke licenses, if it finds that an entity lacks the requisite "character" qualifications to be a licensee. In making that determination, the FCC considers whether an applicant or licensee has been the subject of adverse findings in a judicial or administrative proceeding involving felonies, the possession or sale of unlawful drugs, fraud, antitrust violations, or unfair competition, employment discrimination, misrepresentations to the FCC or other government agencies, or serious violations of the Communications Act or FCC regulations. To our knowledge, there are no activities and no judicial or administrative proceedings involving either us or the licensees in which we hold a controlling interest that would warrant such a finding by the FCC.

License Acquisitions. Prior FCC approval typically is required for transfers or assignments of a controlling interest in any license or construction permit, or of any rights thereunder. Non-controlling minority interests in an entity that holds an FCC license generally may be bought or sold without FCC approval, subject to any applicable FCC notification requirements. The FCC permits licensees to lease spectrum to third parties under certain conditions, subject to prior FCC approval. These mechanisms provide additional flexibility for wireless providers to structure transactions and create additional business and investment opportunities.

In reviewing proposed transactions, the FCC utilizes a spectrum aggregation screen to determine whether the transaction requires additional scrutiny. A transaction will trigger heightened FCC scrutiny if it will result in the geographic overlap of CMRS spectrum in a given area that is equal to or in excess of 95 MHz, 115 MHz, 125 MHz, or 145 MHz, depending on the availability of Broadband Radio Service (or BRS) and Advanced Wireless Services (or AWS) spectrum in an overlap area. We are well below the spectrum aggregation screen in the geographic areas in which we hold or have access to licenses, and thus we may be able to acquire additional spectrum either from the FCC in an auction or from third parties in private transactions. Similarly, our competitors may be able to strengthen their operations by making additional acquisitions of spectrum in our markets or by further consolidating the industry.

The FCC no longer caps the amount of CMRS spectrum in which an entity may hold an attributable interest and now engages in a case-by-case review of proposed wireless transactions, including spectrum acquired via auction, to ensure that the proposed transaction serves the public interest and would not result in a rule violation or an undue concentration of market power. The change in approach has further increased the ability of wireless operators to attract capital or to make investments in other wireless operators.

The FCC may prohibit, or impose conditions on, proposed transactions involving the transfer of licenses or the lease of spectrum. Although we cannot ensure that the FCC will approve, not condition, or act in a timely fashion upon any future requests for approval of proposed transactions in which we are involved, we have no reason to believe that the FCC would not approve or grant such requests or applications in due course.

Other Requirements. The Communications Act and the FCC's rules impose a number of additional requirements upon wireless service providers.

Wireless licensees must satisfy a variety of FCC requirements relating to technical and reporting matters. Licensees must often coordinate frequency usage with adjacent licensees and permittees to avoid interference between adjacent systems. In addition, the height and power of transmitting facilities and the type of signals emitted must fall within specified parameters. For certain licensed services, a variety of incumbent government and non-government operations may have to be relocated before a licensee may commence operations, which may trigger the payment of relocation costs by the incoming licensee.

The radio systems towers that we own and lease are subject to Federal Aviation Administration and FCC regulations that govern the location, marking, lighting, and construction of towers and are subject to the requirements of the National Environmental Policy Act, National Historic Preservation Act, and other environmental statutes enforced by the FCC. The FCC has also adopted guidelines and methods for evaluating human exposure to radio frequency emissions from radio equipment. We believe that all of our radio systems on towers that we own or lease comply in all material respects with these requirements, guidelines, and methods.

The FCC has adopted requirements for cellular, PCS and other CMRS providers to implement basic and enhanced 911, or E-911, services. These services provide state and local emergency service providers with the ability to better identify and locate 911 callers using wireless services, including callers using special devices for the hearing impaired. Because the implementation of these obligations requires that the local emergency services provider have certain facilities available, our specific obligations are set on a market-by-market basis as emergency service providers request the implementation of E-911 services within their locales. The FCC is considering changes to its rules and policies concerning E-911 location accuracy. We are unable at this time to predict the likely outcome of this proceeding. The extent to which we are required to deploy E-911 services will affect our capital spending obligations. Federal law limits our liability for uncompleted 911 calls to a degree commensurate with wireline carriers in our markets.

Under certain circumstances, federal law also requires telecommunications carriers to provide law enforcement agencies with capacity and technical capabilities to support lawful wiretaps pursuant to the Communications Assistance for Law Enforcement Act (or CALEA). Federal law also requires compliance with wiretap-related record-keeping and personnel-related obligations. We are in compliance with all such requirements currently applicable to us. The FCC has adopted rules that apply CALEA obligations to high speed Internet access and voice-over Internet protocol (or VoIP) services. Maintaining compliance with these law enforcement requirements may impose additional capital spending obligations on us to make necessary system upgrades.

The FCC long has required CMRS providers to permit customers of other carriers to roam "manually" on their networks, for example, by supplying a credit card number, provided that the roaming customer's handset is technically capable of accessing the roamed-on network. More recently, the FCC has ruled that automatic roaming also is a common carrier obligation for CMRS carriers. This ruling requires CMRS carriers to provide automatic roaming services to other CMRS carriers upon reasonable request and on a just, reasonable, and non-discriminatory basis pursuant to Sections 201 and 202 of the Communications Act. This automatic roaming obligation extends to services such as ours that are real-time, two-way switched voice or data services that are interconnected with the public switched network and utilize an in-network switching facility that enables the provider to reuse frequencies and accomplish seamless hand-off of subscriber calls. The FCC recently clarified that the automatic voice roaming obligations of broadband CMRS providers extend to both in-market and out-of-market automatic voice roaming provided that the request is reasonable. In assessing whether a request is reasonable, the FCC will consider the totality of the circumstances and may use a number of factors, including the technical compatibility of the roamer, the extent of the requesting carrier's build-out where it holds spectrum, and alternative roaming partners are available, to determine whether or not a particular roaming request is reasonable. The FCC has not extended the automatic roaming obligation to services that are classified as information services (such as high speed Internet services) or to services that are not CMRS, but the FCC is actively considering whether the roaming obligation should be extended to such non-interconnected services or features. We cannot predict the likely outcome or timing of this proceeding, but if the FCC does not adopt an automatic roaming requirement for non-interconnected services or features, such as information services, high speed broadband services, and broadband Internet access services, we could have greater difficulty attracting and retaining certain groups of customers, especially to our broadband wireless services.

In October 2010, the FCC proposed and sought comment on rules that would require mobile service providers to issue real time usage and billing alerts to consumers to assist them in avoiding unexpectedly high bills. These alerts would include notifications when a consumer approaches the allocated limit for voice, text or data usage, and when a consumer reaches the monthly limit and begins incurring overage charges. The FCC asked whether or not prepaid mobile services should be exempt from any such usage alert requirements. Any such usage requirements could increase our operational expenses. The likely timing and outcome of this proceeding are uncertain.

We are obligated to pay certain annual regulatory fees and assessments to support FCC wireless industry regulation, as well as fees supporting federal universal service programs, number portability, regional database costs, centralized telephone numbering administration, telecommunications relay service for the hearing-impaired and application filing fees. These fees are subject to change periodically by the FCC and the manner in which carriers may recoup these fees from customers is subject to various restrictions.

Wireless and Wireline Services

Universal Service. In general, all telecommunications providers are obligated to contribute to the federal Universal Service Fund (or USF), which is used to promote the availability of wireline and wireless telephone service to individuals and families qualifying for federal assistance, households located in rural and high-cost areas, and to schools, libraries and rural health care providers. Contributions to the federal USF are based on end user interstate telecommunications revenue and some states have similar programs that also require contribution. We contribute to the USF as required by the rules throughout the U.S., and receive funds from the USF for providing service in rural areas of the United States and the U.S. Virgin Islands. The collection of USF fees and distribution of USF support is under continual review by state and federal legislative and regulatory bodies and we are subject to audit by the Universal Service Administration Corporation (or USAC). We believe we are substantially compliant with all FCC and state regulations related to the receipt and collection of universal service support.

In February 2011, the FCC initiated a rule making proceeding to consider broad-based reform of the USF program and the U.S. Congress has expressed similar interest. Under the FCC's proposal, the current level of USF support for companies like ours would be phased out over no more than five

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years. It is likely that, if the federal universal service program is modified or eliminated, some or all state programs may be modified as well. We cannot predict the ultimate impact of any such changes on the amounts we pay or receive from these programs.

Intercarrier Compensation. Under federal and state law, telecommunications providers are generally required to compensate one another for originating and terminating traffic for other carriers. Consistent with these provisions, the Company currently receives compensation from other carriers and also pays compensation to other carriers. The FCC recently initiated a rule making proceeding to consider reform of the intercarrier compensations system. We cannot currently predict the impact of any changes to these requirements on the amounts that we pay or receive.

Local Competition. The Communications Act encourages competition in local telecommunications markets by removing barriers to market entry and imposing on non-rural incumbent local exchange carriers (or ILECs), among other things, duties to do the following:

- negotiate interconnection agreements at any technically feasible point on just, reasonable, and non-discriminatory rates, terms, and conditions;
- provide access to certain unbundled network elements (or UNEs), such as local loops and interoffice transport, or combinations of UNEs at nondiscriminatory, cost-based rates in certain circumstances;
- provide physical collocation, which allows competitive local exchange carriers (or CLECs) to install and maintain its network termination equipment in an ILEC's central office or to obtain functionally equivalent forms of interconnection under certain circumstances;
- provide access to poles, ducts, conduits, and rights-of-way on a reasonable, non-discriminatory basis;
- offer retail local telephone services to resellers at discounted wholesale rates;
- when a call originates on its network, compensate other telephone companies for terminating or transporting the call;
- provide dialing parity, which ensures that customers are able to route their calls to telecommunications service providers without having to dial additional digits;
- provide notice of changes in information needed for another carrier to transmit and route services using its facilities; and
- provide telephone number portability, so customers may keep the same telephone number if they switch service providers.

In addition, under Section 271 of the Communications Act, the Bell Operating Companies (or BOCs) have an obligation to provide certain network elements, including elements (for example, local switching) that have been removed from the mandatory list of network elements that must be unbundled under Section 251 of the Communications Act. The BOCs are required to provide Section 271 network elements under a "just and reasonable" pricing standard. Over time, the FCC has removed the BOC's obligation to provide certain network elements under Section 271. There can be no assurance that the FCC will not continue to exercise its authority to remove other Section 271 network element obligations in the future. Any such action by the FCC may have an adverse effect on the financial condition or operations of our U.S. Wireline segment. We operate in a region where the ILEC is required to comply with the above-mentioned statutory provisions, and, accordingly, we have benefited from the reduced costs in acquiring required communication services, such as ILEC interconnection, and have benefited from the right to receive compensation for the termination of traffic. Provisions relating to interconnection, telephone number portability, equal access, and resale could, however, subject us to increased competition and additional economic and regulatory burdens.

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We provide Internet access services as an Internet service provider (or ISP). The FCC has classified such services as information services, so they are not subject to various regulatory obligations that are imposed on common carriers, such as paying access charges or contributing to the Universal Service Fund. The FCC generally preempts state and local regulation of information services. While the FCC to date has declined to classify interconnected VoIP service as a telecommunications service or information service, it has imposed a number of consumer protection and public safety obligations on interconnected VoIP providers, relying in large part on its general ancillary jurisdiction powers. To the extent that we provide interconnected VoIP service we will be subject to a number of these obligations.

In December 2010, the FCC adopted new rules to ensure the "openness" of the Internet. These new rules, which are not yet in effect, fall into three principal categories: (1) Transparency All providers of broadband Internet access service must disclose practices, performance characteristics, and commercial terms of service, and mobile broadband providers must disclose third-party device and applications limits and any relevant criteria for use of such third-party offerings; (2) No Blocking Fixed broadband Internet Service Providers ("ISPs") may not block lawful content, applications, services, or attachment of non-harmful devices, and mobile broadband providers may not block access to lawful websites; and (3) Nondiscrimination Fixed broadband providers may not engage in unreasonable discrimination, and mobile broadband providers may not block applications that compete with their own video or voice telephony services. These requirements are generally subject to an exemption for reasonable network management, apply to mass-market broadband services (but not to managed services that share capacity with broadband Internet access), and will be enforced through a combination of mechanisms, including formal and informal complaints and self-initiated FCC investigations. Challenges to the FCC new rules have been filed in federal appeals court and the outcome of those challenges, and their effect on the new rules, is uncertain. Compliance with the new rules, if and when they go into effect, could impose costs on the Company.

Obligations Due to Economic Stimulus Grant

Two of our subsidiaries have been the recipients of awards from the Broadband Technology Opportunities Program (BTOP) of the U.S. Department of Commerce (DOC) pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA). As a BTOP awardee, we are subject to the various terms and conditions included in the agency's Notice of Funds Availability (NoFA) published in the Federal Register on July 9, 2009. Among these requirements are Interconnection and Non-Discrimination requirements by which any awardee must: (i) adhere to the principles contained in the FCC's Internet Policy Statement (FCC 05-151, adopted August 5, 2005) or any subsequent ruling or statement; (ii) not favor any lawful Internet applications and content over others; (iii) display network management policies in a prominent location on its web page and provide notice to customers of changes to these policies; (iv) connect to the public Internet directly or indirectly, so that the project is not an entirely private closed network; and (v) offer interconnection, where technically feasible without exceeding current or reasonably anticipated capacity limitations, at reasonable rates and terms to be negotiated with requesting parties. While FCC rules regarding these issues may apply to all our operations, these particular requirements apply only to our BTOP-funded projects.

As a BTOP awardee, we are also required to comply with other terms and conditions of the individual DOC grants, including reporting, transparency and audit requirements pursuant to Section 1512 of the ARRA, and notification and reporting obligations set forth in the Office of Management and Budget Memorandum, *Implementing Guidance for Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (OMB M-09-21, June 22, 2009).

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U.S. State Regulation

Federal law preempts state and local regulation of the entry of, or the rates charged by, any CMRS provider. As a practical matter, we are free to establish rates and offer new products and service with a minimum of regulatory requirements. The states in which we operate maintain nominal oversight jurisdiction. For example, although states do not have the authority to regulate the entry or the rates charged by CMRS providers, states may regulate the "other terms and conditions" of a CMRS provider's service. Most states still maintain some form of jurisdiction over complaints as to the nature or quality of services and as to billing issues. Since states may continue to regulate "other terms and conditions" of wireless service, and a number of state authorities have initiated actions or investigations of various wireless carrier practices, the outcome of these proceedings is uncertain and could require us to change certain of our practices and ultimately increase state regulatory authority over the wireless industry. States and localities assess on wireless carriers taxes and fees that may equal or even exceed federal obligations.

The location and construction of our wireless transmitter towers and antennas are subject to state and local environmental regulation, as well as state or local zoning, land use and other regulation. Before we can put a system into commercial operation, we must obtain all necessary zoning and building permit approvals for the cell site and tower locations. The time needed to obtain zoning approvals and requisite state permits varies from market to market and state to state. Likewise, variations exist in local zoning processes. If zoning approval or requisite state permits cannot be obtained, or if environmental rules make construction impossible or infeasible on a particular site, our network design might be adversely affected, network design costs could increase and the service provided to our customers might be reduced.

The FCC has adopted a declaratory ruling establishing presumptive timeframes in which states and localities must resolve tower siting applications before the applicant may seek judicial review 90 days for collocations and 150 days for all other siting applications. This ruling will expedite our ability to seek legal redress, and thus mitigate tower construction delays, in the event a state or locality does not timely act on our zoning applications. A number of local jurisdictions have challenged the FCC's declaratory ruling in a federal appeals court, and that case is pending.

Guyana Regulation

We are subject to regulation in Guyana under the provisions of our licenses from the Government of Guyana, the Guyana Public Utilities Commission Act of 1999 (or PUC Law) and the Guyana Telecommunications Act 1990 (or Telecommunications Law). The Public Utilities Commission of Guyana (or PUC) is an independent statutory body with the principal responsibility for regulating telecommunications services in Guyana.

Licenses. We provide domestic fixed and international voice and data services in Guyana pursuant to a license from the Government of Guyana granting us the exclusive right to provide the following: public telephone, radio telephone, and pay telephone services; domestic fixed; international voice and data services; sale of advertising in any telephone directories; and, switched or non-switched private service line service. Rates for most of our services must be approved by the PUC. The license, which was issued in December 1990, has an initial 20-year term. We provide mobile wireless telephone service in Guyana pursuant to a non-exclusive license from the Government of Guyana, also granted in December 1990 with an initial 20 year term. Each of these licenses is renewable at our option, for an additional term of 20 years. In November 2009, we notified the Government of our election to renew our exclusive and non-exclusive licenses for an additional period of 20 years. In exercising our option to renew our licenses, we reiterated to the Government that we would be willing to voluntarily relinquish the exclusivity aspect of our licenses, as part of an overall settlement with the Government. On December 15, 2010, we received correspondence from the Government of Guyana indicating that our licenses had been renewed until such time that new legislation is in place with regard to the Government's intention to liberalize the sector; however, we believe the exclusive license to be valid until such time as we enter into a negotiated settlement with the Government.

PUC Law and Telecommunications Law. The PUC Law and the Telecommunications Law provide the general framework for the regulation of telecommunications services in Guyana. The PUC has authority to set rates and has certain powers to monitor our compliance with our exclusive wireline license and to require us to supply it with such technical, administrative and financial information as it may request. While we have challenged its position, the PUC claims broad authority to review and amend any of our programs for development and expansion of facilities or services. For a description of recent actions of the PUC, see Note 12 to the Consolidated Financial Statements included in this Report.

Regulatory Developments. Since 2001, the Government of Guyana has stated its intention to introduce additional competition into Guyana's telecommunications sector. Since that time, we have met on several occasions with the Government of Guyana to discuss potential modifications of its exclusivity and other rights under the existing agreement. In early October 2010, the Government of Guyana released to existing telecommunications providers in Guyana certain materials, including drafts of legislation, regulations, and licenses ("Draft Laws"), that, if enacted, would permit other telecommunications carriers to receive licenses to provide domestic fixed services and international voice and data services in Guyana, in contravention of our existing exclusive license. The Draft Laws would also introduce material changes to many other features of Guyana's existing telecommunications regulatory regime. In exercising our option to renew our licenses in 2009, we reiterated to the Government that we would be willing to voluntarily relinquish the exclusivity aspect of our licenses, but only as part of an overall settlement agreement with the Government. At this time, we do not know when or if the Draft Laws will be adopted by the Government of Guyana, or if changes will be made to the substance of the Draft Laws, including the termination of our exclusivity rights. Although we believe that we would be entitled to damages or other compensation for any involuntary termination of the exclusive license, we cannot guarantee that we would prevail in a proceeding to enforce our rights or that our actions would effectively halt any unilateral action by the Government.

FCC Rule-Making and International Long Distance Rates. The actions of telecommunications regulators, especially the FCC, affect the settlement rate payable by foreign carriers to us for handling incoming international long distance calls. While the FCC continues to monitor and evaluate termination rate levels and benchmarks, we cannot predict when and if the FCC will reduce settlement rates or the effect lower rates will have on revenue in our International Integrated Telephony segment.

Caribbean and Other Regulation

We are subject to regulation in each of Bermuda and the other jurisdictions in the Caribbean in which we provide service. In Bermuda, we are subject to Bermuda's Telecommunications Act of 1986 (the "Telecommunications Act") and are authorized to use spectrum to deliver services under our "Class B" license that expires in 2013. The Company's Turks and Caicos operations are subject to the Turks and Caicos Islands Telecommunications Ordinance of 2004.

Since 2006, the Bermuda Government has discussed its intention to reform telecommunications regulation in Bermuda through the adoption of a universal licensing scheme. Although the drafting and consultation process of such reform is currently in progress, we are uncertain as to when implementation will take place. We expect that if reform does occur in Bermuda, we may explore the possibility of providing additional services in Bermuda to supplement and add additional value to our current wireless and Internet services.

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Taxation United States

As a U.S. corporation, we are subject to U.S. federal income taxation on our worldwide net income, currently at rates up to 35% of taxable income. In general, a U.S. corporation is only subject to U.S. taxation on the earnings and profits (or E&P) of a foreign corporation when such E&P is actually distributed or deemed distributed to the United States. Pursuant to the foreign tax credit provisions of the Internal Revenue Code, and subject to complex limitations contained under those provisions, we are entitled to credit foreign withholding taxes on dividends or interest received, and foreign corporate income taxes of our subsidiaries paid with respect to income distributed as dividends or income inclusions under Subpart F from such subsidiaries, against our U.S. federal income tax. We do not provide for U.S. income taxes on the undistributed earnings of our foreign subsidiaries that are considered to be indefinitely reinvested outside of the U.S.

As of December 31, 2010, we have a foreign tax credit carryforward of $17.0 million. These credits begin expiring in 2011. As part of the Alltel Acquisition, which was completed during the second quarter of 2010, and the associated levels of future debt and interest service, we re-examined our projected mix of foreign source and US-source earnings and concluded it is more likely than not that we will not generate enough foreign source income to utilize our existing foreign tax credits prior to their expiration date. As a result, we have placed a full valuation allowance against those credits as of December 31, 2010.

Taxation Guyana

Our income in Guyana is subject to Guyanese tax at a rate of 45% of taxable income. Our agreement with the Government of Guyana provides that the repatriation of dividends to Atlantic Tele-Network and any payment of interest on GT&T debt denominated in foreign currency are not subject to withholding taxes. It also provides that fees payable by GT&T to us or any of our subsidiaries for management services shall not be subject to currency restrictions or withholding or other Guyana taxes. GT&T has a number of tax issues pending before the Guyana revenue authorities or the Guyana courts. See "Risk Factors Risk Relating to Our Wireless and Wireline Services in Guyana GT&T is engaged in significant tax disputes with the Guyanese tax authorities that could adversely affect our financial condition and results of operations".

Available Information

Our website address is www.atni.com. The information on our website is not incorporated by reference in this Report and you should not consider information provided on our website to be part of this Report. Investors may access, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, plus amendments to such reports as filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the "Financial Information" portion of the "Investor Relations" section of our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. In addition, paper copies of these documents may be obtained free of charge upon request by writing to us at 600 Cummings Center, Beverly, Massachusetts 01915, Attention: Investor Relations, or by calling us at (978) 619-1300.

We have adopted a written Code of Ethics that applies to all of our employees and directors, including, but not limited to, our principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions. Our Code of Ethics, along with our Compensation Committee Charter and Audit Committee Charter, are available at the Corporate Governance section of our website. We intend to make any disclosure required under the SEC rules regarding amendments to, or waivers from, our Code of Ethics on our website.

ITEM 1A. RISK FACTORS

In addition to the other information contained in, or incorporated by reference into, this Report, you should carefully consider the risks described below that could materially affect our business, financial condition or future results. These risks are not the only risks facing us. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial also may materially adversely affect our business, financial condition and/or results of operations.

Risks relating to our U.S. operations

If we have difficulties integrating our newly acquired U.S. retail wireless business, our business, financial condition and results of operations could be adversely affected.

Our Alltel Acquisition is the largest and most significant acquisition we have undertaken. As part of that, we have established a headquarters for this business in Little Rock, Arkansas, recruited a management team to operate the wireless assets as a stand-alone business, and added approximately 800 employees that work at our headquarters and in the acquired service markets, many of whom are former employees of Alltel Corporation. We have devoted and will continue to devote a significant amount of time and attention to integrating these operations with our existing U.S. wireless network and technical operations team and transitioning all systems and processes to our own, most of which we must put in place prior to the completion of the transition. Among the challenges we face in doing so are (1) the need to integrate a large number of new employees, (2) the need to separate our acquired network from the legacy Alltel network and transition or "re-home" some of the acquired field network facilities to newly built, or other newly acquired, switching and other core network facilities and (3) integrating and aligning numerous business and work processes, including customer billing, by building and designing our own processes and the information systems necessary to track and handle those processes.

The integration process poses challenges not found in many acquisitions because of the fact that we have acquired assets and customers that were part of a much larger organization and we need to operate those assets on a much smaller scale and design systems and processes with that in mind. We are currently dependent on transition services provided by Verizon Wireless for the operation of the Alltel assets, including critical billing and information technology systems and customer services. We currently expect these transition services to be substantially completed by the end of the second quarter of 2011. Significant unexpected difficulties in transitioning billing, inventory, point-of-sale systems or other systems could materially and negatively impact our customers' experience leading to widespread dissatisfaction, higher rates of customer churn, unsatisfactory employee relations, increased expense and reduced collected revenue.

If any of the above events were to occur or if we have other difficulties with the transition process, it could harm our reputation and have a material adverse effect on our business, financial condition or results of operations.

Intense competition in the U.S. retail wireless industry and our smaller scale, relative to larger national or regional wireless carriers, could adversely affect our business, financial condition or results of operations.

Competition in the U.S. retail wireless industry is currently intense and could intensify further in the future due to the general effects of a weak economy, as well as due to wireless industry factors such as increased market saturation and aggressive price reductions. Our main competitors are national or global telecommunications companies that are much larger than us. These carriers possess greater resources and much greater economies of scale that gives them a significant cost advantage in many areas. The national carriers can deploy new network technologies and mobile handsets and devices more rapidly and at a lower cost. The national and larger regional carriers typically also have broader radio spectrum holdings, giving them the ability to launch multiple technologies and to devote more

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bandwidth to a given voice or data service. Due to our smaller scale, we may be unable to compete successfully with larger companies that have substantially greater financial, technical, marketing, sales, purchasing and distribution resources, which could adversely affect our revenues and costs of doing business.

In particular, our business depends on our access to new handsets and other devices and to a lesser extent, content for data, music or video services, being developed by vendors. Because of their buying power and the relationships they have created with vendors, the large national carriers have a significant advantage in pushing the development of new technologies and taking advantage of those technologies. For example, in the past, they have entered into deals with device vendors giving them the exclusive right to sell the latest mobile devices for a period of time. If we are unable to obtain new handsets being developed by vendors at favorable pricing and quantities as a result of our smaller purchasing resources or obtain timely access to content for data, music or video services, our business, financial condition or results of operations could be adversely affected.

Due to the non-contiguous nature of our newly acquired U.S. wireless network, if we are unable to expand our network and obtain the roaming services we need from other carriers to operate competitively, our profitability and other results of operations could be adversely affected.

The wireless assets that we acquired were historically operated as part of a national network whose customers valued nationwide coverage and support. As a result of the regulatory-required divestiture of these assets, many of our retail markets are now non-contiguous, are currently undergoing a separation from the legacy Alltel network and are anticipated to require network expansion, improvements and roaming support to ensure ongoing nationwide coverage. We believe nationwide coverage remains important to a large portion of our customer base.

Many of our competitors have regional or national networks that enable them to offer automatic roaming services to their subscribers at a lower cost than we can offer. We currently have roaming agreements in place with several larger carriers, including Verizon Wireless, our main competitor, and expect to enter into additional roaming agreements with other carriers. This enables us to offer our customers competitively priced regional and international rate plans that include areas for which we do not own wireless licenses. We expect that we will be highly dependent on the roaming services we use from a mix of our competitors and other carriers. If we are unable to obtain or maintain roaming agreements with other wireless carriers that contain pricing and other terms that are competitive and acceptable to us and that satisfy our quality and interoperability requirements, we may no longer be able to offer these regional and international rate plans and the coverage area and pricing we offer to our customers may not be as attractive relative to the offers from our competitors and our business, financial condition or results of operations could be adversely affected.

Our customers are also accustomed to seamless handoffs between wireless markets as they travel, particularly in former Alltel markets that we did not acquire and where we are now dependent on roaming support. Any failure to recreate these seamless handoff points while successfully building out and enhancing our U.S. wireless network and necessary support facilities and systems in a cost-effective manner, and in a manner that satisfies customer expectations for quality and coverage, could have an adverse effect on our business, business prospects, financial condition or results of operations. Any difficulties encountered in completing these activities, as well as problems in vendor equipment availability, technical resources, system performance or system adequacy, could delay expansion of operations and product capabilities in new or existing markets or result in increased costs.

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If we experience a high rate of wireless customer turnover, our revenues could decline and its costs could increase.

Many wireless providers in the U.S. have experienced and have sought to prevent a high rate of customer turnover. We expect that the transition away from Alltel's much larger, nearly nationwide network to our smaller regional network could cause increased customer turnover, especially within the first year or two of our operations. Increased customer turnover may occur as a result of many different factors, including problems with our ongoing transition, limited network coverage, reliability issues such as blocked or dropped calls, handset performance and availability issues, price competition for service plans or handset devices, customer care problems such as billing errors or poor customer service, aggressive marketing campaigns by competitors and other competitive factors. In addition, customers could elect to switch to another carrier that has service offerings utilizing a newer network technology. We cannot assure you that our strategies to address customer turnover will be successful. If we experience a high rate of wireless customer turnover or seek to prevent significant customer turnover or fail to replace lost customers, our revenues could decline and our costs could increase, which could have a material adverse effect on our business, financial condition and operating results.

Rapid and significant technological changes in the telecommunications industry may adversely affect us.

We face rapid and significant changes in technology. In particular, the telecommunications industry is experiencing significant technological changes, including the following:

- evolving industry standards;
- the allocation of new radio frequency spectrum in which to license and operate advanced wireless services;
- ongoing improvements in the capacity and quality of digital technology and shorter development cycles for new products and enhancements;
- changes in end-user requirements and preferences;
- the development and adoption of VoIP telephony services;
- convergence between video and data services;
- development of data and broadband capabilities; and
- migration to next-generation services, including the deployment of LTE or "4G" network technology, which may require the purchase of additional spectrum.

For us to keep up with these technological changes and remain competitive, at a minimum we will be required to continue to make significant capital expenditures. Our retail wireless customers have an increased demand for data services and our value to our wholesale wireless customers depends in part on our network's ability to support the services that such carriers' customers demand. For example, advanced mobile high-speed wireless data services, which allow customers to use the wireless network to send and receive data files and access the Internet at speeds approaching fixed broadband, have become increasingly popular. As demand for advanced mobile data services continues to grow, we may have difficulty satisfying our retail customers and those of our wholesale roaming partners without substantial upgrades, which could have an adverse effect on our business.

We cannot predict the effect of technological changes on our business. New technologies may be protected by patents or other intellectual property laws and therefore may not be available to us. Also, alternative technologies may be developed that provide communications services or alternative services superior to those available from us. Rapid changes in technology in our market may adversely affect our business. For example, to accommodate the demand by our wholesale wireless customers for next-generation advanced wireless products such as high-speed data and streaming video, we may be required to purchase additional spectrum. In addition, usage of wireless voice or broadband services in excess of our expectations could cause service disruptions and result in higher operating costs and capital expenditures to address capacity needs. In each of our markets, providing more and higher speed data services through our wireless or wireline networks may require us to make substantial investments in additional telecommunications transport capacity connecting our networks to the Internet, and in some cases such capacity may not be available to us or be available on attractive terms. We cannot assure you that we will gain access to spectrum or capacity at a reasonable cost or at all. Failure to provide these services could have a material adverse effect on our ability to compete with carriers offering these new technologies in our markets.

We rely on a limited number of key suppliers and vendors for timely supply of handsets, accessories, equipment and services relating to our network infrastructure. If these suppliers or vendors experience problems or favor our competitors, we could fail to obtain sufficient quantities of the products and services we require to operate our businesses successfully.

We depend on a limited number of suppliers and vendors for equipment and services relating to our handset lineup, network infrastructure and our back-office IT systems infrastructure. If these suppliers experience interruptions or other problems delivering these network components on a timely basis, our subscriber or revenue growth and operating results could suffer significantly.

We source wireless devices from a small number of equipment manufacturers and depend on access to compelling devices at reasonable prices as well as timely delivery of devices to meet market demands. The inability to provide a competitive device lineup, as discussed with respect to increased competition risks above, could materially impact our ability to attract new customers and retain existing customers. We are also reliant upon a limited number of network equipment manufacturers, including Ericsson and Alcatel-Lucent and Nokia in the United States. If it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement suppliers or vendors on economically attractive terms on a timely basis.

Our network capacity and customer service systems may not be adequate and may not expand quickly enough to support our customer growth.

Our financial and operational success depends on ensuring that we have adequate network capacity to accommodate anticipated new customers and the related increase in usage of our network. This includes capacity on our wireless and wireline networks and capacity on our inter- and intra-network transport facilities. Our failure to expand and upgrade our networks and transport facilities to meet the increased usage could impair our quality of service, cause a decline in customer satisfaction and have a material adverse effect on our business.

Our retail wireless network capacity plans generally rely on the following:

- the ability to obtain and construct additional cell sites and other infrastructure equipment;
- the ability to secure adequate transport capacity between our cell sites and our network switching and routing platforms and between those platforms and the Internet and other carriers.
- the ability to obtain additional spectrum if required; and
- the ability to obtain the capital to expand and upgrade our network.

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In addition, we must implement, manage and monitor effective procedures for customer activation, customer service, billing and other support services. Reliance on our customer service and handset procurement functions increases as we add new customers and offer new services and pricing plans. Our failure to timely and efficiently meet the demands for these services could decrease or slow subscriber growth or delay or otherwise impede billing and collection of amounts owed, which would adversely affect our revenue. We cannot make assurances that our customer service systems and network capacity will expand and adapt quickly enough to keep up with our anticipated customer growth and changes in services, and failure to do so would impair our ability to compete, which would adversely affect our results and financial operations.

Our wireless and wireline revenues depend on the reliability and performance of our network infrastructure.

We must operate our wireless and wireline networks so as to minimize any disruption that may occur to our services. The ongoing transition of our U.S. retail wireless business, especially with respect to the separation of our acquired network from the legacy Alltel network and conversion of legacy Alltel information and technology systems and platforms to our own, creates a great risk of disruption to our services. In addition, the continued operation and growth of our networks and the implementation of new technologies and services involve operating risks that may disrupt our services and cause losses in revenue. Other risks that may also cause interruptions in service or reduced capacity for customers include power loss, capacity limitations, software defects and breaches of security by computer viruses, break-ins or otherwise. Disruptions in our networks and the unavailability of our services could lead to a loss of customers, damage to our reputation and violation of the terms of our licenses and contracts with customers. These failures could also lead to significant negative publicity, regulatory problems and litigation.

A significant portion of our U.S. wholesale wireless revenue is derived from a small number of customers that could build or acquire overlapping networks.

Our U.S. wholesale wireless business, which accounted for approximately 26% of our consolidated revenue in 2010, generates a substantial majority of its revenues from three national wireless service providers. In 2010, four national wireless service providers together accounted for substantially all of the wholesale wireless portion of revenue.

Our relationships with our roaming customers generally are much more financially significant for us than for our customers, which can give our customers significant leverage in negotiating pricing and other terms. If our markets are not included in our roaming partners' home calling areas and are instead subject to the imposition of additional roaming charges, we could see a loss of roaming minutes and revenue, which could have a material adverse effect on our results of operations. If we fail to keep any of our roaming customers satisfied with our service offerings or economic terms and lose their business or are unable to renew or enter into new agreements with these customers on beneficial terms (including pricing) to us, we could suffer a substantial loss of revenue, which would have a materially adverse effect on our results of operations and financial condition.

In addition, if these customers build or acquire wireless networks in our service areas we may lose revenue and scale. Should any of these customers take such actions over a significant portion of the areas we serve, it may have a materially adverse effect on our results of operations and financial condition. For example, the acquisition by Verizon Wireless of Alltel Corporation assets, and subsequent acquisition of Alltel assets by AT&T, has already resulted in each of AT&T and Verizon gaining their own infrastructure in markets where they were formerly served by us. This is expected to continue to result in a significant loss of revenue and operating income in future periods, which, if not offset by growth in other revenues we generate, could materially reduce overall operating profits.

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Risks Relating to Our Wireless and Wireline Services in Guyana

Our exclusive license to provide local exchange and international voice and data services in Guyana is subject to significant political and regulatory risk.

Since 1991, our subsidiary Guyana Telephone and Telegraph, Ltd. ("GT&T") has operated in Guyana pursuant to a license from the Government of Guyana to be the exclusive provider of domestic fixed and international voice and data services pursuant to a license with an initial term ending in December 2010, which is renewable at our sole option for an additional 20 year term. In November 2009, we notified the Government of Guyana of our election to renew our exclusive license for an additional 20 years.

Since 2001, the Government of Guyana has stated its intention to introduce additional competition into Guyana's telecommunications sector. Since that time, we have met on several occasions with the Government of Guyana to discuss potential modifications of our exclusivity and other rights under the existing agreement. In early October 2010, the Government of Guyana released to existing telecommunications providers in Guyana certain materials, including drafts of legislation, regulations, and licenses ("Draft Laws"), that, if enacted, would permit other telecommunications carriers to receive licenses to provide domestic fixed services and international voice and data services in Guyana, in contravention of our existing exclusive license. The Draft Laws would also introduce material changes to many other features of Guyana's existing telecommunications regulatory regime. In exercising our option to renew our licenses in 2009, we reiterated to the Government that we would be willing to voluntarily relinquish the exclusivity aspect of our licenses, but only as part of an overall settlement agreement with the Government. At this time, we do not know when or if the Draft Laws will be adopted by the Government of Guyana, or if changes will be made to the substance of the Draft Laws, including the termination of our exclusivity rights. Although we believe that we would be entitled to damages or other compensation for any involuntary termination of the exclusive license, we cannot guarantee that we would prevail in a proceeding to enforce our rights or that our actions would effectively halt any unilateral action by the Government. On December 15, 2010, we received correspondence from the Government of Guyana indicating that our licenses had been renewed until such time that new legislation is in place with regard to the Government's intention to liberalize the sector; however, we believe our exclusive license to be valid until such time as we enter into a negotiated settlement with the Government. See "Business Regulation of Our GT&T Subsidiary."

We are dependent on GT&T for a significant, although much diminished, portion of our revenues and profits. A loss of exclusivity on international voice and data service would result in a reduction in the international call traffic that we handle and could also result in a decline in international calling rates and termination fees. Any modification, early termination or other revocation of the exclusive domestic fixed and international voice and data license could adversely affect a substantial portion of our revenues and profits and diminish the value of our investment in Guyana.

Any significant decline in the price or volume, including as a result of bypass activities, of international long distance calls to Guyana could adversely affect our financial results.

We collect payments from foreign carriers for handling international long distance calls originating from the foreign carriers' countries and ending in Guyana. The payments, which are based on volume and payment rates, are pursuant to arrangements we have with the foreign carriers and are subject to the actions of telecommunications regulators, such as the U.S. FCC. For the year ended December 31, 2010, our revenues from our inbound and outbound international long distance services in Guyana were $27.9 million (or 5% of our consolidated revenue for 2010). More than half of these revenues and profits were from collecting payments for international long distance calls into Guyana from other countries.

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Any decrease in the payment rate or the volume of inbound long distance calls would reduce the amount of the payments we collect. We believe the volume of international long distance voice traffic is increasingly being threatened by customers and illegal operators bypassing our international exchange through various means, including sending voice traffic as Voice over Internet Protocol (or VoIP). In 2008 and through 2010, this activity whether by known carriers or small "black market" operators increased significantly. Further reductions in the payment rates or a decline in inbound international long distance volume, through VoIP, competition or otherwise, would adversely affect our revenues and profits, and would deprive us of a critical source of U.S. currency as payments from foreign carriers to GT&T are in U.S. dollars.

Other Risks Relating to Our Businesses and Industry

The loss of certain licenses would adversely affect our ability to provide wireless and broadband services.

In the United States, wireless, PCS and microwave licenses are valid for ten years from the effective date of the license. Licensees may renew their licenses for additional ten-year periods by filing renewal applications with the FCC. Our wireless licenses in the U.S. expire between 2011 and 2020. The renewal applications are subject to FCC review and are put out for public comment to ensure that the licensees meet their licensing requirements and comply with other applicable FCC mandates. Failure to file for renewal of these licenses or failure to meet any licensing requirements could lead to a denial of the renewal application and thus adversely affect our ability to continue to provide service in that license area. Furthermore, our compliance with regulatory requirements such as enhanced 911 and CALEA requirements may depend on the availability of necessary equipment or software. Failure to comply with these regulatory requirements may have an adverse effect on our licenses or operations and could result in sanctions, fines or other penalties.

Regulatory changes may impose restrictions that adversely affect us or cause us to incur significant unplanned costs in modifying our business plans or operations.

We are subject to U.S. federal, state and local regulations and foreign government regulations, all of which are subject to change. As new telecommunications laws and regulations are issued, we may be required to modify our business plans or operations. We cannot be certain that we can do so in a cost-effective manner. In addition, the failure to comply with applicable governmental regulations could result in the loss of our licenses or authorizations to operate, the assessment of penalties or fines or otherwise may have a material adverse effect on the results of our operations.

