

A Year of Many Accomplishments



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Chris Hamon, White River
Dan Blesi, Crawford



As we look back on the year 2010 your General Manager and Board President are pleased to report that it was a year of many significant accomplishments. Of course, the General Manger and the Board President never begin an annual report message with anything but good news, but it truly was a year of many accomplishments--many of which will be discussed in this annual report to our members.

Foremost of these successes was the conclusion of a lengthy battle with the Army over their refusal to pay their full power bill for the Fort Leonard Wood Army Base beginning in April 2008 when Sho-Me Power implemented its first rate increase since the late 1980's. The Army maintained that the rate structure in the new Conservation Tariff (in which higher use customers paid more per kWh than lower usage customers) was not just, reasonable and was discriminatory. The Army further maintained that, under terms of the 1989 contract, the Army's Contracting Officer could deny our rate and implement its own rate for power. Even though we demonstrated that our power cost from Associated had increased by over 50% from 2006 to 2008, the Contracting Officer staked out a position that she would only allow a 15.6% increase from 2007 rate levels.

So, the battle lines were drawn and the only option for Sho-Me Power would be to pursue litigation through either the Federal Court of Claims or the Armed Services Board of Contract Appeals (ASBCA)--both options would require significant legal expense and expert witness expense. We chose the ASBCA approach, even though we would be doing battle on the Army's home turf. Our attorneys advised us that this would be a quicker and less expensive litigation than the Federal Court of Claims which could take years to resolve. As it turned out, we chose wisely and drew a very reasonable judge to hear the case. During the preparation for the hearing, our attorneys uncovered a 1949 law called the Federal Property and Administrative Services Act (FPASA) which limited utility contracts to a maximum of 10 years. The Army maintained that the Federal Acquisition Regulations (FARs) allow them to have indefinite term contracts and under the language in the contract Sho-Me Power could never terminate it. The possibility that Sho-Me Power could never terminate the contract and that the Army could set its own rates created a completely unacceptable alternative; therefore, surrender to the Army was not an option.

At the hearing before the ASBCA in August, our team of attorneys and expert witnesses presented a compelling case that Sho-Me Power's Conservation Tariff was just, reasonable, and non-discriminatory, while the Army had little evidence to show otherwise. Furthermore, while the Army argued that the FARs allowed them to have indefinite term contracts, the judge advised that the "law trumps regulations" and openly suggested that their argument would not prevail. Given that the Army admitted that the Department of Defense has over 900 such contracts, the prospect of having an unfavorable ruling caused the Army to offer to discuss a settlement of the matter.

Shortly thereafter, the Army surrendered and discussions resulted in an agreement to settle the dispute before the judge issued his decision. As a result of excellent attorneys, expert witnesses and a dedicated Board of Directors and Staff, a settlement was crafted whereby the Army would pay all of the disputed power bills from April 2008 totaling \$23,064,829.82. Sho-Me Power agreed to continue to sell power to Ft. Leonard Wood under a new power supply contract which would continue at least through 2012, but could extend until 2016 at the Army's discretion. Once the power supply contract ended, Sho-Me would continue to provide the same transmission services that Sho-Me Power provides other non-members. Sho-Me Power also agreed to build one new substation and expand another substation to serve the Fort at the Army's cost.

It was a long and costly battle, but in the end justice prevailed. Special thanks to two of the General Manager's old friends, Stan Walch and Tom Blackburn, who teamed up to lead the legal battle.

Another major accomplishment was the award of a \$26.6 million broadband stimulus grant from the Department of Commerce's National Telecommunications Information Administration (NTIA) program for Sho-Me Technologies, LLC. The grant will provide funds to significantly expand the opportunities of broadband fiber optic communications in southern Missouri. Sho-Me Technologies will use the grant money to construct 500 miles of new fiber optics. When combined with 880 miles of in-kind contribution the Middle Mile stimulus network will total 1380 miles, pass thru 30 counties, and connect over 100 Community Anchor Institutions. The open access network will allow Sho-Me Technologies to sell bandwidth to other last mile providers.