Our operations in the United States are subject to the Telecommunications Act of 1996 (or 1996 Act). The interpretation and implementation of the provisions of the 1996 Act and the FCC rules implementing the 1996 Act continue to be heavily debated and may have a material adverse effect on our business. Also, although legislation has not yet been introduced, there have been indications that Congress may substantially revise the 1996 Act and other regulation in the next few years. In particular, the FCC is currently considering long-term Universal Service Fund ("USF") reform and has recommended, among other things, to cap universal service support for all competitive eligible telecommunications carriers and change the way USF support is disbursed to program recipients. It is not possible to predict whether or when any of proposed reforms will be adopted, however, implementation of some of the proposals could significantly affect the amount of USF support the Company receives and could have an adverse effect on our business.

While we believe we are in compliance with federal and state regulatory requirements, our interpretation of our obligations may differ from those of regulatory authorities. Both federal and state regulators require us to pay various fees and assessments, file periodic reports and comply with various rules regarding our consumer marketing practices and the contents of our bills, on an on-going basis. If we fail to comply with these requirements, we may be subject to fines or potentially be asked to show cause as to why our certificate of authority to provide service should not be revoked.

Increased competition may adversely affect growth, require increased capital expenditures, result in the loss of existing customers and decrease our revenues.

We face competition in the markets in which we operate. For example:

- In the United States, we compete with national and regional retail wireless providers that offer both prepaid and postpaid services whose scale, resources and U.S. network footprint are generally significantly greater than ours. If we cannot continue to provide competitive pricing or updated mobile voice and data services to our customers through roaming arrangements or the expansion of our own network, we could experience increased churn, net subscriber reductions or reduced revenue in our U.S. retail wireless business.

- The greatest competitive risk to our wholesale roaming business is the possibility that its current customers may elect to build or enhance their own networks within the rural market in which we currently provide service, which is commonly known as "over-building." If our roaming customers, which generally have greater financial resources and access to capital than we do, determine to over-build, their need for our roaming services will be significantly reduced or eliminated.

- In Guyana, we have faced competition from Digicel, a wireless service provider operating across the region that has been very aggressive in acquiring a substantial share of the market.

- In Bermuda and Turks and Caicos, we compete with the incumbent wireless service provider and Digicel, as well.

- In New England and New York State, in addition to other competitive voice and data communications service providers, we compete with much larger regional carriers, each of which has greater financial and other resources.

Over the last several years, an increase in competition has contributed to a decline in prices for communication services, including local and long distance telephone service, data services and mobile wireless services. Increased competition may decrease prices further. In addition, increased competition could reduce our customer base, require us to invest in new facilities and capabilities and reduce revenues, margins and returns.

Our foreign operations are subject to economic, political and other risks that could adversely affect our revenues or financial position.

Our operations in Bermuda and the Caribbean may face adverse financial consequences and operational problems due to foreign political or economic changes, such as changes in national or regional political or economic conditions, or laws and regulations that restrict repatriation of earnings or other funds. In addition, we face risks associated with changes in foreign currency exchange rates. Any of these changes could adversely affect our revenues or financial position.

If we lose our senior management, our business may be adversely affected; we rely on local management to run our operating units.

The success of our business is largely dependent on our executive officers and the officers of our operating units, as well as on our ability to attract and retain other highly qualified technical and management personnel. We believe that there is, and will continue to be, strong competition for qualified personnel in the communications industry and in our markets, and we cannot be certain that we will be able to attract and retain the personnel necessary for the development of our business. The loss of key personnel or the failure to attract additional personnel as required could have a material adverse effect on our business, financial condition and results of operations. We do not currently maintain "key person" life insurance on any of our key employees and none of the executives at our parent company are under employment agreements.

We rely heavily on local management to run our operating units. Many of the markets we operate in are small and somewhat isolated and therefore it is particularly difficult attracting and retaining talented and qualified managers and staff in those markets.

A global economic recession, or difficult and volatile conditions in the capital and credit markets, could materially adversely affect our financial position, results of operations and cash flow.

Our operations and performance depend on general economic conditions. The global economy could continue to experience an economic downturn due to the crisis in credit markets, slower economic activity, increased unemployment, concerns about inflation, increased energy costs, decreased consumer confidence and other adverse business conditions. Such fluctuations in the global economy could cause, among other things, deterioration and continued decline in spending and increase in the cost of labor and materials. As a result, our operating results could be materially impacted. An economic recession could have a significant adverse impact on consumer confidence and discretionary consumer spending, which may result in decreased sales and earnings for us. For example, among other things:

- A decrease in tourism could negatively affect revenues and growth opportunities from operations in the islands and in a number of areas covered by U.S. rural wireless operations that serve tourist destinations.

- We rely on the population of Guyanese living abroad who initiate calls to Guyana or are responsible for remittances to relatives living in Guyana. A prolonged economic downturn in the U.S. or Canadian economies could continue to affect inbound calling and, therefore, our revenue in Guyana.

The impact, if any, that these financial market events, or any governmental actions intended to address these events, might have on us and our business is uncertain and cannot be estimated at this time.

The occurrence of severe weather and natural catastrophes may materially disrupt our operations.

Many of the areas in which we operate, which have experienced severe weather conditions over the years including hurricanes, tornadoes, blizzards, damaging storms and floods. Some areas in which we operate may also be at risk of earthquakes. Such events may materially disrupt and adversely affect our business operations. A major hurricane passed directly over Bermuda in 2003 causing major damage to our network and to the island's infrastructure. In 2008, a hurricane caused extensive damage on a small portion of the U.S. Virgin Islands and a separate hurricane negatively affected operations in the Turks and Caicos. Guyana has suffered from severe rains and flooding in two of the last five years. While these events have not had a significant negative impact on the operating results or financial condition of the affected businesses or our overall business, we cannot assure you that these types of events will not have such an impact in the future or that the insurance coverage we maintain for these risks will adequately compensate us for all damage and economic losses resulting from natural catastrophes.

Risks Related to Our Capital Structure

Our debt instruments include restrictive and financial covenants that limit our operating flexibility.

Our credit facility requires us to maintain certain financial ratios and contains covenants that, among other things, restrict our ability to take specific actions, even if we believe such actions are in our best interest. These include restrictions on our ability to do the following:

- incur additional debt;
- create liens or negative pledges with respect to our assets;
- pay dividends or distributions on, or redeem or repurchase, our capital stock;
- make investments, loans or advances or other forms of payments;
- issue, sell or allow distributions on capital stock of specified subsidiaries;
- enter into transactions with affiliates; or
- merge, consolidate or sell our assets.

Any failure to comply with the restrictions of the credit facility or any subsequent financing agreements may result in an event of default. Such default may allow our creditors to accelerate the repayment of the related debt and may result in the acceleration of the repayment of any other debt to which a cross-acceleration or cross-default provision applies. In addition, these creditors may be able to terminate any commitments they had made to provide us with further funds.

If we fail to meet our payment or other obligations under the credit facility, the lenders could foreclose on and acquire control of substantially all of our assets.

In connection with the incurrence of the indebtedness under the credit facility, the lenders received a pledge of our share of the capital stock of all of our subsidiaries, and that of future direct and indirect subsidiaries with some limited exceptions. Additionally, the lenders under our credit facility generally have a lien on all of our U.S. assets and certain of our non-U.S. assets. As a result of these pledges and liens, if we fail to meet our payment or other obligations under the credit facility (including meeting or exceeding certain financial measurements), the lenders would be entitled to foreclose on and liquidate substantially all of our assets, to the extent required to pay our obligations under the credit facility. As a result, the holders of our securities may lose a portion of, or the entire value of, their investment in our securities.

Our Chairman is our largest stockholder and will continue to exert significant influence over us.

Cornelius B. Prior, Jr., our Chairman and the father of our Chief Executive Officer, beneficially owns, together with related entities and affiliates approximately 36% of our outstanding common stock. As a result, he is able to exert significant influence over all matters presented to our stockholders for approval, including election and removal of our directors and change of control transactions. In addition, as our Chairman, he has and will continue to have significant influence over other matters brought before our Board of Directors, such as proposed changes in our strategy or business plans and our major financing decisions. His interests may not always coincide with the interests of other holders of our common stock.

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Low trading volume of our stock may limit our shareholders ability to sell shares and/or result in lower sale prices.

During the first quarter of 2011 through March 1, 2011, the average daily trading volume of our common stock was approximately 95,000 shares. As a result, shareholders may have difficulty selling a large number of shares of our common stock in the manner or at a price that might be attainable if our common stock were more actively traded. In addition, the market price of our common stock may not be reflective of its underlying value.

We may not pay dividends in the future.

Our stockholders may receive dividends out of legally available funds if, and when, they are declared by our Board of Directors. We have paid quarterly dividends in the past, but may cease to do so at any time. Our credit facility limits our ability to pay dividends on, or repurchase, our capital stock. We may incur additional indebtedness in the future that may further restrict our ability to declare and pay dividends. We may also be restricted from paying dividends in the future due to restrictions imposed by applicable state laws, our financial condition and results of operations, capital requirements, covenants contained in our financing agreements, management's assessment of future capital needs and other factors considered by our Board of Directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease or own the following office space for use in our operations:

Operations	Location	Owned or Leased	Approximate Square Footage
Corporate headquarters	600 Cummings Center Beverly, MA 01915	Leased	12,000
U.S. Wireless	Little Rock, AR Atlanta, GA	Leased	81,000
International Integrated Telephony	Guyana	Owned	4,000
Island Wireless	Bermuda Turks & Caicos U.S. Virgin Islands Aruba	Leased	20,000
U.S. Wireline	Bellows Falls, VT Albany, NY	Leased	9,000

The U.S. Wireless and Island Wireless operations also lease approximately 114,000 square feet and 8,000 square feet of space, respectively, in connection with the operation of 43 and 6 retail stores, respectively.

In the aggregate, we own 669 towers, lease an additional 751 towers and also own seven switch locations.

We also utilize approximately 324,000 square feet of space for technical operations, including approximately 266,000 square feet of building space owned by us, on approximately 48 acres of land in various locations throughout Guyana.

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We consider our owned and leased properties to be suitable and adequate for our business operations.

ITEM 3. LEGAL PROCEEDINGS

Currently, we hold an exclusive license to provide domestic fixed services and international voice and data services in Guyana. The license, whose initial term of twenty years was scheduled to expire at the end of 2010, allowed for us, at our option, to extend the term for an additional twenty years, until December 2030. We exercised our extension right, in accordance with the terms of our agreement with the Government of Guyana, in November 2009.

Since 2001, the Government of Guyana has stated its intention to introduce additional competition into Guyana's telecommunications sector. Since that time, we have met on several occasions with the Government of Guyana to discuss potential modifications of its exclusivity and other rights under the existing agreement. In early October 2010, the Government of Guyana released to existing telecommunications providers in Guyana certain materials, including drafts of legislation, regulations, and licenses ("Draft Laws"), that, if enacted, would permit other telecommunications carriers to receive licenses to provide domestic fixed services and international voice and data services in Guyana, in contravention of our existing exclusive license. The Draft Laws would also introduce material changes to many other features of Guyana's existing telecommunications regulatory regime. In exercising our option to renew our licenses, we reiterated to the Government that we would be willing to voluntarily relinquish the exclusivity aspect of our licenses, as part of an overall settlement with the Government. On December 15, 2010, we received correspondence from the Government of Guyana indicating that our licenses had been renewed until such time that new legislation is in place with regard to the Government's intention to liberalize the sector; however, we believe the exclusive license to be valid until such time as we enter into a negotiated settlement with the Government.

Historically, we have been subject to other litigation proceedings and disputes in Guyana that, while not conclusively resolved, to our knowledge have not been the subject of discussions or other significant activity in the last five years. It is possible, but not likely, that these disputes, as discussed below, may be revived. We believe that none of these additional proceedings would, in the event of an adverse outcome, have a material impact on our consolidated financial position, results of operation or liquidity.

In a letter dated September 8, 2006, the National Frequency Management Unit (NFMU) agreed that total spectrum fees in Guyana should not increase for the years 2006 and 2007. However, that letter implied that spectrum fees in 2008 and onward may be increased beyond the amount we agreed upon with the Government. We have objected to the NFMU's proposed action and reiterated our position that an increase in fees prior to development of an acceptable methodology would violate the Government's prior agreement. This matter is still pending and the NFMU has not issued us an invoice for 2008, 2009 or 2010 GSM spectrum fees. In 2010, we, along with Digicel, presented the NFMU a proposed methodology for the calculation of these fees, however, the NFMU did not accept the proposal.

In November 2007, Caribbean Telecommunications Limited ("CTL") filed a complaint in the U.S. District Court for the District of New Jersey against us claiming breach of an interconnection agreement for domestic cellular services in Guyana and related claims. CTL asserted over $200 million in damages. We moved to dismiss the complaint on procedural and jurisdictional grounds. On January 26, 2009, the court granted the motions to dismiss the complaint on the grounds we asserted. On November 7, 2009, CTL filed a similar claim against us and the PUC in the High Court of Guyana. We believe the claim is without merit and is duplicative of a previous claim filed by CTL in Guyana that was dismissed. There has been no action on this matter in 2010.

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On May 8, 2009, Digicel filed a lawsuit in Guyana challenging the legality of our exclusive license under Guyana's constitution. Digicel initially filed this lawsuit against the Attorney General of Guyana in the High Court. On May 13, 2009, we petitioned to intervene in the suit in order to oppose Digicel's claims and that petition was granted on May 18, 2009. We filed our answer to the charge on June 22, 2009 and the case is pending. We believe that any legal challenge to our exclusive license granted in 1990 is without merit and we intend to vigorously defend against such a legal challenge.

As previously reported, Digicel notified us in 2009 that it intended to terminate the interconnection agreement between us effective in 2010. In December 2009, we began negotiating a new interconnection agreement with Digicel, but failed to agree on terms and as a result, the agreement was terminated in January 2010. Although the agreement was effectively terminated by Digicel, we continued to provide interconnection services to each other. We signed a settlement agreement with Digicel with respect to the amounts owed to us during the 2010 fiscal year that also specified detailed rates to be charged in the future. This settlement agreement was approved by the PUC in December 2010. We are currently in discussions with Digicel regarding the execution of a new interconnection agreement.

On February 17, 2010, we filed a lawsuit in the High Court of Guyana asserting that, despite its denials, Digicel is engaged in international bypass in violation of our exclusive license, the contractual relationship governing interconnection services between us and the laws of Guyana. We are seeking, among other things, injunctive relief to stop the illegal bypass activity, actual damages in excess of $9 million and punitive damages of approximately $5 million. We intend to vigorously prosecute this suit.

We are also involved in several legal claims regarding our tax filings with the Guyana Inland Revenue dating back to 1991 regarding the deductibility of intercompany advisory fees as well as other tax assessments. Should we be held liable for any of the disputed tax assessments, totaling $36.8 million (including an assessment for $13.3 million that we received in July 2010), we believe that the government of Guyana would then be obligated to reimburse us for any amounts that would reduce our return on investment to less than 15% per annum for the relevant periods.

ITEM 4. (REMOVED AND RESERVED)

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock, $.01 par value, is listed on the NASDAQ Global Select Market under the symbol "ATNI." The following table sets forth the high and low sales prices for our Common Stock as reported by the NASDAQ Global Select Market:

	High	Low
2009		
Quarter ended March 31	$ 26.95	$ 13.93
Quarter ended June 30	$ 40.98	$ 18.45
Quarter ended September 30	$ 56.56	$ 34.00
Quarter ended December 31	$ 58.51	$ 43.50

	High	Low
2010		
Quarter ended March 31	$ 58.41	$ 39.31
Quarter ended June 30	$ 59.01	$ 39.66
Quarter ended September 30	$ 50.15	$ 39.10
Quarter ended December 31	$ 55.40	$ 32.12

The approximate number of holders of record of Common Stock as of March 1, 2011 was 67.

Dividends

The following table sets forth the quarterly dividends per share declared by us over the past two fiscal years ended December 31, 2010:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009	$ 0.18	$ 0.18	$ 0.20	$ 0.20
2010	$ 0.20	$ 0.20	$ 0.22	$ 0.22

The declaration and payment of dividends on our Common Stock is at the discretion of our Board of Directors and is subject to a number of factors. Our Amended 2010 Credit Facility restricts our ability to declare or pay dividends on our Common Stock. Because we are a holding company, our ability to declare dividends is effectively limited to the amount of dividends, if any, our subsidiaries and other equity holdings may distribute to us. We have paid quarterly dividends on our Common Stock since January 1999, and have increased the amount of our dividend in each of the years since then. The present Board of Directors believes in returning a significant portion of profits, where possible, to stockholders and, subject to prudent resource management and strategic development needs, would expect to continue to increase the amount of our dividend if earnings continue to increase, although not necessarily proportionally. In 2009 and 2010, we declared a total annual dividend of $0.76 and $0.84 per share, respectively. The continuation or modification of our current dividend policy will be dependent upon strategic opportunities or developments, future results of operations, financial condition, capital requirements, contractual restrictions (such as those under our existing credit facility), regulatory actions, and other factors deemed relevant at that time by the Board of Directors.

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Issuer Purchases of Equity Securities in the Fourth Quarter of 2010

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Plan(1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan
October 1, 2010 October 31, 2010		$		$ 2,919,965
November 1, 2010 November 30, 2010				2,919,965
December 1, 2010 December 31, 2010	1,331(2)	33.00		2,919,965
Total	1,331	$ 33.00		$ 2,919,965

(1) In September 2004, our Board of Directors approved the repurchase of up to $5.0 million of our Common Stock (the "Plan"). The repurchase authorizations do not have a fixed termination date and the timing of the buyback amounts and exact number of shares purchased will depend on market conditions.

(2) Represents shares purchased on December 5, 2010 from our executive officers and other employees who tendered these shares to ATN to satisfy their tax withholding obligations incurred in connection with the vesting of restricted stock awards on that date. These shares were not purchased under the plan discussed above. The price paid per share was the closing price per share of our Common Stock on the Nasdaq Global Select Market on December 5, 2010.

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ITEM 6. SELECTED FINANCIAL DATA

You should read the selected financial data in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited Consolidated Financial Statements and the related Notes to those Consolidated Financial Statements included in this Report. The historical results set forth below are not necessarily indicative of the results of future operations. Period to period comparisons are also significantly affected by our significant acquisitions. See Note 3 to the Consolidated Financial Statements included in this Report for a more detailed discussion of our recent acquisitions.

	Year Ended December 31,				
	2006	2007	2008	2009	2010
	(In thousands, except per share data)				
Statement of Operations Data					
Revenue	$ 156,065	$ 186,741	$ 207,264	$ 242,281	$ 619,145
Operating expenses	103,079	119,582	138,152	172,590	580,861
Income from operations	52,986	67,159	69,522	69,691	38,284
Other income (expense):					
Interest expense	(3,739)	(2,282)	(3,144)	(3,706)	(9,956)
Interest income	1,592	2,454	1,770	1,153	551
Gain on bargain purchase, net of deferred taxes of $18,016					27,024
Other, net	3,192	4,520	1,174	605	1,285
Other income (expense), net	1,045	4,692	(200)	(1,948)	18,904
Income before income taxes	54,031	71,851	69,322	67,743	57,188
Income taxes	25,538	28,929	29,551	31,160	19,606
Net Income	28,493	42,922	39,771	36,583	37,582
Net (income) loss attributable to non-controlling interests, net of tax	(4,993)	(4,982)	(4,973)	(1,044)	872
Net income attributable to Atlantic Tele-Network, Inc. Stockholders	$ 23,500	$ 37,940	$ 34,798	$ 35,539	$ 38,454
Net income per weighted average share attributable to Atlantic Tele-Network, Inc. Stockholders:					
Basic	$ 1.73	$ 2.50	$ 2.29	$ 2.33	$ 2.51
Diluted	$ 1.72	$ 2.48	$ 2.28	$ 2.32	$ 2.48
Dividends per share applicable to common stock	$ 0.52	$ 0.60	$ 0.68	$ 0.76	$ 0.84

	As of December 31,				
	2006	2007	2008	2009	2010
	(In thousands)				
Balance Sheet Data:					
Fixed assets, net	$ 138,573	$ 155,753	$ 198,230	$ 217,015	$ 463,891
Total assets	302,614	352,131	419,821	446,554	828,196
Short-term debt (including current portion of long-term debt)			750	3,694	12,194
Long-term debt, net	50,000	50,000	73,311	69,551	272,049
Atlantic Tele-Network, Inc. stockholders' equity	178,770	208,971	228,873	255,746	283,768

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We provide wireless and wireline telecommunications services in North America, Bermuda and the Caribbean. Through our operating subsidiaries, we offer the following principal services:

Wireless. In the United States, we offer wireless voice and data services to retail customers under the "Alltel" name in rural markets located principally in the Southeast and Midwest. Additionally, we offer wholesale wireless voice and data roaming services to national, regional, local and selected international wireless carriers in rural markets located principally in the Southwest and Midwest United States. We also offer wireless voice and data services to retail customers in Guyana under the "Cellink" name, in Bermuda under the "CellularOne" name, and in other smaller markets in the Caribbean and the United States.

Wireline. Our local telephone and data services include our operations in Guyana and the mainland United States. We are the exclusive provider of domestic wireline local and long distance telephone services in Guyana and international voice and data communications into and out of Guyana. We also offer facilities-based integrated voice and data communications services to enterprise and residential customers in New England, primarily in Vermont, and wholesale transport services in New York State.

We were incorporated in Delaware in 1987 and began trading publicly in 1991. Since that time, we have engaged in strategic acquisitions and investments to grow our operations. From 1998 through 2005, a significant majority of our revenue was derived from our wireless and wireline operations in Guyana, in which we have owned an 80% interest since 1991. We also derived a portion of our revenue during that time from a non-controlling investment made in 1998 in a voice and data services provider in Bermuda. The Company has been a provider of fixed and portable wireless broadband data and dial-up Internet services through our U.S. Virgin Islands subsidiary, acquired in 1999, which provides a small portion of the Company's annual revenues. In the past six years, we have added substantially to the diversity of our business and greatly reduced our historical dependence on our Guyana operations for our financial results. We entered the U.S. mainland telecommunications market through the 2005 acquisition of an operator of a wholesale wireless network in rural portions of the Southwest and Midwest and we continued our U.S. expansion with the 2006 acquisition of a wireline voice, broadband data and dial-up service provider in New England. In 2008, we increased our investment in our Bermuda business to a controlling 58% interest and entered into new U.S. and Caribbean markets, including investments in two early stage businesses providing wholesale transport services in New York State and wireless voice and data services in Turks and Caicos. In addition to the diversification of our business through acquisition, we have further accentuated our focus on our U.S. operations with increased capital investment in and growth of our wholesale wireless business.

In the second quarter of 2010, we completed the acquisition of a portion of the former Alltel network from Verizon Wireless through our U.S. retail wireless business, which now provides wireless voice and data services in rural markets of the United States under the "Alltel" brand name (the "Alltel Acquisition"). Since 2005, revenue from our U.S. operations has significantly grown as a percentage of consolidated revenue and as a result of our Alltel Acquisition, a substantial majority of our consolidated revenue is now generated in the United States, mainly through mobile wireless operations. We continue to actively evaluate additional investment and acquisition opportunities in the United States and the Caribbean that meet our return-on-investment and other acquisition criteria.

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The following chart summarizes the operating activities of our principal subsidiaries, the segments in which we report their revenue and the markets they served as of December 31, 2010:

Services	Segment	Markets
Wireless	U.S. Wireless	United States (rural markets)
	International Integrated Telephony	Guyana
	Island Wireless	Bermuda, Turks and Caicos, U.S. Virgin Islands, Aruba
Wireline	International Integrated Telephony	Guyana
	U.S. Wireline	United States (New England and New York State)

We provide management, technical, financial, regulatory, and marketing services to our subsidiaries and typically receive a management fee equal to a percentage of their respective revenue. Management fees from consolidated subsidiaries are eliminated in consolidation.

As discussed above, we have historically been dependent on our wholesale U.S. wireless business and International Integrated Telephony operations for a majority of our revenue and profits. The addition of our retail U.S. wireless business following the Alltel Acquisition on April 26, 2010 has shifted our reliance substantially to our U.S. Wireless segment, which now includes both our wholesale and retail U.S. wireless businesses. For the year ended December 31, 2010, approximately 78% of our consolidated revenue was generated by our U.S. Wireless segment, while only 14% was generated by our International Integrated Telephony segment. In comparison, for the year ended December 31, 2009, approximately 43% of our consolidated revenue was generated by our U.S. Wireless segment (then our "Rural Wireless" segment, as we did not own a U.S. retail wireless business), while 38% was generated by our International Integrated Telephony segment.

As of December 31, 2010, our U.S. retail wireless services were offered in six states to approximately 718,000 customers under the "Alltel" brand name. Our wireless licenses provide mobile data and voice coverage to a network footprint covering a population of approximately six million people as of December 31, 2010. Through the Alltel Acquisition, we acquired a regional, non-contiguous wireless network that we anticipate will require network expansion and improvements as well as roaming support to ensure ongoing nationwide coverage. Our Alltel service offerings provide rate plans, advanced devices and features that include local and nationwide voice and data services on either a postpaid or prepaid basis. We offer several rate plans designed for customers to choose the flexibility that they desire for their calling preferences, and believe that the ability to offer nationwide calling to our customers is a key factor in our ability to remain competitive in the telecommunications market.

The revenue of our U.S. retail wireless business is primarily driven by the number of wireless retail subscribers, their adoption of our enhanced service offerings and their related voice and data usage. The number of our retail subscribers and their usage volumes and patterns also has a major impact on the profitability of our U.S. retail wireless operations. Our customer activity may be influenced by traditional retail selling periods, which may be seasonal in nature, and other factors that arise in connection with our rural customer base. We are currently in a transition period as we move from the legacy Alltel information technology systems and platforms to our own. During this transition, which we expect to be substantially completed by the end of the second quarter of 2011, we anticipate that our U.S. retail wireless revenue will decline as our ability to drive subscriber additions, control churn and optimize our offerings is constrained. During this time, we also expect to experience higher economic-related churn as we eliminate certain sales and credit practices implemented by the management of the trust that operated the Alltel assets from 2009 through the completion of the Alltel Acquisition. During this time, we may engage in sales and promotional activities designed to retain or increase our customer base, but may be affected by other factors, including general economic conditions, the roaming and usage of our existing customer base and actions by our competitors, which may reduce or outweigh the success of our marketing or promotional efforts. Once this transition period expires, we expect that our churn will gradually improve as we are able to refine our service offerings. The mix of our customers and their patterns of usage, particularly usage outside our network footprint, will have a significant impact on the level of profits for our U.S. retail wireless business. In general, we compete with national and regional wireless providers that offer both prepaid and postpaid services whose scale, resources and U.S. network footprint are generally significantly greater than ours. Our ability to remain competitive and to maintain reasonable profit margins will depend, in part, on our ability to provide competitive pricing for our customers, to provide the latest mobile voice and data services in all of the areas where they wish to access those services and to anticipate and respond to various competitive factors.

In addition, the revenue and profits of our U.S. wholesale wireless business are an important part of our overall U.S. Wireless revenues and are primarily driven by the number of sites and base stations we operate, the amount of voice and data traffic that each of these sites generates, and the rate we get paid from our carrier customers on that traffic. We provide wholesale roaming services in a number of areas in the U.S. (mainly in the western United States) where we do not also operate a retail wireless business. As a result of the Alltel Acquisition, our reported wholesale wireless revenue also includes roaming revenue generation in areas in which we have retail wireless operations. Historically, the growth in same site voice and data volumes and the number of operated sites has outpaced the decline in data rates. However, during 2010, a significant decrease in the data rates almost offset overall voice and data traffic growth, and we expect that growth in 2011 will be offset by further decreased rates. The growth of wholesale wireless revenue has historically been driven mainly by the rate at which we expand the number of base stations we operate. We compete with other wireless service providers that operate networks in their markets and offer wholesale roaming services as well.

However, the most significant competitive factor we face in our U.S. wholesale wireless business is the extent to which our carrier customers elect to build or acquire their own infrastructure (including networks that we built out pursuant to certain roaming agreements) in a market in which they operate, reducing or eliminating their need for our services in those markets. For example, the 2009 acquisition by Verizon Wireless of Alltel Corporation and subsequent 2010 acquisition of certain divested Alltel assets by AT&T resulted in our wholesale customers acquiring their own infrastructure in certain markets where they are currently served by us. This has already resulted in some loss, and is expected to continue to result in a significant loss, of wireless wholesale revenue and operating income in future periods, which, if not offset by growth in other wholesale revenue generated or other sources, could materially reduce our overall operating profits. While we are not able to forecast the extent of this revenue impact precisely, we expect that at the very least such loss may more than offset any growth in U.S. wholesale wireless revenue during these periods.

Acquisition of Alltel Assets

On April 26, 2010, we completed our previously-announced acquisition of a portion of the former Alltel network from Verizon Wireless pursuant to the Purchase Agreement, dated June 9, 2009, by and between the Company and Verizon Wireless. Pursuant to the Alltel Acquisition, Verizon Wireless contributed certain licenses, network assets, tower and other leases and other assets and certain related liabilities to a wholly-owned subsidiary limited liability company, whose membership interests were acquired by our wholly-owned subsidiary. In connection with the acquisition, the Company and Verizon Wireless entered into roaming and transition services arrangements and we obtained the rights to use the Alltel brand and related service marks for up to twenty eight years in connection with the continuing operation of the acquired assets. The purchase price of the acquisition was $200 million, plus approximately $21.4 million in connection with a customary net working capital adjustment and other fees and expenses.

Stimulus Grants

In 2009 and 2010, we filed several applications for stimulus funds made available by the U.S. Government under provisions of the American Recovery and Reinvestment Act of 2009 intended to stimulate the deployment of broadband infrastructure and services to rural, unserved and underserved areas.

In December 2009, we were named to receive a $39.7 million federal stimulus grant to fund our ION Upstate New York Rural Broadband Initiative, which involves building ten new segments of fiber-optic, middle-mile broadband infrastructure, serving more than 70 rural communities in upstate New York and parts of Pennsylvania and Vermont. The new project is being undertaken through our public-private partnership with the Development Authority of the North Country ("DANC"), a New York State public benefit corporation that owns and operates 750 miles of fiber optic network and provides wholesale telecommunications transport services to voice, video, data and wireless service providers. The $39.7 million grant, awarded to us by the National Telecommunications and Information Administration of the U.S. Department of Commerce ("NTIA"), under its Broadband Technology Opportunities Program, will be paid over the course of the three-year project period as expenses are incurred. An additional $9.9 million will be invested in the project by us and by DANC. The funding and build of this new project began in the third quarter of 2010. The results of our U.S. fiber optic transport business are included in our "U.S. Wireline" segment.

On March 25, 2010 the NTIA awarded the Navajo Tribal Utility Authority ("NTUA") a $32.1 million federal stimulus grant. The grant, along with partial matching funds, will provide broadband infrastructure access to the Navajo Nation across Arizona, New Mexico and Utah. As part of the project, we are proposing to partner with NTUA to provide last mile services through a 4G LTE network to be constructed as a part of this project. Our proposed partnership with NTUA will receive a portion of the total grant to build-out the last mile infrastructure. This network will allow NTUA to supply both fixed and mobile customers with high-speed broadband access. The funding of this project is not scheduled to begin until 2011, once the necessary environmental site work is completed. Accordingly, we did not recognize any of the granted funds during the year ended December 31, 2010. The results of our wholesale U.S. wireless business are included in our "U.S. Wireless" segment.

On July 7, 2010, in partnership with the Vermont Telecommunications Authority (the "VTA"), we were awarded a $33.4 million federal stimulus grant by the NTIA. The grant, along with partial matching funds to be contributed by us (through a Vermont subsidiary) and the VTA, will be invested in building a new fiber-optic middle mile network in Vermont to provide broadband and wireless services to community schools, colleges, libraries and state-owned buildings in the area. The funding of this project is not scheduled to occur until 2011, once the necessary environmental site work is completed. Accordingly, we did not recognize any of the granted funds during the year ended December 31, 2010. The results of our U.S. wireline business are included in our "U.S. Wireline" segment.

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Results of Operations

Year Ended December 31, 2009 and 2010

	Year Ended December 31, 2009	Year Ended December 31, 2010	Amount of Increase (Decrease)	Percent Increase (Decrease)
		(In thousands)		
REVENUE:				
U.S. Wireless:				
Retail	$	$ 293,126	$ 293,126	%
Wholesale	104,689	159,807	55,118	52.6
International Wireless	45,278	51,698	6,420	14.2
Wireline	88,453	84,495	(3,958)	(4.5)
Equipment and Other	3,861	30,019	26,158	677.5
Total revenue	242,281	619,145	376,864	155.5
OPERATING EXPENSES:				
Termination and access fees	45,932	161,255	115,323	251.1
Engineering and operations	28,140	70,805	42,665	151.6
Sales, marketing and customer services	13,858	94,214	80,356	579.9
Equipment expense	2,309	74,009	71,700	3105.2
General and administrative	36,299	90,082	53,783	148.2
Acquisition-related charges	7,163	13,760	6,597	92.1
Depreciation and amortization	38,889	76,736	37,847	97.3
Total operating expenses	172,590	580,861	408,271	236.6
Income from operations	69,691	38,284	(31,407)	(45.1)
OTHER INCOME (EXPENSE):				
Interest expense	(3,706)	(9,956)	(6,250)	168.6
Interest income	1,153	551	(520)	(48.6)
Equity in earnings of unconsolidated affiliate		743	287	
Other income (expense), net	605	542	(496)	(82)
Bargain purchase gain, net of taxes of $18,016		27,024	27,024	
Other income, net	(1,948)	18,904	20,852	(1,070.4)
INCOME BEFORE INCOME TAXES	67,743	57,188	(10,555)	(15.6)
Income taxes	31,160	19,606	(11,554)	(37.1)
NET INCOME	36,583	37,582	999	2.7
Net (income)loss attributable to non-controlling interests	(1,044)	872	1,916	(183.5)
NET INCOME ATTRIBUTABLE TO ATLANTIC	$ 35,539	$ 38,454	$ 2,915	8.2%

TELE-NETWORK, INC.
STOCKHOLDERS

U.S. Wireless revenue. U.S. Wireless revenue includes voice and data services revenue from our prepaid and postpaid retail operations as well as our wholesale roaming operations. Retail revenue is derived from access by our retail customers to and usage of our networks and facilities, including airtime, roaming and long distance as well as enhanced services such as caller identification, call waiting, voice mail and other features. Wholesale revenue is generated from providing mobile voice or data services to the customers of other wireless carriers and also includes revenue from other, related, wholesale services such as the provision of network switching services and certain wholesale transport services.

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The retail portion of our U.S. Wireless revenue was $293.1 million for the year ended December 31, 2010 all of which is attributable to revenue generated by assets we acquired in the Alltel Acquisition. Our U.S. Wireless postpaid subscriber base was approximately 523,000 and our prepaid subscriber base was approximately 195,000 at December 31, 2010. We had no U.S. retail wireless revenue prior to the Alltel Acquisition in April 2010.

We are currently in a transition period as we move from the legacy Alltel network, information technology, and other systems and platforms and processes to our own. During this transition period, which we expect to be substantially completed by the end of the second quarter of 2011, we anticipate that our ability to drive subscriber additions, control churn and optimize our offerings will remain somewhat constrained, resulting in continued decline in our U.S. retail wireless revenue.

The wholesale portion of our U.S. Wireless revenue increased to $159.8 million for the year ended December 31, 2010 from $104.7 million for the year ended December 31, 2009, an increase of $55.1 million. The increase in wireless wholesale revenue was due to the $56.3 million of roaming revenue generated by the networks we acquired in the Alltel Acquisition offset by a $1.2 million decrease in revenues from our legacy U.S. roaming network. Such decrease from our legacy U.S. roaming network was due to scheduled decreases in roaming rates. Our Alltel Acquisition also increased our base stations from 580 as of December 31, 2009 to 1,625 as of December 31, 2010.

Verizon's acquisition of Alltel in 2009 has caused some loss of wireless wholesale revenue and contributed to our lack of growth in 2010 as certain network assets acquired by Verizon overlap geographically with areas of our legacy U.S. roaming network where we previously provided wholesale roaming services to Verizon. Similarly, AT&T's 2010 acquisition of certain Alltel assets and the completion of its previously announced UMTS network build in those areas overlapping our network in the southwestern United States is expected to negatively impact wireless wholesale revenue in 2011. For the year ended December 31, 2010, we estimate that revenues at risk from this overlap were approximately $14.0 million. This loss in wireless wholesale revenue could have a significant negative impact on our operating income if it is not offset or replaced by increased operating income from other sources.

While we expect to see some increase in wireless wholesale revenue from our U.S. wireless business in geographical areas not impacted by Verizon's or AT&T's acquisition of Alltel networks, the pace of that increase in non-Alltel overlap markets is currently expected to be slower as compared to the growth in previous periods due to a reduction in the number of new sites and base stations added and recent reductions in roaming rates. Additional rate reductions, under previously contracted agreements, may affect our revenue growth in upcoming periods. We also expect to receive a portion of the $32.1 million grant from the NTIA to build on the Navajo Nation during 2011 through our proposed partnership with NTUA.

International Wireless revenue. International Wireless revenue includes retail and wholesale voice and data wireless revenue from international operations in Bermuda and the Caribbean.

International Wireless revenue increased by $6.4 million to $51.7 million for the year ended December 31, 2010, from $45.3 million for the year ended December 31, 2009. This increase was primarily generated by increased subscribers, volume, and new service launches in our Caribbean operations. Wireless subscribers in Guyana increased 6%, from approximately 289,000 subscribers as of December 31, 2009 to approximately 305,000 subscribers as of December 31, 2010.

While we have experienced recent subscriber growth in Guyana, competition remains strong, and the largely prepaid subscriber base means that subscribers and revenue could shift relatively quickly in future periods. In addition, the overall number of our wireless subscribers in Guyana could be reduced as a result of recent regulations imposed on telecommunications carriers, including our operations, to collect proof of address and photographic identification for all new and existing customers.

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Wireline revenue. Wireline revenue is generated by our wireline operations in Guyana, including international telephone calls into and out of that country, our integrated voice and data operations in New England and our wholesale transport operations in New York State and in the western United States. This revenue includes basic service fees, measured service revenue, and internet access fees, as well as installation charges for new lines, monthly line rental charges, long distance or toll charges, maintenance and equipment sales.

Wireline revenue decreased by $4.0 million to $84.5 million for the year ended December 31, 2010 from $88.5 million for the year ended December 31, 2009. An $8.7 million decrease in international long distance revenue was partially offset by an increase in U.S. revenue and growth generated by the July 2010 launch of our new fiber optic submarine cable in Guyana. Our access lines in Guyana grew from approximately 147,000 lines as of December 31, 2009 to approximately 150,000 lines as of December 31, 2010, an increase of 2%. Revenue from the growth in access lines has been partially offset by a decrease in usage of those lines that is likely due to wireless service alternatives.

We also believe the decrease in international long distance revenue was a result of continued and considerable illegal bypass activities resulting in lost revenue opportunities, as well as an overall reduction in call volume into Guyana attributable to the current difficult global economic environment. In the U.S., we saw increased revenue from our upstate New York network transport service business. We continue to add business customers in the U.S. for our voice and data services; however, the overall revenue increase is partially offset by the decline in the residential data business, including dial-up internet services.

In future periods, we anticipate that wireline revenue from our international long distance business in Guyana may continue to decrease, but such decreases may be offset by increased revenue from data services to consumer enterprises in Guyana, wholesale transport services in New York and integrated voice and data in Vermont and New Hampshire. We are in the process of expanding our network in New York and began receiving a portion of a U.S. $39.7 million stimulus grant during the second half of 2010.

Equipment and Other revenue. Equipment and other revenue represent revenue from wireless equipment sales, primarily handsets to retail customers, and other miscellaneous revenue items.

Equipment and Other revenue increased by $26.1 million to $30.0 million for the year ended December 31, 2010, from $3.9 million for the year ended December 31, 2009. The increase is due to equipment sales from our Alltel Acquisition.

Termination and access fee expenses. Termination and access fee expenses are charges that we pay for voice and data transport circuits (in particular, the circuits between our wireless sites and our switches), internet capacity and other access fees we pay to terminate our calls, as well as customer bad debt expense. Termination and access fees increased by $115.4 million from $45.9 million for the year ended December 31, 2009 to $161.3 million for the year ended December 31, 2010, of which $107.6 million of the increase resulted from the Alltel Acquisition. The remaining increase of $7.8 million was due to the expansion of our legacy U.S. wireless network and international networks.

Termination and access fees are expected to increase in future periods, but remain fairly proportionate to their related revenue as our networks expand.

Engineering and operations expenses. Engineering and operations expenses include the expenses associated with developing, operating, supporting and expanding our networks, including the salaries and benefits paid to employees directly involved in the development and operation of our networks. Engineering and operations expenses increased by $42.7 million from $28.1 million for the year ended December 31, 2009 to $70.8 million for the year ended December 31, 2010 as a result of the Alltel Acquisition. We expect that engineering and operations expenses will increase in the future as our

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networks expand and require additional support and as we complete the transition of the network that we acquired as part of the Alltel Acquisition.

Sales marketing and customer service expenses. Sales and marketing expenses include salaries and benefits we pay to sales personnel, customer service expenses, sales commissions and the costs associated with the development and implementation of our promotion and marketing campaigns.

Sales and marketing expenses increased by $80.3 million from $13.9 million for the year ended December 30, 2009 to $94.2 million for the year ended December 31, 2010. The majority of this increase is the result of the Alltel Acquisition. Sales and marketing expenses were particularly high in our U.S. retail wireless business as we incurred additional expenses primarily related to an accelerated pace of customer contract renewals and extensions and some overlap of expenses related to the transition services being performed related to the Alltel Acquisition.

We expect that sales and marketing expenses will increase in the short term as we continue to incur higher than normal customer transition and retention costs and attempt to offset customer churn.

Equipment expenses. Equipment expenses include the costs of our handset and customer resale equipment at our retail wireless businesses.

Equipment Expenses increased from $2.3 million for the year ended December 31, 2009 to $74.0 million for the year ended December 31, 2010 as a result of the Alltel Acquisition. We expect that these expenses will decrease as a percentage of revenue in the near-term due to a high volume of handset upgrades related to the accelerated pace of customer contract renewals and extensions in 2010.

General and administrative expenses. General and administrative expenses include salaries, benefits and related costs for general corporate functions, including executive management, finance and administration, legal and regulatory, facilities, information technology and human resources. General and administrative expenses also include internal costs associated with our performance of due-diligence on our pending or completed acquisitions.

General and administrative expenses increased by $53.8 million from $36.3 million for the year ended December 31, 2009 to $90.1 million for the year ended December 31, 2010. We are currently in a transition period as we integrate the new Alltel business and are incurring incremental general and administrative expenses relating to that transition. During this transition period, which we expect to be substantially completed by the end of the second quarter of 2011, we anticipate that we will incur higher than usual general and administrative expenses as certain significant costs continue to overlap with our already existing infrastructure. Once this transition period concludes, we expect that general and administrative expenses, as a percentage of revenue, will decrease.

Acquisition-related charges. Acquisition-related charges include the external costs, such as legal, accounting, and consulting fees directly associated with acquisition related activities, which are expensed as incurred. Acquisition-related charges do not include internal costs, such as employee salary and travel-related expenses, incurred in connection with acquisitions and integrations.

For the year ended December 31, 2010, acquisition-related charges for legal, banking, consulting and accounting fees in connection with the Alltel Acquisition were $13.8 million, as compared to $7.2 million for the year ended December 31, 2009. We expect that acquisition-related expenses will continue to be incurred from time to time as the Company continues to explore additional acquisition opportunities that arise.

Depreciation and amortization expenses. Depreciation and amortization expenses represent the depreciation and amortization charges we record on our property and equipment and on certain intangible assets.

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Depreciation and amortization expenses increased by $37.8 million from $38.9 million for the year ended December 31, 2009 to $76.7 million for the year ended December 31, 2010. The increase is primarily due to the addition of the Alltel tangible and intangible assets as well as additional fixed assets from our network expansion in our U.S. Wireless business and in the Caribbean.

We expect depreciation expense on our tangible assets to continue to increase as a result of a future network expansion in the U.S. and elsewhere. Such increase, however, will be partially offset by a future decrease in the amortization of our intangible assets, which are being amortized using an accelerated amortization method.

Interest expense. Interest expense represents interest incurred on our outstanding credit facilities including our interest rate swaps.

Interest expense increased from $3.7 million for the year ended December 31, 2009 to $10.0 million for the year ended December 31, 2010, due to the amendment of our prior credit agreement, which increased both our outstanding debt and applicable interest rates on such debt. On September 30, 2010, we entered into our Amended 2010 Credit Facility, further increasing the amounts available for borrowing. As of December 31, 2010, we had $70.2 million outstanding under our Amended 2010 Term Loan A facility, $144.4 million outstanding under our Amended 2010 Term Loan B facility, and $49.8 million outstanding under our 2010 Term Loan C facility. We had $24.0 million in outstanding borrowings under our Amended 2010 Revolver Loan as of December 31, 2010.

In addition, as of December 31, 2010 we had interest rate swap agreements in place covering $148.0 million of our outstanding borrowings.

Interest income. Interest income represents interest earned on our cash and cash equivalents.

Interest income decreased to $0.6 million from $1.2 million for the years ended December 31, 2010 and 2009, respectively. This decrease is a result of a decrease in our cash balances as well as the interest rates and subsequent amounts earned on our cash and investments.

Gain on acquisition, net of tax. Gain on acquisition, net of tax, represents the gain we recognized on the Alltel Acquisition. This gain was a result of a bargain purchase generated by the forced divesture of the assets that was required to be completed by Verizon within a specified timeframe to a limited class of potential buyers.

Equity in earnings of unconsolidated affiliates. Equity in earnings of unconsolidated affiliates included our share of the earnings of an unconsolidated affiliate of our U.S. Wireless segment. Equity in earnings of unconsolidated affiliates was $0.7 million for the year ended December 31, 2010. We acquired this equity-method investment in 2010 in connection with the Alltel Acquisition.

Other income (expense). Other income (expense) represents miscellaneous non-operational income we earned or expenses we incurred. Other income decreased to $0.5 million from $0.6 million for the years ended December 31, 2010 and 2009, respectively.

Income taxes. Income tax expense includes federal and state income taxes at their respective statutory rates as well as foreign income taxes in excess of the statutory U.S. income tax rates. Since we operate in jurisdictions that have a wide range of statutory tax rates, our consolidated effective tax rate is impacted by the mix of income generated in those jurisdictions. Our effective tax rates for 2010 and 2009 were 34% and 46%, respectively. For 2010, the effective tax rate was reduced by the $27.0 million bargain purchase gain which is shown net of deferred tax on our statements of operations. Partially offsetting this reduction was a $5.2 million expense related to an increase in valuation allowance against the Company's foreign tax credit carryforward. As part of the Alltel Acquisition, which was completed during the second quarter of 2010, and the associated levels of future debt and interest service, the Company re-examined its projected mix of foreign source and US-source earnings and concluded it is

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more likely than not that it will not generate enough foreign source income to utilize its existing foreign tax credits prior to their expiration date. As a result, the Company placed a full valuation allowance against those credits during the second quarter of 2010. Excluding the bargain purchase gain and the increase in the valuation allowance, our effective tax rate would have been 47% for 2010.

Net (Income)Loss Attributable to Non-Controlling Interests. Net income attributable to non-controlling interests includes minority shareholders' share of net income in our less than wholly owned subsidiaries. Net income attributable to non-controlling interests reflected an allocation of $1.0 million of income for the year ended December 31, 2009 and $0.9 million of losses for the year ended December 31, 2010. This decrease was a result of the allocation of non-controlling shareholders' share of losses at our early stage businesses.

Net income attributable to Atlantic Tele-Network, Inc. Stockholders. As a result of the above factors, net income increased to $38.5 million for the year ended December 31, 2010 from $35.5 million for the year ended December 31, 2009. On a per share basis, net income increased from $2.33 per basic and $2.32 per diluted share to $2.51 per basic and $2.48 per diluted share for the years ended December 31, 2009 and 2010, respectively.

Segment results. Upon the completion of the Alltel Acquisition, the Company restructured how it manages its business, and accordingly, modified its reportable segments. The previously reported Rural Wireless segment has been combined with the operating results of Alltel and is now being reported as the U.S. Wireless segment, which generates all of its revenue and has all of its assets located in the United States. In addition, the previously reported Wireless Data segment has been merged into the Island Wireless segment which generates its revenue, and has its assets, in Bermuda, Turks and Caicos, the U.S. Virgin Islands and Aruba. Integrated Telephony International has been renamed International Integrated Telephony and has its assets located in Guyana. Integrated Telephony Domestic has been renamed U.S. Wireline, and has its assets located in the United States. The operating segments are managed separately because each offers different services and serves different markets. Reconciling items refer to corporate overhead matters including general and administrative expenses and acquisition-related charges.

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Years Ended December 31, 2008 and 2009

	Year Ended December 31, 2008	Year Ended December 31, 2009	Amount of Increase (Decrease)	Percent Increase (Decrease)
		(In thousands)		
REVENUE:				
U.S. Wireless:				
Retail	$	$	$	%
Wholesale	70,130	104,689	34,559	49.3
International Wireless	39,104	45,278	6,174	15.8
Wireline	93,867	88,453	(5,414)	(5.8)
Equipment and Other	4,573	3,861	(712)	(15.6)
Total revenue	207,674	242,281	34,607	16.7
OPERATING EXPENSES:				
Termination and access fees	38,762	45,932	7,170	18.5
Engineering and operations	24,923	28,140	3,217	12.9
Sales, Marketing and Customer Services	13,227	13,858	631	4.8
Equipment Expense		2,309	2,309	
General and administrative	28,644	36,299	7,655	26.7
Acquisition-related charges	1,071	7,163	6,092	568.8
Depreciation and amortization	31,525	38,889	7,364	23.4
Total operating expenses	138,152	172,590	34,438	24.9
Income from operations	69,522	69,691	169	0.2
OTHER INCOME (EXPENSE):				
Interest expense	(3,144)	(3,706)	(562)	17.9
Interest income	1,770	1,153	(617)	(34.9)
Gain on acquisition, net of tax				
Equity in earnings of unconsolidated affiliate	735		(735)	(100)
Other income (expense), net	439	605	166	37.8
Other income, net	(200)	(1,948)	(1,748)	874.0
INCOME BEFORE INCOME TAXES	69,322	67,743	(1,579)	(2.3)
Income taxes	29,551	31,160	1,609	5.4
NET INCOME	39,771	36,583	(3,188)	(8.0)
Net income attributable to non-controlling interests	(4,973)	(1,044)	3,929	(79.0)
NET INCOME ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS	$ 34,798	$ 35,539	$ 741	2.1%

U.S. Wireless revenue. The wholesale portion of our U.S. Wireless revenue increased to $104.7 million for the year ended December 31, 2009 from $70.1 million for the year ended December 31, 2008, an increase of $34.6 million. We did not have a retail wireless business in the United States in 2008 or 2009. The increase in wireless revenue from our wholesale U.S. wireless business was due primarily to continued deployment of additional GSM and CDMA wireless base stations and the expansion of our data capabilities, which generated growth in minutes of use and increased data and international roaming revenue, as well as the December 2008 acquisition of the wireless network assets of CC Communications, a telecommunications company based in Fallon, Nevada. As of December 31, 2009 a total of 580 base stations were deployed as compared to 473 base stations as of December 31, 2008. Our U.S. Wireless revenue also increased as a result of growth in

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voice and data traffic (measured in minutes and megabytes, respectively) at existing sites and growth in data roaming revenue and international roaming revenue.

International Wireless revenue. International Wireless revenue increased by $6.2 million to $45.3 million for the year ended December 31, 2009, from $39.1 million for the year ended December 31, 2008. Wireless revenue in Guyana increased by $0.9 million in 2009. Wireless subscribers in Guyana increased 17%, from approximately 248,000 subscribers as of December 31, 2008 to approximately 289,000 subscribers as of December 31, 2009, as a result of our continued response to increased competition and declining rates. Due to a full year consolidation of revenues in 2009 following the increase in our equity position in, and consolidation of our equity interests in our Bermuda subsidiary, which occurred as of May 15, 2008, wireless revenues increased $6.7 million. Wireless subscribers in Bermuda remained consistent at 20,500 for the years ended December 31, 2008 and 2009, respectively. The remaining increase was a result of increased revenue in the U.S. Virgin Islands.

Wireline revenue. Wireline revenue decreased by $5.4 million to $88.5 million for the year ended December 31, 2009 from $93.9 million for the year ended December 31, 2008. An $8.2 million decrease in international long distance revenue was partially offset by an increase in U.S. revenue. We believe this decrease was a result of continued and considerable illegal bypass activities resulting in lost revenue opportunities, as well as an overall reduction in call volume into Guyana attributable to the current difficult global economic environment. Our access lines in Guyana grew from approximately 139,000 lines as of December 31, 2008 to approximately 147,000 lines as of December 31, 2009 (an increase of 6%). Revenue from the growth in access lines was partially offset by a decrease in usage of those lines that is likely due to wireless service alternatives.

Equipment and Other revenue. Equipment and Other revenue decreased by $0.7 million to $3.9 million for the year ended December 31, 2009, from $4.6 million for the year ended December 31, 2008. The decrease was due to the May 31, 2009 termination of our digital television services in the U.S. Virgin Islands to focus solely on providing wireless broadband data and dialup internet services.

Termination and access fee expenses. Termination and access fees increased by $7.1 million, or 18%, from $38.8 million for the year ended December 31, 2008 to $45.9 million for the year ended December 31, 2009, as a result of increased traffic in our U.S. Wholesale business, the consolidation of a full year of operating results in Bermuda in 2009 and an increase in expenses at our U.S. Wireline business due to a full year of operating results of ION.

Engineering and operations expenses. Engineering and operations expenses increased by $3.2 million, or 13%, from $24.9 million for the year ended December 31, 2008 to $28.1 million for the year ended December 31, 2009. This increase was primarily the result of the expansion of our wireless networks in the United States and the consolidation of the results of our Bermuda business for all of 2009.

Sales marketing and customer service expenses. Sales and marketing expenses increased by $0.7 million, or 5%, from $13.2 million for the year ended December 31, 2008 to $13.9 million for the year ended December 31, 2009. The majority of this increase is the result of the consolidation of a full year of operating results of our Bermuda subsidiary for 2009.

Equipment expenses. Equipment expenses were $2.3 million for the year ended December 31, 2009. Prior to the consolidation of operating results of our wireless subsidiary in Bermuda, we did not report any equipment expense.

General and administrative expenses. General and administrative expenses increased by $7.7 million, or 27%, from $28.6 million for the year ended December 31, 2008 to $36.3 million for the year ended December 31, 2009. Of this increase, $3.5 million was the result of our consolidation of a

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full year of operating results in Bermuda in 2009. The remaining increase was due to increased overhead to support our growth and internal costs associated with the Alltel Acquisition.

Acquisition-related charges. For the year ended December 31, 2009 acquisition-related charges were $7.2 million, an increase from $1.1 million for the year ended December 31, 2008. Of the 2009 costs, $6.8 million were associated with the Alltel Acquisition.

Depreciation and amortization expenses. Depreciation and amortization expenses increased by $7.4 million, or 23%, from $31.5 million for the year ended December 31, 2008 to $38.9 million for the year ended December 31, 2009. The increase was primarily due to the addition of fixed assets from our network expansion in our wholesale U.S. wireless business, the consolidation of a full year of operating results of our Bermuda business in 2009 and the acquisitions of our wholesale fiber transport business in New York and our Turks & Caicos wireless business, which occurred in the third quarter of 2009.

Interest expense. Interest expense increased from $3.1 million for the year ended December 31, 2008 to $3.7 million for the year ended December 31, 2009. The increase in interest expense was due to the increase in our term loan borrowings. We had no outstanding borrowings under our revolving line of credit during the years ended December 31, 2008 or 2009.

On September 10, 2008, we repaid the then outstanding $50.0 million term loan with the proceeds from a new $75.0 million variable rate term loan. At the same time, our variable rate revolving line of credit facility expanded from $20.0 million to $75.0 million. Also during September 2008, we entered into an interest rate swap agreement, to effectively lock our interest rate on $68.0 million of these facilities at 5.67%.

We entered into a second amended and restated credit agreement on September 30, 2010 that increased our interest expense due to increases to both interest rates and amounts outstanding thereunder.

Interest income. Interest income decreased to $1.2 million from $1.8 million for the year ended December 31, 2009 and 2008, respectively. This decrease is a result of a decrease in the interest rates and subsequent amount earned on our cash and investments.

Equity in earnings of unconsolidated affiliates. Equity in earnings of unconsolidated affiliates was $0.7 million for 2008 prior to the consolidation of our Bermuda business.

Other income (expense). Other income (expense) represents miscellaneous non-operational income we earned or expenses we incurred. Other income was $0.6 million for the year ended December 31, 2009, up from $0.4 million for the year ended December 31, 2008.

Income taxes. The effective tax rate was 43% for the year ended December 31, 2008 and 46% for the year ending December 31, 2009. Income tax expense includes income taxes at the statutory U.S. federal and state income tax rates as well as the Guyanese income taxes in excess of the statutory U.S. income tax rates. Since we operate in jurisdictions that have a wide range of statutory tax rates, our consolidated effective tax rate is impacted by the mix of income generated in those jurisdictions as well as the receipt of dividends from our foreign subsidiaries. The increase in the consolidated effective tax rate was a result of losses in our Island Wireless segment for which we receive no tax benefit.

Net Income Attributable to Non-Controlling Interests. Net income attributable to non-controlling interests decreased from $5.0 million for the year ended December 31, 2008 to $1.0 million for the year ended December 31, 2009. This decrease is a result of the allocation of non-controlling shareholders' share of losses in our early stage businesses following the adoption the FASB's authoritative guidance on noncontrolling interests in consolidated financial statements in 2009.

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Net income attributable to Atlantic Tele-Network, Inc. Stockholders. As a result of the above factors, net income increased to $35.5 million for the year ended December 31, 2009 from $34.8 million for the year ended December 31, 2008. On a per share basis, net income increased from $2.29 per basic and $2.28 per diluted share to $2.33 per basic and $2.32 per diluted share for the years ended December 31, 2008 to 2009, respectively.

Regulatory and Tax Issues

We are involved in a number of regulatory and tax proceedings.. A material and adverse outcome in one or more of these proceedings could have a material adverse impact on our financial condition and future operations.

Liquidity and Capital Resources

Historically, we have met our operational liquidity needs through a combination of cash on hand and internally generated funds and have funded capital expenditures and acquisitions with a combination of internally generated funds, cash on hand and borrowings under our credit facilities.

We funded our acquisition of Alltel assets by using $31.4 million of then available cash, drawing $150 million from our new term loan (see *Cash Generated by Financing Activities,* below) and by borrowing $40 million against our revolving line of credit. On September 30, 2010, we amended our 2010 Credit Facility and drew down a $50 million term loan, and repaid the outstanding balances on our revolving line of credit, In addition, as part of the amended 2010 Credit Facility, the available borrowings under our revolving line of credit were increased to $100 million (see *Cash Generated by Financing Activities,* below).

Uses of Cash

Capital Expenditures. A significant use of our cash has been for capital expenditures to expand and upgrade our networks.

For the years ended December 31, 2009 and 2010, we spent approximately $59.7 million and $135.7 million, respectively, on capital expenditures. Of the 2010 capital expenditures, we spent approximately $88.5 million in our U.S. Wireless segment, as compared to $24.7 million in 2009. Included in these 2010 costs are approximately $53.0 million of one-time costs associated with developing our retail billing, point-of-sale and other operating and business systems, and costs related to network migration following the Alltel Acquisition, along with costs associated with expanding both our U.S. retail and wholesale networks. In our International Integrated Telephony segment, we spent approximately $26.0 million on capital expenditures for the year ended December 31, 2010, as compared to $25.0 million in 2009. Of these 2010 expenditures, $13.9 million was related to construction costs on our new fiber optic submarine cable into Guyana which we launched in July 2010, while the remainder of the capital expenditures in this segment was for the expansion of the capacity and coverage of our wireline and wireless network in Guyana. Of the 2009 expenditures, $13.4 million was related to the same fiber optic submarine cable. In addition, we invested $13.7 million in capital expenditures in our Island Wireless segment in 2010, as compared to $11.3 million in 2009, with the majority related to our two wireless network build-outs in the U.S. Virgin Islands and Turks and Caicos in 2010.

We are continuing to invest in expanding our networks in many of our markets and expect to incur capital expenditures between $105 million and $120 million in 2011. The majority of these expenditures relate to our U.S wireless business. Specifically, we anticipate expenditures of between $70 million to $80 million in our U.S. wireless business which include an additional $30 million to $35 million of one-time costs for network migration and information technology and system conversion costs in conjunction with our integration of our newly acquired wireless assets.

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We expect to fund our current capital expenditures primarily from cash generated from our operations and borrowings under our credit facilities.

Acquisitions and Investments. Historically, we have funded our acquisitions with a combination of cash on hand and borrowings under our credit facilities. In April 2010, we funded the purchase price of the Alltel Acquisition with cash-on-hand and borrowings under our then existing credit facility. We drew down a $150 million term loan under the credit facility and borrowed $40 million under our previously undrawn $75 million revolving credit facility. On September 30, 2010, we amended our 2010 Credit Facility and drew down a $50 million term loan, repaid the outstanding balances on our 2010 Revolver Loan and also expanded the revolving credit facility to $100 million.

We continue to explore opportunities to acquire or expand our existing communications properties or licenses in the United States, the Caribbean and elsewhere. Such acquisitions may require external financing. While there can be no assurance as to whether, when or on what terms we will be able to acquire any such businesses or licenses or make such investments, such acquisitions may be accomplished through the issuance of shares of our capital stock, payment of cash or incurrence of additional debt. From time to time, we may raise capital ahead of any definitive use of proceeds to allow us to move more quickly and opportunistically if an attractive investment materializes.

Dividends. We use cash-on-hand to make dividend payments to our common stockholders when declared by our Board of Directors. For the year ended December 31, 2010, our dividends to our stockholders were approximately $12.6 million, which reflects dividends declared on April 1, June 18, September 27, and December 10, 2010, and paid on April 19, July 12, and October 12, 2010, and January 10, 2011, respectively. We have paid quarterly dividends for the last 49 fiscal quarters.

Stock Repurchase Plan. Our Board of Directors approved a $5.0 million stock buyback plan in September 2004 pursuant to which we have spent approximately $2.1 million as of December 31, 2010 repurchasing our common stock. We may repurchase shares at any time depending on market conditions, our available cash and our cash needs. We did not repurchase any shares under this plan during the year ended December 31, 2010.

Debt Service and Other Contractual Commitment Table. The following table discloses aggregate information about our debt and lease obligations as of December 31, 2010 and the periods in which payments are due:

Contractual Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
			(In millions)		
Debt	$ 264.3	$ 12.2	$ 252.1	$	$
Unrecognized tax benefits	6.4	6.4			
Pension obligations	0.8	0.8			
Operating lease obligations	119.1	31.5	68.7	18.9	
Total	$ 390.6	$ 50.9	$ 320.8	$ 18.9	$

Sources of Cash

Total Liquidity at December 31, 2010. As of December 31, 2010, we had approximately $37.3 million in cash and cash equivalents, a decrease of $52.9 million from the December 31, 2009 balance of $90.2 million. The decrease in our cash and cash equivalents is attributable to the cash used in connection with the Alltel Acquisition.

Cash Generated by Operations. Cash provided by operating activities was $102.8 million for the year ended December 31, 2010 compared to $92.6 million for the year ended December 31, 2009. The increase of $9.7 million was mainly due to increased accrued liabilities primarily related to our Alltel business.

Cash Generated by Financing Activities. On January 20, 2010, we amended and restated our 2008 Credit Facility with CoBank as Administrative Agent (the "2010 CoBank Credit Agreement"). The 2010 CoBank Credit Agreement provided for a $298.9 million credit facility, consisting of (i) a $73.9 million term loan (the "2010 Term Loan A") which was the amount then outstanding under the 2008 Term Loan, (ii) a new $150.0 million term loan (the "2010 Term Loan B"), (iii) a $75.0 million revolver loan (the "2010 Revolver Loan") and (iv) one or more additional term loans up to an aggregate $50.0 million, subject to lender and administrative agent approval (together with the 2010 Term Loan A, the 2010 Term Loan B and the 2010 Revolver Loan, the "2010 Credit Facility"). We partially funded the purchase price of the Alltel Acquisition with the $150 million 2010 Term Loan B and borrowed $40 million under the 2010 Revolver Loan.

On September 30, 2010, we expanded the 2010 Credit Facility by entering into a second amended and restated credit facility with CoBank as Administrative Agent (the "Amended 2010 CoBank Credit Agreement"). The Amended 2010 CoBank Credit Agreement provides for a $370.2 million credit facility, consisting of (i) a $ 72.0 million term loan (the "Amended 2010 Term Loan A"), (ii) a $148.1 million term loan (the "Amended 2010 Term Loan B"), (iii) a new $50.0 million term loan (the "2010 Term Loan C") and (iv) an expanded $100.0 million revolver loan of which we may use up to $10.0 million for standby or trade letters of credit and may use up to $10 million under a swingline sub-facility (the "Amended 2010 Revolver Loan," and together with the Amended 2010 Term Loan A, Amended 2010 Term Loan Band 2010 Term Loan C, the "Amended 2010 Credit Facility"). The Amended 2010 Credit Facility also provides for one or more additional term loans up to an aggregate $50.0 million, subject to lender and administrative agent approval. The terms and conditions of the Amended 2010 CoBank Credit Agreement, as described below, remained largely unchanged from the 2010 CoBank Credit Agreement.

Upon the closing of the Amended 2010 Credit Facility, we had $72.0 million outstanding under the Amended 2010 Term Loan A and $148.1 million outstanding under the Amended 2010 Term Loan B under the our 2010 Credit Facility. Also upon the closing of the Amended 2010 Credit Facility, we drew down $50.0 million under the 2010 Term Loan C, a portion of which was used to repay outstanding borrowings under our existing 2010 Revolver Loan. In the fourth quarter of 2010, we borrowed $24.0 million under our Amended 2010 Revolver Loan, which as of December 31, 2010, remains outstanding.

The Amended 2010 Term Loan A, the Amended 2010 Term Loan B and the 2010 Term Loan C each mature on September 30, 2014, with certain quarterly repayment obligations described below, unless accelerated pursuant to an event of default, as described below. The Amended 2010 Revolver Loan matures on September 10, 2014, unless accelerated pursuant to an event of default, as described below. Amounts borrowed under the Amended 2010 Term Loan A, Amended 2010 Term Loan B, 2010 Term Loan C and the Amended 2010 Revolver Loan bear interest at a rate equal to, at our option, either (i) the London Interbank Offered Rate (LIBOR) plus an applicable margin ranging between 3.50% to 4.75% or (ii) a base rate plus an applicable margin ranging from 2.50% to 3.75% (or, in the case of amounts borrowed under the swingline sub-facility to the Amended 2010 Revolver Loan, an applicable margin ranging from 2.00% to 3.25%). We are not required to apply a minimum LIBOR percentage for any loans bearing interest at the LIBOR rate. The base rate is equal to the higher of either (i) 1.50% plus the higher of (x) the one-week LIBOR and (y) the one-month LIBOR and (ii) the prime rate (as defined in the credit agreement). The applicable margin is determined based on the ratio of our indebtedness (as defined in the credit agreement) to its EBITDA (as defined in the credit agreement). Borrowings as of December 31, 2010, including the interest rate swap agreement, bore a weighted-average interest rate of 5.45%.

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All amounts outstanding under the Amended 2010 Revolver Loan will be due and payable on September 10, 2014 or the earlier acceleration of the loan upon an event of default. Amounts outstanding under the Amended 2010 Term Loan A and the Amended 2010 Term Loan B became due and payable commencing on September 30, 2010, in quarterly payments equal to 1.25% of the initial principal amount outstanding under each loan, increasing to 2.50% of the initial principal amount outstanding commencing on March 31, 2012. The 2010 Term Loan C became due and payable commencing on December 31, 2010, in quarterly payments equal to $250,000. Remaining balances will be due and payable upon the final maturity date of September 30, 2014, unless the loans are earlier accelerated upon an event of default. We may prepay the Amended 2010 Credit Facility at any time without premium or penalty, other than customary fees for the breakage of any LIBOR loans. Under the terms of the Amended 2010 Credit Facility, we must also pay a fee ranging from 0.50% to 0.75% of the average daily unused portion of the Amended 2010 Revolver Loan over each calendar quarter, which fee is payable in arrears on the last day of each calendar quarter.

Certain of our subsidiaries, including our principal wholly-owned domestic operating subsidiaries, are guarantors of our obligations under the Amended 2010 CoBank Credit Agreement. Further, our obligations are secured by (i) a first priority, perfected lien on substantially all of our property and assets and that of the guarantor subsidiaries, and (ii) a pledge of 100% of our equity interests in certain domestic subsidiaries and up to 65% of the equity interests outstanding of certain foreign subsidiaries, in each case, including our principal operating subsidiaries.

The Amended 2010 CoBank Credit Agreement contains customary representations, warranties and covenants, including covenants to limit additional indebtedness, liens, guaranties, mergers and consolidations, substantial asset sales, investments and loans, sale and leasebacks, transactions with affiliates and fundamental changes. In addition, the Amended 2010 CoBank Credit Agreement contains financial covenants by us that (i) impose a maximum ratio of indebtedness (as defined in the credit agreement) to EBITDA (as defined in the credit agreement), (ii) require a minimum ratio of EBITDA to cash interest expense, (iii) require a minimum ratio of equity to consolidated assets and (iv) require a minimum ratio of EBITDA to fixed charges (as defined in the credit agreement). As of December 31, 2010, we were in compliance with all of the financial covenants of the Amended 2010 CoBank Credit Agreement.

The Amended 2010 CoBank Agreement provides for events of default customary for credit facilities of this type, including but not limited to non-payment, defaults on other debt, misrepresentation, breach of covenants, representations and warranties, insolvency and bankruptcy. After the occurrence of an event of default and for so long as it continues, the administrative agent or the requisite lenders (as defined in the credit agreement) may increase the interest rate then in effect on all outstanding obligations by 2.0%. Upon an event of default relating to insolvency, bankruptcy or receivership, the amounts outstanding under the Amended 2010 Credit Facility will become immediately due and payable and the lender commitments will be automatically terminated. Upon the occurrence and continuation of any other event of default, the administrative agent and/or the requisite lenders (as defined in the credit agreement) may accelerate payment of all obligations and terminate the lenders' commitments under the Amended 2010 CoBank Agreement.

As of December 31, 2009, our sole derivative instrument was an interest rate swap with an initial notional amount of $68 million that was designated as a cash flow hedge of interest rate risk. On July 26, 2010, we executed an additional interest rate swap with an initial notional amount of $30 million that was also designated as a cash flow hedge of interest rate risk. On December 31, 2010, we executed a third interest rate swap with an initial notional amount of $50 million that was designated as a cash flow hedge of interest rate risk bringing the total notional amount of cash flow hedges to $148 million as of December 31, 2010.

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Factors Affecting Sources of Liquidity

Internally Generated Funds. The key factors affecting our internally generated funds are demand for our services, competition, regulatory developments, economic conditions in the markets where we operate our businesses and industry trends within the telecommunications industry. For a discussion of tax and regulatory risks in Guyana that could have a material adverse impact on our liquidity, see "Risk Factors Risks Relating to Our Wireless and Wireline Services in Guyana", and "Business Guyana Regulation."

Restrictions Under Credit Facility. The Amended 2010 CoBank Credit Agreement contains customary representations, warranties and covenants, including covenants by us limiting additional indebtedness, liens, guaranties, mergers and consolidations, substantial asset sales, investments and loans, sale and leasebacks, transactions with affiliates and fundamental changes. In addition, the Amended 2010 Credit Facility contains financial covenants by us that (i) impose a maximum ratio of indebtedness to EBITDA (each as defined in the Amended 2010 CoBank Credit Agreement), (ii) require a minimum ratio of EBITDA to cash interest expense, (iii) require a minimum ratio of equity to consolidated assets and (iv) require a minimum ratio of EBITDA to fixed charges (as defined in the credit agreement). As of December 31, 2010, we were in compliance with all of the financial covenants of the Amended 2010 CoBank Credit Agreement.

Capital Markets. Our ability to raise funds in the capital markets depends on, among other things, general economic conditions, the conditions of the telecommunications industry, our financial performance, the state of the capital markets and our compliance with Securities and Exchange Commission ("SEC") requirements for the offering of securities. On May 13, 2010, the SEC declared effective our "universal" shelf registration statement. This filing registered potential future offerings of our securities.

Inflation

We do not believe that inflation has had a significant impact on our consolidated operations in any of the periods presented in the Report.

Critical Accounting Estimates

We have based our discussion and analysis of our financial condition and results of operations on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (or GAAP). We base our estimates on our operating experience and on various conditions existing in the market and we believe them to be reasonable under the circumstances. Our estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

We have identified the critical accounting estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We consider these accounting estimates to be critical because changes in the assumptions or estimates we have selected have the potential of materially impacting our financial statements.

Revenue Recognition. In determining the appropriate amount of revenue to recognize for a particular transaction, we apply the criteria established by the authoritative guidance for revenue recognition and defer those items that do not meet the recognition criteria. As a result of the cutoff times of our billing cycles, we are often required to estimate the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period. These estimates are based primarily on rate plans in effect and historical evidence with each customer or carrier. Adjustments affecting revenue can and occasionally do occur in periods subsequent to the period when the services were provided, billed and recorded as revenue, however historically these adjustments have not been material.

A small portion of our revenue is attributable to activation or reactivation fees, installation fees and equipment sales. We evaluate these and, where the amounts charged for such services or the equipment do not represent a separate unit of accounting, these amounts are deferred and recognized ratably over the estimated customer relationship period.

We apply judgment when assessing the ultimate realization of receivables, including assessing the probability of collection and the current credit-worthiness of customers. We establish an allowance for doubtful accounts sufficient to cover probable and reasonably estimable losses. Our estimate of the allowance for doubtful accounts considers collection experience, aging of the accounts receivable, the credit quality of customer and, where necessary, other macro-economic factors.

Long-Lived and Intangible Assets. In accordance with the authoritative guidance regarding the accounting for impairments or disposals of long-lived assets and the authoritative guidance for the accounting for goodwill and other intangible assets, we evaluate the carrying value of our long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted cash flows attributable to the assets are less than their carrying amount. If an asset is deemed to be impaired, the amount of the impairment loss recognized represents the excess of the asset's carrying value as compared to its estimated fair value, based on management's assumptions and projections.

Our estimates of the future cash flows attributable to our long-lived assets and the fair value of our businesses involve significant uncertainty. Those estimates are based on management's assumptions of future results, growth trends and industry conditions. If those estimates are not met, we could have additional impairment charges in the future, and the amounts may be material.

We also assess the carrying value of goodwill and indefinite-lived intangible assets on an annual basis or whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The carrying value of each reporting unit, including goodwill assigned to that reporting unit, is compared to its fair value. If the fair value of the reporting unit does not exceed the carrying value of the reporting unit, including goodwill, an analysis is performed to determine if an impairment charge should be recorded.

We assess the recoverability of the value of our FCC licenses using a market approach. We believe that our FCC licenses have an indefinite life based on historical ability to renew such licenses, that such renewals may be obtained indefinitely and at little cost, and that the related technology used is not expected to be replaced in the foreseeable future. If the value of these assets was impaired by some factor, such as an adverse change in the subsidiary's operating market, we may be required to record an impairment charge. We test the impairment of our FCC licenses annually or whenever events or changes in circumstances indicate that such assets might be impaired. The impairment test consists of a comparison of the fair value of FCC licenses with their carrying amount on a license by license basis.

Contingencies. We are subject to proceedings, lawsuits, tax audits and other claims related to lawsuits and other legal and regulatory proceedings that arise in the ordinary course of business. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of loss accruals required, if any, for these contingencies are made after careful analysis of each individual issue. We consult with legal counsel and other experts where necessary in connection with our assessment of any contingencies. The required accrual for any such contingency may change materially in the future due to new developments or changes in each matter. We estimate these contingencies amount to approximately $36.8 million at December 31, 2010, the majority of which are not recorded on our books as we do not

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believe that an adverse outcome is probable. Adverse developments in these matters may result in the recording of liabilities to satisfy all or a portion of these claims.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures on significant transfers of assets and liabilities in and out of Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For exampd>

Not subject to mandatory redemption, $100 par value, authorized 1,491,000 shares, issued 10,288 shares at September 30, 2009 and December 31, 2008, respectively
1,029 1,029
Common shareholders' equity

Common stock, $1 par value, authorized 100,000,000 shares, issued 60,271,221 and 60,066,345 shares and outstanding 60,251,985 and 60,042,514 shares at September 30, 2009
and December 31, 2008, respectively
60,271 60,066
Premium on common stock
398,492 394,517
Retained earnings
668,103 615,514
Treasury stock, at cost, 19,236 and 23,831 shares at September 30, 2009 and December 31, 2008, respectively
(335) (428)
Accumulated other comprehensive loss
(10,464) (9,833)
Total common shareholders' equity
1,116,067 1,059,836
Total shareholders' equity
1,117,096 1,060,865
Total liabilities and shareholders' equity
$3,529,218 $3,341,204
The accompanying notes are an integral part of the condensed consolidated financial statements.

CLECO CORPORATION

Condensed Consolidated Statements of Cash Flows (Unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS)	2009	2008
Operating activities		
Net income	$93,530	$88,593
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,051	81,335
Loss (gain) on sale of assets	77	(99)
Provision for doubtful accounts	1,444	2,906
Return on equity investment in investees	750	8,690
Income from equity investments	(710)	(2,723)
Unearned compensation expense	4,388	2,994
Allowance for other funds used during construction	(52,341)	(46,462)
Amortization of investment tax credits	(999)	(1,035)
Net deferred income taxes	(6,061)	(10,098)
Deferred fuel costs	20,035	(25)
Loss on economic hedges	144	434
Cash surrender value of company-/trust-owned life insurance	(4,406)	2,603
Changes in assets and liabilities:		
Accounts receivable	1,351	(24,414)
Accounts and notes receivable, affiliate	(7,511)	14,373
Unbilled revenue	(3,537)	(1,583)
Fuel, materials and supplies inventory	(21,559)	(4,336)
Prepayments	1,761	1,725
Accounts payable	(40,667)	6,456
Accounts and notes payable, affiliate	(9,882)	(38,472)
Customer deposits	10,155	4,396
Post retirement benefit obligations	(13,339)	-
Regulatory assets and liabilities, net	34,201	32,119
Other deferred accounts	(33,299)	(63,971)
Retainage payable	(12,706)	10,551
Taxes accrued	188	22,874
Interest accrued	(396)	(2,289)
Risk management assets and liabilities, net	(2,337)	(8,827)
Other operating	(894)	1,387
Net cash provided by operating activities	53,431	77,102
Investing activities		
Additions to property, plant and equipment	(190,296)	(264,303)
Allowance for other funds used during construction	52,341	46,462
Proceeds from sale of property, plant and equipment	570	99
Return of equity investment in investees	850	95
Contributions to equity investees	(29,666)	(14,697)
Premiums paid on company-/trust-owned life insurance	(400)	(629)
Settlements received from insurance policies	-	941
Net transfer of cash from (to) restricted accounts	46,942	(44,625)
Other investing	-	599
Net cash used in investing activities	(119,659)	(276,058)
Financing activities		
Retirement of long-term obligations	(114,805)	(350,231)
Repayment of capital leases	(1,028)	(87)

Issuance of long-term debt	173,000	537,541
Deferred financing costs	(517)	(315)
Dividends paid on preferred stock	(35)	(35)
Dividends paid on common stock	(40,654)	(40,521)
Other financing	2,067	983
Net cash provided by financing activities	18,028	147,335
Net decrease in cash and cash equivalents	(48,200)	(51,621)
Cash and cash equivalents at beginning of period	97,483	129,013
Cash and cash equivalents at end of period	$49,283	$77,392
Supplementary cash flow information		
Interest paid (net of amount capitalized)	$51,327	$33,950
Income taxes paid	$8,131	$40,180
Supplementary non-cash investing and financing activities		
Issuance of treasury stock – LTICP	$93	$79
Issuance of common stock – LTICP/ESPP	$217	$93
Accrued additions to property, plant and equipment not reported above	$1,179	$10,868
Incurrence of capital lease obligation – barges	$22,050	$-

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

PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Cleco Power
These unaudited condensed consolidated financial statements should be read in conjunction with Cleco Power's Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."