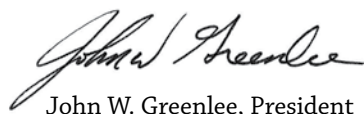
Quoting from Governor Jay Nixon: "Missourians across this great state understand broadband access is critical to our educational and economic development in the 21st century...The American Recovery and Reinvestment Act passed by the federal government in 2009 provided funding to enhance broadband access, create public computing centers, develop sustainable broadband adoption efforts, and to ensure that the infrastructure meets the needs of citizens and businesses. I have been, and will remain, committed to bringing broadband access to all areas of the state." We applaud Governor Nixon for his vision and support in promoting our project as one of his "Highly Recommended" projects for the NTIA grant. Our employees are dedicated to making this project a success.

While there are many other accomplishments that we could highlight in this message, these are two examples of team work from our dedicated employees that have resulted in exceptional results for the benefit of our members.

A special thanks goes to our Board of Directors for their leadership and support of all the accomplishments that you will read about later in this Annual Report to our Members.



Gary L. Fulks, General Manager



John W. Greenlee, President

Five Year Review

Year Ended December 31 (Dollars in thousands)

	2010	2009	2008	2007	2006
CONSOLIDATED SUMMARY OF OPERATIONS					
Operating Revenue:					
Electric Revenue	\$ 214,079	\$ 207,733	\$ 192,735	\$ 167,171	\$ 156,616
Telecom Revenue	21,108	19,586	18,604	14,732	12,185
Consulting Revenue	-	-	18	388	318
Total Operating Revenue	235,187	227,319	211,357	182,291	169,119
Operating Expenses:					
Purchased Power, Net of Pooling Credits	172,313	175,381	159,973	128,158	116,709
Transmission and Other	15,150	12,385	11,572	11,691	11,557
Fiber Optics Network Access	6,998	7,762	7,911	6,030	5,194
Administrative and General	12,782	11,085	9,739	9,225	9,752
Bad Debt	-	4,000	3,000	-	-
Depreciation and Amortization	12,001	11,394	10,465	10,127	9,068
Property Taxes	1,549	1,521	1,288	1,185	1,127
Interest, Net of Allowance for Construction Funds	5,676	5,828	5,785	5,832	6,202
Total Operating Expenses	226,469	229,356	209,733	172,248	159,609
Operating Margins	8,718	(2,037)	1,624	10,043	9,510
Non-Operating Margins	1,078	1,393	1,745	1,791	1,261
Margins Before Generation and Transmission Cooperative Capital Credits and Income Taxes					
Generation and Transmission Cooperative Capital Credits	9,796	(644)	3,369	11,834	10,771
Margins Before Income Taxes	19,331	8,894	19,025	17,414	15,009
Income Tax (Expense) Benefit	(7,330)	(3,426)	(5,391)	(3,540)	214
Net Margins	\$ 12,001	\$ 5,468	\$ 13,634	\$ 13,874	\$ 15,223

CONSOLIDATED BALANCE SHEET SUMMARY

Assets					
Net Utility Plant	\$ 172,372	\$ 166,501	\$ 166,158	\$ 155,611	\$ 152,688
Investments	108,928	101,918	93,436	80,727	76,615
Current Assets	57,641	45,665	38,717	32,927	29,225
Deferred Charges	4,717	5,073	2,194	2,450	2,708
Total Assets	\$ 343,658	\$ 319,157	\$ 300,505	\$ 271,715	\$ 261,236
Liabilities and Equity					
Members' Equity	\$ 161,186	\$ 150,502	\$ 146,337	\$ 135,427	\$ 124,162
Long Term Debt	95,728	94,448	91,238	94,439	103,083
Other Non-Current Liabilities	2,000	2,763	2,740	2,774	2,197
Current Liabilities	49,660	42,590	38,629	26,272	27,507
Deferred Credits	35,084	28,854	21,561	12,803	4,287
Total Liabilities and Equity	\$ 343,658	\$ 319,157	\$ 300,505	\$ 271,715	\$ 261,236