CLECO POWER

Condensed Consolidated Statements of Income (Unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS)	2009	2008
Operating revenue		
Electric operations	$228,952	$333,936
Other operations	9,834	6,981
Affiliate revenue	349	425
Total operating revenue	239,135	341,342
Operating expenses		
Fuel used for electric generation	74,585	93,717
Power purchased for utility customers	61,943	150,502
Other operations	25,165	23,242
Maintenance	9,602	9,719
Depreciation	19,310	18,861
Taxes other than income taxes	7,809	8,732
Loss on sale of assets	70	-
Total operating expenses	198,484	304,773
Operating income	40,651	36,569
Interest income	341	1,545
Allowance for other funds used during construction	17,813	17,786
Other income	538	956
Other expense	(830)	(779)
Interest charges		
Interest charges, including amortization of debt expenses, premium, and discount	20,168	19,896
Allowance for borrowed funds used during construction	(6,523)	(4,923)
Total interest charges	13,645	14,973
Income before income taxes	44,868	41,104
Federal and state income taxes	1,316	10,566
Net income	$43,552	$30,538

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

CLECO POWER

Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009	2008
Operating revenue		
Electric operations	$627,469	$803,397
Other operations	25,609	29,757
Affiliate revenue	1,046	1,527
Total operating revenue	654,124	834,681
Operating expenses		
Fuel used for electric generation	213,213	162,140
Power purchased for utility customers	164,209	392,245
Other operations	72,814	65,862
Maintenance	32,705	32,556
Depreciation	57,339	56,886
Taxes other than income taxes	23,172	24,727
Loss on sale of assets	70	-
Total operating expenses	563,522	734,416
Operating income	90,602	100,265
Interest income	999	3,121
Allowance for other funds used during construction	52,341	46,462
Other income	2,138	1,172
Other expense	(2,985)	(1,643)
Interest charges		
Interest charges, including amortization of debt expenses, premium, and discount	59,443	45,961
Allowance for borrowed funds used during construction	(19,157)	(14,526)
Total interest charges	40,286	31,435
Income before income taxes	102,809	117,942
Federal and state income taxes	14,033	27,135
Net income	$88,776	$90,807

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

CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT SEPTEMBER 30, 2009	AT DECEMBER 31, 2008
Assets		
Utility plant and equipment		
Property, plant and equipment	$ 2,078,372	$ 1,999,119
Accumulated depreciation	(973,398)	(937,568)
Net property, plant and equipment	1,104,974	1,061,551
Construction work in progress	1,097,865	977,377
Total utility plant, net	2,202,839	2,038,928
Current assets		
Cash and cash equivalents	35,010	91,542
Restricted cash	25,124	62,311
Customer accounts receivable (less allowance for doubtful accounts of $1,576 in 2009 and $1,632 in 2008)	44,233	40,677
Other accounts receivable (less allowance for doubtful accounts of $22 in 2009 and $0 in 2008)	22,787	34,130
Taxes receivable	-	5,992
Accounts receivable – affiliate	2,452	2,059
Unbilled revenue	23,250	19,713
Fuel inventory, at average cost	75,191	57,221
Material and supplies inventory, at average cost	41,136	37,547
Risk management assets, net	4,679	368
Prepayments	2,273	3,099
Regulatory assets – other	9,878	2,553
Accumulated deferred fuel	27,288	69,154
Cash surrender value of life insurance policies	5,722	5,563
Other current assets	1,031	1,144
Total current assets	320,054	433,073
Prepayments	5,103	6,067
Restricted cash	30,820	40,574
Regulatory assets and liabilities – deferred taxes, net	227,947	174,804
Regulatory assets – other	206,386	158,206
Intangible asset	159,801	167,826
Other deferred charges	21,865	22,119
Total assets	$ 3,174,815	$ 3,041,597
Liabilities and member’s equity		
Member’s equity	$ 987,119	$ 929,178
Long-term debt, net	1,120,238	1,076,819
Total capitalization	2,107,357	2,005,997
Current liabilities		
Long-term debt due within one year	11,478	63,546
Accounts payable	65,974	109,450
Accounts payable – affiliate	6,325	7,536
Retainage	28	12,734
Customer deposits	33,155	27,155
Taxes accrued	36,011	-
Interest accrued	16,740	16,762
Accumulated deferred taxes, net	54,546	67,233
Risk management liability, net	17,521	30,109
Regulatory liabilities – other	27,570	392
Other current liabilities	10,353	10,200

Total current liabilities	279,701	345,117
Deferred credits		
Accumulated deferred federal and state income taxes, net	386,654	337,148
Accumulated deferred investment tax credits	10,287	11,286
Postretirement benefit obligations	113,391	128,373
Regulatory liabilities – other	155,746	85,496
Restricted storm reserve	25,090	27,411
Uncertain tax positions	54,509	54,306
Other deferred credits	42,080	46,463
Total deferred credits	787,757	690,483
Total liabilities and member’s equity	$ 3,174,815	$ 3,041,597

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

CLECO POWER

Condensed Consolidated Statements of Cash Flows (Unaudited)

(THOUSANDS)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009	2008
Operating activities		
Net income	$88,776	$90,807
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,496	63,543
Loss on sale of assets	70	-
Provision for doubtful accounts	1,444	2,901
Unearned compensation expense	1,348	867
Allowance for other funds used during construction	(52,341)	(46,462)
Amortization of investment tax credits	(999)	(1,035)
Net deferred income taxes	4,552	(4,577)
Deferred fuel costs	20,035	(25)
Loss on economic hedges	144	434
Cash surrender value of company-owned life insurance	(641)	(317)
Changes in assets and liabilities:		
Accounts receivable	2,273	(24,760)
Accounts and notes receivable, affiliate	(272)	15,209
Unbilled revenue	(3,537)	(1,583)
Fuel, materials and supplies inventory	(21,559)	(4,336)
Prepayments	2,272	1,636
Accounts payable	(36,375)	8,947
Accounts and notes payable, affiliate	(1,643)	(12,990)
Customer deposits	10,155	4,396
Post retirement benefit obligations	(14,982)	(772)
Regulatory assets and liabilities, net	34,201	32,119
Other deferred accounts	(31,404)	(68,764)
Retainage payable	(12,706)	10,551
Taxes accrued	42,003	17,872
Interest accrued	(22)	2,043
Risk management assets and liabilities, net	(2,337)	(8,827)
Other operating	60	2,191
Net cash provided by operating activities	95,011	79,068
Investing activities		
Additions to property, plant and equipment	(190,047)	(263,454)
Allowance for other funds used during construction	52,341	46,462
Proceeds from sale of property, plant and equipment	570	99
Premiums paid on company-owned life insurance	-	(424)
Net transfer of cash from (to) restricted accounts	46,942	(44,624)
Other investing	1	-
Net cash used in investing activities	(90,193)	(261,941)
Financing activities		
Retirement of long-term obligations	(114,805)	(250,231)
Repayment of capital leases	(1,028)	(87)
Issuance of long-term debt	85,000	489,541
Distribution to parent	(30,000)	-
Deferred financing costs	(517)	(315)
Net cash (used in) provided by financing activities	(61,350)	238,908
Net (decrease) increase in cash and cash equivalents	(56,532)	56,035

Cash and cash equivalents at beginning of period	91,542	11,944
Cash and cash equivalents at end of period	$35,010	$67,979
Supplementary cash flow information		
Interest paid (net of amount capitalized)	$50,086	$29,531
Income taxes paid	$8,104	$2,100
Supplementary non-cash investing and financing activities		
Accrued additions to property, plant and equipment not reported above	$1,179	$10,868
Incurrence of capital lease obligation – barges	$22,050	$-
The accompanying notes are an integral part of the condensed consolidated financial statements.		

Index to Applicable Notes to the Unaudited Condensed Consolidated Financial Statements of Registrants

Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1 — Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying condensed consolidated financial statements of Cleco include the accounts of Cleco and its majority-owned subsidiaries after elimination of intercompany accounts and transactions.

Using the authoritative guidance for variable interest entities, Cleco has determined that it is not the primary beneficiary of Evangeline, Perryville, Attala, and Acadia. Cleco determined it was not the primary beneficiary by examining all interests that could absorb expected losses and expected gains. This examination used assumptions about the expected rate of inflation, changes in the market price of natural gas as compared to the market price of electricity, length of contracts, variability of revenue stream as compared to variability of expenses, and maximum exposure to loss. Cleco reports its investment in these entities on the equity method of accounting. As a result, the assets and liabilities of these entities are represented by one line item corresponding to Cleco’s equity investment in these entities. The pre-tax results of operations of these entities are reported as equity income or loss from investees on Cleco Corporation’s Condensed Consolidated Statements of Income. For additional information on the operations of these entities, see Note 9 — “Equity Investment in Investees.”

Basis of Presentation

The condensed consolidated financial statements of Cleco Corporation and Cleco Power have been prepared pursuant to the rules and regulations of the SEC. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted; however, Cleco believes that the disclosures are adequate to make the information presented not misleading.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The unaudited financial information included in the condensed consolidated financial statements of Cleco Corporation and Cleco Power reflects all adjustments of a normal recurring nature which are, in the opinion of the management of Cleco Corporation and Cleco Power, necessary for a fair statement of the financial position and the results of operations for the interim periods. Information for interim periods is affected by seasonal variations in sales, rate changes, timing of fuel expense recovery and other factors, and is not indicative necessarily of the results that may be expected for the full fiscal year. For more information on recent accounting standards and their effect on financial results, see Note 2 — “Recent Accounting Standards.”

Restricted Cash

Various agreements to which Cleco is subject contain covenants that restrict its use of cash. As certain provisions under these agreements are met, cash is transferred out of related escrow accounts and becomes available for general corporate purposes. At September 30, 2009, and December 31, 2008, $56.0 million and $103.0 million of cash, respectively, were restricted. The $47.0 million decrease is primarily due to the use of $17.4 million of funds for GO Zone project costs, the release of $14.7 million for the construction of Cleco Power’s solid waste disposal facilities at Rodemacher Unit 3, a $12.7 million net decrease in Cleco Katrina/Rita restricted cash due to the payment of operating expenses, interest, and principal on storm recovery bonds, offset by collections, and Cleco Power’s use of $2.2 million for approved storm damage costs. At September 30, 2009, restricted cash consisted of $0.1 million under the Diversified Lands mitigation escrow agreement, $27.2 million reserved at Cleco Power for GO

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Zone project costs, $25.2 million reserved at Cleco Power for future storm restoration costs, and $3.5 million at Cleco Katrina/Rita restricted for payment of operating expenses, interest, and principal on storm recovery bonds.

Fair Value Measurements and Disclosures
Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally the date of acquisition or issuance. Cleco and Cleco Power are required to disclose the fair value of certain assets and liabilities by one of three levels when required for recognition purposes under GAAP. Other financial assets and liabilities, such as long-term debt, are reported at their carrying values at their date of issuance on the condensed consolidated balance sheets with their fair values disclosed without regard to the three levels. For more information about fair value levels, see Note 4 — "Fair Value Accounting."

Risk Management
Market risk inherent in Cleco Power's market risk-sensitive instruments and positions includes potential changes arising from changes in interest rates and the commodity market prices of power and natural gas on different energy exchanges. Cleco's Energy Market Risk Management Policy authorizes the use of various derivative instruments, including exchange traded futures and option contracts, forward purchase and sales contracts, and swap transactions to reduce exposure to fluctuations in the price of power and natural gas. Cleco uses the authoritative guidance as it relates to derivatives and hedging to determine whether the market risk-sensitive instruments and positions are required to be marked-to-market. Generally, Cleco Power's market risk-sensitive instruments and positions qualify for the normal-purchase, normal-sale exception to mark-to-market accounting because Cleco Power takes physical delivery and the instruments and positions are used to satisfy customer requirements. Cleco Power has entered into certain financial transactions it considers economic hedges to mitigate the risk associated with the fixed-price power to be provided to a wholesale customer through December 2010. The economic hedges cover approximately 98% of the estimated daily peak-hour power sales to the wholesale customer. These transactions meet the definition of derivatives but do not meet the accounting criteria to be considered hedges. These transactions are marked-to-market with the resulting gain or loss recorded on the income statement as a component of operating revenue. For the three and nine months ended September 30, 2009, and 2008, the following gains and losses related to these economic hedge transactions were recorded in other operations revenue.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS)	2009	2008	2009	2008
Realized (loss) gain	$(524)	$163	$(1,405)	$950
Mark-to-market gain (loss)	487	(4,940)	(144)	(433)
Total (loss) gain	$(37)	$(4,777)	$(1,549)	$517

Cleco Power has entered into other positions to mitigate the volatility in customer fuel costs. These positions are marked-to-market with the resulting gain or loss recorded on the balance sheet as a component of the accumulated deferred fuel asset or liability and a component of risk management assets or liabilities. When these positions close, actual gains or losses will be included in the fuel adjustment clause and reflected on customers' bills as a component of the fuel cost adjustment. Based on market prices at September 30, 2009, and December 31, 2008, the net mark-to-market impact relating to these positions were losses of $29.6 million and $57.4 million, respectively. The decreased loss is primarily due to the closing of certain natural gas positions. Deferred losses relating to closed natural gas positions totaled $6.4 million at September 30, 2009, and December 31, 2008.

Cleco Power maintains margin accounts with commodity brokers used to partially fund the acquisition of natural gas futures, options, and swap contracts. These contracts/positions are used to mitigate the risks associated with the fixed-price power sales and volatility in customer fuel costs noted above. At September 30, 2009, and December 31, 2008, Cleco Power had deposited net collateral of $12.5 million and $16.5 million, respectively, to cover margin requirements relating to open natural gas futures, options, and swap positions.

Cleco and Cleco Power maintain a master netting agreement policy and monitor credit risk exposure through review of counterparty credit quality, counterparty credit exposure, and counterparty concentration levels. Cleco manages these risks by establishing appropriate credit and concentration limits on transactions with counterparties and by requiring contractual guarantees, cash deposits, or letters of credit from counterparties or their affiliates, as deemed necessary. Cleco Power has agreements in place with various counterparties that authorize the netting of financial buys and sells and contract payments to mitigate credit risk for transactions entered into for risk management purposes.

In August 2009, Cleco Power entered into a $50.0 million bank loan with variable interest, paid monthly, calculated at 3.00% plus the one-month LIBOR. The loan matures on August 19, 2012, and can be repaid before maturity without penalty. In order to mitigate risk of the future floating interest rates, Cleco Power entered into an interest rate swap. Based on the notional amount of the bank loan, the swap requires a monthly net settlement between Cleco Power's fixed payment of 1.84% and the swap counterparty's floating payment of the one-month

LIBOR. The swap matures on May 31, 2012. Under the authoritative guidance for derivatives and hedging, the swap meets the criteria of a cash flow hedge. Changes in the swap's fair value related to the effective portion of cash flow hedges are recognized in other comprehensive income, whereas changes in the fair value related to the ineffective portion are recognized in earnings. As time passes and settlements are made, the swap's other comprehensive income fair values are reclassified into earnings as a component of interest expense. For the three and nine months ended September 30, 2009, there were $0.1 million of reclassification adjustments from other comprehensive income to interest expense. There was no impact to earnings due to ineffectiveness for the three or nine months ended September 30, 2009. For more information on accounting for derivatives, see Note 4 — "Fair Value Accounting."

Earnings per Average Common Share
The following table shows the calculation of basic and diluted earnings per share.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,					
			2009			2008
(THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS)	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT
Net income	$59,855			$37,133		
Deduct: non-participating stock dividends (4.5% preferred stock)	12			12		
Basic earnings per share						
Net income applicable to common stock	$59,843		$0.99	$37,121		$0.62
Total basic net income applicable to common stock	$59,843	60,234,243	$0.99	$37,121	60,031,962	$0.62
Effect of Dilutive Securities						
Add: stock option grants		28,578			62,289	
Add: restricted stock (LTICP)		293,947			197,365	
Diluted earnings per share						
Net income applicable to common stock	$59,843		$0.99	$37,121		$0.62
Total diluted net income applicable to common stock	$59,843	60,556,768	$0.99	$37,121	60,291,616	$0.62

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,					
			2009			2008
(THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS)	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT
Net income	$93,530			$88,593		
Deduct: non-participating stock dividends (4.5% preferred stock)	35			35		
Basic earnings per share						
Net income applicable to common stock	$93,495		$1.55	$88,558		$1.48
Total basic net income applicable to common stock	$93,495	60,167,644	$1.55	$88,558	59,975,190	$1.48
Effect of Dilutive Securities						
Add: stock option grants		26,269			63,833	
Add: restricted stock (LTICP)		196,541			107,478	
Diluted earnings per share						
Net income applicable to common stock	$93,495		$1.55	$88,558		$1.47
Total diluted net income applicable to common stock	$93,495	60,390,454	$1.55	$88,558	60,146,501	$1.47

During the first quarter of 2009, Cleco implemented an amendment to the authoritative guidance for calculating basic earnings per share. For additional information on Cleco's implementation of Codification Topic Earnings Per Share, see Note 2 — "Recent Accounting Standards."
Stock option grants are excluded from the computation of diluted earnings per share if the exercise price is higher than the average market price. There were no stock option grants excluded from the computation of diluted earnings per share for the three or nine months ended September 30, 2008, due to the average market price being higher than the exercise prices of the stock options. Stock option grants excluded

from the computation for the three and nine months ended September 30, 2009, are presented in the following tables.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009		
	STRIKE PRICE	AVERAGE MARKET PRICE	SHARES
Stock option grants excluded	24.00 $ -$24.25	$ 23.90	36,433

	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009		
	STRIKE PRICE	AVERAGE MARKET PRICE	SHARES
Stock option grants excluded	22.69 $ -$24.25	$ 22.50	69,433

Employee Stock Purchase Plan

In July 2000, Cleco Corporation’s Board of Directors ratified the adoption of a procedure providing for the automatic reinvestment of dividends (the “DRIP Feature”) received with respect to the stock held by participants in the ESPP. At that time, the Board of Directors reserved 20,000 shares of common stock (40,000 after giving effect for a 2-for-1 stock split) for issuance pursuant to the DRIP Feature. In January 2009, the Board of Directors approved and authorized an additional 50,000 shares of common stock to be reserved for issuance under the DRIP Feature of the ESPP.

Stock-Based Compensation

At September 30, 2009, Cleco had one share-based compensation plan: the LTICP. Options or restricted shares of Cleco Corporation common stock, known as non-vested stock
compensation, common stock equivalents, and stock appreciation rights may be granted to certain officers, key employees, or directors of Cleco Corporation and its subsidiaries pursuant to the LTICP.

On January 30, 2009, Cleco granted 97,149 shares of non-vested stock and 74,253 common stock equivalent units to

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certain officers, key employees, and directors of Cleco Corporation and its subsidiaries pursuant to the LTICP.
Cleco and Cleco Power reported pre-tax compensation expense for their share-based compensation plans as shown in the following table:

	CLECO CORPORATION		CLECO POWER		CLECO CORPORATION		CLECO POWER	
	FOR THE THREE MONTHS ENDED SEPTEMBER 30,				FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
(THOUSANDS)	2009	2008	2009	2008	2009	2008	2009	2008
Equity classification								
Non-vested stock	$ 563	$ 396	$ 150	$ 113	$ 1,618	$ 1,179	$ 432	$ 310
Stock options	13	14	-	-	38	42	-	-
Total	$ 576	$ 410	$ 150	$ 113	$ 1,656	$ 1,221	$ 432	$ 310
Liability classification								
Common stock equivalent units	$ 1,244	$ 827	$ 428	$ 308	$ 2,418	$ 1,504	$ 916	$ 557
Total pre-tax compensation expense	$ 1,820	$ 1,237	$ 578	$ 421	$ 4,074	$ 2,725	$ 1,348	$ 867
Tax benefit (excluding income tax gross-up)	$ 700	$ 476	$ 222	$ 162	$ 1,568	$ 1,049	$ 519	$ 334

Note 2 — Recent Accounting Standards

The Registrants adopted, or will adopt, the recent accounting standards listed below on their respective effective dates.
In April 2008, FASB amended the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This amendment allows an entity to use its own experience in renewing arrangements or to use market assumptions about renewal in determining the useful life of a recognized intangible asset. This amendment also requires additional disclosure about the renewal costs. This amendment is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this amendment did not have an impact on the financial condition or results of operations of the Registrants.
In June 2008, FASB amended the authoritative guidance on earnings per share to determine whether non-vested instruments issued in share-based payment transactions are participating securities when calculating earnings per share. This amendment states that non-vested share-based instruments that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are required to be included in the computation of earnings per share pursuant to the two-class method. This amendment is effective for fiscal years and interim periods beginning after December 15, 2008. Earnings per share for prior periods presented are required to be adjusted retrospectively to conform to this amendment. The implementation of this amendment did not have an impact on the financial condition or results of operations of the Registrants.
In September 2008, FASB amended the authoritative guidance on fair value measurements and disclosures for accounting and disclosure at fair value for liabilities that contain inseparable third-party credit enhancements. This amendment requires issuers of liabilities to exclude the third-party credit enhancement when calculating the fair value of the liability for both recognition and disclosure purposes. Also, proceeds received by the issuer for liabilities within the scope of this amendment represent consideration for both the liability and the credit enhancement and shall be allocated to both the liability and the premium for the credit enhancement. The provisions of this amendment are effective on a prospective basis in the first reporting period beginning on or after December 15, 2008. The implementation of this amendment did not have an impact on the financial condition or results of operations of the Registrants.
In December 2008, FASB amended the authoritative guidance for compensation as it relates to retirement benefits and an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan. This amendment also includes a technical change that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. This amendment is effective for the first fiscal year ending after December 15, 2009. Since the adoption of this amendment is a change in disclosure, the adoption will not have any effect on the financial condition or results of operations of the Registrants.
In February 2009, the SEC issued its final rules requiring public companies to provide the SEC with supplemental financial information in interactive data format using eXtensible Business Reporting Language or XBRL. The information will be provided as an exhibit to the related SEC filing. The Registrants are required to include certain financial information in XBRL format in certain SEC filings beginning with the fiscal period ending June 30, 2010.
On April 1, 2009, FASB amended the authoritative guidance on business combinations to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This amendment applies to all assets acquired and liabilities

assumed in a business combination that arise from contingencies that would be within the scope of the contingencies accounting standard if the contingency is not acquired or assumed in a business combination, except for assets and liabilities arising from contingencies that are subject to specific guidance in the business combinations accounting standard. An acquirer shall develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies depending on their nature. An acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effects of a business combination that occurs either during the current reporting period or after the reporting period but before the financial statements are issued. This amendment was effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this amendment had no impact on the financial condition or results of operations of the Registrants.

On April 9, 2009, FASB amended the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. If the fair value of a debt security is less than its amortized value, these amendments require companies to assess whether the impairment is recognized depending on a combination of its intent to sell the security and its ability to hold the security until recovery of its amortized cost basis. If an entity intends to sell the debt security or it is more likely than not the entity will be required to sell the security, an other-than-temporary impairment is considered to have occurred and an impairment expense equal to the difference between fair market value and amortized costs should be recognized. If an entity does not intend to sell the security and it is not more likely than not the entity will be required to sell the security, then the entity will only recognize the credit loss as an expense. The amount of loss relating to other factors will be recognized as a reduction in other comprehensive income. These amendments also include guidance on calculating credit loss and additional disclosures. These amendments are effective for interim and annual reporting periods ending after June 15, 2009. The implementation of these amendments did not have an impact on the financial condition or results of operations of the Registrants.

On April 9, 2009, FASB amended the accounting standard to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This amendment also includes guidance on identifying circumstances that indicate a transaction is not orderly. This amendment applies to all assets and liabilities within the scope of the fair value accounting standard. When weighing indications of fair value resulting from the use of multiple valuation techniques, a reporting entity shall consider the reasonableness of the range of fair value estimates. The objective is to determine the point within that range that is most representative of fair value under current market conditions. A reporting entity shall evaluate the circumstances to determine whether the transaction is orderly based on the weight of the evidence. In its determinations, a reporting entity need not undertake all possible efforts, but shall not ignore information that is available without undue cost and effort. A reporting entity would be expected to have sufficient information to conclude whether a transaction is orderly when it is party to the transaction. This amendment is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. This amendment does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this amendment requires comparative disclosures only for periods ending after initial adoption. The implementation of this amendment did not have an impact on the financial condition or results of operations of the Registrants.

On April 9, 2009, FASB amended the accounting standards which require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies. These amendments apply to all financial instruments within the scope of the authoritative guidance for financial instruments, financial services, and receivables held by publicly traded companies. A publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. These amendments shall be effective for interim reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. These amendments do not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, these amendments require comparative disclosures only for periods ending after initial adoption. Since the adoption of these amendments is only a change in disclosure, adoption did not have any effect on the financial condition or results of operations of the Registrants.

On June 4, 2009, FASB amended the authoritative guidance on accounting for events occurring subsequent to the balance sheet date, but before the issuance of financial statements. Certain subsequent events would require an entity to make adjustments to the financial statements and disclosure, whereas other events would only require disclosure. Additionally, all entities are required to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. This amendment is effective for financial statements issued for fiscal years and interim periods beginning after June 15, 2009. Implementation of this amendment did not have an impact on the financial condition or results of operations of the Registrants.

On June 12, 2009, FASB amended the authoritative guidance on transfer and servicing to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This amendment is effective for fiscal years beginning after November 15, 2009. Implementation of this amendment is not expected to have an impact on the financial condition or results of operations of the Registrants.

On June 12, 2009, FASB amended the authoritative guidance on consolidation which requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. In order to be the primary beneficiary of a variable interest entity, an enterprise must have (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Along with these criteria, an enterprise is now required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining (a) above. Also, the enterprise is required to perform ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. The quantitative approach previously required for determining the primary beneficiary has been eliminated. Additional disclosures are now required in order to provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. This amendment is effective for the first fiscal year beginning after November 15, 2009. Management is currently evaluating the impact this amendment will have on the financial condition and results of operations of the Registrants.

On June 29, 2009, FASB amended the authoritative guidance which identified the sources of accounting principles and the framework for selecting them. Codification has become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. This amendment was effective for financial statements issued for interim and annual periods ending after September 15, 2009.

On August 28, 2009, FASB amended the authoritative guidance on fair value measurements and disclosures in order to clarify the fair value of a liability. The best measurement of a liability would be a quoted price in an active market of the liability or an identical liability. If the quoted price of the liability is not available, then an entity could use a quoted price of the liability quoted as an asset, quoted prices of similar liabilities traded as assets, or a valuation technique consistent with the principles contained in the Fair Value Measurements and Disclosures Topic, such as present value. If an asset quote is used, the fair market value should be adjusted for factors specific to an asset that is not applicable to a liability. Regardless of the method used to determine fair value, restrictions on transfer of the liability should not be factored into the valuation of the liability. This amendment is effective for the first reporting period beginning after October 1, 2009. Management believes the adoption of this amendment will not have a material effect on the financial condition or results of operations of the Registrants.

In September 2009, FASB issued various technical corrections to the Codification that did not have a material effect on the financial condition or results of operations of the Registrants.

In September 2009, the FASB amended revenue recognition of arrangements with multiple deliverables. If an arrangement contains multiple deliverables, the selling entity must first determine the best estimate of the selling price of each deliverable. Then the selling entity must allocate the selling price of the entire arrangement based upon the relative best estimate of the selling price of each deliverable. This amendment also contains additional disclosures such as the nature of the arrangement, significant deliverables and general timing. This amendment is effective for arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Management is currently evaluating the impact this amendment will have on the financial condition or results of operations of the Registrants.

Note 3 — Regulatory Assets and Liabilities

Cleco Power follows the authoritative guidance of regulated operations which allows utilities to capitalize or defer certain costs based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered through the ratemaking process. The following chart summarizes Cleco Power's regulatory assets and liabilities at September 30, 2009, and December 31, 2008:

(THOUSANDS)	AT SEPTEMBER 30, 2009	AT DECEMBER 31, 2008
Regulatory assets and liabilities – deferred taxes, net	$ 227,947	$ 174,804
Deferred mining costs	$ 24,853	$ 26,811
Deferred interest costs	7,495	7,779
Deferred asset removal costs	698	658
Deferred postretirement plan costs	110,819	112,213
Deferred tree trimming costs	12,010	5,915
Deferred training costs	5,716	2,520
Deferred storm surcredit, net	5,842	4,863
Deferred construction carrying costs	48,831	-
Regulatory assets – other	$ 216,264	$ 160,759
Deferred fuel transportation revenue	$ (85)	$ (392)
Deferred construction carrying costs	(183,231)	(85,496)
Regulatory liabilities – other	$ (183,316)	$ (85,888)
Deferred fuel and purchased power	27,288	69,154
Total regulatory assets and liabilities, net	$ 288,183	$ 318,829

Deferred Taxes

Cleco Power has recorded a net regulatory asset related to deferred income taxes in accordance with the authoritative guidance on income taxes. The related regulatory asset or liability recorded represents the effect of tax benefits or detriments that must be flowed through to customers as they are received or paid. Generally, the recovery periods for regulatory assets and liabilities are based on assets' lives, which are typically 30 years or greater. The amounts deferred are attributable to differences between book and tax recovery periods. At September 30, 2009, Cleco Power had regulatory assets and liabilities – deferred taxes, net of $227.9 million. The $53.1 million increase from December 31, 2008, was primarily the result of the collection and deferral of carrying costs for Cleco Power's construction of Rodemacher Unit 3.

Deferred Tree Trimming Costs

In January 2008, the LPSC approved Cleco Power's request to establish a regulatory asset for costs incurred to trim, cut, or remove trees that were damaged by Hurricanes Katrina and Rita, but were not addressed as part of the restoration efforts. The regulatory asset is capped at $12.0 million in actual expenditures plus a 12.4% grossed-up rate of return. Recovery of these expenditures was requested in Cleco Power's base rate application filed on July 14, 2008, and was approved by the LPSC on October 14, 2009. At September 30, 2009, the regulatory asset consisted of $10.9 million of actual expenditures and $1.1 million related to the grossed-up rate of return.

Deferred Training Costs
In February 2008, the LPSC approved Cleco Power's request to establish a regulatory asset which is being charged with training costs associated with existing processes and technology for new employees at Rodemacher Unit 3. Recovery of these expenditures was requested in Cleco Power's base rate application filed on July 14, 2008, and were covered by the retail rate plan which was approved by the LPSC on October 14, 2009. At September 30, 2009, Cleco Power had deferred $5.7 million of Rodemacher Unit 3 training costs.

Deferred Storm Surcredit, net
Cleco Power has recorded a storm surcredit as the result of a settlement with the LPSC that addressed, among other things, the recovery of the storm damages related to Hurricanes Katrina and Rita. In the settlement, Cleco Power was required to implement a surcredit to provide ratepayers with the economic benefit of the carrying charges of all accumulated deferred income tax liabilities due to the storm damage costs at a 12.2% rate of return which was set in LPSC Order No. U-29157A. The accumulated deferred income tax liability includes deductions for operation and maintenance expense, casualty loss, and depreciation against taxable income in the year incurred and all subsequent periods. The settlement, through a true-up mechanism, allows the surcredit to be adjusted to reflect the actual tax deductions allowed by the IRS.
Cleco Power also was allowed to record a corresponding regulatory asset in an amount representing the flow back of the carrying charges to ratepayers. This amount is being amortized over the life of the storm recovery bonds. The corresponding regulatory asset will be adjusted through the same surcredit true-up mechanism at the time of a final determination of the tax benefit for storm damage costs by the IRS.
As a result of the settlement with the LPSC, Cleco Power was required to implement a surcredit when funds were withdrawn from the restricted storm reserve. In October 2008, Cleco Power withdrew funds from the restricted storm reserve to pay for damage caused by Hurricanes Gustav and Ike resulting in the establishment of a surcredit. However, rather than refunding this amount, Cleco Power requested and received approval from the LPSC to replenish the restricted storm reserve. At September 30, 2009, Cleco Power had $5.8 million in deferred storm surcredit, net.

Deferred Construction Carrying Costs
In February 2006, the LPSC approved Cleco Power's plans to build Rodemacher Unit 3. Terms of the approval included authorization for Cleco Power to collect from customers an amount equal to 75% of the LPSC-jurisdictional portion of the carrying costs of capital during the construction phase of the unit. In any calendar year during the construction period, the amount collected from customers is not to exceed 6.5% of Cleco Power's projected retail revenues. Cleco Power began collection of the carrying costs and established a regulatory liability in May 2006. As of September 30, 2009, Cleco Power had collected $134.4 million in construction carrying costs.
On October 14, 2009, the LPSC voted unanimously to approve Cleco Power's retail rate plan. The retail rate plan establishes that a minimum of $183.2 million be returned to customers over a five-year period and that Cleco Power will record a regulatory asset for all amounts above the actual amount collected from customers. At September 30, 2009, Cleco Power recognized the minimum regulatory liability of $183.2 million and the related regulatory asset of $48.8 million. Upon commercial operations of Rodemacher Unit 3, the regulatory asset will be amortized over a five-year period. At September 30, 2009, $27.5 million was due to be returned to customers within one year.

Deferred Fuel and Purchased Power Costs
The cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established fuel adjustment clause, which enables Cleco Power to pass on to its customers substantially all such charges. For the three months ended September 30, 2009, approximately 95% of Cleco Power's total fuel cost was regulated by the LPSC, while the remainder was regulated by FERC. Deferred fuel and purchased power costs recorded at September 30, 2009, and December 31, 2008, were under-recoveries of $27.3 million and $69.2 million, respectively, and are scheduled to be collected from customers in future months. The $41.9 million decrease in the under-recovered funds was primarily the result of a $27.8 million decreased loss in the mark-to-market of natural gas hedge positions due to the close of certain natural gas positions, and the collection of $14.9 million in additional fuel and purchased power costs. These decreases were partially offset by the deferral of $0.6 million in additional fuel and purchased power costs. For additional information on Cleco Power's treatment of natural gas hedges, see Note 1 — "Summary of Significant Accounting Policies — Risk Management."

Note 4 — Fair Value Accounting

The amounts reflected in the Condensed Consolidated Balance Sheets of Cleco and Cleco Power at September 30, 2009, and December 31, 2008, for cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and short-term debt approximate fair value because of their short-term nature. Estimates of the fair value of Cleco and Cleco Power's long-term debt and Cleco's nonconvertible preferred stock are based upon the quoted market price for the same or similar issues or by a discounted present value analysis of future cash flows using current rates obtained by Cleco and Cleco Power for debt and by Cleco for preferred stock with similar maturities.

The estimated fair value of energy market positions is based upon observed market prices when available. When such market prices are not available, management estimates market value at a discrete point in time by assessing market conditions and observed volatility. These estimates are subjective in nature and involve uncertainties. Therefore, actual results may differ from these estimates.

Cleco

(THOUSANDS)	AT SEPTEMBER 30, 2009 CARRYING VALUE	AT SEPTEMBER 30, 2009 ESTIMATED FAIR VALUE	AT DECEMBER 31, 2008 CARRYING VALUE	AT DECEMBER 31, 2008 ESTIMATED FAIR VALUE
Financial instruments not marked-to-market				
Cash and cash equivalents	$49,283	$49,283	$97,483	$97,483
Restricted cash	$56,040	$56,040	$102,982	$102,982
Long-term debt, excluding debt issuance costs	$1,232,545	$1,242,206	$1,172,874	$1,110,171
Preferred stock not subject to mandatory redemption	$1,029	$792	$1,029	$699

(THOUSANDS)	AT SEPTEMBER 30, 2009 ORIGINAL VALUE	OTHER UNREALIZED LOSSES DURING THE PERIOD	ESTIMATED FAIR VALUE	AT DECEMBER 31, 2008 ORIGINAL VALUE	OTHER UNREALIZED LOSSES DURING THE PERIOD	ESTIMATED FAIR VALUE
Financial instruments marked-to-market						
Energy market positions						
Assets	$104,075	$(17,064)	$86,487	$159,432	$(47,293)	$117,851
Liabilities	$151,943	$(12,942)	$139,001	$221,083	$(10,315)	$210,768
Interest rate swap liability	$-	$(833)	$833	$-	$-	$-

Cleco Power

(THOUSANDS)	AT SEPTEMBER 30, 2009 CARRYING VALUE	AT SEPTEMBER 30, 2009 ESTIMATED FAIR VALUE	AT DECEMBER 31, 2008 CARRYING VALUE	AT DECEMBER 31, 2008 ESTIMATED FAIR VALUE
Financial instruments not marked-to-market				
Cash and cash equivalents	$35,010	$35,010	$91,542	$91,542
Restricted cash	$55,944	$55,944	$102,885	$102,885
Long-term debt, excluding debt issuance costs	$1,114,545	$1,124,206	$1,142,874	$1,080,171

(THOUSANDS)	AT SEPTEMBER 30, 2009 ORIGINAL VALUE	OTHER UNREALIZED LOSSES DURING THE PERIOD	ESTIMATED FAIR VALUE	AT DECEMBER 31, 2008 ORIGINAL VALUE	OTHER UNREALIZED LOSSES DURING THE PERIOD	ESTIMATED FAIR VALUE
Financial instruments marked-to-market						
Energy market positions						
Assets	$104,075	$(17,064)	$86,487	$159,432	$(47,293)	$117,851
Liabilities	$151,943	$(12,942)	$139,001	$221,083	$(10,315)	$210,768
Interest rate swap liability	$-	$(833)	$833	$-	$-	$-

The financial instruments not marked-to-market are reported on Cleco's and Cleco Power's Consolidated Balance Sheets at carrying value. The financial instruments marked-to-market represent market risk recorded in the financial statements because, to the extent Cleco and Cleco Power have an open position, they are exposed to the risk that fluctuating market prices may adversely affect their financial condition or results of operations upon settlement. Original value represents the fair value of the positions at the time originated.

At September 30, 2009, Cleco and Cleco Power were exposed to concentration of credit risk through their short-term investments classified as cash equivalents. Cleco had $45.2 million in short-term investments in an institutional money market fund. If the money market funds failed to perform under the terms of the investment, Cleco would be exposed to a loss of the invested amounts. Cleco Power had $31.0 million in short-term investments in several institutional money market funds. If the money market funds failed to perform under the terms of the investments, Cleco Power would be exposed to a loss of the invested amounts. Collateral on these types of investments is not required by either Cleco or Cleco Power. In order to mitigate potential credit risk, Cleco and Cleco Power have established guidelines for short-term investments. Money market funds must have at least $1.0 billion in assets under management; must have been in existence for not less than two years; must have portfolios not comprised of more than 50% of securities issued by foreign entities; and must be rated in the top two ratings' categories by at least one nationally recognized rating agency. Commercial paper must be issued by a company with headquarters in the U.S. and rated not less than A1 by Standard & Poor's or P1 by Moody's. For split-rated issuers, the second rating must not be lower than either A2 or P2; the issuer's long-term debt must be rated not lower than A by Standard & Poor's or A2 by Moody's; and the issuer cannot be on negative credit watch. Investments in commercial paper rated A2 by Standard & Poor's or P2 by Moody's may be made if approved by the appropriate level of management.

Cleco Power was exposed to concentration of credit risk through its energy marketing assets. At September 30, 2009, Cleco Power had energy marketing assets with an estimated fair value of $86.5 million. These energy marketing assets represent open natural gas purchase positions, primarily financial hedge transactions. Cleco Power entered into these positions to mitigate the volatility in the cost of fuel purchased for utility generation and the risk associated with the fixed-price power that is being provided to a wholesale customer through December 2010. If the counterparties to these assets fail to perform under the terms of the investment, Cleco Power would be exposed to a loss of $86.5 million. For information about credit risk management and how these risks are mitigated on energy marketing assets, see Note 1 — "Summary of Significant Accounting Policies — Risk Management."

Interest Rate Swap

In August 2009, Cleco Power entered into a $50.0 million bank loan with variable interest, paid monthly, and calculated at 3.00% plus the one-month LIBOR. The loan matures on August 19, 2012, and can be repaid before maturity without penalty. In order to mitigate risk of the future floating interest rates, Cleco Power entered into an interest rate swap with JPMorgan Chase Bank, N.A. Based on the notional amount of the bank loan, the swap requires a monthly net settlement between Cleco Power's fixed payment of 1.84% and the swap counterparty's floating payment of the one-month LIBOR. The swap matures on May 31, 2012. Both the bank loan and the swap were effective the same day and require monthly payments near the end of the month. From the inception of the loan to September 30, 2009, Cleco Power recognized net interest expense equal to an annual rate of 4.84% on the bank loan. Since both the bank loan and the swap require payments near the end of the month, the cash payments are materially close to the interest expense recognized.

The swap is considered a derivative and is carried on the balance sheet at its fair value. Its fair value is calculated by the present value of the fixed payments as compared to expected future LIBOR rates. Since future LIBOR rates are not available for each month until termination, quoted LIBOR rates from an active exchange for observable time periods were used to create a forward "LIBOR curve" for all months until termination. Because of the inputs and common techniques used to calculate fair value, the swap valuation is considered Level 2. The notional amount of $50.0 million is only used to calculate the net interest payment and is not a part of the net settlement itself. As such, the repayment of the $50.0 million is excluded from the fair value calculation. The bank loan is carried on the balance sheet at the original issuance amount, less principal payments.

The swap meets the criteria of a cash flow hedge under the authoritative guidance as it relates to derivatives and hedging. Changes in the swap's fair value related to the effective portion are recognized in other comprehensive income, whereas changes in the fair value related to the ineffective portion are recognized in earnings. As time passes and settlements are made, the swap's other comprehensive income fair values are reclassified into earnings as a component of interest expense. For the three and nine months ended September 30, 2009, there were $0.1 million of reclassification adjustments from other comprehensive income to interest expense. There was no impact to earnings due to ineffectiveness for the three or nine months ended September 30, 2009.

Fair Value Measurements and Disclosures

Entities are required to classify assets and liabilities measured at their fair value according to three different levels depending on the inputs used in determining fair value.

- Level 1 – unadjusted quoted prices in active, liquid markets for the identical asset or liability;
- Level 2 – quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, including inputs that can be corroborated by observable market data, observable interest rate yield curves and volatilities;
- Level 3 – unobservable inputs based upon the entities' own assumptions.

The tables below disclose for Cleco and Cleco Power the fair value of financial assets and liabilities measured on a recurring basis and within the scope of the authoritative guidance for fair value measurements and disclosures.

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Cleco

CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:

(THOUSANDS)	AT SEPTEMBER 30, 2009	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DECEMBER 31, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description								
Energy market derivatives	$ 262	$ -	$ 262	$ -	$ 3,687	$ -	$ 3,687	$ -
Institutional money market funds	101,051	-	101,051	-	204,789	-	204,789	-
Total	$ 101,313	$ -	$ 101,313	$ -	$ 208,476	$ -	$ 208,476	$ -

CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:

(THOUSANDS)	AT SEPTEMBER 30, 2009	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DECEMBER 31, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Liability Description								
Energy market derivatives	$ 30,268	$ 9,672	$ 20,596	$ -	$ 61,295	$ 13,757	$ 47,538	$ -
Interest rate swap	833	-	833	-	-	-	-	-
Total	$ 31,101	$ 9,672	$ 21,429	$ -	$ 61,295	$ 13,757	$ 47,538	$ -

Cleco Power

CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:

(THOUSANDS)	AT SEPTEMBER 30, 2009	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DECEMBER 31, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description								
Energy market derivatives	$ 262	$ -	$ 262	$ -	$ 3,687	$ -	$ 3,687	$ -
Institutional money market funds	86,851	-	86,851	-	198,989	-	198,989	-
Total	$ 87,113	$ -	$ 87,113	$ -	$ 202,676	$ -	$ 202,676	$ -

CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:

(THOUSANDS)	AT SEPTEMBER 30, 2009	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DECEMBER 31, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Liability Description								
Energy market derivatives	$30,268	$ 9,672	$ 20,596	$ -	$ 61,295	$ 13,757	$ 47,538	$ -
Interest rate swap	833	-	833	-	-	-	-	-
Total	$31,101	$ 9,672	$ 21,429	$ -	$ 61,295	$ 13,757	$ 47,538	$ -

The derivative assets and liabilities are classified as either current or non-current depending on when the positions close. All energy market derivative current assets and current liabilities are reported as a net current risk management asset or liability. All energy market derivative non-current assets and non-current liabilities are reported net in other deferred charges or other deferred credits. Net presentation is appropriate due to the right of offset included in the master netting agreements. On the balance sheet, the net current and net non-current energy market derivative positions are netted with the applicable margin deposits. At September 30, 2009, a net current risk management asset of $4.7 million represented current deferred options. At September 30, 2009, a net current risk management liability of $17.5 million represented the current energy market derivative positions of $30.1 million reduced by current margin deposits of $12.6 million. The non-current asset energy market derivative positions of $0.1 million reduced by non-current margin collections of less than $0.1 million were recorded in other deferred credits. The $101.1 million in institutional money market funds was reported on the Cleco Consolidated balance sheet in cash and cash equivalents, current restricted cash, and non-current restricted cash in the amounts of $45.2 million, $25.1 million, and $30.8 million, respectively. At Cleco Power, cash and cash equivalents, current restricted cash, and restricted non-current cash were $31.0 million, $25.1 million, and $30.8 million, respectively, as of September 30, 2009.

Cleco utilizes different valuation techniques for fair value calculations. In order to measure the fair value for Level 1 assets and liabilities, Cleco obtains the closing price from published indices in active markets for the various instruments and multiplies this price by the appropriate number of instruments held. Level 2 fair values for assets and liabilities are determined by obtaining the closing price from published indices in active markets for instruments that are similar to Cleco's assets and liabilities. The fair value obtained is then discounted to the current period using a U.S. Treasury published interest rate as a proxy for a risk-free rate of return. For some options, Cleco uses the Black-Scholes model using observable and available inputs to calculate the fair value, consistent with the income approach. These techniques have been applied consistently from fiscal period to fiscal period. Level 3 fair values allow for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Cleco had no Level 3 assets or liabilities at September 30, 2009, or December 31, 2008.

Derivatives and Hedging

A disclosure amendment to the authoritative guidance on derivatives and hedging which requires entities to provide greater transparency in interim and annual financial statements became effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This amendment requires enhanced disclosures about a company's derivative activities and how the related hedged items affect a company's financial position, financial performance and cash flows. Cleco is required to provide qualitative disclosures about derivative fair value, gains and losses, and credit-risk-related contingent features in derivative agreements.

The following table presents the fair values of derivative instruments and their respective line item as recorded on the Condensed Consolidated Balance Sheets of Cleco and Cleco Power at September 30, 2009:

(THOUSANDS) AT SEPTEMBER 30, 2009	DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS LIABILITY DERIVATIVES BALANCE SHEET LINE ITEM	FAIR VALUE	
Commodity contracts			
Economic hedges:			
Current	Risk management liability, net	$	(397)
Long-term	Other deferred charges		16
Fuel cost hedges:			
Current	Risk management liability, net		(29,752)
Long-term	Other deferred charges		127
Total		$	(30,006)

The following table presents the effect of derivatives not designated as hedging instruments on Cleco and Cleco Power's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2009:

(THOUSANDS)	LOSS IN INCOME OF DERIVATIVES LINE ITEM	AMOUNT OF LOSS RECOGNIZED IN INCOME ON DERIVATIVES THREE MONTHS ENDED SEPTEMBER 30, 2009			AMOUNT OF LOSS RECOGNIZED IN INCOME ON DERIVATIVES NINE MONTHS ENDED SEPTEMBER 30, 2009		
Commodity contracts							
Economic hedges	Other operations revenue	$	37	(1)	$	1,549	(2)
Fuel cost hedges(3)	Fuel used for electric generation		28,271			74,632	
Total		$	28,308		$	76,181	

(1)For the three months ended September 30, 2009, Cleco recognized $0.5 million of mark-to-market gains related to economic hedges.

(2)For the nine months ended September 30, 2009, Cleco recognized $0.1 million of mark-to-market losses related to economic hedges.

(3)In accordance with the authoritative guidance for regulated operations, an additional $29.6 million of unrealized losses and $6.4 million of deferred losses associated with fuel cost hedges are reported in Accumulated Deferred Fuel on the balance sheet. As gains and losses are realized in

future periods, they will be recorded as Fuel Used for Electric Generation on the Income Statement. For more information, see Note 3 — "Regulatory Assets and Liabilities — Deferred Fuel and Purchased Power Costs."

At September 30, 2009, Cleco had 17.01 million MMBtus of natural gas fuel cost hedge contracts, which is approximately 29% of the estimated natural gas requirements for a two-year period. Cleco had an additional 56,000 MMBtus hedged through 2010, resulting from economic hedges, which is approximately 90% of the estimated daily peak-hour sales to a wholesale customer.
The following table presents the fair values of derivatives designated as hedging instruments and their respective line item as recorded on the Condensed Consolidated Balance Sheets of Cleco and Cleco Power at September 30, 2009:

	DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS LIABILITY DERIVATIVES	
(THOUSANDS) AT SEPTEMBER 30, 2009	BALANCE SHEET LINE ITEM	FAIR VALUE
Cash flow hedges:		
	Other current liabilities	$ 533
	Other deferred credits	300
Total		$ 833

The following table presents the effect of derivatives designated as hedging instruments on Cleco and Cleco Power's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2009:

(THOUSANDS)	AMOUNT OF LOSS RECOGNIZED IN OCI THREE MONTHS ENDED SEPTEMBER 30, 2009	LOCATION OF LOSS RECLASSIFIED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION)	AMOUNT OF LOSS RECLASSED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION) THREE MONTHS ENDED SEPTEMBER 30, 2009
Interest rate swap	$ 925	Interest charges	$ 94

(THOUSANDS)	AMOUNT OF LOSS RECOGNIZED IN OCI NINE MONTHS ENDED SEPTEMBER 30, 2009	LOCATION OF LOSS RECLASSIFIED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION)	AMOUNT OF LOSS RECLASSED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION) NINE MONTHS ENDED

				SEPTEMBER 30, 2009	
Interest rate swap	$	925	Interest charges	$	94

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Cleco and Cleco Power did not record any expense related to the ineffectiveness of hedges for the three or nine months ended September 30, 2009. For additional information, see "— Interest Rate Swap."

Note 5 — Debt

Long-term Debt

Cleco had no short-term debt outstanding at September 30, 2009, or December 31, 2008. At September 30, 2009, Cleco's long-term debt outstanding was $1.2 billion, of which $11.5 million was due within one year, compared to $1.2 billion outstanding at December 31, 2008, which included $63.5 million due within one year. The long-term debt due within one year at September 30, 2009, represents $11.5 million of principal payments for the Cleco Katrina/Rita storm recovery bonds scheduled to be paid in the next twelve months. For Cleco, long-term debt increased $79.4 million primarily due to an $88.0 million increase in Cleco Corporation's credit facility draws, the execution of a $50.0 million variable-rate monthly bank loan in August 2009, a $35.0 million increase in Cleco Power's credit facility draws, and a $19.5 million increase in long-term capital leases. These increases were partially offset by the $50.0 million repayment of a medium-term note at maturity in May 2009, the $49.5 million repayment of insured quarterly notes in August 2009, and $13.5 million related to Cleco Katrina/Rita storm recovery bond principal payments made in March and September 2009. During January 2009, Cleco Power entered into a lease agreement for barges to be used for fuel transportation for Rodemacher Unit 3. For additional information, see Note 10 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Contingencies — Fuel Transportation Agreement."

Cleco Power had no short-term debt outstanding at September 30, 2009, or December 31, 2008. At September 30, 2009, Cleco Power's long-term debt outstanding was $1.1 billion, of which $11.5 million was due within one year, compared to $1.1 billion outstanding at December 31, 2008, of which $63.5 million was due within one year. The long-term debt due within one year at September 30, 2009, represents principal payments for the Cleco Katrina/Rita storm recovery bonds scheduled to be paid in the next twelve months. For Cleco Power, long-term debt decreased $8.6 million primarily due to the $50.0 million repayment of a medium-term note at maturity in May 2009, the $49.5 million repayment of insured quarterly notes in August 2009, and $13.5 million related to Cleco Katrina/Rita storm recovery bond principal payments made in March and September 2009. These decreases were partially offset by the issuance of a $50.0 million variable-rate monthly bank loan in August 2009, an increase of $35.0 million in Cleco Power's credit facility draws, and a $19.5 million increase in long-term capital leases. During January 2009, Cleco Power entered into a lease agreement for barges to be used for fuel transportation for Rodemacher Unit 3. For additional information, see Note 10 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Contingencies — Fuel Transportation Agreement."

In August 2009, Cleco Power redeemed all $49.5 million principal amount of its outstanding 6.05% insured quarterly notes due June 2012. The notes were replaced with a one-month LIBOR plus 3.00% floating rate bank loan maturing on August 19, 2012. In July 2009, Cleco Power locked in a $50.0 million interest rate swap arrangement related to this loan. This swap was effective on August 19, 2009 and will mature on May 31, 2012. For additional information, see Note 4 — "Fair Value Accounting — Interest Rate Swap."

In August 2009, Cleco Corporation and the lenders under its $150.0 million five-year credit facility amended the credit facility to increase the threshold in a representation that the present value of all accumulated benefit obligations under Cleco's pension plan is allowed to exceed the fair market value of the assets of the plan. At December 31, 2008, the present value of all accumulated benefit obligations under the pension plan exceeded the fair market value of the plan assets by approximately $61.4 million. In connection with the amendment, the lenders under the credit facility waived each event of default relating to the breach of the representation from December 31, 2008, to the date of the amendment. In connection with the waiver and amendment, Cleco Corporation paid the lenders approximately $0.1 million, which fees are included in interest expense for the three months ended September 30, 2009.

In August 2009, Cleco Power and the lenders under its $275.0 million five-year credit facility amended the credit facility to increase the threshold in a representation that the present value of all accumulated benefit obligations under Cleco's pension plan is allowed to exceed the fair market value of the assets of the plan. At December 31, 2008, the present value of all accumulated benefit obligations under the pension plan exceeded the fair market value of the plan assets by approximately $61.4 million. In connection with the amendment, the lenders under the credit facility waived each event of default relating to the breach of the representation from December 31, 2008, to the date of the amendment. In connection with the waiver and amendment, Cleco Power paid the lenders approximately $0.1 million, which fees are included in interest expense for the three months ended September 30, 2009.

Note 6 — Pension Plan and Employee Benefits

Pension Plan and Other Benefits Plan

Most employees hired before August 1, 2007 are covered by a non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and highest total average compensation for any consecutive five calendar years during the last 10 years of employment with Cleco Corporation. Cleco Corporation's policy is to base its contributions to the employee pension plan upon actuarial computations utilizing the projected unit credit method, subject to the IRS's full funding limitation. During the nine months ended September 30, 2009, $18.8 million of discretionary contributions were made to the pension plan for the 2008 plan year. Cleco Power expects to be required to make

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an additional $72.0 million in contributions to the pension plan over the next five years, including $4.8 million in 2010. The required contributions are driven by liability funding target percentages set by law which could cause the required contributions to be uneven among the years. The ultimate amount and timing of the contributions will be affected by changes in the discount rate, changes in the funding regulations, and actual returns on fund assets. Cleco Power is considered the plan sponsor, and Support Group is considered the plan administrator.
Cleco Corporation's retirees and their dependents are eligible to receive medical, dental, vision, and life insurance benefits (other benefits). Cleco Corporation recognizes the expected cost of these other benefits during the periods in which the benefits are earned.
The components of net periodic pension and other benefit cost for the three and nine months ended September 30, 2009, and 2008, are as follows:

	PENSION BENEFITS		OTHER BENEFITS	
	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
(THOUSANDS)	2009	2008	2009	2008
Components of periodic benefit costs				
Service cost	$1,798	$1,470	$355	$339
Interest cost	4,150	3,964	614	454
Expected return on plan assets	(4,450)	(5,044)	-	-
Transition obligation	-	-	5	5
Prior period service credit (cost)	432	(18)	(516)	(518)
Net loss	-	-	209	196
Net periodic benefit cost	$1,930	$372	$667	$476

	PENSION BENEFITS		OTHER BENEFITS	
	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
(THOUSANDS)	2009	2008	2009	2008
Components of periodic benefit costs				
Service cost	$5,257	$4,409	$1,060	$1,059
Interest cost	12,340	11,892	1,605	1,486
Expected return on plan assets	(14,597)	(15,133)	-	-
Transition obligation	-	-	15	15
Prior period service credit (cost)	1,394	(53)	(1,548)	(1,549)
Net loss	-	-	672	695
Net periodic benefit cost	$4,394	$1,115	$1,804	$1,706

Since Cleco Power is the pension plan sponsor and the related trust holds the assets, the prepaid benefit cost of the pension plan is reflected at Cleco Power. The liability of Cleco Corporation's other subsidiaries is transferred, with a like amount of assets, to Cleco Power monthly. The expense of the pension plan related to Cleco Corporation's other subsidiaries for the three and nine months ended September 30, 2009, was $0.5 million and $1.4 million, respectively, compared to $0.4 million and $1.1 million for the same periods in 2008.
Cleco Corporation is the plan sponsor for the other benefit plans. There are no assets set aside in a trust, and the liabilities are reported on the individual subsidiaries' financial statements. The expense related to other benefits reflected in Cleco Power's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2009, was $0.6 million and $1.5 million, respectively, net of Medicare Part D subsidy of $0.1 million and $0.3 million, respectively. For the same periods in 2008, Cleco Power recognized $0.5 million and $1.4 million of expense, respectively, net of Medicare Part D subsidy of $0.1 million and $0.2 million, respectively.

SERP
Certain Cleco executive officers are covered by the SERP. The SERP is a non-qualified, non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and the sum of the highest base salary paid out of the last five calendar years and the average of the three highest annual bonuses paid during the 60 months prior to retirement, reduced by benefits received from any other defined benefit pension plan, SERP Plan or Cleco contributions under the enhanced 401(k) Plan to the extent such contributions exceed the limits of the 401(k) Plan. Cleco Corporation does not fund the SERP liability, but instead pays for current benefits out of the general funds available. Cleco Power has formed a Rabbi Trust designated as the beneficiary for life insurance policies issued on the SERP participants. Proceeds from the life insurance policies are expected to be used to pay the SERP participants' life insurance benefits, as well as future SERP benefit payments. However, since SERP is a non-qualified plan, the assets of the trust could be used to satisfy general creditors of Cleco Power in the event of insolvency. All SERP benefits are paid out of the general cash available of the respective companies from which the officer retired. No contributions to the SERP were made during the nine months ended September 30, 2009, or 2008. Cleco Power is considered the plan sponsor, and Support Group is considered the plan administrator.
The components of the net SERP cost are as follows:

(THOUSANDS)	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009	2008	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009	2008
Components of periodic benefit costs				
Service cost	$456	$329	$1,206	$1,046
Interest cost	111	534	1,511	1,424
Prior period service cost	13	13	40	40
Net loss (gain)	76	(15)	583	492
Net periodic benefit cost	$656	$861	$3,340	$3,002

The SERP liabilities are reported on the individual subsidiaries' financial statements. The expense related to the SERP reflected on Cleco Power's Consolidated Statements of Income was $0.1 million and $0.8 million for the three and nine months ended September 30, 2009, respectively, compared to $0.2 million and $0.7 million for the same periods in 2008.

401(k) Plan

Most employees are eligible to participate in the 401(k) Plan. In August 2007, Cleco Corporation's Board of Directors approved an amendment to the 401(k) Plan to provide an enhanced 401(k) benefit for employees not otherwise eligible to participate in Cleco's pension plan. Beginning January 2008, Cleco Corporation made matching contributions and funded dividend reinvestments related to Cleco Corporation common stock with cash. The table below contains information about the 401(k) Plan.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS)	2009	2008	2009	2008
401(k) Plan expense	$903	$970	$2,853	$2,661

Cleco Power is the plan sponsor for the 401(k) Plan. The expense of the 401(k) Plan related to Cleco Corporation's other subsidiaries for the three and nine months ended September 30, 2009, was $0.2 million and $0.8 million, respectively, compared to $0.3 million and $0.7 million for the same periods in 2008.

Note 7 — Income Taxes

The following tables summarize the effective income tax rates for Cleco Corporation and Cleco Power for the three- and nine-month periods ended September 30, 2009, and 2008.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS)	2009	2008	2009	2008
Cleco Corporation	7.7%	22.1%	12.4%	20.3%
Cleco Power	2.9%	25.7%	13.6%	23.0%

For the three- and nine-month periods ended September 30, 2009 and 2008, the effective income tax rate for Cleco Corporation and Cleco Power was less than the federal statutory rate primarily due to the flow-through of tax benefits associated with AFUDC equity recorded as a result of the construction of Rodemacher Unit 3. During the second quarter of 2009, the IRS issued its report for the tax years 2001 through 2003. The unagreed upon issues relate to the recovery period of the Evangeline facility and bonus depreciation related to the Perryville facility. These issues were appealed by Cleco and are appropriately included in tax reserves in the financial statements. Cleco is currently under federal and state audits for fiscal years 2004 through 2007. It is reasonably possible that the unrecognized tax benefits could increase or decrease by $20.4 million over the next twelve months as the unagreed upon issues are resolved. A potential change would not have a material impact on the Registrants' respective annual effective tax rate.

Note 8 — Disclosures about Segments

Cleco's reportable segments are based on its method of internal reporting, which disaggregates business units by first-tier subsidiary. Cleco's reportable segments are Cleco Power and Midstream. The reconciling items in the following tables consist of the holding company, a shared services subsidiary, two transmission interconnection facilities, and an investment subsidiary.

Each reportable segment engages in business activities from which it earns revenue and incurs expenses. Segment managers report periodically to Cleco's Chief Executive Officer (the chief operating decision-maker) with discrete financial information and, at least quarterly, present discrete financial information to Cleco Corporation's Board of Directors. Each reportable segment prepared budgets for 2009 that were presented to and approved by Cleco Corporation's Board of Directors.

The financial results of Cleco's segments are presented on an accrual basis. Management evaluates the performance of its segments and allocates resources to them based on segment profit and the requirements to implement new strategic initiatives and projects to meet current business objectives. Material intercompany transactions occur on a regular basis. These intercompany transactions relate primarily to joint and common administrative support services provided by Support Group.

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SEGMENT INFORMATION FOR THE THREE MONTHS ENDED SEPTEMBER 30,

2009 (THOUSANDS)	CLECO POWER	MIDSTREAM	RECONCILING ITEMS	ELIMINATIONS	CONSOLIDATED
Revenue					
Electric operations	$228,952	$ -	$ -	$ -	$ 228,952
Other operations	9,834	-	27	(2)	9,859
Affiliate revenue	6	2,087	596	-	2,689
Intercompany revenue	343	-	11,372	(11,715)	-
Operating revenue	$239,135	$ 2,087	$ 11,995	$ (11,717)	$ 241,500
Depreciation expense	$19,310	$ 44	$ 266	$ -	$ 19,620
Interest charges	$13,645	$ 1,396	$ (2,895)	$ (1,308)	$ 10,838
Interest income	$341	$ -	$ 1,336	$ (1,308)	$ 369
Equity income from investees	$ -	$ 15,108	$ 479	$ -	$ 15,587
Federal and state income tax expense (benefit)	$1,316	$ 4,923	$ (1,256)	$ -	$ 4,983
Segment profit (1)	$43,552	$ 8,412	$ 7,891	$ -	$ 59,855
Additions to long-lived assets	$61,837	$ 3	$ (182)	$ -	$ 61,658
Equity investment in investees	$ -	$ 247,713	$ 129,514	$ (114,755)	$ 262,472
Total segment assets	$3,174,815	$ 265,786	$ 403,053	$ (314,436)	$ 3,529,218
(1) Reconciliation of segment profit to consolidated profit:	Segment profit			$ 59,855	
	Unallocated items:				
	Preferred dividends requirements, net of tax			12	
	Net income applicable to common stock			$ 59,843	

2008 (THOUSANDS)	CLECO POWER	MIDSTREAM	RECONCILING ITEMS	ELIMINATIONS	CONSOLIDATED
Revenue					
Electric operations	$333,936	$ -	$ -	$ -	$ 333,936
Other operations	6,981	-	25	(2)	7,004
Affiliate revenue	7	2,143	585	-	2,735
Intercompany revenue	418	(12)	10,974	(11,380)	-
Operating revenue, net	$341,342	$ 2,131	$ 11,584	$ (11,382)	$ 343,675
Depreciation expense	$18,861	$ 78	$ 344	$ -	$ 19,283
Interest charges	$14,973	$ 1,566	$ 722	$ (1,565)	$ 15,696
Interest income	$1,545	$ -	$ 1,689	$ (1,565)	$ 1,669
Equity income from investees	$ -	$ 9,223	$ 439	$ -	$ 9,662
Federal and state income tax expense (benefit)	$10,566	$ 2,383	$ (2,436)	$ -	$ 10,513
Segment profit (1)	$30,538	$ 4,573	$ 2,022	$ -	$ 37,133
Additions to long-lived assets	$61,327	$ 23	$ 242	$ -	$ 61,592
Equity investment in investees (2)	$ -	$ 234,273	$ 14,871	$ -	$ 249,144
Total segment assets (2)	$3,041,597	$ 250,882	$ 324,232	$ (275,507)	$ 3,341,204
(1) Reconciliation of segment profit to consolidated profit:	Segment profit			$ 37,133	
(2) Balances as of December 31, 2008	Unallocated items:				
				12	

Preferred dividends requirements, net of tax	
Net income applicable to common stock	$ 37,121

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SEGMENT INFORMATION FOR THE NINE MONTHS ENDED SEPTEMBER 30,

2009 (THOUSANDS)	CLECO POWER	MIDSTREAM	RECONCILING ITEMS	ELIMINATIONS	CONSOLIDATED
Revenue					
Electric operations	$627,469	$ -	$ -	$ -	$ 627,469
Other operations	25,609	1	78	(8)	25,680
Affiliate revenue	17	6,627	1,869	-	8,513
Intercompany revenue	1,029	-	31,987	(33,016)	-
Operating revenue	$654,124	$ 6,628	$ 33,934	$ (33,024)	$ 661,662
Depreciation expense	$57,339	$ 132	$ 762	$ -	$ 58,233
Interest charges	$40,286	$ 6,034	$ (2,692)	$ (3,958)	$ 39,670
Interest income	$999	$ -	$ 4,010	$ (3,958)	$ 1,051
Equity (loss) income from investees	$ -	$ (782)	$ 1,492	$ -	$ 710
Federal and state income tax expense (benefit)	$14,033	$ (3,469)	$ 2,694	$ -	$ 13,258
Segment profit (loss) (1)	$88,776	$ (4,997)	$ 9,751	$ -	$ 93,530
Additions to long-lived assets	$183,248	$ 54	$ 194	$ -	$ 183,496
Equity investment in investees	$ -	$ 247,713	$ 129,514	$ (114,755)	$ 262,472
Total segment assets	$3,174,815	$ 265,786	$ 403,053	$ (314,436)	$ 3,529,218
(1) Reconciliation of segment profit to consolidated profit:	Segment profit			$ 93,530	
	Unallocated items:				
	Preferred dividends requirements, net of tax			35	
	Net income applicable to common stock			$ 93,495	

2008 (THOUSANDS)	CLECO POWER	MIDSTREAM	RECONCILING ITEMS	ELIMINATIONS	CONSOLIDATED
Revenue					
Electric operations	$ 803,397	$ -	$ -	$ -	$ 803,397
Other operations	29,757	1	76	(8)	29,826
Affiliate revenue	21	5,892	1,877	-	7,790
Intercompany revenue	1,506	-	30,859	(32,365)	-
Operating revenue	$ 834,681	$ 5,893	$ 32,812	$ (32,373)	$ 841,013
Depreciation expense	$ 56,886	$ 230	$ 854	$ -	$ 57,970
Interest charges	$ 31,435	$ 5,057	$ 3,943	$ (5,077)	$ 35,358
Interest income	$ 3,121	$ -	$ 6,498	$ (5,075)	$ 4,544
Equity income from investees	$ -	$ 1,660	$ 1,063	$ -	$ 2,723
Federal and state income tax expense (benefit)	$ 27,135	$ (2,298)	$ (2,264)	$ -	$ 22,573
Segment profit (loss) (1)	$ 90,807	$ (2,955)	$ 741	$ -	$ 88,593
Additions to long-lived assets	$ 244,143	$ 63	$ 786	$ -	$ 244,992
Equity investment in investees (2)	$ -	$ 234,273	$ 14,871	$ -	$ 249,144
Total segment assets (2)	$ 3,041,597	$ 250,882	$ 324,232	$ (275,507)	$ 3,341,204
(1) Reconciliation of segment profit to consolidated profit:	Segment profit			$ 88,593	
(2) Balances as of December 31, 2008	Unallocated items:				
				35	

Preferred dividends requirements, net of tax	
Net income applicable to common stock	$ 88,558

Note 9 — Equity Investment in Investees

Cleco reports its investment in Acadia, Evangeline, and certain other subsidiaries on the equity method of accounting. Under the equity method, the assets and liabilities of these entities are reported as equity investment in investees on Cleco Corporation's Condensed Consolidated Balance Sheets. The revenue and expenses (excluding income taxes) of these entities are netted and reported as equity income or loss from investees on Cleco Corporation's Condensed Consolidated Statements of Income.

Equity investment in investees at September 30, 2009, represents primarily Midstream's $181.0 million investment in Acadia, owned 50% by APH and 50% by Cajun, and its $66.7 million investment in Evangeline, owned 100% by Midstream. Equity investment in investees also represents a $7.1 million investment in Attala and a $7.6 million equity investment in Perryville, both owned 100% by Cleco Corporation. Equity investments which are less than 100% owned by Cleco Innovations LLC represent less than $0.1 million of the total balance.

The following table presents the equity (loss) income from each investment accounted for using the equity method.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS)	2009	2008
Acadia	$ (700)	$ (1,091)
Evangeline	15,808	10,314
Other subsidiaries 100% owned by Cleco Corporation	470	439
Subsidiary less than 100% owned by Cleco Innovations	9	-
Total equity income	$ 15,587	$ 9,662

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(THOUSANDS)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009	2008
Acadia	$(11,588)	$(7,869)
Evangeline	10,806	9,529
Other subsidiaries 100% owned by Cleco Corporation	1,483	1,063
Subsidiary less than 100% owned by Cleco Innovations	9	-
Total equity income	$710	$2,723

Acadia
Since Acadia is owned 50% by APH and 50% by Cajun, neither owner is the primary beneficiary, and Acadia is accounted for as an equity method investment. Cleco's current assessment of its maximum exposure to loss related to Acadia at September 30, 2009, consists of its equity investment of $181.0 million. The table below presents the components of Midstream's equity investment in Acadia.

INCEPTION TO DATE (THOUSANDS)	AT SEPTEMBER 30, 2009	AT DECEMBER 31, 2008
Contributed assets (cash and land)	$ 272,956	$259,019
Income before taxes	148,855	160,444
Impairment of investment	(45,847)	(45,847)
Capitalized interest and other	19,722	19,722
Less: non-cash distribution	78,200	78,200
Less: cash distributions	136,464	136,464
Total equity investment in investee	$ 181,022	$178,674

The $78.2 million non-cash distribution is the distribution of the Calpine Energy Services, L.P. claim from Acadia to APH. The cash distributions of $136.5 million were used to pay interest and repay principal on a loan from Cleco Corporation relating to this investment. Midstream's equity, as reported on the balance sheet of Acadia at September 30, 2009, was $207.1 million. The difference between the $207.1 million and the equity investment in investee of $181.0 million as shown in the previous table is $26.1 million, and consists of the $45.8 million other-than-temporary impairment of APH's investment in Acadia, partially offset by $19.7 million of interest capitalized on funds contributed to Acadia.
The following tables contain summarized financial information for Acadia.

(THOUSANDS)	AT SEPTEMBER 30, 2009	AT DECEMBER 31, 2008
Current assets	$ 223,598	$ 5,413
Property, plant and equipment, net	196,552	405,565
Total assets	$ 420,150	$ 410,978
Current liabilities	$ 5,854	$ 1,380
Partners' capital	414,296	409,598
Total liabilities and partners' capital	$ 420,150	$ 410,978

(THOUSANDS)	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009	2008	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009	2008
Operating revenue	$27,241	$45,542	$49,190	$70,479
Operating expenses	28,677	47,775	66,314	86,443
Other income (expense)	36	51	(6,052)	(88)
Loss before taxes	$(1,400)	$(2,182)	$(23,176)	$(16,052)

Income tax benefits recorded on APH's financial statements related to Midstream's 50% ownership interest in Acadia were $1.4 million and $7.3 million for the three and nine months ended September 30, 2009, respectively, compared to $1.2 million and $5.3 million for the three and nine months ended September 30, 2008, respectively.

In 2009, Cleco Power announced Acadia was selected as the winning bidder in Cleco Power's 2007 long-term request for capacity beginning in 2010. Cleco Power will own and operate one of Acadia's two 580-MW units and will also operate the other unit on behalf of Acadia or a future owner. The carrying value of the unit has been classified as an asset held for sale in Acadia's current assets. No gain or loss has been recorded, as the fair value less the costs to sell are greater than the carrying value, and the transaction has not yet closed.

Cleco Power and the parties have executed the definitive agreements. However, prior to closing the transaction, valued at approximately $300 million, Cleco Power must receive approvals from the LPSC and FERC. In a process that remains under the supervision of an independent monitor appointed by the LPSC, Cleco Power and Acadia plan to complete the transaction in the first quarter of 2010. Beginning in January 2010, the agreements provide that Acadia will continue to operate the plant and serve Cleco Power under a tolling agreement covering 50% of the Acadia power station until the transaction is closed, after which Cleco Power will own and operate one of Acadia's two 580-MW units and will also operate the other unit on behalf of Acadia or a future owner. This tolling agreement was approved by the LPSC in October 2009. The tolling agreement must also be approved by FERC.

On October 30, 2009, Acadia and Entergy Louisiana announced that definitive agreements have been executed whereby Entergy Louisiana will purchase 50% of Acadia or one of its two 580-MW units. The transaction is anticipated to be completed in late 2010 or early 2011. The agreements provide that, beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of Acadia until the sale is completed. Both the asset sale and interim tolling agreement require regulatory approval. Cleco Power will operate both units at Acadia after the Entergy transaction is completed.

In connection with these transactions and in exchange for reasonable consideration, APH has agreed to indemnify, upon the closing of the transactions, Cajun and its affiliates against 100% of Acadia's liabilities and other obligations related to both the Cleco Power and Entergy transactions.

Evangeline

Since its inception, Cleco has had 100% ownership and voting interest of Evangeline. Through an analysis of variable interests, such as Cleco's investment, the long-term debt, the tolling counterparty, and the potential to absorb expected losses and gains, Cleco has determined that it is not the primary beneficiary. The determination is driven by several factors such as:

- § The tolling counterparty is at risk to absorb market losses and gains, which are primarily determined by the relative price of electricity and natural gas.
- § The debt is non-recourse to Cleco; therefore, the debt-holders main security is the underlying assets of Evangeline.
- § Cleco's risk of loss is limited to its investment plus the $15.0 million letter of credit issued on behalf of the tolling counterparty.
- § The size of Evangeline's debt compared to the size of Cleco's investment at risk.

Since Cleco is not the primary beneficiary, Evangeline is accounted for as an equity method investment.
Cleco's current assessment of its maximum exposure to loss related to Evangeline at September 30, 2009, consists of its equity investment of $66.7 million and $15.0 million of possible draws on the letter of credit Cleco has posted on Evangeline's behalf, for a total of $81.7 million. The following table presents the components of Midstream's equity investment in Evangeline.

INCEPTION TO DATE (THOUSANDS)	AT SEPTEMBER 30, 2009	AT DECEMBER 31, 2008
Contributed assets (cash)	$ 49,961	$ 49,961
Net income	162,404	151,599
Less: non-cash distributions	16,620	16,907
Less: cash distributions	129,054	129,054
Total equity investment in investee	$ 66,691	$ 55,599

The following tables contain summarized financial information for Evangeline.

(THOUSANDS)	AT SEPTEMBER 30, 2009	AT DECEMBER 31, 2008
Current assets	$ 32,160	$ 25,750
Accounts receivable - affiliate	40	1
Property, plant and equipment, net	183,678	180,051
Other assets	38,490	42,528
Total assets	$ 254,368	$ 248,330
Current liabilities	$ 31,685	$ 20,244
Accounts payable - affiliate	516	3,512
Long-term debt, net	153,564	161,762
Other liabilities	71,228	71,845
Member's deficit	(2,625)	(9,033)
Total liabilities and member's deficit	$ 254,368	$ 248,330

(THOUSANDS)	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009	2008	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009	2008
Operating revenue	$ 25,753	$ 26,452	$ 48,989	$ 49,866
Operating expenses	4,589	9,844	20,313	22,068
Depreciation	1,396	1,339	4,136	4,032
Interest charges	3,981	4,526	12,424	13,863
Interest income	-	102	-	360
Other income (expense)	21	(531)	(1,310)	(734)
Income before taxes	$ 15,808	$ 10,314	$ 10,806	$ 9,529

The difference between the equity investment in investee and member's deficit shown in the tables above is due to income tax items being reported in the corresponding tax accounts on Midstream's financial statements, rather than the equity investment account.
Cleco Corporation has posted a $15.0 million letter of credit on behalf of the Evangeline Tolling Agreement counterparty. The letter of credit can be drawn in the event Evangeline defaults on the tolling agreement.

Evangeline's restricted cash at September 30, 2009, and December 31, 2008, was $22.3 million and $25.0 million, respectively. This cash is restricted under Evangeline's senior secured bond indenture.

Income taxes recorded on Midstream's financial statements related to Midstream's 100% ownership interest in Evangeline were expenses of $6.3 million and $4.4 million for the three and nine months ended September 30, 2009, respectively, compared to $3.7 million expense and $3.4 million benefit for the three and nine months ended September 30, 2008, respectively.

Prior to November 9, 2007, all of the capacity and output of the power plant had been tolled to Williams, which paid Evangeline certain fixed and variable amounts. In November 2007, The Williams Companies, Inc. assigned all of its rights and interests in its tolling agreement with Evangeline to Bear Energy. In May 2008, JPMorgan Chase & Co. completed the acquisition of Bear Stearns Companies Inc., the parent company of Bear Energy. In September 2008, Bear Energy was merged into JPMVEC. For more information regarding the Evangeline Tolling Agreement, see Note 10 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Risks and Uncertainties."

Other Subsidiaries 100% owned by Cleco Corporation

The information about these entities is aggregated because their method of operation, size, and risk are materially similar. Both entities own transmission assets, provide transmission services to one customer under a long-term contract at a FERC-approved cost of service rate, and are capitalized with 100% equity.

Through an analysis of variable interests, such as Cleco's investment and the single counterparty that has a long-term lease of the facilities, Cleco has determined that it is not the primary beneficiary of either entity. The determination is driven by several factors such as:

§ Each entity has only one customer under the long-term agreements accounted for as direct financing leases.

§ Both entities can only charge FERC-approved tariffs.

§ Both entities have the ability to change the tariff if actual expenses are materially different than expected expenses.

§ The lease counterparty is required to make lease payments regardless of the use of the assets.

§ Cleco's risk of loss is limited to its investment.

Since Cleco is not the primary beneficiary, the investments in Perryville and Attala are accounted for as equity method investments.

Cleco's current assessment of its maximum exposure to loss with respect to Perryville and Attala at September 30, 2009, consists of its equity investment of $14.7 million. The following table presents the components of Cleco Corporation's equity investment in Perryville and Attala.

INCEPTION TO DATE (THOUSANDS)	AT SEPTEMBER 30, 2009	AT DECEMBER 31, 2008
Contributed assets (cash)	$ 132,960	$ 132,960
Net income	55,650	54,166
Less: non-cash distributions	20,875	20,869
Less: cash distributions	152,989	151,389
Total equity investment in investee	$ 14,746	$ 14,868

The following tables contain summarized financial information for Perryville and Attala.

(THOUSANDS)	AT SEPTEMBER 30, 2009	AT DECEMBER 31, 2008
Current assets	$ 3,044	$ 4,905
Other assets	16,782	14,166
Total assets	$ 19,826	$ 19,071
Current liabilities	$ 1,196	$ 9
Accounts payable - affiliate	2	2
Other liabilities	745	484
Member's equity	17,883	18,576
Total liabilities and member's equity	$ 19,826	$ 19,071

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS)	2009	2008	2009	2008
Operating revenue	$ 488	$ 492	$ 1,471	$ 1,484
Operating expense	57	53	451	421
Interest income	39	-	463	-
Income before taxes	$ 470	$ 439	$ 1,483	$ 1,063

The difference between the equity investment in investee and member's equity shown in the tables above is due to income tax items being reported in the corresponding tax accounts on Cleco Corporation's financial statements, rather than the equity investment account.
The transmission assets utilized by Perryville and Attala are accounted for as direct financing leases and are included in other assets in the summarized financial information above.
Income tax expense recorded on Cleco's financial statements related to Cleco Corporation's 100% interest in Perryville and Attala was $0.2 million and $0.6 million for the three and nine months ended September 30, 2009, respectively, compared to $0.2 million and $0.4 million for the three and nine months ended September 30, 2008, respectively.

Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees

Litigation

On June 22, 2005, the City of Alexandria, Louisiana (the City), a current wholesale municipal customer of Cleco Power, filed a lawsuit in Ninth Judicial District Court against Cleco Corporation, Cleco Power, and certain other subsidiaries. The lawsuit alleges unspecified damages as a result of certain sales made to the City, revenue derived by Cleco using the City's power generating facilities under contracts with the City, and other alleged improper conduct, including, without limitation, allegations that Cleco fraudulently mishandled the management of the City's power requirements under the contracts. The lawsuit was moved to and currently is pending in the U.S. District Court for the Western District of Louisiana. Effective December 30, 2008, the City Council of Alexandria passed an ordinance authorizing the mayor to settle the litigation by executing a new 13-year power supply agreement with Cleco. Pending execution of this new supply agreement, the presiding judge agreed to dismiss the claims asserted in the litigation without prejudice. The mayor declined to execute the new supply agreement and upon motion of the city, the judge reinstated the lawsuit on October 16, 2009. The litigation will now be resolved by trial, which has been scheduled to commence on February 22, 2010. Management believes the dispute will not have a material adverse effect on the Registrants' financial condition, results of operations, or cash flows.