CONSOLIDATED CASH FLOWS SUMMARY

Net Cash					
Provided By Operating Activities	\$ 26,628	\$ 7,914	\$ 14,397	\$ 21,154	\$ 21,902
Used In Investing Activities	(15,257)	(10,038)	(19,163)	(11,030)	(11,875)
Provided By (Used In) Financing Activities	(6,060)	2,105	4,581	(12,203)	(7,787)
Net Increase (Decrease) In Cash and Cash Equivalents	5,311	(19)	(185)	(2,079)	2,240
Cash and Cash Equivalents At Beginning of Year	103	122	307	2,386	146
Cash and Cash Equivalents At End of Year	\$ 5,414	\$ 103	\$ 122	\$ 307	\$ 2,386
Reconciliation Of Net Margins To Net Cash Provided By Operating Activities:					
Net Margins	\$ 12,001	\$ 5,468	\$ 13,634	\$ 13,874	\$ 15,223
Adjustments To Reconcile Net Margins To Net Cash Provided By Operating Activities:					
Depreciation and Amortization	12,363	11,839	10,467	10,130	9,931
Deferred Income Taxes	7,287	3,332	5,309	3,263	6
Generation and Transmission Capital Credits	(9,535)	(9,538)	(15,656)	(5,580)	(4,238)
Other Capital Credits	(289)	(319)	(245)	(411)	(342)
Other	4,801	(2,868)	888	(122)	1,322
Net Cash Provided By Operating Activities	\$ 26,628	\$ 7,914	\$ 14,397	\$ 21,154	\$ 21,902

ADDITIONAL INFORMATION

Times Interest Earned Ratio - TIER	3.11	1.94	3.36	3.38	3.45
Debt Service Coverage - DSC	0.93	1.25	1.81	2.05	2.53
Energy Sales - MWh					
Member REC Sales	2,962,439	2,763,043	2,891,311	2,875,292	2,744,628
Other	960,132	1,115,919	1,208,946	1,221,119	1,179,209
Total Energy Sales	3,922,571	3,878,962	4,100,257	4,096,411	3,923,837
Systems Peaks - MW					
Winter	985	941	929	888	879
Summer	815	817	867	906	893

Copies of Sho-Me's Annual Audits are available upon request - Inquiries should be made to Asst. Secretary-Treasurer

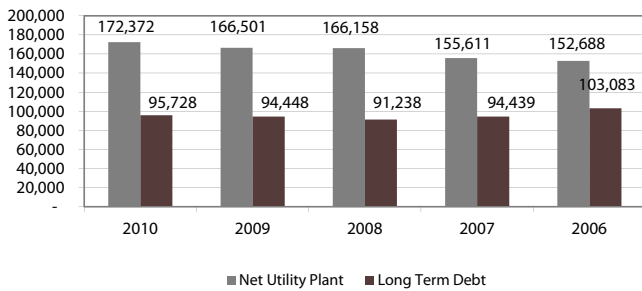
Financial Services

The Financial Services Department's recurring goal is to record the results of past activities and report the financial impact of those activities to others. Accurately performing these tasks, in light of changing requirements imposed by a host of regulatory bodies, is significant, but doesn't make for terribly exciting reading.

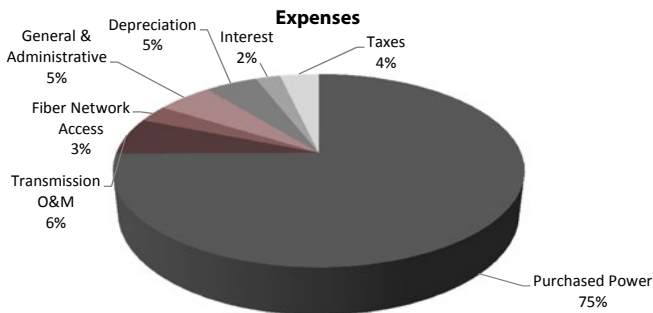
One significant achievement of 2010 was the refinancing of virtually all of Sho-Me Power's remaining 5% insured loan funds. Over \$14 million was able to be refinanced with the National Cooperative Services Corporation at an average rate of 2.8767%, saving over \$3.7 million in interest payments over the remaining life of the RUS loans.