On October 8, 2007, Cleco received a Special Notice for Remedial Investigation and Feasibility Study from the EPA. The special notice requested that Cleco Corporation and Cleco Power, along with many other listed potentially responsible parties, enter into negotiations with the EPA for the performance of a Remedial Investigation and Feasibility Study at an area known as the Devil's Swamp Lake northwest of Baton Rouge, Louisiana. The EPA has identified Cleco as one of many companies sending PCB wastes for disposal to the site. The Devil's Swamp Lake site has been proposed to be added to the National Priorities List (NPL) based on the release of PCBs to fisheries and wetlands located on the site. The EPA has yet to make a final determination on whether to add Devil's Swamp Lake to the NPL. The EPA and a number of PRPs met on January 31, 2008, for an organizational meeting to discuss the background of the site. The PRPs began discussing a potential proposal to the EPA on February 19, 2008. Negotiations among the PRPs and the EPA are ongoing in regard to the remedial investigation and feasibility study at the Devil's Swamp site, with little progress having been made since the January 2008 meeting. The PRPs alleged to have disposed PCBs at the site have proposed a tentative cost sharing formula with the facility owner to fund the remedial investigation. The response to the proposal has been pending for months. Since this investigation is in the preliminary stages, management is unable to determine whether the costs associated with possible remediation of the facility site will have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Cleco is involved in regulatory, environmental, and legal proceedings before various courts, regulatory commissions, and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings, such as fuel review and environmental issues, could involve substantial amounts. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes the disposition of these matters will not have a material adverse effect on the Registrants' financial condition, results of operations, or cash flows.

Off-Balance Sheet Commitments and Disclosures about Guarantees

Cleco Corporation and Cleco Power have entered into various off-balance sheet commitments, in the form of guarantees and standby letters of credit, in order to facilitate their activities and the activities of Cleco Corporation's subsidiaries and equity investees (affiliates). Cleco Corporation and Cleco Power also have agreed to contractual terms that require them to pay third parties if certain triggering events occur. These contractual terms generally are defined as guarantees in the authoritative guidance.

Cleco Corporation entered into these off-balance sheet commitments in order to entice desired counterparties to contract with its affiliates by providing some measure of credit assurance to the counterparty in the event Cleco's affiliates do not fulfill certain contractual obligations. If Cleco Corporation had not provided the off-balance sheet commitments, the desired counterparties may not have contracted with Cleco's affiliates, or may have contracted with them at terms less favorable to its affiliates.

The off-balance sheet commitments are not recognized on Cleco's Condensed Consolidated Balance Sheets, because it has been determined that Cleco's affiliates are able to perform these obligations under their contracts and that it is not probable that payments by Cleco will be required. Some of these commitments reduce borrowings available to Cleco Corporation under its credit facility pursuant to the terms of the credit facility. Cleco's off-balance sheet commitments as of September 30, 2009, are summarized in the following table, and a discussion of the off-balance sheet commitments follows the table. The discussion should be read in conjunction with the table to understand the impact of the off-balance sheet commitments on Cleco's financial condition.

				AT SEPTEMBER 30, 2009
(THOUSANDS)	FACE AMOUNT	REDUCTIONS	NET AMOUNT	REDUCTIONS TO THE AMOUNT AVAILABLE TO BE DRAWN ON CLECO CORPORATION'S CREDIT FACILITY
Cleco Corporation				
Guarantee issued to Entergy companies for performance obligations of Perryville	$177,400	$ 135,000	$42,400	$ 328
Guarantees issued to purchasers of the assets of Cleco Energy	1,000	-	1,000	1,000
Obligations under standby letter of credit issued to the Evangeline Tolling Agreement counterparty	15,000	-	15,000	15,000
Guarantee issued to Entergy Mississippi on behalf of Attala	500	-	500	500
Guarantee issued to Tenaska Gas Storage, LLC on behalf of Acadia	10,000	-	10,000	10,000
Cleco Power				
Obligations under standby letter of credit issued to the Louisiana Department of Labor	3,525	-	3,525	-
Obligations under the Lignite Mining Agreement	3,488	-	3,488	-
Total	$210,913	$ 135,000	$75,913	$ 26,828

Cleco Corporation provided a limited guarantee and an indemnification to Entergy Louisiana and Entergy Gulf States for Perryville's performance, indemnity, representation, and warranty obligations under the Sale Agreement, the Power Purchase Agreement, and other ancillary agreements related to the sale of the Perryville facility. As of September 30, 2009, the aggregate guarantee of $177.4 million is limited to $42.4 million due to the performance of some of the underlying obligations that were guaranteed. Management believes it is unlikely that Cleco Corporation will have any other liabilities which would give rise to indemnity claims. The discounted probability-weighted liability under the guarantees and indemnifications as of September 30, 2009, was $0.3 million, resulting in a corresponding reduction in the available credit under Cleco's credit facility, which was determined in accordance with the facility's definition of a contingent obligation. The contingent obligation reduces the amount available under the credit facility by an amount equal to the maximum reasonably anticipated liability in respect of the contingent obligation as determined in good faith.

In November 2004, Cleco completed the sale of substantially all of the assets of Cleco Energy. Cleco Corporation provided guarantees to the buyers of Cleco Energy's assets for the payment and performance of the indemnity obligations of Cleco Energy. The aggregate amount of the guarantees was $1.4 million, of which $0.4 million expired on September 27, 2009, and $1.0 million expired on October 20, 2009. These guarantees do not fall within the scope of the authoritative guidance for guarantees. Cleco Energy issued guarantees and indemnifications that fall within the recognition scope of the authoritative guidance for guarantees, because they relate to the past performance obligations of the disposed assets and also contain provisions requiring payment for potential damages. The maximum aggregate potential payment under the guarantees and indemnifications as of September 30, 2009, was $1.0 million. The discounted probability-weighted liability as of September 30, 2009, was $0.1 million.

If Evangeline fails to perform certain obligations under its tolling agreement, Cleco Corporation will be required to make payments to the Evangeline Tolling Agreement counterparty. Cleco Corporation's obligation under the Evangeline commitment is in the form of a standby letter of credit from investment grade banks and is limited to $15.0 million. Rating triggers do not exist in the Evangeline Tolling Agreement. Cleco expects Evangeline to be able to meet its obligations under the tolling agreement and does not expect Cleco Corporation to be required to make payments to the counterparty. However, under the covenants associated with Cleco Corporation's credit facility, the entire net amount of the Evangeline commitment reduces the amount that can be borrowed under the credit facility. The letter of credit for Evangeline is expected to be renewed annually until 2020.

In January 2006, Cleco Corporation provided a $0.5 million guarantee to Entergy Mississippi for Attala's obligations under the Interconnection Agreement. This guarantee will be effective through the life of the agreement.

In February 2009, Cleco Corporation provided a $10.0 million guarantee to Tenaska Gas Storage, LLC for Acadia's obligation under the Energy Management Services Agreement. This guarantee expired on October 31, 2009.

The State of Louisiana allows employers of certain financial net worth to self-insure their workers' compensation benefits. Cleco Power has a certificate of self-insurance from the Louisiana Office of Workers' Compensation and is required to post a $3.5 million letter of credit, an amount equal to 110% of the average losses over the previous three years, as surety.

As part of the Lignite Mining Agreement entered into in 2001, Cleco Power and SWEPCO, joint owners of Dolet Hills, have agreed to pay the lignite miner's loan and lease principal obligations when due, if the lignite miner does not have sufficient funds or credit to pay. Any amounts paid on behalf of the miner would be credited by the lignite miner against the next invoice for lignite delivered. At September 30, 2009, Cleco Power's 50% exposure for this obligation was approximately $3.5 million. The lignite mining contract is in place until 2011 and does not affect the amount Cleco Corporation can borrow under its credit facility.

The following table summarizes the expected termination dates of the guarantees and standby letters of credit discussed above:

		AT SEPTEMBER 30, 2009			
		AMOUNT OF COMMITMENT EXPIRATION PER PERIOD			
(THOUSANDS)	NET AMOUNT COMMITTED	LESS THAN ONE YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Guarantees	$ 57,388	$ 11,000	$ 3,488	$ -	$ 42,900
Standby letters of credit	18,525	3,525	-	-	15,000
Total commercial commitments	$ 75,913	$ 14,525	$ 3,488	$ -	$ 57,900

In its bylaws, Cleco Corporation has agreed to indemnify directors, officers, agents and employees who are made a party to a pending or completed suit, arbitration, investigation, or other proceeding whether civil, criminal, investigative or administrative, if the basis of inclusion arises as the result of acts conducted in the discharge of their official capacity. Cleco Corporation has purchased various insurance policies to reduce the risks associated with the indemnification. In its Operating Agreement, Cleco Power provides for the same indemnification as described above with respect to its managers, officers, agents, and employees.

Generally, neither Cleco Corporation nor Cleco Power has recourse that would enable them to recover amounts paid under their guarantee or indemnification obligations. The one exception is the insurance contracts associated with the indemnification of directors, managers, officers, agents, and employees. There are no assets held as collateral for third parties that either Cleco Corporation or Cleco Power could obtain and liquidate to recover amounts paid pursuant to the guarantees.

Other Contingencies

General Electric Equipment Services Corporation

Cleco Power has entered into an operating lease agreement with General Electric Equipment Services Corporation for leasing railcars in order to transport coal to its Rodemacher Power Station Unit 2. The lease contains a provision for early termination, along with an associated termination fee. The termination provision can only be exercised in December 2010. If exercised by Cleco Power, the termination fee would be approximately $1.3 million. At this time, Cleco Power has no plans to early terminate this lease, which expires in March 2017.

CBL Capital Corporation

Cleco Power has entered into an operating lease agreement with CBL Capital Corporation, which was acquired by GE Capital Commercial, Inc. (GE Capital). This is a master leasing agreement for company vehicles and other equipment. On November 14, 2008, Cleco Power was notified by GE Capital that it was electing to terminate the lease. Pursuant to the terms of the lease agreement, the termination date was effective January 13, 2009. Cleco Power has one year from the termination date to enter into a new operating lease with a third party and/or negotiate the purchase of such equipment for the unamortized balance. The unamortized balance of equipment under the GE Capital lease was $5.3 million at September 30, 2009. Cleco Power expects to purchase the vehicles and equipment under the lease agreement during the fourth quarter of 2009.

LPSC Fuel Audit

The LPSC Fuel Adjustment Clause General Order issued November 6, 1997, in Docket No. U-21497 provides that an audit will be performed not less than every other year. Cleco Power currently has fuel adjustment clause filings for 2003 through 2008 subject to audit. In July 2006, the LPSC informed Cleco Power that it was planning to conduct a periodic fuel audit that included fuel adjustment clause filings for January 2003 through December 2004. In March 2009, the LPSC indicated its intent to proceed with the audit for the years 2003 through 2008. However, this review is still pending. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of these audits, and such refund could result in a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Fuel Transportation Agreement
Cleco Power has entered into an agreement that meets the accounting definition of a capital lease for barges in order to transport petroleum coke and limestone to Rodemacher Unit 3. The 42 dedicated barges were delivered between January 6 and February 12, 2009.
The lease rate contains a fixed portion of $225 per day per barge and a variable component of $75 adjusted by Producer Price Index (PPI) annually for executory costs. If the barges are idle, the lessor is required to attempt to sublease the barges to third parties with the revenue reducing Cleco Power's lease payment. During the three and nine months ended September 30, 2009, Cleco Power did not receive any revenue from subleases.
The initial term of this agreement is five years and the agreement will terminate December 31, 2013. Cleco will have an option to renew this agreement for a second five-year term in full or in part and, at its option, purchase any or all of the dedicated barges. If Cleco does not renew this agreement for the renewal term, then the lessor has the option to require Cleco to purchase any or all of the barges. If Cleco Power purchases the barges on December 31, 2013, the purchase price of all 42 barges will be $21.7 million.
This agreement contains a provision for early termination upon the occurrence of any one of four cancellation events.
The following is an analysis of the leased property under capital leases by major classes:

CLASSES OF PROPERTY (THOUSANDS)	AT SEPTEMBER 30, 2009	AT DECEMBER 31, 2008
Barges	$ 22,050	$ -
Other	555	555
Total capital leases	22,605	555
Less: accumulated amortization	1,958	342
Net capital leases	$ 20,647	$ 213

The amount listed as other in the chart above includes a capital lease agreement for miscellaneous equipment by Cleco Power. This lease terminates December 31, 2010.
The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of September 30, 2009.

(THOUSANDS)	
Three months ending December 31, 2009	$ 1,196
Years ending December 31,	
2010	4,748
2011	4,622
2012	4,634
2013	4,622
2014	4,622
Thereafter	18,499
Total minimum lease payments	42,943
Less: executory costs	10,854
Net minimum lease payments	32,089
Less: amount representing interest	10,822
Present value of net minimum lease payments	$ 21,267
Current liabilities	$ 1,598
Non-current liabilities	$ 19,669

During the three and nine months ended September 30, 2009, Cleco Power incurred immaterial amounts of contingent rent related to the increase in the PPI.

Oxbow Lignite Mine Acquisition
In April 2009, Cleco Power entered into an agreement with SWEPCO to purchase the Oxbow Lignite Company from NAC. In September 2009, the LPSC approved the joint application authorizing the acquisition of Oxbow Lignite Company. The purchase price of approximately $42.0 million includes the lignite reserves, mining equipment, and related assets and permits. Cleco Power's 50% portion of the purchase price for the lignite reserves is approximately $12.9 million. The lignite reserves of approximately 120 million tons acquired under this agreement are expected to fuel the Dolet Hills Power Station through 2026. SWEPCO's subsidiary, Dolet Hills Lignite Company, LLC, will acquire the mining equipment and related assets and permits for approximately $15.8 million and will operate the new mine along with its current operations at the

Dolet Hills Lignite Mine on similar terms. The existing Red River Lignite Supply and Transportation Agreement with NAC will terminate upon the closing of this transaction. Pending approval by the Arkansas Public Service Commission, a condition precedent for SWEPCO to close, the closing of this transaction is expected to occur in December 2009.

Rodemacher Unit 3

In August 2005, Cleco Power entered into an EPC contract with Shaw to construct Rodemacher Unit 3. Cleco Power began construction of Rodemacher Unit 3 in May 2006. In May 2006, Cleco Power and Shaw entered into an Amended EPC Contract, which provided for substantial completion of construction of Rodemacher Unit 3 by September 30, 2009. In July 2008, Cleco Power and Shaw amended this contract to provide for substantial completion as early as June 30, 2009. On October 19, 2009, Cleco and Shaw again amended the EPC Contract to extend the substantial completion date to September 28, 2009.

In December 2008, Cleco Power received correspondence from Shaw providing damage estimates of $12.3 million due to alleged force majeure events related to Hurricanes Gustav and Ike and a schedule extension of 15 days. In April 2009, Shaw withdrew such estimates and in July 2009, Shaw submitted a formal claim for such events in the amount of $23.0 million and a schedule extension of 48 days. Additionally, in June 2009, Shaw notified Cleco of an alleged event of default claiming that the on-site fuel for Rodemacher Unit 3 did not meet the specifications under the Amended EPC Contract. In October 2009, under the terms of the Amended EPC Contract, Shaw withdrew its request for recovery of any and all claims relating to fuel quality and agreed to limit the claims for force majeure related costs, not to exceed $24.0 million less a settlement credit of $6.0 million .. The force majeure related claims remain in dispute resolution under the Amended EPC Contract. The Registrants do not believe the resolution of these claims will have a material adverse effect on the Registrants' results of operations, financial condition, or cash flows.

Acadia Transactions

On February 26, 2009, Cleco Power announced that it had chosen the acquisition of 50% of the Acadia power station, or one of its two 580-MW units, as the lowest bid in its 2007 long-term RFP. Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner. Cleco Power and the parties have executed the definitive agreements. However, prior to closing the transaction, valued at approximately $300 million, Cleco Power must receive approvals from the LPSC and FERC. In a process that remains under the supervision of an independent monitor appointed by the LPSC, Cleco Power and Acadia plan to complete the transaction in the first quarter of 2010. Beginning in January 2010, the agreements provide that Acadia will continue to operate the plant and serve Cleco Power under a tolling agreement covering 50% of the Acadia power station until the transaction is closed, after which Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner. This tolling agreement was approved by the LPSC in October 2009. The tolling agreement must also be approved by FERC.

On October 30, 2009, Acadia and Entergy Louisiana announced that definitive agreements have been executed whereby Entergy Louisiana will purchase 50% of the Acadia power station, or one of its two 580-MW units. The transaction is anticipated to be completed in late 2010 or early 2011. The agreements provide that, beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of the Acadia power station until the sale is completed. Both the asset sale and interim tolling agreement require regulatory approval. Cleco Power will operate both units at Acadia power station after the Entergy transaction is completed.

In connection with these transactions and in exchange for reasonable consideration, APH has agreed to indemnify, upon the closing of these transactions, Cajun and its affiliates against 100% of Acadia's liabilities and other obligations related to both the Cleco Power and Entergy transactions.

Other

Cleco has accrued for liabilities to third parties, employee benefits, and storm damages.

Risks and Uncertainties

Cleco Corporation

Cleco Corporation could be subject to possible adverse consequences if Cleco's counterparties fail to perform their obligations or if Cleco Corporation or its affiliates are not in compliance with loan agreements or bond indentures.

Evangeline Tolling Agreement

During 2008, JPMorgan Chase & Co. acquired The Bear Stearns Companies Inc. In connection with the acquisition, JPMorgan Chase & Co. guaranteed certain obligations of The Bear Stearns Companies Inc. and its subsidiaries, including obligations under the Evangeline Tolling Agreement. In September 2008, Bear Energy was merged into JPMVEC. If JPMorgan Chase & Co. or any successor or assignee were to fail to perform its payment obligations, such failure could have a material adverse effect on Cleco Corporation's results of operations, financial condition, and cash flows for the following reasons, among others:

- § If such failure to perform constituted a default under the tolling agreement, the holders of the Evangeline bonds would have the right to declare the entire outstanding principal amount ($161.8 million at September 30, 2009) and interest to be immediately due and payable, which could result in:
  - o Cleco seeking to refinance the bonds, the terms of which may be less favorable than existing terms;
  - o Cleco causing Evangeline to seek protection under federal bankruptcy laws; or
  - o the trustee of the bonds foreclosing on the mortgage and assuming ownership of the Evangeline plant;
- § Cleco may not be able to enter into agreements in replacement of the Evangeline Tolling Agreement on terms as favorable as that agreement or at all;
- § Cleco's equity investment in Evangeline may be impaired, requiring a write-down to its fair market value, which could be substantial; and
- § Cleco's credit ratings could be downgraded, which would increase borrowing costs and limit sources of financing.

Other

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. Recent market conditions have limited the availability and have increased the costs of capital for many companies. The inability to raise capital on favorable terms could negatively affect Cleco Corporation's and Cleco Power's ability to maintain and expand their businesses. After assessing the current operating performance, liquidity, and credit ratings of Cleco, management believes that Cleco will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. At September 30, 2009, Moody's and Standard & Poor's outlooks for Cleco Corporation were stable. If Cleco Corporation's credit ratings were to be downgraded by Moody's and Standard & Poor's, Cleco Corporation would be required to pay additional fees and higher interest rates under its bank credit and other debt agreements.

Changes in the regulatory environment or market forces could cause Cleco to determine its assets have suffered an other-than-temporary decline in value, whereby an impairment would be required to be taken and Cleco's financial condition could be materially adversely affected.

Cleco Power
Cleco Power supplies a portion of its customers' electric power requirements from its own generation facilities. In addition to power obtained from power purchase agreements, Cleco Power purchases power from other utilities and marketers to supplement its generation at times of relatively high

demand or when the purchase price of power is less than its own cost of generation. Due to its location on the transmission grid, Cleco Power relies on two main suppliers of electric transmission when accessing external power markets. At times, constraints limit the amount of purchased power these transmission providers can deliver into Cleco Power's service territory.

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. Recent market conditions have limited the availability and have increased the costs of capital for many companies. The inability to raise capital on favorable terms could negatively affect Cleco Power's ability to maintain and expand its businesses. After assessing the current operating performance, liquidity, and credit ratings of Cleco Power, management believes that Cleco Power will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. At September 30, 2009, Standard & Poor's outlook for Cleco Power was stable. In June 2009, Moody's placed Cleco Power's rating under review for possible downgrade. Cleco Power is currently rated one level higher by Moody's than by Standard & Poor's. Cleco Power pays fees and interest under its bank credit and other debt agreements based on the higher of the two credit ratings. If Cleco Power's credit ratings were to be downgraded by Moody's, Cleco Power would be required to pay additional fees and higher interest rates. Cleco Power's collateral for derivatives is based on the lower of the two credit ratings. If Cleco Power's credit ratings were to be downgraded by Standard & Poor's, Cleco Power would be required to pay additional collateral for derivatives.

In August 2005, Cleco Power entered into an EPC contract with Shaw to construct Rodemacher Unit 3. In May 2006, Cleco Power and Shaw entered into an Amended EPC Contract. Under the terms of the Amended EPC Contract, in the event Cleco Power does not maintain a senior unsecured credit rating of either: (i) Baa3 or better from Moody's or (ii) BBB- or better from Standard & Poor's, Cleco Power will be required to provide a letter of credit to Shaw in the amount of $20.0 million. In the event of further downgrade to both of its credit ratings to: (i) Ba2 or below from Moody's, and (ii) BB or below from Standard & Poor's, Cleco Power will be required to provide an additional $15.0 million letter of credit to Shaw.

Note 11 — Affiliate Transactions

Cleco has affiliate balances that were not eliminated as of September 30, 2009. The balances were not eliminated due to the use of the equity method of accounting for Evangeline, Perryville, Attala, and Acadia. For information on the Evangeline, Perryville, Attala, and Acadia equity investments, see Note 9 — "Equity Investment in Investees." At September 30, 2009, the payable to Evangeline was $12.2 million and the payable to Acadia was $0.1 million. Also, at September 30, 2009, the receivable from Evangeline was $10.5 million and the receivable from Acadia was $0.4 million. The receivable from Perryville and Attala combined was less than $0.1 million.

Cleco Power has affiliate balances that are payable to or due from its affiliates. At September 30, 2009, the payable to Support Group was $5.5 million, the payable to Cleco Corporation was $0.8 million, and the payable to other affiliates was less than $0.1 million. Also, at September 30, 2009, the receivable from Support Group was $2.4 million, and the receivable from other affiliates was $0.1 million.

Note 12 — Intangible Asset

During the first quarter of 2008, Cleco Katrina/Rita acquired a $177.5 million intangible asset which includes $176.0 million for the right to bill and collect storm recovery charges from customers of Cleco Power and $1.5 million of financing costs. This intangible asset is expected to have a life of 12 years, but could have a life of up to 15 years depending on the time period required to collect the required amount from Cleco Power's customers. The intangible asset is being amortized according to the estimated collections from Cleco Power's customers. At the end of its life, this asset will have no residual value. For the three and nine months ended September 30, 2009, Cleco Katrina/Rita recognized amortization expense of $2.7 million and $8.0 million, respectively, compared to $2.7 million and $6.3 million, respectively, for the same periods in 2008. The tables below provide additional information about this intangible asset.

(THOUSANDS)	AT SEPTEMBER 30, 2009
Gross carrying amount	$177,537
Accumulated amortization	17,736
Intangible asset	$159,801

(THOUSANDS)	
Expected amortization expense	
For the twelve months ending September 30, 2010	$11,346
For the twelve months ending September 30, 2011	12,127
For the twelve months ending September 30, 2012	12,955

For the twelve months ending September 30, 2013	13,803
Thereafter	109,570
Total intangible asset	$ 159,801

Note 13 — Subsequent Events

As of October 30, 2009, management has evaluated the potential recognition or disclosure of events or transactions that occurred in the period after the balance sheet date of September 30, 2009. The date October 30, 2009, represents the date that Cleco issued the financial statements for the period ended September 30, 2009.

On October 2, 2009, Cleco Power entered into a treasury rate lock contract in order to mitigate the interest rate exposure on possible future debt issuances. The notional amount of the treasury rate lock was $75.0 million. The 4.005% lock rate was based on the 30-year treasury note yield as of October 2, 2009.

In July 2008, Cleco Power filed a rate plan to establish new rates to be effective upon commercial operation of Rodemacher Unit 3. On October 14, 2009, the LPSC approved Cleco Power's new rate plan, which includes a target return on equity of 10.7% with sharing occurring after 11.3%. The new

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rates will be effective upon commercial operation of Rodemacher Unit 3.

On October 30, 2009, Acadia and Entergy Louisiana announced that definitive agreements have been executed whereby Entergy Louisiana will purchase 50% of the Acadia power station, or one of its two 580-MW units. The transaction is anticipated to be completed in late 2010 or early 2011. The agreements provide that, beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of the Acadia power station until the sale is completed. Both the asset sale and interim tolling agreement require regulatory approval. Cleco Power will operate both units at the Acadia power station after the Entergy transaction is completed.

On October 30, 2009, Cleco Corporation filed a shelf registration statement with the SEC registering the offer and sale of up to $300.0 million of Cleco Corporation debt securities. In addition, on such date, Cleco Power filed a shelf registration statement with the SEC registering the offer and the sale of up to $500.0 million of Cleco Power debt securities. Both shelf registration statements became effective upon filing with the SEC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in combination with the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and Cleco Corporation and Cleco Power's Condensed Consolidated Financial Statements contained in this Form 10-Q. The information included therein is essential to understanding the following discussion and analysis. Below is information concerning the consolidated results of operations of Cleco for the three and nine months ended September 30, 2009, and September 30, 2008.

OVERVIEW

Cleco is a regional energy services holding company that conducts substantially all of its business operations through its two primary subsidiaries:

§ Cleco Power, an integrated electric utility services company regulated by the LPSC, FERC, and other regulators, which serves approximately 276,000 customers across Louisiana and also engages in energy management activities; and

§ Midstream, a merchant energy company regulated by FERC, which owns and operates a merchant power plant (Evangeline). Midstream also owns a 50% interest in a merchant power plant (Acadia) and operates the plant on behalf of its partner.

While management believes that Cleco remains a strong company, Cleco continues to focus on several challenges and factors that could affect its results of operations and financial condition in the near term.

Cleco Power

Many factors affect Cleco Power's primary business of selling electricity. These factors include the presence of a stable regulatory environment, which can impact cost recovery and return on equity, as well as the recovery of costs related to growing energy demand and rising fuel prices; the ability to increase energy sales while containing costs; and the ability to meet increasingly stringent regulatory and environmental standards.

As part of a plan to diversify its fuel mix, combat rising fuel prices, and resolve its long-term generation capacity needs, Cleco Power began constructing a 600-MW solid-fuel generating unit at its Rodemacher power plant in May 2006. When complete, Rodemacher Unit 3 will meet a portion of the utility's power supply needs and help stabilize customer fuel costs. The project's capital cost, including carrying costs during construction, is estimated at $1.0 billion. Shaw has informed Cleco that it anticipates the plant will be substantially complete and operational in late December 2009. Cleco Power's current base rates have been extended through the commercial operation of Rodemacher Unit 3.

In July 2008, Cleco Power filed a rate plan to establish new rates to be effective upon commercial operation of Rodemacher Unit 3. As part of the new rate plan, Cleco Power requested a return on equity of 12.25%. Cleco Power's current base rates allow it the opportunity to earn a maximum regulated return on equity of 11.65%, which is based on a return on equity of 11.25%, with any regulated earnings between 11.25% and 12.25% shared between shareholders and customers in a 40/60 ratio. Cleco Power is currently recording AFUDC associated with construction of Rodemacher Unit 3. Once the unit begins commercial operation, Cleco Power will no longer record AFUDC related to Rodemacher Unit 3. Recovery of the Rodemacher Unit 3 investment is the largest component in Cleco Power's new rate plan. On October 14, 2009, the LPSC approved Cleco Power's new retail rate plan which includes a target return on equity of 10.7% with sharing occurring after 11.3%. The new rates will be effective upon commercial operation of Rodemacher Unit 3. The retail rate plan is expected to increase retail base revenues in the first twelve months of Rodemacher Unit 3 commercial operations by approximately $173.0 million with an anticipated net billing decrease for retail customers of approximately $40.0 million, or 5.0%, including a reduction of approximately $97.0 million resulting from the cessation of collection of and the refund of Rodemacher Unit 3 construction financing costs based on a five-year crediting period. For additional information, see "— Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Retail Rates of Cleco Power" and — "Rodemacher Unit 3."

Cleco Power continues to evaluate a range of other power supply options for the remainder of 2009 and beyond. As such, Cleco Power is continuing to update its IRP to look at future sources of supply. Cleco Power released a RFP in

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October 2007 seeking long-term resources to fill the needs identified by the latest IRP. On February 26, 2009, Cleco Power announced that it had chosen the acquisition of 50% of the Acadia power station, or one of its two 580-MW units, as the lowest bid in its 2007 long-term RFP for capacity beginning in 2010. Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner as described further below under "— Midstream." Cleco Power and the parties have executed the definitive agreements. However, prior to closing the transaction, valued at approximately $300 million, Cleco Power must receive approvals from the LPSC and FERC. In a process that remains under the supervision of an independent monitor appointed by the LPSC, Cleco Power and Acadia plan to complete the transaction in the first quarter of 2010. Beginning in January 2010, the agreements provide that Acadia will operate the plant and serve Cleco Power under a tolling agreement covering 50% of the Acadia power station until the transaction is closed. This tolling agreement was approved by the LPSC in October 2009. The tolling agreement must also be approved by FERC.

In October 2009, one of Cleco Power's large industrial customers announced that it would be closing its operations in December 2009. Cleco Power's annual base revenue billings to this customer were expected to be approximately $2.3 million.

Midstream

Acadia resides in the Southeastern Electric Reliability Council (SERC)-Entergy sub-region. For merchant generators, this sub-region is challenged both by the general oversupply of gas-fired generation available to serve the Entergy system needs and the physical transmission constraints that can limit the amount of power that can be delivered. The SERC-Entergy sub-region has reserve margins among the highest in the nation. These high reserve margins can lead to lower capacity factors and lower profitability for Acadia. In the coming years, the wholesale power market within the SERC-Entergy sub-region is expected to tighten as load grows. The tightening wholesale power market is expected to result in higher wholesale power prices. At times, transmission availability limits the wholesale markets accessible by Acadia resulting in limited buyers for Acadia's output. Because of Acadia's location on the transmission grid, Acadia has interconnections with two main suppliers of electric transmission when accessing external power markets.

Acadia markets short-, mid-, and long-term products where available. Through its third-party energy marketer, Acadia pursues opportunities in the hourly, weekly, monthly, and annual markets. In addition, Acadia actively participates in long-term requests for capacity and energy. Acadia's success in these marketing efforts is a primary driver of its earnings and cash flow.

On February 26, 2009, Cleco Power announced that it had selected Acadia's proposal to fulfill Cleco Power's capacity and energy needs as defined in the Cleco Power 2007 long-term RFP. Under the proposed arrangement, Cleco Power would acquire and operate one of Acadia's generating units and operate the other unit, as described further above under "— Cleco Power."

On October 30, 2009, Acadia and Entergy Louisiana announced that definitive agreements have been executed whereby Entergy Louisiana will purchase 50% of the Acadia power station, or one of its two 580-MW units. The transaction is anticipated to be completed in late 2010 or early 2011. The agreements provide that, beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of the Acadia power station until the sale is completed. Both the asset sale and interim tolling agreement require regulatory approval. Cleco Power will operate both units at Acadia after the Entergy transaction is completed.

Midstream's other principal source of revenue is the Evangeline Tolling Agreement, under which the counterparty has the right to dispatch the electric generation capacity of the facility. Profitability of Midstream's investment in Evangeline depends principally upon continued performance by JPMVEC of its payment obligations under the tolling agreement and controlling maintenance expenses associated with the facility.

Comparison of the Three Months Ended September 30, 2009, and 2008

Cleco Consolidated

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2009	2008	VARIANCE	CHANGE
Operating revenue, net	$241,500	$343,675	$ (102,175)	(29.7)%
Operating expenses	200,823	308,111	107,288	34.8 %
Operating income	$40,677	$35,564	$ 5,113	14.4 %
Interest income	$369	$1,669	$ (1,300)	(77.9)%
Allowance for other funds used during construction	$17,813	$17,786	$ 27	0.2 %
Equity income from investees	$15,587	$9,662	$ 5,925	61.3 %
Other income	$2,079	$937	$ 1,142	121.9 %
Other expense	$849	$2,276	$ 1,427	62.7 %
Interest charges	$10,838	$15,696	$ 4,858	31.0 %
Federal and state income taxes	$4,983	$10,513	$ 5,530	52.6 %
Net income applicable to common stock	$59,843	$37,121	$ 22,722	61.2 %

Consolidated net income applicable to common stock increased $22.7 million, or 61.2%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to increased Cleco Power, Midstream, and corporate earnings.

Operating revenue, net decreased $102.2 million, or 29.7%, in the third quarter of 2009 compared to the third quarter of 2008 largely as a result of lower fuel cost recovery revenue at Cleco Power.

Operating expenses decreased $107.3 million, or 34.8%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to lower per-unit costs and volumes of purchased power for utility customers.

Interest income decreased $1.3 million, or 77.9%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to a lower recovery of interest costs relating to Cleco Power's lower deferred lignite mining costs.

Equity income from investees increased $5.9 million, or 61.3%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to increased equity income at Evangeline.

Other income increased $1.1 million, or 121.9%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to the recognition of an increase in the cash surrender value of life insurance policies at Cleco Corporation.

Other expense decreased $1.4 million, or 62.7%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to the absence in 2009 of decreases in the cash surrender value of life insurance policies at Cleco Corporation during the third quarter of 2008.

Interest charges decreased $4.9 million, or 31.0%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to the settlement of a franchise tax lawsuit and lower net interest charges at Cleco Power as discussed below.

Federal and state income taxes decreased $5.5 million, or 52.6%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to a decrease in forecasted pre-tax income and due to the increased impact that equity AFUDC had on actual pre-tax income. The effective income tax rate is less than the expected statutory rate primarily due to the significant impact of flow-through treatment on plant-related differences such as equity AFUDC.

Results of operations for Cleco Power and Midstream are more fully described below.

Cleco Power

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2009	2008	VARIANCE	CHANGE
Operating revenue				
Base	$103,198	$99,090	$ 4,108	4.1 %
Fuel cost recovery	125,754	234,846	(109,092)	(46.5)%
Other operations	9,834	6,981	2,853	40.9 %
Affiliate revenue	6	7	(1)	(14.3)%
Intercompany revenue	343	418	(75)	(17.9)%
Operating revenue, net	239,135	341,342	(102,207)	(29.9)%
Operating expenses				
Fuel used for electric generation – recoverable	72,512	90,846	18,334	20.2 %
Power purchased for utility customers – recoverable	53,242	144,000	90,758	63.0 %
Non-recoverable fuel and power purchased	10,774	9,373	(1,401)	(14.9)%
Other operations	25,165	23,242	(1,923)	(8.3)%
Maintenance	9,602	9,719	117	1.2 %
Depreciation	19,310	18,861	(449)	(2.4)%
Taxes other than income taxes	7,809	8,732	923	10.6 %
Loss on sale of assets	70	-	(70)	-
Total operating expenses	198,484	304,773	106,289	34.9 %
Operating income	$40,651	$36,569	$ 4,082	11.2 %
Interest income	$341	$1,545	$ (1,204)	(77.9)%
Allowance for other funds used during construction	$17,813	$17,786	$ 27	0.2 %
Interest charges	$13,645	$14,973	$ 1,328	8.9 %
Federal and state income taxes	$1,316	$10,566	$ 9,250	87.5 %
Net income	$43,552	$30,538	$ 13,014	42.6 %

Cleco Power’s net income in the third quarter of 2009 increased $13.0 million, or 42.6%, compared to the third quarter of 2008. Contributing factors include:

§ higher base revenue,
§ higher other operations revenue,
§ lower interest charges,
§ lower taxes other than income taxes, and
§ lower effective income tax rate.

These were partially offset by:

§ lower interest income,
§ higher other operations expense, and

§ higher non-recoverable fuel and purchased power expenses.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		
(MILLION kWh)	2009	2008	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	1,207	1,144	5.5 %
Commercial	743	721	3.1 %
Industrial	577	762	(24.3)%
Other retail	36	36	-
Total retail	2,563	2,663	(3.8)%
Sales for resale	199	153	30.1 %
Unbilled	(95)	(134)	29.1 %
Total retail and wholesale customer sales	2,667	2,682	(0.6)%

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		
(THOUSANDS)	2009	2008	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$53,970	$51,490	4.8 %
Commercial	25,802	25,195	2.4 %
Industrial	12,912	14,585	(11.5)%
Other retail	1,491	1,469	1.5 %
Storm surcharge	5,054	5,455	(7.4)%
Total retail	99,229	98,194	1.1 %
Sales for resale	7,435	5,759	29.1 %
Unbilled	(3,466)	(4,863)	28.7 %
Total retail and wholesale customer sales	$103,198	$99,090	4.1 %

Cleco Power’s residential customers’ demand for electricity largely is affected by weather. Weather generally is measured in cooling-degree days and heating-degree days. A cooling-degree day is an indication of the likelihood that a consumer will use air conditioning, while a heating-degree day is an indication of the likelihood that a consumer will use heating. An increase in heating-degree days does not produce the same increase in revenue as an increase in cooling-degree days, because more alternative heating sources are available. Normal heating- and cooling-degree days are calculated for a month by separately calculating the average actual heating- and cooling-degree days for that month over a period of 30 years.

The following chart shows how cooling-degree days varied from normal conditions and from the prior period. Cleco Power uses temperature data collected by the National Oceanic and Atmospheric Administration to determine degree days.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,				
				2009 CHANGE	
	2009	2008	NORMAL	PRIOR YEAR	NORMAL
Cooling-degree days	1,584	1,541	1,468	2.8%	7.9%

Base
Base revenue increased $4.1 million, or 4.1%, during the third quarter of 2009 compared to the third quarter of 2008. The increase was primarily due to higher residential usage per customer, Cleco Power providing service to a new wholesale customer that commenced in April 2009, and the absence of hurricane-related outages. Partially offsetting these increases were lower sales to industrial customers as a result of decreased production at one of Cleco Power's large industrial customers and the start of a large industrial customer cogenerating a portion of its electricity requirements. For information on the anticipated effects of changes in revenue from an industrial customer, see "— Overview — Cleco Power." For information on the effects of future energy sales on Cleco Power's financial condition, results of operations, and cash flows, see "Risk Factors — Future Electricity Sales" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Fuel Cost Recovery
Fuel cost recovery revenue billed to customers decreased $109.1 million, or 46.5%, during the third quarter of 2009 compared to the third quarter in 2008 primarily due to decreases in the per-unit cost and volume of power purchased for utility customers. Partially offsetting this decrease were increases in the per-unit cost and volume of fuel used for electric generation. Changes in fuel costs historically have not significantly affected Cleco Power's net income. Generally, fuel and purchased power expenses are recovered through the LPSC-established fuel adjustment clause, which enables Cleco Power to pass on to its customers substantially all such charges. Approximately 95% of Cleco Power's total fuel cost during the third quarter of 2009 was regulated by the LPSC, while the remainder was regulated by FERC. Recovery of fuel adjustment clause costs is subject to refund until approval is received from the LPSC. For information on Cleco Power's pending fuel audit, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — LPSC Fuel Audit."

Other Operations
Other operations revenue increased $2.9 million, or 40.9%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to a $4.7 million net gain relating to economic hedge transactions associated with fixed-price power being provided to a wholesale customer. Partially offsetting this increase was $1.8 million of lower other miscellaneous revenue. For information on Cleco's energy commodity activities, see Item 3, "Quantitative and Qualitative Disclosures about Market Risk — Risk Overview — Commodity Price Risks."

Operating Expenses
Operating expenses decreased $106.3 million, or 34.9%, in the third quarter of 2009 compared to the third quarter of 2008. Fuel used for electric generation (recoverable) decreased $18.3 million, or 20.2%, primarily due to recovery of higher fuel costs deferred in prior periods. Partially offsetting this decrease were higher per-unit costs and volumes of fuel used as compared to the third quarter of 2008, as a result of realized losses on fuel hedging due to the price volatility of natural gas. Power purchased for utility customers (recoverable) decreased $90.8 million, or 63.0%, largely due to lower per-unit costs and volumes of purchased power. Fuel used for electric generation and power purchased for utility customers generally are influenced by natural gas prices, as well as availability of transmission. However, other factors such as scheduled and/or unscheduled outages, unusual maintenance or repairs, or other developments may affect fuel used for electric generation and power purchased for utility customers. Non-recoverable fuel and power purchased increased $1.4 million, or 14.9%, primarily due to higher net capacity payments made during the third quarter of 2009. Other operations expense increased $1.9 million, or 8.3%, primarily due to higher general liability expense, and higher employee benefit costs and administrative expenses. Taxes other than income taxes decreased $0.9 million, or 10.6%, primarily due to lower property taxes and franchise fees.

Interest Income
Interest income decreased $1.2 million, or 77.9%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to a lower recovery of interest costs relating to Cleco Power's lower deferred lignite mining costs.

Allowance for Other Funds Used During Construction
Allowance for other funds used during construction comprised 40.9% of Cleco Power's net income for the third quarter of 2009 compared to 58.2% for the third quarter of 2008. Cleco Power is currently recording AFUDC associated with construction of Rodemacher Unit 3. Once the unit begins commercial operations, Cleco Power will no longer record AFUDC related to Rodemacher Unit 3.