Another significant achievement of 2010 was the adoption of a Purchased Power Prepayment Program for our REC members. This program was developed to improve the amounts earned by REC members on idle cash, while reducing Sho-Me's reliance on higher cost funds from its traditional short term borrowing sources.

Plant & Debt

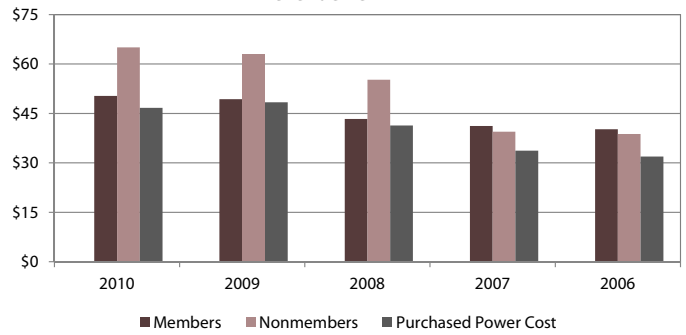


The Net Utility Plant continues to grow as Sho-Me builds more facilities than it depreciates each year. The amount of debt needed to finance that growth is decreasing as a percentage of each year's total capital expenditures.



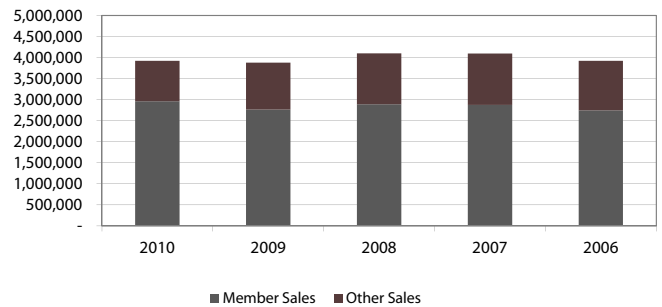
Operating thousands of miles of high voltage transmission lines and thousands of miles of fiber-optic network is an expensive activity. Sho-Me needs 25¢ of every expense dollar to provide the many services that our members and non-members expect and deserve.

Revenue Per MWH

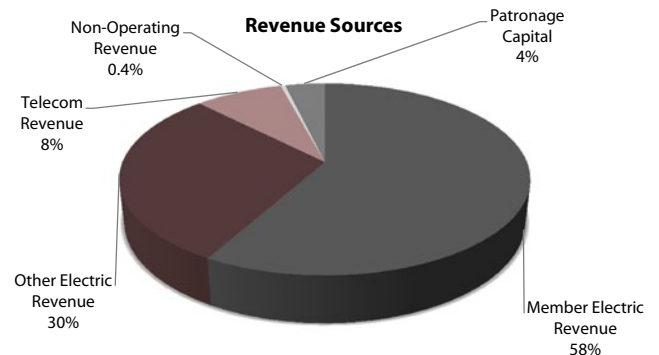


In 2008 a new rate design was adopted that encouraged energy conservation through economic price signals. The result has been that as power supply costs have increased, those customers who have not been able to conserve have absorbed more of the cost of the increase in power costs.

MWH Energy Sales



Member Energy Sales are gradually increasing over time; however, our non-member sales are gradually decreasing as some non-members elect to contract for their power supply elsewhere, but continue to purchase transmission services from us. We expect this trend to continue over the next few years, with transmission service revenues continuing to increase while non-member energy sales decline.



Member Electric Revenues will continue to represent the most significant portion of our Revenue Requirement. As non-member transmission services and telecom revenue continue to grow at a faster pace than member revenue, this reliance upon member revenues, as a percentage of total revenues, will gradually decline in the coming years.