Interest Charges

Interest charges decreased $1.3 million, or 8.9%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to the capitalization of an additional $1.6 million of allowance for borrowed funds used during construction associated with Rodemacher Unit 3, $1.3 million primarily from interest related to uncertain tax positions, and $0.2 million of other miscellaneous interest charges. Partially offsetting these decreases was $1.8 million related to the December 2008 issuance of GO Zone bonds.

Income Taxes

Federal and state income taxes decreased $9.3 million, or 87.5%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to a decrease in forecasted pre-tax income and due to the increased impact that equity AFUDC had on actual pre-tax income. The effective income tax rate is less than the expected statutory rate primarily due to the significant impact of flow-through treatment on plant-related differences such as equity AFUDC.

Midstream

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2009	2008	VARIANCE	CHANGE
Operating revenue				
Affiliate revenue	$2,087	$2,131	$ (44)	(2.1)%
Operating revenue	2,087	2,131	(44)	(2.1)%
Operating expenses				
Other operations	1,508	1,717	209	12.2 %
Maintenance	808	938	130	13.9 %
Depreciation	44	78	34	43.6 %
Taxes other than income taxes	92	94	2	2.1 %
Loss on sale of assets	5	-	(5)	-
Total operating expenses	2,457	2,827	370	13.1 %
Operating loss	$(370)	$(696)	$ 326	46.8 %
Equity income from investees	$15,108	$9,223	$ 5,885	63.8 %
Federal and state income tax expense	$4,923	$2,383	$ (2,540)	(106.6)%
Net income	$8,412	$4,573	$ 3,839	83.9 %

Factors affecting Midstream during the third quarter of 2009 are described below.

Equity Income from Investees
Equity income from investees increased $5.9 million, or 63.8%, during the third quarter of 2009 compared to the third quarter of 2008. The increase was due to a $5.5 million increase in equity earnings at Evangeline and a $0.4 million decrease in equity losses at APH. The increased earnings at Evangeline were primarily due to lower maintenance expenses and the absence of replacement power purchases primarily due to the absence in 2009 of an unplanned outage at Evangeline that occurred in 2008. The decrease in losses at APH was due to higher net revenue from Acadia's short-term tolling agreement with Cleco Power and lower depreciation expense. For additional information on Evangeline and Acadia, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 9 — Equity Investment in Investees.”

Income Taxes
Federal and state income taxes increased $2.5 million, or 106.6%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to an increase in pre-tax income.

Comparison of the Nine Months Ended September 30, 2009, and 2008

Cleco Consolidated

		FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2009	2008	VARIANCE	CHANGE
Operating revenue, net	$661,662	$841,013	$ (179,351)	(21.3)%
Operating expenses	571,878	744,990	173,112	23.2 %
Operating income	$89,784	$96,023	$ (6,239)	(6.5)%
Interest income	$1,051	$4,544	(3,493)	(76.9)%
Allowance for other funds used during construction	$52,341	$46,462	$ 5,879	12.7 %
Equity income from investees	$710	$2,723	$ (2,013)	(73.9)%
Other income	$4,753	$1,094	$ 3,659	334.5 %
Other expense	$2,181	$4,322	$ 2,141	49.5 %
Interest charges	$39,670	$35,358	$ (4,312)	(12.2)%
Federal and state income taxes	$13,258	$22,573	$ 9,315	41.3 %
Net income applicable to common stock	$93,495	$88,558	$ 4,937	5.6 %

Consolidated net income applicable to common stock increased $4.9 million, or 5.6%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to increased corporate earnings. Partially offsetting this increase were lower earnings at Cleco Power and higher losses at Midstream.

Operating revenue, net decreased $179.4 million, or 21.3%, in the first nine months of 2009 compared to the first nine months of 2008 largely as a result of lower fuel cost recovery revenue at Cleco Power.

Operating expenses decreased $173.1 million, or 23.2%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to lower per-unit costs and volumes of purchased power for utility customers.

Interest income decreased $3.5 million, or 76.9%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to lower interest rates and lower average investment balances. Also contributing to the decrease was a lower recovery of interest costs relating to Cleco Power's lower deferred lignite mining costs.

Allowance for other funds used during construction increased $5.9 million, or 12.7%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to increased construction activity at Rodemacher Unit 3.

Equity income from investees decreased $2.0 million, or 73.9%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to increased equity losses at APH, partially offset by equity earnings at Evangeline.

Other income increased $3.7 million, or 334.5%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to the recognition of an increase in the cash surrender value of life insurance policies at Cleco Corporation and higher mutual assistance revenue at Cleco Power.

Other expense decreased $2.1 million, or 49.5% in the first nine months of 2009 compared to the first nine months of 2008 primarily due to the absence in 2009 of decreases in the cash surrender value of life insurance policies at Cleco Corporation during 2008. Partially offsetting this decrease were higher mutual assistance expenses at Cleco Power.

Interest charges increased $4.3 million, or 12.2%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to higher net interest charges at Cleco Power as discussed below, partially offset by lower interest charges at Cleco Corporation from the repayment of senior notes and the settlement of a franchise tax lawsuit.

Federal and state income taxes decreased $9.3 million, or 41.3%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to a decrease in pre-tax income, increases in forecasted equity AFUDC and forecasted permanent tax deductions, and a decrease in deferred state income taxes related to changes in state flow-through items. The effective income tax rate is less than the expected statutory rate primarily due to the significant impact of flow-through treatment on plant-related differences such as equity AFUDC.

Results of operations for Cleco Power and Midstream are more fully described below.

Cleco Power

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2009	2008	VARIANCE	CHANGE
Operating revenue				
Base	$270,937	$270,933	$ 4	-
Fuel cost recovery	356,532	532,464	(175,932)	(33.0)%
Other operations	25,609	29,757	(4,148)	(13.9)%
Affiliate revenue	17	21	(4)	(19.0)%
Intercompany revenue	1,029	1,506	(477)	(31.7)%
Operating revenue, net	654,124	834,681	(180,557)	(21.6)%
Operating expenses				
Fuel used for electric generation – recoverable	207,470	154,347	(53,123)	(34.4)%
Power purchased for utility customers – recoverable	149,063	378,137	229,074	60.6%
Non-recoverable fuel and power purchased	20,889	21,901	1,012	4.6%
Other operations	72,814	65,862	(6,952)	(10.6)%
Maintenance	32,705	32,556	(149)	(0.5)%
Depreciation	57,339	56,886	(453)	(0.8)%
Taxes other than income taxes	23,172	24,727	1,555	6.3%
Loss on sale of assets	70	-	(70)	-
Total operating expenses	563,522	734,416	170,894	23.3%
Operating income	$90,602	$100,265	$ (9,663)	(9.6)%
Interest income	$999	$3,121	$ (2,122)	(68.0)%
Allowance for other funds used during construction	$52,341	$46,462	$ 5,879	12.7%
Other income	$2,138	$1,172	$ 966	82.4%
Other expense	$2,985	$1,643	$ (1,342)	(81.7)%
Interest charges	$40,286	$31,435	$ (8,851)	(28.2)%
Federal and state income taxes	$14,033	$27,135	$ 13,102	48.3%
Net income	$88,776	$90,807	$ (2,031)	(2.2)%

Cleco Power's net income in the first nine months of 2009 decreased $2.0 million, or 2.2%, compared to the first nine months of 2008. Contributing factors include:

§ higher interest charges,
§ higher other operations and maintenance expenses,
§ lower other operations revenue,
§ lower interest income, and
§ higher other expense.

These were partially offset by:

§ higher allowance for other funds used during construction,
§ lower non-recoverable fuel and power purchased expenses,
§ lower taxes other than income taxes,
§ higher other income, and

§ lower effective income tax rate.

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
(MILLION kWh)	2009	2008	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	2,814	2,789	0.9 %
Commercial	1,882	1,874	0.4 %
Industrial	1,633	2,177	(25.0)%
Other retail	103	101	2.0 %
Total retail	6,432	6,941	(7.3)%
Sales for resale	432	327	32.1 %
Unbilled	98	12	716.7 %
Total retail and wholesale customer sales	6,962	7,280	(4.4)%

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
(THOUSANDS)	2009	2008	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$122,486	$121,236	1.0 %
Commercial	71,871	71,258	0.9 %
Industrial	38,046	41,580	(8.5)%
Other retail	4,288	4,205	2.0 %
Storm surcharge	14,674	15,641	(6.2)%
Total retail	251,365	253,920	(1.0)%
Sales for resale	16,034	15,430	3.9 %
Unbilled	3,538	1,583	123.5 %
Total retail and wholesale customer sales	$270,937	$270,933	-

The following chart shows how cooling- and heating–degree days varied from normal conditions and from the prior period. Cleco Power uses temperature data collected by the National Oceanic and Atmospheric Administration to determine degree days.

			FOR THE NINE MONTHS ENDED SEPTEMBER 30,		
				2009 CHANGE	
	2009	2008	NORMAL	PRIOR YEAR	NORMAL
Heating-degree days	779	860	1,026	(9.4)%	(24.1)%
Cooling-degree days	2,763	2,699	2,436	2.4 %	13.4 %

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Base

Overall, base revenue was essentially the same during the first nine months of 2009 compared to the first nine months of 2008. Some of the significant increases in base revenue during the first nine months of 2009 were attributable to Cleco Power providing service to a new wholesale customer that commenced in April 2009 and higher residential sales primarily from an increase in the number of customers served. Some of the significant decreases in base revenue were attributable to lower sales to industrial customers as a result of decreased production at one of Cleco Power's large industrial customers and the start of a large industrial customer cogenerating a portion of its electricity requirements. For information on the anticipated effects of changes in revenue from an industrial customer, see "Overview — Cleco Power." For information on the effects of future energy sales on Cleco Power's financial condition, results of operations, and cash flows, see "Risk Factors — Future Electricity Sales" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Fuel Cost Recovery

Fuel cost recovery revenue billed to customers decreased $175.9 million, or 33.0%, during the first nine months of 2009 compared to the first nine months in 2008 primarily due to decreases in the per-unit cost and volume of power purchased for utility customers. Partially offsetting the decrease were increases in the per-unit cost and volume of fuel used for electric generation. For information on Cleco Power's ability to recover fuel and purchase power costs, see "— Comparison of the Three Months Ended September 30, 2009, and 2008 — Cleco Power — Fuel Cost Recovery."

Other Operations

Other operations revenue decreased $4.1 million, or 13.9%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to a $2.1 million net loss relating to economic hedge transactions associated with fixed-price power being provided to a wholesale customer. Also contributing to this decrease was $2.0 million of lower other miscellaneous revenue. For information on Cleco's energy commodity activities, see Item 3, "Quantitative and Qualitative Disclosures about Market Risk — Risk Overview — Commodity Price Risks."

Operating Expenses

Operating expenses decreased $170.9 million, or 23.3%, in the first nine months of 2009 compared to the first nine months of 2008. Fuel used for electric generation (recoverable) increased $53.1 million, or 34.4%, primarily due to recovery of higher fuel costs deferred in prior periods and higher per-unit costs of fuel used as compared to the first nine months of 2008. This is a result of realized losses on fuel hedging due to the price volatility of natural gas. Also contributing to the increase were higher volumes of fuel used for electric generation. Power purchased for utility customers (recoverable) decreased $229.1 million, or 60.6%, largely due to lower per-unit costs and volumes of purchased power. Fuel used for electric generation and power purchased for utility customers generally are influenced by natural gas prices, as well as availability of transmission. However, other factors such as scheduled and/or unscheduled outages, unusual maintenance or repairs, or other developments may affect fuel used for electric generation and power purchased for utility customers. Non-recoverable fuel and purchased power decreased $1.0 million, or 4.6%, primarily due to lower non-recoverable expenses primarily related to fixed-price power being provided to a wholesale customer. Partially offsetting this decrease were higher net capacity charges. Other operations expense increased $7.0 million, or 10.6%, primarily due to higher general liability expense, higher employee benefit costs, training, and administrative expenses. Taxes other than income taxes decreased $1.6 million, or 6.3%, primarily due to lower property taxes and franchise fees.

Interest Income

Interest income decreased $2.1 million, or 68.0%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to a lower recovery of interest costs relating to Cleco Power's lower deferred lignite mining costs and lower average investment balances.

Allowance for Other Funds Used During Construction

Allowance for other funds used during construction increased $5.9 million, or 12.7%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to increased construction activity at Rodemacher Unit 3. Allowance for other funds used during construction comprised 59.0% of Cleco Power's net income for the first nine months of 2009, compared to 51.2% for the first nine months of 2008. Cleco Power is currently recording AFUDC associated with construction of Rodemacher Unit 3. Once the unit begins commercial operations, Cleco Power will no longer record AFUDC related to Rodemacher Unit 3.

Other Income

Other income increased $1.0 million, or 82.4%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to higher revenue from mutual assistance to other utilities for restoration efforts.

Other Expense

Other expense increased $1.3 million, or 81.7%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to higher expenses from mutual assistance to other utilities for restoration efforts.

Interest Charges

Interest charges increased $8.9 million, or 28.2%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to $7.0 million related to the May 2008 issuance of senior notes, $5.3 million related to the December 2008 issuance of GO Zone bonds, $1.4 million related to the March 2008 issuance of storm recovery bonds, and $1.1

million related to solid waste disposal facility bonds. Partially offsetting these increases were the capitalization of an additional $4.6 million of allowance for borrowed funds used during construction associated with Rodemacher Unit 3 and $1.3 million of lower other miscellaneous interest charges.

Income Taxes
Federal and state income taxes decreased $13.1 million, or 48.3%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to a decrease in pre-tax income, increases in forecasted equity AFUDC and forecasted permanent tax deductions, and a decrease in deferred state income taxes related to changes in state flow-through items. The effective income tax rate is less than the expected statutory rate primarily due to the significant impact of flow-through treatment on plant-related differences such as equity AFUDC.

Midstream

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2009	2008	VARIANCE	CHANGE
Operating revenue				
Other operations	$1	$1	$ -	-
Affiliate revenue	6,627	5,892	735	12.5 %
Operating revenue	6,628	5,893	735	12.5 %
Operating expenses				
Other operations	4,887	4,662	(225)	(4.8)%
Maintenance	2,963	2,667	(296)	(11.1)%
Depreciation	132	230	98	42.6 %
Taxes other than income taxes	310	272	(38)	(14.0)%
Loss (gain) on sales of assets	5	(99)	(104)	(105.1)%
Total operating expenses	8,297	7,732	(565)	(7.3)%
Operating loss	(1,669)	(1,839)	170	9.2 %
Equity (loss) income from investees	$(782)	$1,660	$ (2,442)	(147.1)%
Interest charges	$6,034	$5,057	$ (977)	(19.3)%
Federal and state income tax benefit	$(3,469)	$(2,298)	$ 1,171	51.0 %
Net loss	$(4,997)	$(2,955)	$ (2,042)	(69.1)%

Factors affecting Midstream during the first nine months of 2009 are described below.

Operating Revenue and Operating Expenses
Operating revenue increased $0.7 million, or 12.5%, during the first nine months of 2009 compared to the first nine months of 2008. Operating expenses increased $0.6 million, or 7.3%, during the first nine months of 2009 compared to the first nine months of 2008. The increases were primarily due to additional employees hired by Cleco Generation Services LLC for the benefit of Midstream to provide power plant operations, maintenance, and engineering services to Acadia and Evangeline. As a result, revenue and expenses associated with these services are included in affiliate revenue and operating expenses, respectively.

Equity Income from Investees
Equity income from investees decreased $2.4 million, or 147.1%, during the first nine months of 2009 compared to the first nine months of 2008. The decrease was due to a $3.7 million increase in equity losses at APH, partially offset by a $1.3 million increase in equity earnings at Evangeline. The increased loss at APH was primarily due to an unplanned outage at the facility during 2009, resulting in higher removal and retirement costs and higher turbine and general maintenance expenses. Also contributing to the increased losses were higher legal fees. These decreases were partially offset by higher net revenue from Acadia's short-term tolling agreement with Cleco Power. The increased earnings at Evangeline were primarily due to the absence of replacement power purchases resulting from Evangeline's 2008 unplanned outage. Also contributing to the increase were lower gas tax expenses and lower interest charges. For additional information on Evangeline and Acadia, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 9 — Equity Investment in Investees."

Interest Charges
Interest charges increased $1.0 million, or 19.3%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to additional estimated interest costs related to an IRS audit. Partially offsetting this increase was a lower interest rate and a lower balance on affiliate debt relating to APH's investment in Acadia.

Income Taxes

Federal and state income taxes decreased $1.2 million, or 51.0%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to a decrease in pre-tax income.

FINANCIAL CONDITION

Liquidity and Capital Resources

General Considerations and Credit-Related Risks

Credit Ratings and Counterparties

At September 30, 2009, Standard & Poor’s outlooks for both Cleco Corporation and Cleco Power were stable. In June 2009, Moody’s affirmed Cleco Corporation’s rating with a stable outlook and placed Cleco Power’s ratings under review for possible downgrade. If Cleco Corporation’s credit ratings were to be downgraded by Moody’s and Standard & Poor’s, Cleco Corporation would be required to pay additional fees and higher interest rates under its bank credit and other debt agreements. Cleco Power is currently rated one level higher by Moody’s than by Standard & Poor's. Cleco Power pays fees and interest under its bank credit and other debt agreements based on the higher of the two credit ratings. If Cleco

Power's credit ratings were to be downgraded by Moody's, Cleco Power would be required to pay additional fees and higher interest rates. Cleco Power's collateral for derivatives is based on the lower of the two credit ratings. If Cleco Power's credit ratings were to be downgraded by Standard & Poor's, Cleco Power would be required to pay additional collateral for derivatives.

During 2008, JPMorgan Chase & Co. acquired The Bear Stearns Companies Inc. In connection with the acquisition, JPMorgan Chase & Co. guaranteed certain obligations of The Bear Stearns Companies Inc. and its subsidiaries, including obligations under the Evangeline Tolling Agreement. In September 2008, Bear Energy was merged into JPMVEC. At September 30, 2009, Moody's outlook for Evangeline was stable. The tolling agreement is the principal source of cash flow for Evangeline. For more information regarding Evangeline's tolling agreement, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Risk and Uncertainties — Cleco Corporation — Evangeline Tolling Agreement."

In August 2005, Cleco Power entered into an EPC contract with Shaw to construct Rodemacher Unit 3. In May 2006, Cleco Power and Shaw entered into an Amended EPC Contract. Under the terms of the Amended EPC Contract, in the event Cleco Power does not maintain a senior unsecured credit rating of either: (i) Baa3 or better from Moody's or (ii) BBB- or better from Standard & Poor's, Cleco Power will be required to provide a letter of credit to Shaw in the amount of $20.0 million. In the event of further downgrade to both of its credit ratings to: (i) Ba2 or below from Moody's, and (ii) BB or below from Standard & Poor's, Cleco Power will be required to provide an additional $15.0 million letter of credit to Shaw.

With respect to any open power or natural gas trading positions that Cleco may initiate in the future, Cleco may be required to provide credit support (or pay liquidated damages). The amount of credit support that Cleco may be required to provide at any point in the future is dependent on the amount of the initial transaction, changes in the market price of power and natural gas, the changes in open power and gas positions, and changes in the amount counterparties owe Cleco. Changes in any of these factors could cause the amount of requested credit support to increase or decrease. For additional information, as well as a discussion of other factors affecting Cleco's financial condition relating to its credit ratings, the credit ratings of its counterparties, and other credit-related risks, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — General Considerations and Credit-Related Risks — Credit Ratings and Counterparties" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Global Financial Crisis

The continued credit crisis and related turmoil in the global financial system may have an impact on Cleco's business and financial condition. Cleco may face significant challenges if conditions in the financial markets do not improve. Cleco's ability to access the capital markets may be severely restricted at a time when Cleco would like, or need, to do so, which could have a material impact on its ability to fund capital expenditures or debt service or on Cleco's flexibility to react to changing economic and business conditions. The credit crisis could have a material negative impact on Cleco's lenders or Cleco's customers causing them to fail to meet their obligations to Cleco or to delay payment of such obligations. Moreover, as a result of the global financial crisis, the pension plan portfolio could continue to experience significant losses in the future.

Fair Value Measurements

Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally the date of acquisition or issuance. Cleco and Cleco Power are required to disclose the fair value of certain assets and liabilities by one of three levels when required for recognition purposes under GAAP. Other financial assets and liabilities, such as long-term debt, are reported at their carrying values at their date of issuance on the condensed consolidated balance sheets with their fair values disclosed without regard to the three levels. For more information about fair value levels, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 4 — Fair Value Accounting."

Debt

At September 30, 2009, Cleco Corporation and Cleco Power were in compliance with the covenants in their credit facilities. In August 2009, Cleco Corporation and Cleco Power entered into amendments to their respective credit facilities that increased thresholds in a representation relating to pension plan obligations above the amount of the current plan assets. Cleco Corporation and Cleco Power incurred $0.1 million in expenses obtaining bank waivers related to the amendments. If Cleco Corporation were to default under the covenants in its various credit facilities, it would be unable to borrow additional funds under the facilities. Further, if Cleco Power were to default under its credit facility, Cleco Corporation would be considered in default under its credit facility. The bonds issued by Evangeline are non-recourse to Cleco Corporation, and a default on these bonds would not be considered a default under Cleco Corporation's credit facility. If Cleco Corporation's credit ratings were to be downgraded one level below investment grade, Cleco Corporation would be required to pay fees and interest at a rate of 0.45% higher than the current level for its $150.0 million credit facility. A similar downgrade to credit ratings of Cleco Power would require Cleco Power to pay fees and interest at a rate of 0.70% higher than the current level on its $275.0 million credit facility.

Cleco Consolidated

Cleco had no short-term debt outstanding at September 30, 2009, or December 31, 2008. At September 30, 2009, Cleco's long-term debt outstanding was $1.2 billion, of which $11.5 million was due within one year, compared to $1.2 billion outstanding at December 31, 2008, which included $63.5 million due within one year. The long-term debt due within one year

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at September 30, 2009, represents principal payments for the Cleco Katrina/Rita storm recovery bonds scheduled to be paid in the next twelve months.
For Cleco, long-term debt increased $79.4 million primarily due to an $88.0 million increase in Cleco Corporation's credit facility draws, the execution of a $50.0 million variable-rate monthly bank loan in August 2009, a $35.0 million increase in Cleco Power's credit facility draws, and a $19.5 million increase in long-term capital leases. These increases were partially offset by the $50.0 million repayment of a medium-term note at maturity in May 2009, the $49.5 million repayment of insured quarterly notes in August 2009, and $13.5 million related to scheduled Cleco Katrina/Rita storm recovery bond principal payments. During January 2009, Cleco Power entered into a lease agreement for barges to be used for fuel transportation for Rodemacher Unit 3. For additional information, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Contingencies — Fuel Transportation Agreement" and "— Cleco Corporation (Holding Company Level)" and "— Cleco Power" below.
During July 2009, Cleco Power elected to redeem all $49.5 million principal amount of its outstanding 6.05% insured quarterly notes due June 2012. The notes were redeemed on August 19, 2009. Once redeemed, the notes were replaced with a one-month LIBOR plus 3.00% floating rate bank loan, maturing on August 19, 2012. In July 2009, Cleco Power locked in a $50.0 million interest rate swap arrangement related to this loan. This swap was effective on August 19, 2009 and will mature on May 31, 2012. For additional information, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 4 — Fair Value Accounting — Interest Rate Swap."
At September 30, 2009, and December 31, 2008, Cleco had a working capital surplus of $135.2 million and $105.5 million, respectively. Included in working capital at September 30, 2009, and December 31, 2008, was $25.1 million and $62.3 million, respectively, which was restricted for the use of debt payments and other restricted uses. The $29.7 million increase in working capital is primarily due to the repayment of a medium-term note and the decreases in accounts payable. These increases were partially offset by the payment of dividends, the deferral of additional construction carrying costs to be refunded to customers over the next twelve months, and additions to property, plant and equipment, including Rodemacher Unit 3. An uncommitted bank line of credit up to $10.0 million also is available to support Cleco's working capital needs.
Cash and cash equivalents available at September 30, 2009, were $49.3 million combined with $257.0 million facility capacity ($17.0 million from Cleco Corporation and $240.0 million from Cleco Power) for total liquidity of $306.3 million. Cash and cash equivalents decreased $48.2 million as compared to December 31, 2008. This decrease is primarily due to additions to property, plant and equipment, including Rodemacher Unit 3.

Cleco Corporation (Holding Company Level)
Cleco Corporation had no short-term debt outstanding at September 30, 2009 or December 31, 2008. At September 30, 2009, and December 31, 2008, Cleco Corporation had $118.0 million and $30.0 million, respectively, of long-term debt outstanding. The increase in long-term debt was due to the increase in draws on Cleco Corporation's credit facility. Cleco Corporation's $150.0 million five-year credit facility matures on June 2, 2011. This facility provides for working capital and other needs. Cleco Corporation's borrowing costs under the facility are equal to LIBOR plus 0.65%, including facility fees.
At September 30, 2009, credit facility draws and off-balance sheet commitments reduced available borrowings by $118.0 million and $15.0 million, respectively, leaving available capacity of $17.0 million. For more information about these commitments, see "— Off-Balance Sheet Commitments." An uncommitted bank line of credit up to $10.0 million also is available to support Cleco Corporation's working capital needs.
Cash and cash equivalents available at September 30, 2009, were $14.3 million, combined with $17.0 million facility capacity for total liquidity of $31.3 million. Cash and cash equivalents increased $8.4 million, when compared to December 31, 2008, primarily due to draws under Cleco Corporation's credit facility, partially offset by the use of those funds for general operating needs.

Cleco Power
There was no short-term debt outstanding at Cleco Power at September 30, 2009, or December 31, 2008. At September 30, 2009, Cleco Power's long-term debt outstanding was $1.1 billion, of which $11.5 million was long-term debt due within one year, compared to $1.1 billion at December 31, 2008, of which $63.5 million was due within one year.
For Cleco Power, long-term debt decreased $8.6 million primarily due to the $50.0 million repayment of a medium-term note at maturity in May 2009, the $49.5 million repayment of insured quarterly notes in August 2009, and $13.5 million related to scheduled Cleco Katrina/Rita storm recovery bond principal payments. These decreases were partially offset by the execution of a $50.0 million variable-rate monthly bank loan in August 2009, an increase of $35.0 million in Cleco Power's credit facility draws, and a $19.5 million increase in long-term capital leases. During January 2009, Cleco Power entered in a lease agreement for barges to be used for fuel transportation for Rodemacher Unit 3. For additional information, see Note 10 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Contingencies — Fuel Transportation Agreement."
During July 2009, Cleco Power elected to redeem all $49.5 million principal amount of its outstanding 6.05% insured quarterly notes due June 2012. The notes were redeemed on August 19, 2009. Once redeemed, the notes were replaced with a one-month LIBOR plus 3.00% floating rate bank loan, maturing on August 19, 2012. In July 2009, Cleco Power locked in a $50.0 million interest rate swap arrangement related to this loan. This swap was effective on August 19, 2009 and will

mature on May 31, 2012. For additional information, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 4 — Fair Value Accounting — Interest Rate Swap."

At September 30, 2009, and December 31, 2008, Cleco Power had a working capital surplus of $40.4 million and $88.0 million, respectively. Included in working capital at September 30, 2009, and December 31, 2008 was $25.1 million and $62.3 million, respectively, which was restricted for the use of debt payments. The $47.6 million decrease in working capital is primarily due to increased federal income taxes payable, the deferral of additional construction carrying costs to be refunded to customers over the next twelve months, and additions to property plant and equipment, including Rodemacher Unit 3.

Cleco Power's $275.0 million five-year credit facility matures on June 2, 2011. This facility provides for working capital and other needs. Cleco Power's borrowing costs under the facility are equal to LIBOR plus 0.400%, including facility fees. At September 30, 2009, $35.0 million was outstanding under Cleco Power's $275.0 million, five-year revolving facility. An uncommitted line of credit with a bank in an amount up to $10.0 million also is available to support Cleco Power's working capital needs.

Cash and cash equivalents available at September 30, 2009, were $35.0 million, combined with $240.0 million facility capacity for total liquidity of $275.0 million. Cash and cash equivalents decreased $56.5 million as compared to December 31, 2008. This decrease is primarily due to additions to property, plant and equipment, including Rodemacher Unit 3.

In February 2006, the LPSC approved Cleco Power's plans to build Rodemacher Unit 3. Terms of the approval included acceptance of an LPSC Staff recommendation that Cleco Power collect from customers an amount equal to 75% of the carrying costs of capital during the construction phase of the unit. Cleco Power had collected $134.4 million and $85.5 million at September 30, 2009, and December 31, 2008, respectively. In addition to this recovery, Cleco Power is funding the construction costs related to Rodemacher Unit 3 by utilizing cash on hand, available funds from its credit facility, the issuance of long-term debt, and equity contributions from Cleco Corporation. On October 14, 2009, the LPSC approved Cleco Power's new retail rate plan, which established that a minimum of $183.2 million be returned to customers over a five-year period. For more information regarding the refunding of Rodemacher Unit 3 construction carrying costs please read Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 3 — Regulatory Assets and Liabilities — Deferred Construction Carrying Cost."

Midstream

Midstream had no debt outstanding at September 30, 2009, or December 31, 2008.

Evangeline, which is accounted for under the equity method, had no short-term debt outstanding at September 30, 2009, or December 31, 2008. Evangeline had $161.8 million and $168.9 million of long-term debt outstanding at September 30, 2009, and December 31, 2008, respectively, in the form of 8.82% Senior Secured Bonds due 2019. Of these amounts, $8.2 million and $7.1 million were due within one year at September 30, 2009, and December 31, 2008, respectively. The bonds issued by Evangeline are non-recourse to Cleco Corporation.

Restricted Cash

Various agreements to which Cleco is subject contain covenants that restrict its use of cash. As certain provisions under these agreements are met, cash is transferred out of related escrow accounts and becomes available for general corporate purposes. At September 30, 2009, and December 31, 2008, $56.0 million and $103.0 million of cash, respectively, were restricted. The $47.0 million decrease is primarily due to the use of $17.4 million of funds for GO Zone project costs, the release of $14.7 million for the construction of Cleco Power's solid waste disposal facilities at Rodemacher Unit 3, a $12.7 million net decrease in Cleco Katrina/Rita restricted cash due to the payment of operating expenses, interest, and principal on storm recovery bonds, offset by collections, and Cleco Power's use of $2.2 million for approved storm damage costs. At September 30, 2009, the $56.0 million of restricted cash consisted of $0.1 million under the Diversified Lands mitigation escrow agreement, $27.2 million reserved at Cleco Power for GO Zone project costs, $25.2 million reserved at Cleco Power for future storm restoration costs, and $3.5 million at Cleco Katrina/Rita restricted for payment of operating expense, interest and principal on storm recovery bonds.

Evangeline's restricted cash is not reflected in Cleco Corporation's Condensed Consolidated Balance Sheets due to the equity method of accounting. Evangeline's restricted cash at September 30, 2009, and December 31, 2008, was $22.3 million and $25.0 million, respectively. This cash is restricted under Evangeline's senior secured bond indenture.

Cleco Cash Flows

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $53.4 million during the first nine months of 2009 compared to $77.1 million during the first nine months of 2008.

Cash provided by operating activities during the first nine months of 2009 decreased $23.7 million from that reported during the first nine months of 2008, primarily due to higher purchases of fuel, materials, and supplies inventories, mostly related to preparation for Rodemacher Unit 3 to begin commercial operation; higher gas and power purchase payments being made in 2009 than in 2008; higher post retirement benefit contribution payments into the Cleco pension plan; a large retainage payment made to Shaw related to work completed on Rodemacher Unit 3; higher state income tax payments, and a 2008 property tax bill that was received and paid in January 2009. These were partially offset by higher deferred fuel costs, mostly due to fluctuations in fuel prices, higher add back of non-cash depreciation, primarily due to

higher New Market Tax Credit amortization, and increased collections of customer accounts.

Net Cash Used in Investing Activities

Net cash used in investing activities was $119.7 million during the first nine months of 2009 compared to $276.1 million during the first nine months of 2008. Net cash used in 2009 was $156.4 million lower than 2008 primarily due to lower additions to property, plant and equipment related to the Rodemacher Unit 3 project, and transfers from restricted accounts. This was partially offset by higher investments in equity investees.

During the first nine months of 2009, Cleco had additions to property, plant and equipment, net of AFUDC, of $138.0 million, a $15.7 million investment in New Market Tax Credits, and a $13.9 million investment in Acadia. This was partially offset by $46.9 million of cash transferred from restricted accounts, primarily related to solid waste disposal, GO Zone, and storm restoration bonds.

During the first nine months of 2008, Cleco had additions to property, plant and equipment, net of AFUDC, of $217.8 million, an $8.4 million investment in New Market Tax Credits, a $6.4 million investment in Perryville, and $44.6 million of cash became restricted, primarily related to storm restoration bonds.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $18.0 million during the first nine months of 2009 compared to $147.3 million during the first nine months of 2008. Net cash provided by financing activities in 2009 was $129.3 million lower than 2008, primarily due to the lower issuances of long-term debt, partially offset by lower retirements of long-term debt.

During the first nine months of 2009, Cleco received net proceeds of $173.0 million from the issuance of long-term debt. This was partially offset by $115.8 million of cash used for repayment of long-term debt and capital leases, and $40.7 million used to pay dividends.

During the first nine months of 2008, Cleco received net proceeds of $537.5 million from the issuance of long-term debt, which was partially offset by $190.0 million of cash used to repay borrowings under Cleco Power’s credit facility, $160.3 million of cash used for repayment of long-term debt and capital leases, and $40.5 million used to pay dividends.

Cleco Power Cash Flows

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $95.0 million during the first nine months of 2009 compared to $79.1 million during the first nine months of 2008.

Cash provided by operating activities during the first nine months of 2009 increased $15.9 million from that reported during the first nine months of 2008 primarily due to higher deferred fuel costs, mostly due to fluctuations in fuel prices; higher collections of customer accounts; and the 2009 receipt of a federal income tax refund. These were partially offset by higher purchases of fuel, materials, and supplies inventories, mostly related to preparation for Rodemacher Unit 3 to begin commercial operation; higher gas and power purchase payments being made in 2009 than in 2008; higher post retirement benefit contribution payments into the Cleco pension plan; and a large retainage payment made to Shaw related to work completed on Rodemacher Unit 3.

Net Cash Used in Investing Activities

Net cash used in investing activities was $90.2 million during the first nine months of 2009 compared to $261.9 million during the first nine months of 2008. Net cash used during the first nine months of 2009 was $171.7 million lower than the first nine months of 2008, primarily due to lower additions to property, plant and equipment related to the Rodemacher Unit 3 project, and transfers from restricted accounts.

During the first nine months of 2009, Cleco Power had additions to property, plant and equipment, net of AFUDC, of $137.7 million. This was partially offset by $46.9 million of cash transferred from restricted accounts, primarily related to solid waste disposal, GO Zone, and storm restoration bonds.

During the first nine months of 2008, Cleco had additions to property, plant and equipment, net of AFUDC, of $217.0 million and $44.6 million of cash became restricted, primarily related to storm restoration bonds.

Net Cash Provided by Financing Activities

Net cash used in financing activities was $61.4 million during the first nine months of 2009 compared to cash provided of $238.9 million during the first nine months of 2008. Net cash provided by financing activities during the first nine months of 2009 was $300.3 million lower than the first nine months of 2008, primarily due to distributions to Cleco Corporation and lower issuances of long-term debt, partially offset by lower retirements of long-term debt.

During the first nine months of 2009, Cleco Power used $115.8 million of cash for repayment of long-term debt and capital leases, and paid $30.0 million in distributions to Cleco Corporation. This was partially offset by net proceeds of $85.0 million from the issuance of long-term debt.

During the first nine months of 2008, Cleco Power received net proceeds of $489.5 million from the issuance of long-term debt, which was partially offset by $190.0 million of cash used to repay borrowings under Cleco Power’s credit facility, and $60.3 million of cash used for repayment of long-term debt and capital leases.

Shelf Registrations

Cleco Corporation has one shelf registration statement on file (Registration No. 333-162772) with the SEC. Registration Statement No. 333-162772 became effective on October 30, 2009, and allows for the issuance by Cleco Corporation of up to $300.0 million of debt securities. Cleco Power also has one shelf registration statement on file (Registration No. 333-162773) with the SEC. Registration Statement No. 333-162773 became effective on October 30, 2009, and allows for the issuance by Cleco Power of up to $500.0 million of debt securities.

CLECO CORPORATION
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Contractual Obligations and Other Commitments
Cleco, in the normal course of business activities, enters into a variety of contractual obligations. Some of these result in direct obligations that are reflected in the Consolidated Balance Sheets while other commitments, some firm and some based on uncertainties, are not reflected in the consolidated financial statements.
For additional information regarding Cleco's Contractual Obligations and Other Commitments, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Cash Generation and Cash Requirements — Contractual Obligations and Other Commitments" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Off-Balance Sheet Commitments
Cleco Corporation and Cleco Power have entered into various off-balance sheet commitments, in the form of guarantees and standby letters of credit, in order to facilitate their activities and the activities of Cleco Corporation's subsidiaries and equity investees (affiliates). Cleco Corporation and Cleco Power have also agreed to contractual terms that require them to pay third parties if certain triggering events occur. These contractual terms generally are defined as guarantees in the authoritative guidance.
Cleco Corporation entered into these off-balance sheet commitments in order to entice desired counterparties to contract with its affiliates by providing some measure of credit assurance to the counterparty in the event Cleco's affiliates do not fulfill certain contractual obligations. If Cleco Corporation had not provided the off-balance sheet commitments, the desired counterparties may not have contracted with Cleco's affiliates, or may have contracted with them at terms less favorable to its affiliates.
The off-balance sheet commitments are not recognized on Cleco's Condensed Consolidated Balance Sheets, because it has been determined that Cleco's affiliates are able to perform the obligations under their contracts and that it is not probable that payments by Cleco will be required. Some of these commitments reduce borrowings available to Cleco Corporation under its credit facility pursuant to the terms of the credit facility. Cleco's off-balance sheet commitments as of September 30, 2009, are summarized in the following table, and a discussion of the off-balance sheet commitments follows the table. The discussion should be read in conjunction with the table to understand the impact of the off-balance sheet commitments on Cleco's financial condition.

				AT SEPTEMBER 30, 2009
(THOUSANDS)	FACE AMOUNT	REDUCTIONS	NET AMOUNT	REDUCTIONS TO THE AMOUNT AVAILABLE TO BE DRAWN ON CLECO CORPORATION'S CREDIT FACILITY
Cleco Corporation				
Guarantee issued to Entergy companies for performance obligations of Perryville	$177,400	$ 135,000	$42,400	$ 328
Guarantees issued to purchasers of the assets of Cleco Energy	1,000	-	1,000	1,000
Obligations under standby letter of credit issued to the Evangeline Tolling Agreement counterparty	15,000	-	15,000	15,000
Guarantee issued to Entergy Mississippi on behalf of Attala	500	-	500	500
Guarantee issued to Tenaska Gas Storage, LLC on behalf of Acadia	10,000	-	10,000	10,000
Cleco Power				
Obligations under standby letter of credit issued to the Louisiana Department of Labor	3,525	-	3,525	-
Obligations under the Lignite Mining Agreement	3,488	-	3,488	-
Total	$210,913	$ 135,000	$75,913	$ 26,828

Cleco Corporation provided a limited guarantee and an indemnification to Entergy Louisiana and Entergy Gulf States for Perryville's performance, indemnity, representation, and warranty obligations under the Sale Agreement, the Power Purchase Agreement, and other ancillary agreements related to the sale of the Perryville facility. As of September 30, 2009, the aggregate guarantee of $177.4 million is limited to $42.4 million due to the performance of some of the underlying obligations that were guaranteed. Management believes it is unlikely that Cleco Corporation will have any other liabilities which would give rise to indemnity claims. The discounted probability-weighted liability under the guarantees and indemnifications as of September 30, 2009, was $0.3 million, resulting in a corresponding reduction in the available credit under Cleco's credit facility, which was determined in accordance with the facility's definition of a contingent obligation. The contingent obligation reduces the amount available under the credit facility by an amount equal to the maximum reasonably anticipated liability in respect of the contingent obligation as determined in good faith.

In November 2004, Cleco completed the sale of substantially all of the assets of Cleco Energy. Cleco Corporation provided guarantees to the buyers of Cleco Energy's assets for the payment and performance of the indemnity obligations of Cleco Energy. The aggregate amount of the guarantees was $1.4 million, of which $0.4 million expired on September 27, 2009, and $1.0 million expired on October 20, 2009. These guarantees do not fall within the scope of the authoritative guidance for guarantees. Cleco Energy issued guarantees and indemnifications that fall within the recognition scope of the authoritative guidance for guarantees, because they relate to the past performance obligations of the disposed assets and also contain provisions requiring payment for potential damages. The maximum aggregate potential payment under the guarantees and indemnifications as of September 30, 2009, was $1.0 million. The discounted probability-weighted liability as of September 30, 2009, was $0.1 million.