Operations

The operations department had another busy year with several maintenance and construction related projects. As usual, our main goal is to keep everyone safe as we continue to increase our work load. The operations department had a total of two lost time accidents in 2010. One safety feature that we have added is a quick trip setting on low volt main relays that allows for faster breaker tripping while crews are working on or near an energized bus. The replacement of old oil breakers and electromechanical relays is still a major focus in our department. To date, we have replaced a total of 50 breakers and have 47 left to change out. We expect a significant increase in reliability and reduction in maintenance cost as the result of this project. In 2010 we also added a total of ten 69 kV breakers to our system at Ava, Hooker and Gospel Ridge. This will give substations in those areas less exposure to outages during fault conditions. In 2010 we had a total of 45 hours of planned and unplanned outages. This is the lowest outage number since 2006 and is way below the average of the previous five years of 98 hours.

The Meter and Relay department continues to not only replace old relays, but also replace and upgrade Remote Terminal Units (RTUs) across the system. We only have two or three (out of approximately 140) left of the older style RTUs that we installed in the late 80's and early 90's. As we change out relays on the 161kV and 345kV systems we are taking advantage of the fiber optic communications available and adding "mirrored bits" channels that allow the newer style relays to communicate



(Left) Inspecting new relay panels (Right) Houston #2 Substation major rebuild

with each other. This allows faster operating times and a more stable and secure power system. Another ongoing project in 2010 was the conversion of meters, RTUs and relays to Ethernet communications to allow remote access in a network environment.

2010 was a year of change concerning the compliance of North American Electric Reliability Corporation (NERC) regulations. The newer regulations are requiring more testing and more detailed information about our existing test data. Steve Hunt and Jarrod Murdaugh spent a considerable amount of time organizing the equipment test data into a format that will be acceptable for auditing purposes. Last year a Meter and Relay intranet site was developed to help manage projects. This allows anyone to access detailed information about a project, various links to prints, settings, schedules, web sites and is a way to keep everyone in the department up to date on the latest developments.

Along with the breaker replacement project, the substation crews remained busy with adding animal guards at the distribution substations, tap-changer maintenance and construction projects at Ava #2, Brumley, Houston #2, Gospel Ridge and Stoutland. Transformer upgrades were done at the West Plains #3 and Cody substations. Oil testing again proved its value when we found internal arcing in transformers at the Cody and Sullivan #3 substations. We were able to avoid failure on these units by repairing them in the field. A recall on several of our circuit switchers added some additional work load as we had to arrange to take transformers out of service to replace parts that might cause a failure and subsequent outage. This will be an ongoing project for several years. In 2010 we changed the substation check list and now allow the substation crews to fill out these forms on their laptops. One of the changes made on the list is the use of infrared cameras. In the past we shared one camera with all crews and now we have one camera for each crew, which will allow us to make this inspection part of our substation check. With the help of summer students we were able to scan in most of the old transformer prints. This information is now available on the network and on the sub crew's laptops.

Meter & Relay Accomplishments

- 21 Breaker replacements or additions
- 284 Oil tests performed on substation equipment
- Tapchanger maintenance on eight load tap changers
- Circuit switcher recall
- Added animal guards at several substations
- Added five new circuits for the coops
- Installed mobiles at nine substations
- Construction at Ava #2, Cody, Houston, Brumley, Gospel Ridge, Stoutland
- Replaced 161/69 kV transformer at West Plains #3

Substation Crew Accomplishments

- Dynamic testing of all 69 kV relays and breakers
- Trip testing of all 15 kV and 26 kV LVM breakers
- Replaced five old RTUs
- Converted 25 meters to ethernet
- Converted 14 RTUs to ethernet
- Updated prints for over 93 substations
- Add GPS units at relay equipped substations
- Add quick trip feature on low volt main breakers
- Upgraded 31 recloser controls for intercounty
- Increased role in NERC compliance standards
- Added or replaced over 20 relay panels

Engineering

2010 was a year of great accomplishments. The ones that will be memorable for Engineering are the “big projects”. The transmission engineering group constructed new facilities to house five miles of 345kV structures and conductor to have on hand in case of a disaster on the AECI lines we maintain. The material is staged so we can mobilize quickly to restore or rebuild the line. In addition to the stock material, Sho-Me’s transmission engineers designed and contracted the installation of nine storm structures on our Morgan to Franks, 100 mile, 345kV line. Approximately every eight to ten miles, a dead-end/storm structure was placed to prevent a cascading situation. The storm structures along with our stock material will ensure a quick response if a portion of our important 345kV lines is knocked down in a weather event. When you are dealing with 345kV projects, they are always big.

The other big project is the Mansfield to Willow Springs 161kV line conversion project. This project is big because there are 22 miles of 69/161kV double circuit and 24 miles of 161kV transmission line to build along with the 161/69kV, 84MVA Mtn. Grove #3 Substation, the 161kV Cabool Substation upgrade and 161kV terminal additions at Mansfield Central and Willow Springs #3. The combined estimated costs of the identified work exceed \$20 million. Thus, it was named the “big project”. We have looked forward to getting these facilities underway and it began with our line crews performing complicated preliminary work to kick it off in June. All the crews were a part of the Hartville midnight outage to reroute the Mansfield to Hartville line in preparation for the “big project”. The entire project is expected to take two years and complete in the spring of 2012.

Other Engineering accomplishments include the Cody Substation 12/16/20MVA and the Brumley Substation 10MVA transformer upgrades. The Hooker and Gospel Ridge 69kV line terminal and breaker additions were completed and energized with the Hooker to Gospel Ridge new transmission line. The Ava #2 Substation Upgrade project added four 69kV breakers to make our system more reliable. Another notable project was the 345kV pole inspection and treatment contract where over 2,500 poles were ground line treated in expectation of prolonging the life of the pole by preventing decay.

For the line department, every year seems to bring an ice storm, wind storm or tornado and 2010 was no different. The



Typical 345 kV Storm Structure

system experienced the first tornado in April with a destructive path through Gainesville, Tecumseh, Dora and Willow Springs. This first storm even hit our crew facilities at Willow Springs with some of the men taking shelter in the damaged building just before impact. Then the last day of the year, Ft. Leonard Wood and the Rolla area were hit with severe tornados that knocked down seven structures. Once again, some of our crews were responding to the call to repair downed power lines while their area was under the threat of a tornado. All the line crews were assembled to repair the major damage at Ft. Leonard Wood.

Our line crews perform necessary maintenance over the entire system each year and we utilize them to construct needed work plan projects. All the maintenance work they perform accomplishes our yearly goal of providing safe, reliable and affordable power to our member cooperatives.

The Cuba Line Crew replaced 28 poles and 28 cross arms on our 69kV and 161kV lines in their area. The Cuba crew also finished the re-sag of the Darien to Montauk 69kV line and then completed the re-sag of the Salem #2-#3 69kV line.

The Marshfield Line Crew replaced 65 poles and 15 cross arms with their busy maintenance efforts. The crew also took the lead performing the first step of the complicated preliminary work necessary for the “big project” (the Mansfield to Willow Springs 161kV conversion) by reconditioning the new portion of the Mansfield to Hartville line. In addition to these

(Left) Planned night outage work on the Mansfield to Hartville line (Center) New breaker installation at Ava #2 (Right) 345 kV Emergency Material Yard



accomplishments, the crew performed work to stabilize river banks threatening to wash out structures on the Ava-Good Hope line and the Seymour to Fordland line.

The Willow Springs Line Crew replaced 81 poles and 47 cross arms in 2010. Most of the replacements occurred with the major maintenance on the Winona to Eminence 69kV line. The crew also re-conducted the West Plains #2 to Henry 69kV line that solved a work plan contingency problem. The crew responded, along with the help of the Marshfield Crew, to tornado damaged lines in their territory at Gainesville, Tecumseh, Dora and Willow Springs.

The Engineering and Transmission Department expects 2011 to be even busier with a full schedule of projects to be accomplished. The Pea Ridge to Huff 69kV line and 138/69kV Substation project was underway by Engineering at the end of 2010 and should be complete by the end of the year. Other major projects the Engineering Department is tackling in 2011 include Holman to Crossway and Holman to Rogersville 161kV Line construction as well as Crossway, Rogersville and Summersville East 161/69 kV Substation construction projects. It's an exciting time for the Engineering group and staff is anxious to meet the challenges to keep our system safe, reliable and efficient.