If Evangeline fails to perform certain obligations under its tolling agreement, Cleco Corporation will be required to make payments to the Evangeline Tolling Agreement counterparty. Cleco Corporation's obligation under the Evangeline commitment is in the form of a standby letter of credit from investment grade banks and is limited to $15.0 million. Rating triggers do not exist in the Evangeline Tolling Agreement. Cleco expects Evangeline to be able to meet its obligations under the tolling agreement and does not expect Cleco Corporation to be required to make payments to the counterparty. However, under the covenants associated with Cleco Corporation's credit facility, the entire net amount of the Evangeline commitment reduces the amount that can be borrowed under the credit facility. The letter of credit for Evangeline is expected to be renewed annually until 2020.

In January 2006, Cleco Corporation provided a $0.5 million guarantee to Entergy Mississippi for Attala's obligations under the Interconnection Agreement. This guarantee will be effective through the life of the agreement.

In February 2009, Cleco Corporation provided a $10.0 million guarantee to Tenaska Gas Storage, LLC for Acadia's obligation under the Energy Management Services Agreement. This guarantee expired on October 31, 2009.

The State of Louisiana allows employers of certain financial net worth to self-insure their workers' compensation benefits. Cleco Power has a certificate of self-insurance from the Louisiana Office of Workers' Compensation and is required to post a $3.5 million letter of credit, an amount equal to 110% of the average losses over the previous three years, as surety.

As part of the Lignite Mining Agreement entered into in 2001, Cleco Power and SWEPCO, joint owners of Dolet Hills, have agreed to pay the lignite miner's loan and lease principal obligations when due, if the lignite miner does not have sufficient funds or credit to pay. Any amounts paid on behalf of the miner would be credited by the lignite miner against the next invoice for lignite delivered. At September 30, 2009, Cleco Power's 50% exposure for this obligation was approximately $3.5 million. The lignite mining contract is in place until 2011 and does not affect the amount Cleco Corporation can borrow under its credit facility.

The following table summarizes the expected termination dates of the guarantees and standby letters of credit discussed above:

		AT SEPTEMBER 30, 2009 AMOUNT OF COMMITMENT EXPIRATION PER PERIOD			
(THOUSANDS)	NET AMOUNT COMMITTED	LESS THAN ONE YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Guarantees	$ 57,388	$ 11,000	$ 3,488	$ -	$ 42,900
Standby letters of credit	18,525	3,525	-	-	15,000
Total commercial commitments	$ 75,913	$ 14,525	$ 3,488	$ -	$ 57,900

In its bylaws, Cleco Corporation has agreed to indemnify directors, officers, agents and employees who are made a party to a pending or completed suit, arbitration, investigation, or other proceeding whether civil, criminal, investigative or administrative, if the basis of inclusion of such individual arises as the result of acts conducted in the discharge of their official capacity. Cleco Corporation has purchased various insurance policies to reduce the risks associated with the indemnification. In its Operating Agreement, Cleco Power provides for the same indemnification as described above for its managers, officers, agents, and employees.

Generally, neither Cleco Corporation nor Cleco Power has recourse that would enable them to recover amounts paid under their guarantee or indemnification obligations. The one exception is the insurance contracts associated with the indemnification of directors, managers, officers, agents, and employees. There are no assets held as collateral for third parties that either Cleco Corporation or Cleco Power could obtain and liquidate to recover amounts paid pursuant to the guarantees.

Regulatory Matters

Wholesale Rates of Cleco

For information on the wholesale rates of Cleco, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition —
Liquidity and Capital Resources — Regulatory Matters — Wholesale Rates of Cleco" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Retail Rates of Cleco Power

In January 2008, Cleco Power filed its monitoring report for the 12-month period ended September 30, 2007. On June 1, 2009, Cleco Power filed its monitoring report for the year ended September 30, 2008. Cleco Power does not anticipate that the LPSC will proceed with its review of these reports until the fourth quarter of 2009.

On July 14, 2008, Cleco Power filed a request for a new rate plan with the LPSC to increase its base rates for electricity. Cleco Power sought recovery of revenues sufficient to cover the addition of Rodemacher Unit 3 to its existing expense and rate base levels. Cleco Power and the LPSC Staff filed testimony in support of an uncontested stipulated settlement on September 21, 2009.

The retail rate plan is expected to increase retail base revenues, in the first twelve months of Rodemacher Unit 3 commercial operations, by approximately $173.0 million with an anticipated net billing decrease for retail customers of approximately $40.0 million, or 5.0% (assuming a gas price of $5/MMBtu), including a reduction of approximately $97.0 million resulting from the cessation of collection of and the refund of Rodemacher Unit 3 construction financing based on a five-

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year crediting period. The retail rate plan provides for the placement of Rodemacher Unit 3 in rate base and recovery of the operating costs of Rodemacher Unit 3 in rate base and recovery of other costs including costs associated with damage caused by Hurricanes Gustav and Ike.
The retail rate plan includes a Formula Rate Plan (FRP) that has a target return on equity of 10.7%, including returning to retail customers 60.0% of earnings over 11.3% and all earnings over 12.3%. The capital structure assumes an equity ratio of 51.0%. The FRP also has a mechanism allowing for recovery of future revenue requirements for the Acadiana Load Pocket transmission project and, if approved by a separate proceeding, the acquisition of the Acadia power plant as a result of the Cleco Power 2007 Long-Term RFP. The retail rate plan allows Cleco Power to propose additional projects to the LPSC during the FRP's initial four-year term.
On October 14, 2009, the LPSC voted unanimously to approve the retail rate plan for Cleco Power. The retail rate plan will be effective upon commercial operation of Rodemacher Unit 3. Shaw has informed Cleco that it anticipates the plant will be substantially complete and operational in late December 2009.
For additional information on other regulatory aspects of retail rates concerning Cleco Power, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Retail Rates of Cleco Power" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Wholesale Electric Markets
For information on regulatory aspects of wholesale electric markets affecting Cleco, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Market Restructuring — Wholesale Electric Markets" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Retail Electric Markets
For a discussion of the regulatory aspects of retail electric markets affecting Cleco Power, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Retail Electric Markets" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Generation RFP

2008 Short-Term RFP for 2009 Resources
In March 2008, Cleco Power issued a RFP for a minimum of 50 MW up to 450 MW to meet its 2009 capacity and energy requirements. Cleco Power selected and negotiated a 235-MW peaking product with Acadia. The product was for supply that started March 1, 2009, and ended October 1, 2009.
On January 6, 2009, Cleco Power issued a RFP for a minimum capacity amount of 50 MW up to 200 MW in order to serve additional load. Cleco Power has selected and negotiated a 200-MW intermediate product with NRG Power Marketing, Inc. The product was for supply that started April 1, 2009, and ended November 1, 2009.

2007 Long-Term RFP
In June 2007, Cleco Power filed a proposed RFP with the LPSC for up to approximately 600 MW of intermediate and/or peaking resources to meet projected load growth over a 10-year period beginning in 2010. To meet these needs, Cleco Power asked for products with a term of 2 to 30 years. Out of the approximately 600-MW total, up to approximately 350 MW may be sourced from a peaking resource. After the LPSC review, the RFP was issued in October 2007, and bids were received in December 2007. On February 26, 2009, Cleco Power announced that it had chosen the acquisition of 50% of the Acadia power station, or one of its two 580-MW units, as the lowest bid in its 2007 long-term RFP. Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner. Cleco Power and the parties have executed the definitive agreements. However, prior to closing the transaction, valued at approximately $300 million, Cleco Power must receive approvals from the LPSC and FERC. In a process that remains under the supervision of an independent monitor appointed by the LPSC, Cleco Power and Acadia plan to complete the transaction in the first quarter of 2010. Beginning in January 2010, the agreements provide that Acadia will operate the plant and serve Cleco Power under a tolling agreement covering 50% of the Acadia power station until the transaction is closed, after which Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner. This tolling agreement was approved by the LPSC in October 2009. The tolling agreement must also be approved by FERC.

Rodemacher Unit 3
In May 2006, Cleco Power began construction of Rodemacher Unit 3 which will provide a portion of the utility's power supply needs. Rodemacher Unit 3 will be capable of burning various solid fuels but primarily is expected to burn petroleum coke produced by several refineries throughout the Gulf Coast region. Cleco Power has entered into contracts with suppliers to collectively supply over 1.4 million tons of petroleum coke annually for a three-to-five year period beginning in 2009, representing over 90% of Rodemacher Unit 3 fuel requirements for such period. All environmental permits for the unit have been received. Shaw anticipates the plant will be substantially complete and operational in late December 2009.

In May 2006, Cleco Power and Shaw entered into an Amended EPC Contract, which provided for substantial completion of the construction of Rodemacher Unit 3 by September 30, 2009. On July 2, 2008, Cleco Power and Shaw amended this contract further to provide for substantial completion as early as June 30, 2009. On October 19, 2009, Cleco and Shaw again amended the EPC Contract to extend the substantial completion date to September 28, 2009, as a result of a broader settlement of fuel and force majeure related Shaw claims. Under the amended contract, the lump-sum price is $795.5 million. Under the terms of this amendment, Shaw withdrew its request for recovery of any and all claims relating to fuel quality and agreed to limit the claims for force majeure related costs, not to exceed $24.0 million less a settlement credit of $6.0 million. The force majeure related claims remain in dispute resolution. The total capital cost estimate for the project, including AFUDC, Amended EPC Contract costs, and other development expenses, is approximately $1.0 billion. As of September 30, 2009, Cleco Power had incurred approximately $970.9 million in project costs, including AFUDC. Under the Amended EPC Contract, Shaw is subject to payment of liquidated damages if certain operating performance criteria and schedule dates are not met. The Amended EPC Contract allows for termination if certain milestones, approvals, or other terms and conditions are not met, or at Cleco Power's sole discretion, which would require payment of termination fees. As of September 30, 2009, the maximum termination costs would have been $795.1 million or an additional $7.0 million more than the capital expended to date. In support of its performance obligations, Shaw has provided a $58.9 million letter of credit to Cleco Power. In addition to the letter of credit, Shaw also posted a $200.0 million payment and performance bond in favor of Cleco Power in support of its performance obligations under the Amended EPC Contract. The Amended EPC Contract also provides for Shaw to: (a) allow retention or (b) issue an additional letter of credit, in an amount equal to 7.5% of the payments made by Cleco Power under the contract. Effective September 30, 2009, Shaw's amended letter of credit for retainage was $58.1 million. The retention and letters of credit are provided in support of Shaw's potential payment of liquidated damages, or other payment performance obligations. Both letters of credit have been extended to September 2010. The Amended EPC Contract also provides in the event Cleco Power does not maintain a senior unsecured credit rating of either: (i) Baa3 or better from Moody's or (ii) BBB- or better from Standard & Poor's, that Cleco Power will be required to provide a letter of credit to Shaw in the amount of $20.0 million. In the event of further downgrade to both of its credit ratings to: (i) Ba2 or below from Moody's, and (ii) BB or below from Standard & Poor's, Cleco Power will be required to provide an additional $15.0 million letter of credit to Shaw.

Lignite Deferral

Cleco Power operates a generating unit jointly owned with SWEPCO that uses lignite as its fuel source.

In May 2001, Cleco Power (along with SWEPCO) entered into the Lignite Mining Agreement with DHLC, the operator of the Dolet Hills mine. As ordered then by the LPSC, Cleco Power's retail customers began receiving fuel cost savings equal to 2% of the projected costs under the previous mining contract (the benchmark price) through the year 2011. Actual mining costs incurred above 98% of the benchmark price were deferred, and can be recovered from retail customers through the fuel adjustment clause only when the actual mining costs are below 98% of the benchmark price. The benchmark price used the GDP-IPD index as a proxy for the numerous escalators in the previous mining contract. During the course of the contract, Cleco Power and SWEPCO determined that the GDP-IPD index did not appropriately reflect the increase in mining costs caused by sharp increases in diesel fuel and electricity costs associated with the mining operation. Because of this disconnect between the GDP-IPD index and actual mining costs, a significant amount of mining costs was being deferred by Cleco Power. At September 30, 2009, and December 31, 2008, Cleco Power had $24.9 million and $26.8 million, respectively, in deferred costs remaining uncollected.

In 2006, Cleco Power recognized that there was a possibility it may not recover all or part of the lignite mining costs it had deferred. On November 15, 2006, Cleco Power and SWEPCO submitted a joint application to the LPSC requesting approval for Cleco Power to recover its existing deferral balance, and eliminate any future benchmarking of lignite mining costs. In December 2007, the LPSC approved a settlement agreement between Cleco Power, SWEPCO and the LPSC Staff authorizing Cleco Power to recover the existing deferred mining cost balance, including interest, over approximately 11.5 years. The settlement also established a new benchmark utilizing the contract's escalators to assure a minimum 2% savings to customers compared to the costs under the prior mining contract. Under the settlement, the benchmarking was scheduled to end after April 2011. Cleco Power and SWEPCO also agreed to commit to continued operation of the mining operation through 2016 as long as the operation of the mine was considered prudent. Cleco Power did not record any additional deferred fuel costs under the new benchmarking method.

On September 30, 2009, the LPSC agreed to discontinue benchmarking and the corresponding potential to defer future lignite mining costs while preserving the recovery of the legacy deferred fuel balance previously authorized.

Oxbow Lignite Mine Acquisition

In April 2009, Cleco Power entered into an agreement with SWEPCO to purchase the Oxbow Lignite Company from NAC. In September 2009, the LPSC approved the joint application authorizing the acquisition of the Oxbow Lignite Company. The purchase price of approximately $42.0 million includes the lignite reserves, mining equipment, and related assets and permits. Cleco Power's 50% portion of the purchase price for the lignite reserves is approximately $12.9 million. The lignite reserves of approximately 120 million tons acquired under this agreement are expected to fuel the Dolet Hills Power Station through 2026. SWEPCO's subsidiary, Dolet Hills Lignite Company, LLC, will acquire the mining equipment and related assets and permits for approximately $15.8 million and will operate the new mine along with its current operations at the Dolet Hills Lignite Mine on similar terms. The existing Red River Lignite Supply and Transportation Agreement with NAC will terminate upon the closing of this transaction. Pending approval by the Arkansas Public Service Commission, a

condition precedent for SWEPCO to close, the closing of this transaction is expected to occur in December 2009.

Acadiana Load Pocket

In September 2008, Cleco Power entered into an agreement with Lafayette Utilities System, a municipal utility, and Entergy Gulf States Louisiana, a subsidiary of Entergy Corporation, to upgrade interconnected transmission systems in south Louisiana. The project received the LPSC's approval in February 2009 and confirmation that it is in the public's interest. Also in February 2009, approval was received from Southwest Power Pool, Cleco Power's reliability coordinator, to begin construction. The joint project includes expanding and upgrading the electric transmission infrastructure in south central Louisiana in an area known as the "Acadiana Load Pocket."

The project includes upgrades to certain existing electric facilities as well as the construction of new substations, transmission lines, and capacitor banks. The total estimated cost is approximately $250.0 million. Each utility is responsible for various components of the project. Cleco Power's portion of the cost is approximately $150.0 million, including AFUDC. The first phase of construction began in September 2009, with the final phase scheduled to be completed in 2012. At September 30, 2009, Cleco Power had spent $5.4 million on the Acadiana Load Pocket project. Upgrading the interconnected transmission system is expected to increase capacity, reduce transmission constraints, and improve electric service for customers served by all three utilities.

Franchises

On January 13, 2009, the Coushatta City Council voted to accept the early renewal of its franchise agreement with Cleco Power. The Coushatta agreement was set to expire in November 2010. The renewal extends the agreement for 30 years until January 2039. Approximately 1,400 Cleco Power customers are located in Coushatta.

On May 14, 2009, the Bunkie City Council voted to accept the early renewal of its franchise agreement with Cleco Power. The Bunkie agreement was set to expire in September 2012. The renewal extends the agreement for 27 years until May 2036. Approximately 2,200 Cleco Power customers are located in Bunkie.

On May 19, 2009, the mayor of Abita Springs signed into ordinance a new franchise agreement with Cleco Power. This franchise agreement replaced the previous Abita Springs agreement which was set to expire in July 2012. The new agreement term is for 25 years and is set to expire May 2034. Approximately 710 Cleco Power customers are located in Abita Springs.

On July 22, 2009, the Simmesport City Council voted to accept the early renewal of its franchise agreement with Cleco Power. The Simmesport agreement was set to expire in January 2012. The renewal extends the agreement for 28 years until July 2037. Approximately 1,200 Cleco Power customers are located in Simmesport.

In July 2009, the City of Opelousas notified Cleco Power that it will begin formally requesting proposals from other power companies to supply its electricity needs. The current agreement is set to expire in August 2011. The City of Opelousas has until December 31, 2009, to notify Cleco of its intent to terminate the agreement at the end of its current term. If notification is not received, the franchise agreement will automatically renew for an additional ten years. For the twelve-month period ended September 30, 2009, Cleco Power's base revenue was $8.2 million from the City of Opelousas. Approximately 10,000 customers are located in the City of Opelousas. While the City of Opelousas owns the power system, Cleco Power has performed upgrades and expansions since the inception of the agreement. If the franchise agreement is not renewed by the City of Opelousas, the City of Opelousas will be liable to Cleco Power for the cost of the upgrades and expansions.

On September 14, 2009, the Mansfield City Council voted to accept the early renewal of its franchise agreement with Cleco Power. The Mansfield agreement was set to expire in June 2012. The renewal extends the agreement for 30 years until September 2039. Approximately 2,700 Cleco Power customers are located in Mansfield.

For additional information on Cleco Power's electric service franchises, please read "Business — Regulatory Matters, Industry Developments, and Franchises — Franchises" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Environmental Matters

Cleco is subject to extensive environmental regulation by federal, state and local authorities and is required to comply with numerous environmental laws and regulations, and to obtain and to comply with numerous governmental permits, in operating its facilities. In addition, existing environmental laws, regulations and permits could be revised or reinterpreted; new laws and regulations could be adopted or become applicable to Cleco or its facilities; and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. Cleco may incur significant additional costs to comply with these revisions, reinterpretations, and requirements. If Cleco fails to comply with these revisions, reinterpretations, and requirements, it could be subject to civil or criminal liabilities and fines.

On March 19, 2008, Cleco Power received a consolidated compliance order and notice of potential penalty (CO/NOPP) from the Louisiana Department of Environmental Quality (LDEQ) for alleged violations of the air quality rules at its Dolet Hills and Rodemacher Power Stations. On May 15, 2008, Cleco Power and the LDEQ entered into a dispute resolution agreement to give the parties additional time to discuss resolution of this CO/NOPP. The dispute resolution agreement has been extended on several occasions. Cleco and the LDEQ have reached a tentative agreement to settle the pending enforcement action for approximately $22,850. The matter is currently pending before the Administrative Law Judge until the settlement agreement is finally executed. The proposed settlement was publicly noticed in accordance with LDEQ

procedures in September and October 2009. Cleco expects the proposed agreement to be executed during the fourth quarter of 2009 or the first quarter of 2010, at which time the matter will be closed.

On September 3, 2009, Dolet Hills Power Station received a notice from EPA Region 6, alleging that the facility may be in violation of the Accident Prevention requirements of Section 112 (r)(7) of the CAA and the Chemical Accident Prevention provisions in 40 CFR Part 68. EPA claims that the facility may have been required to have a risk management plan (RMP) for the chemical, anhydrous ammonia, which is used and stored on site. EPA alleges that Dolet Hills exceeded the threshold quantity of 10,000 pounds of anhydrous ammonia in a single process which triggers the requirement to have such a plan in place. EPA made this claim after a review of their Central Data Exchange which includes information submitted to EPA in the Toxic Release Inventory. In the notice, EPA has offered to settle the matter which would include the payment of a non-negotiable penalty of $145,802 and the correction of the alleged deficiencies. Cleco Power contends that Dolet Hills employed administrative controls to limit the quantity of ammonia stored to less than 10,000 pounds which was sufficient to exempt the facility from the RMP program requirements. Cleco Power has provided documentation supporting its position and awaits a response from EPA Region 6.

The LDEQ issued a Louisiana Pollutant Discharge Elimination System (LPDES) waste water permit renewal for Evangeline Power Station on June 22, 2006. This waste water permit contained certain additional Copper and Total Dissolved Solids (TDS) permit limitations that Cleco contended were beyond the legal authority of LDEQ to include in the waste water permit. Cleco challenged these permit provisions by filing a de novo review judicial appeal on September 26, 2006, in district court in East Baton Rouge Parish, Louisiana. The appealed Copper and TDS permit limitations were stayed during litigation. The uncontested portions of the Evangeline waste water permit were effective January 1, 2007. During the litigation, Cleco and LDEQ were actively engaged in settlement discussions regarding the appealed provisions of the waste water permit. In December 2008, Cleco filed an application with the LDEQ modifying its LPDES permit to incorporate new Copper and TDS discharge limitations that were agreed to by both parties. On August 27, 2009, LDEQ issued a modified water permit with the agreed upon Copper and TDS limits which the facility does expect can be met. The effective date of the modified permit is October 1, 2009. The modified permit resolves the issues on appeal, and the matter is now closed.

On May 1, 2009, the Acadia power station became subject to certain daily maximum and monthly average discharge limitations for total sulfate under the terms of LPDES Water Discharge Permit No. LA0112836, issued by the LDEQ in April 2006. The facility was unable to achieve compliance with these discharge limitations, and received a compliance order from LDEQ on July 31, 2009 to address the total sulfate violations. Acadia believes that the total sulfate limits in the LPDES permit were calculated in error and are erroneously low. Acadia has since submitted a permit modification application to LDEQ which, once acted on and issued, should result in increased total sulfate limitations to levels that can be met by the facility. Acadia has also submitted to the agency a detailed plan of action that has been or will be taken to comply with the proposed new limits. Further, in issuing the subject compliance order, LDEQ also conducted a file review of the Acadia power station's LPDES records dating back to May 2006. During the file review, LDEQ noted violations of various daily maximum temperatures and whole effluent toxicity limits. LDEQ also found that Acadia had previously corrected and resubmitted discharge monitoring reports for four months in 2007, which LDEQ contends are not timely submittals. LDEQ included these violations as well as the total sulfate violations in the compliance order. Pending issuance of an amended permit, Acadia will continue to operate under the terms of the compliance order until the modified LPDES permit is received and becomes effective. For each of the violations described above, LDEQ has the right to seek civil penalties. At this time, Acadia is unable to determine whether LDEQ will pursue any civil penalties as part of this enforcement action or what the penalty amounts will be.

For a discussion of other Cleco environmental matters, please read "Business — Environmental Matters" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Recent Accounting Standards

For a discussion of recent accounting standards, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 2 — Recent Accounting Standards" of this form 10-Q, which discussion is incorporated herein by reference.

CRITICAL ACCOUNTING POLICIES

Cleco's critical accounting policies include those accounting policies that are both important to Cleco's financial condition and results of operations and those that require management to make difficult, subjective, or complex judgments about future events, which could result in a material impact to the financial statements of Cleco Corporation's segments or to Cleco as a consolidated entity. The financial statements contained in this report are prepared in accordance with accounting principles generally accepted in the United States of America, which require Cleco to make estimates and assumptions. Estimates and assumptions about future events and their effects cannot be made with certainty. Management bases its current estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances. On an ongoing basis, these estimates and assumptions are evaluated and, if necessary, adjustments are made when warranted by new or updated information or by a change in circumstances or environment. Actual results may differ significantly from these estimates under different assumptions or conditions. For a discussion of Cleco's critical accounting policies, see "Management's Discussion and Analysis of Financial Condition and

Results of Operations — Critical Accounting Policies" in the Registrant's Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

CLECO POWER — NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

Set forth below is information concerning the results of operations of Cleco Power for the three and nine months ended September 30, 2009, and September 30, 2008. The following narrative analysis should be read in combination with Cleco Power's Unaudited Condensed Consolidated Financial Statements and the Notes contained in this Form 10-Q.

Cleco Power meets the conditions specified in General Instructions H(1)(a) and (b) to Form 10-Q and is therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, Cleco Power has omitted from this report the information called for by Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Item 3 (Quantitative and Qualitative Disclosures about Market Risk) of Part I of Form 10-Q and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds) and Item 3 (Defaults upon Senior Securities). Pursuant to the General Instructions, Cleco Power has included an explanation of the reasons for material changes in the amount of revenue and expense items of Cleco Power between the first nine months of 2009 and the first nine months of 2008. Reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

For an explanation of material changes in the amount of revenue and expense items of Cleco Power between the third quarter of 2009 and the third quarter of 2008, see "— Results of Operations — Comparison of the Three Months Ended September 30, 2009, and 2008 — Cleco Power" of this Form 10-Q, which discussion is incorporated herein by reference.

For an explanation of material changes in the amount of revenue and expense items of Cleco Power between the first nine months of 2009 and the first nine months of 2008, see " — Results of Operations — Comparison of the Nine Months Ended September 30, 2009, and 2008 — Cleco Power" of this Form 10-Q, which discussion is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Overview

Market risk inherent in Cleco's market risk-sensitive instruments and positions includes potential changes arising from changes in interest rates and the commodity market prices of power and natural gas in the industry on different energy exchanges. Cleco is subject to market risk associated with economic hedges relating to open natural gas contracts. Cleco also is subject to market risk associated with its remaining tolling agreement counterparty. For additional information concerning Cleco's market risk associated with its remaining counterparty, see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — General Considerations and Credit-Related Risks."

Cleco uses the authoritative guidance on derivatives and hedging to determine whether the market risk-sensitive instruments and positions are required to be marked-to-market. Generally, Cleco Power's market risk-sensitive instruments and positions qualify for the normal-purchase, normal-sale exception to mark-to-market accounting since Cleco Power takes physical delivery and the instruments and positions are used to satisfy customer requirements.

Cleco's exposure to market risk, as discussed below, represents an estimate of possible changes in the fair value or future earnings that would occur, assuming possible future movements in the interest rates and commodity prices of power and natural gas. Management's views on market risk are not necessarily indicative of actual results, nor do they represent the maximum possible gains or losses. The views do represent, within the parameters disclosed, what management estimates may happen.

Cleco monitors credit risk exposure through reviews of counterparty credit quality, aggregate counterparty credit exposure, and aggregate counterparty concentration levels. Cleco manages these risks by establishing appropriate credit and concentration limits on transactions with counterparties and requiring contractual guarantees, cash deposits, or letters of credit from counterparties or their affiliates, as deemed necessary. Cleco Power has agreements in place with various counterparties that authorize the netting of financial transactions and contract payments to mitigate credit risk for transactions entered into for risk management purposes.

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. Recent market conditions have limited the availability and have increased the costs of capital for many companies. The inability to raise capital on favorable terms could negatively affect Cleco's ability to maintain and expand its businesses. After assessing the current operating performance, liquidity, and credit ratings, management believes that it will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. If Cleco Corporation's credit ratings were to be downgraded by Moody's and Standard & Poor's, Cleco Corporation would be required to pay additional fees and higher interest rates under its bank credit and other debt agreements. Cleco Power is currently rated one level higher by Moody’s than by Standard & Poor’s. Cleco Power pays fees and interest under its bank credit and other debt agreements based on the higher of the two credit ratings. If Cleco Power’s credit ratings were to be downgraded by Moody’s, Cleco Power would be required to pay additional fees and higher interest rates. Cleco Power’s collateral for derivatives is based on the lower of the two credit ratings. If Cleco Power's credit ratings were to be downgraded by Standard & Poor's, Cleco Power would be required to pay additional collateral for derivatives.

Interest Rate Risks

Cleco monitors its mix of fixed- and variable-rate debt obligations in light of changing market conditions and from time to time may alter that mix, for example, refinancing balances outstanding under its variable-rate credit facility with fixed-rate debt. Calculations of the changes in fair market value and interest expense of the debt securities are made over a one-year period.

Sensitivity to changes in interest rates for fixed-rate obligations is computed by calculating the current fair market value using a net present value model based upon a 1% change in the average interest rate applicable to such debt. Sensitivity to changes in interest rates for variable-rate obligations is computed by assuming a 1% change in the current interest rate applicable to such debt.

At September 30, 2009, Cleco Corporation had $118.0 million principal amount of long-term variable-rate debt outstanding under its $150.0 million five-year credit facility at a weighted average interest rate of 0.768%. The borrowings under the credit facility are considered long-term as the credit facility does not expire until 2011. The borrowing costs under the facility are equal to LIBOR plus 0.65%, including facility fees. The existing borrowings had 30-day terms and matured on October 16, 2009, and October 30, 2009. The amounts of the borrowings were renewed at maturity, rather than repaid. Each 1% increase in the interest rate applicable to such debt would have resulted in a $1.2 million decrease in pre-tax earnings of Cleco. Cleco had no short-term variable-rate debt as of September 30, 2009.

For more information regarding Cleco Power's current variable-rate debt outstanding and interest rate swap, please refer to "— Cleco Power" below.

Commodity Price Risks

Management believes Cleco has controls in place to minimize the risks involved in its financial and energy commodity activities. Independent controls over energy commodity functions consist of a middle office (risk management), a back office (accounting), regulatory compliance staff, as well as monitoring by a risk management committee comprised of officers and the General Manager – Internal Audit, who are appointed by Cleco Corporation's Board of Directors. Risk limits are recommended by the Risk Management Committee and monitored through a daily risk report that identifies the current VaR, current market conditions, and concentration of energy market positions.

During 2005, Cleco Power entered into certain financial hedge transactions it considers economic hedges to mitigate the risk associated with fixed-price power to be provided to a wholesale customer through December 2010. These transactions are derivatives as defined by the authoritative guidance on derivatives and hedging but do not meet the accounting criteria to be considered hedges. These transactions are marked-to-market with the resulting gain or loss recorded on the income statement as a component of operating revenue. At September 30, 2009, the positions had a negative mark-to-market value of $0.4 million, which is a decrease of $0.2 million from the negative mark-to-market value of $0.2 million at December 31, 2008. In addition, these positions resulted in a realized loss of $1.4 million for the nine-month period ended September 30, 2009. In light of these economic hedge transactions, volatility in natural gas prices will likely cause fluctuations in the market value of open natural gas positions and ultimately in Cleco Power's future earnings.

Cleco Power provides fuel for generation and purchases power to meet the power demands of customers. Cleco Power has entered into positions to mitigate the volatility in customer fuel costs, as encouraged by an LPSC order. Cleco Power's fuel stabilization policy targets higher levels of minimum hedging percentages and mitigates the volatility in customer fuel costs. The change in positions could result in increased volatility in the marked-to-market amounts for the financial positions. These positions are marked-to-market with the resulting gain or loss recorded on the balance sheet as a component of the accumulated deferred fuel asset or liability and a component of the risk management assets or liabilities. When these positions close, actual gains or losses are deferred and included in the fuel adjustment clause in the month the physical contract settles. Based on market prices at September 30, 2009, the net mark-to-market impact related to open natural gas positions was a loss of $29.6 million. The majority of these natural gas positions will close over the next twelve months. Deferred losses relating to closed natural gas positions totaled $6.4 million at September 30, 2009, and December 31, 2008.

Cleco utilizes a VaR model to assess the market risk of its hedging portfolios, including derivative financial instruments. VaR represents the potential loss in fair value for an instrument from adverse changes in market factors over a defined period of time with a specified confidence level. VaR is calculated daily, using the variance/covariance method with delta approximation, assuming a holding period of one day, and a 95% confidence level for natural gas and power positions. Volatility is calculated daily from historical forward prices using the exponentially weighted moving average method.

Based on these assumptions, the VaR relating to Cleco Power's hedge transactions for the three and nine months ended September 30, 2009, as well as the VaR at December 31, 2008, is summarized below:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009		
(THOUSANDS)	HIGH	LOW	AVERAGE
Economic hedges	$157.0	$69.4	$114.0
Fuel cost hedges	$4,857.8	$1,846.0	$3,262.8

FOR THE NINE MONTHS	AT	AT

(THOUSANDS)	ENDED SEPTEMBER 30, 2009 HIGH	LOW	AVERAGE	SEPTEMBER 30, 2009	DECEMBER 31, 2008
Economic hedges	$268.1	$69.4	$161.2	$140.3	$239.0
Fuel cost hedges	$7,292.8	$1,846.0	$4,061.6	$3,885.9	$6,519.0

Cleco Power

Please refer to "— Risk Overview" above for a discussion of market risk inherent in Cleco Power's market risk-sensitive instruments.
Cleco Power has entered into various fixed-rate debt obligations. Please refer to "— Interest Rate Risks" above for a discussion of Cleco Power's borrowing under its credit facility and how it monitors its mix of fixed-rate debt obligations and the manner of calculating changes in fair market value and interest expense of its debt obligations.
At September 30, 2009, Cleco Power had $35.0 million principal amount of long-term variable-rate debt outstanding under its $275.0 million five-year credit facility at a weighted average interest rate of 0.574%. The borrowings under the credit facility are considered long-term as the credit facility does not expire until 2011. The borrowing costs under the facility are equal to LIBOR plus 0.40%, including facility fees. The existing borrowings had 30-day terms and matured on October 2, 2009, and October 28, 2009. The amounts of the borrowings were renewed at maturity, rather than repaid. Each 1% increase in the interest rate applicable to such debt would have resulted in a $0.3 million decrease in pre-tax earnings of Cleco Power. Cleco Power had no short-term variable-rate debt as of September 30, 2009.
At September 30, 2009, Cleco Power had an additional $50.0 million principal amount of long-term variable-rate debt outstanding with an interest rate of 3.00% plus one-month LIBOR. Each 1% increase in the interest rate applicable to such debt would cause a $0.5 million decrease in the pre-tax earnings of Cleco Power. During 2009, Cleco Power locked in an interest rate swap, effective concurrent with issuing the $50.0 million variable-rate debt, for the notional amount of the debt requiring a monthly net settlement between Cleco Power's fixed 1.84% and the swap counterparty's floating payment of the one-month LIBOR. Each 1% increase in the interest rate applicable to the interest rate swap would cause a $0.5 million increase in the pre-tax earnings of Cleco Power.
Please refer to "— Commodity Price Risks" above for a discussion of controls, transactions, VaR, and market value maturities associated with Cleco Power's energy commodity activities.

ITEM 4 AND 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of September 30, 2009, evaluations were performed under the supervision and with the participation of Cleco Corporation and Cleco Power LLC (individually "Registrant" and collectively the "Registrants") management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). The evaluations assessed the effectiveness of the Registrants' disclosure controls and procedures. Based on the evaluations, the CEO and CFO have concluded that the Registrants' disclosure controls and procedures are effective to ensure that information required to be disclosed by each Registrant in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms; and that the Registrants' disclosure controls and procedures are also effective in ensuring that such information is accumulated and communicated to the Registrants' management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

Under the supervision and with the participation of the Registrants' management, including the CEO and CFO, the Registrants evaluated changes in internal control over financial reporting that occurred during the quarter ended September 30, 2009, and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CLECO

For information on legal proceedings affecting Cleco, see Part I, Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation."

CLECO POWER

For information on legal proceedings affecting Cleco Power, see Part I, Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation."

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed under the heading "Risk Factors" in Item 1A of the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (the "2008 Annual Report on Form 10-K"). For risks that could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Registrants, see the risk factors disclosed under "Risk Factors" in Item 1A of the 2008 Annual Report on Form 10-K.

ITEM 5. OTHER INFORMATION

On October 30, 2009, Cleco Corporation's Board of Directors amended Cleco Corporation's Bylaws (the "Amendment") to effect certain changes with respect to the adjournment of shareholder meetings and to the procedures for shareholders to nominate directors and propose other matters for consideration at a meeting of shareholders. Among other provisions, the Amendment amended the Bylaws to permit the Chairman of the Board of Directors to adjourn a shareholder meeting, whether or not a quorum is present. The Amendment also amended the Bylaws to clarify that the advance notice provisions of the Bylaws are the exclusive means for a shareholder to make director nominations or submit other business before a meeting of shareholders (other than matters properly brought under Rule 14a-8 of the SEC's proxy rules, which contains its own procedural requirements).

The Amendment also amended the Bylaws to require any shareholder submitting a proposal or a nomination of a person for election as a director to include the following additional information in the notice:

§ as to the shareholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made (each such shareholder or beneficial owner, a "Proposing Person"), all ownership interests, including derivatives, hedged positions and other economic and voting interests, any proportionate interest in shares of Cleco Corporation common stock or derivative instruments held by a general or limited partnership in which such Proposing Person is a general partner or beneficially owns an interest in a general partner, any pledge by or short interest of such Proposing Person of any shares of Cleco Corporation common stock, any rights to dividends on shares of Cleco Corporation common stock owned beneficially by such Proposing Person that are separated or separable from the underlying shares, any performance-related fees to which such Proposing Person is entitled based on any increase or decrease in the value of shares of Cleco Corporation common stock or derivative instruments, a representation regarding whether such Proposing Person intends to solicit proxies with respect to the business desired to be brought before the meeting and whether such Proposing Person intends to appear in person or by proxy at the meeting;

- any other information relating to such Proposing Person that would be required to be disclosed in solicitations of proxies for the proposal;
- a description of all agreements, arrangements and understandings between the Proposing Person and any other person or persons in connection with any business or proposal by such shareholder; and
- with respect to a nomination of a director, a description of the material terms of all direct and indirect compensation and other material monetary arrangements during the past three years, and any other material relationships between or among any Proposing Person and their respective affiliates, on the one hand, and each proposed nominee and his or her respective affiliates, on the other hand, including all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if such Proposing Person were the “registrant” for purposes of such rule and the nominee were a director or executive officer of such registrant.

The Amendment also provides that a Proposing Person must be a shareholder of record as of the time of giving the notice provided for in the Bylaws and at the time of the meeting at which the nomination or proposal will be considered. The Proposing Person must update and supplement the required information as of the record date and within 10 business days prior to the date of the meeting.

The Amendment also amended the Bylaws to permit Cleco Corporation to require director nominees to complete a written questionnaire in a form provided by Cleco Corporation and make certain representations to Cleco Corporation relating to voting commitments, compensation and other economic arrangements and future compliance with Cleco Corporation's corporate governance and other policies and guidelines applicable to directors.

The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the Amendment being filed with this report as Exhibit 3.1 and incorporated by reference herein. Pursuant to Cleco Corporation's Bylaws, the Amendment will become effective on October 30, 2010.

CLECO CORPORATION
CLECO POWER 2009 3RD QUARTER FORM 10-Q

ITEM 6. EXHIBITS

CLECO CORPORATION	
3.1	Amendment to the Bylaws of Cleco Corporation, effective October 30, 2010
3.2	Bylaws of Cleco Corporation, revised effective July 1, 2009 (Filed as Exhibit 3.1 to Form 10-Q of Cleco Corporation (Commission File No. 001-15759) for the quarter ended June 30, 2009 and incorporated herein by reference)
10.1	Summary of Director Compensation, Benefits and Policies, Revised on July 31, 2009
10.2	First Amended and Restated Credit Agreement dated as of June 2, 2006 among Cleco Corporation, The Bank of New York, as Administrative Agent, and the lenders and other parties thereto
10.3	Second Amended and Restated Limited Liability Company Agreement of Acadia Power Partners, LLC, dated as of May 9, 2003
10.4	Amendment No. 1 and Waiver No. 1, dated as of August 18, 2009, to and under the First Amended and Restated Credit Agreement, dated as of June 2, 2006, among Cleco Corporation, the Lenders party thereto
12(a)	Computation of Ratios of Earnings to Fixed Charges and of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the three-, nine-, and twelve-month periods ended September 30, 2009, for Cleco Corporation
31.1	CEO Certification in accordance with section 302 of the Sarbanes-Oxley Act of 2002
31.2	CFO Certification in accordance with section 302 of the Sarbanes-Oxley Act of 2002
32.1	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
CLECO POWER	
3.3	Operating Agreement of Cleco Power LLC, revised effective July 1, 2009 (Filed as Exhibit 3.2 to Form 10-Q of Cleco Power LLC (Commission File No. 001-05663) for the quarter ended June 30, 2009 and incorporated herein by reference)
10.5	Amendment No. 1 and Waiver No. 1, dated as of August 18, 2009, to and under the First Amended and Restated Credit Agreement, dated as of June 2, 2006, among Cleco Power LLC, the Lenders party thereto
12(b)	Computation of Ratios of Earnings to Fixed Charges for the three-, nine-, and twelve-month periods ended September 30, 2009, for Cleco Power
31.3	CEO Certification in accordance with section 302 of the Sarbanes-Oxley Act of 2002
31.4	CFO Certification in accordance with section 302 of the Sarbanes-Oxley Act of 2002
32.3	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.4	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLECO CORPORATION
(Registrant)

By: /s/ R. Russell Davis
R. Russell Davis
Vice President - Investor Relations & Chief Accounting Officer

Date: October 30, 2009

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLECO POWER LLC
(Registrant)

By: /s/ R. Russell Davis
R. Russell Davis
Vice President - Investor Relations & Chief Accounting Officer

Date: October 30, 2009