Administrative Services

On August 24, 2010, Sho-Me was awarded NRECA's Rural Electric Safety Accreditation (RESAP). This is the first time Sho-Me has sought and received this designation. The accreditation was awarded after the submittal of a 53-page application, six years of safety records review, and select safety management programs. In addition, RESAP field observation requirements resulted in audits of all of Sho-Me's crew facilities in addition to several substations and sections of right-of way by Craig Moeller (AMEC), Jerry Wellington (Crawford), and Eldon Humphers (Federated). Sho-Me management is proud that, during the required field visits, all operational crew observed had zero safety deficiencies.

The purchasing department implemented an electronic, paperless requisition system to establish common procedures for purchasing items. This allows for better tracking and archiving of purchasing requests while utilizing chain of command workflow and creating a more efficient and transparent purchasing process.



All crews attend monthly safety meetings

The IT department began to provide access to network resources from external equipment and locations through secure remote access. The line patrol application was also redesigned and rewritten to add new features, work more efficiently, and simplify the administration of solving right of way issues reporting from personnel in the field.

Security upgrades were made at the Cuba and Willow Springs show-ups, including fire improvements, door access control, burglar and video surveillance systems, as well as white light technologies in critical areas for night enhancements. Video surveillance was also added at Tunnel Dam for monitoring in dispatch centers, along with infrared technologies to allow visibility at night.

The right-of-way staff were busy this year. 520 miles were sprayed, 380 miles were mowed, and 86 miles were side trimmed. Five substation properties were purchased, along with additional property for expansion of the Mansfield Central Substation. Properties were also purchased for Pea Ridge to Huff, Holman to Crossway, and Mansfield Central to Willow Springs.

Sho-Me Power Environmental Personnel supervised the development and planting of 40 acres of wetland habitat in mitigation for Clean Water Act violations associated with the Thayer to Gobbler Knob Transmission Line Project. The project consisted of planting approximately 6,900 trees at the mitigation site, near Neeleyville, MO, in October of 2010. The site will report monitoring results annually to the Corps of Engineers - Little Rock District for a minimum of five years.

Inventory was taken at the warehouse in September, with a balance of \$13,246,775.00. The net adjustment was a low (\$3,828.42). Additional material was required for five mile 345kV emergency replacement in 2010. The shop replaced



In accordance with the National Environmental Policy Act and Section 7 of the Endangered Species Act, Sho-Me Environmental Personnel, assisted by Graduate Students from Missouri State University, conducted a Biological Assessment and Mist Netting Surveys for the Indiana Bat along the Pea Ridge to Huff Project Corridor. The project consisted of 16 days and nights of field work. When a bat of any species was caught the bat was weighed, gendered, banded, 'scored', and wing tissue samples were submitted to assess White Nose Fungus. This information will help Missouri determine the effect and spread of the White Nose Fungus endangering cave dwelling bat species.

three trucks for the line crew fleet as well as a substation filtration trailer and a SF6 reclamation trailer.

Grass roots efforts were also important and successful during 2010. The Capitol fish fry served 1,150 people with 600 pounds of fish and 4,800 hush puppies. An annual legislative fish fry was also held at Bennett Springs in September with 12 legislators present.

Human Resources

2010 was a significant year for Human Resources benefits administration as for the first time in years, a new insurance option was offered to non-union employees. A High Deductible Health Plan, allowing employees to qualify for a Health Savings Account that meets Internal Revenue Service limits, was presented to employees in October, to be effective in January, 2011. The Board of Directors approved funding the entire \$2,400 deductible the first year and the Plan was selected by 90% of non-union employees, estimated to save Sho-Me approximately \$150,000 in benefit cost in 2011. Human Resources attributes the successful enrollment to the generous efforts of the Board and several educational meetings with National Rural Electric Cooperative Association (NRECA), Human Resources, and Missouri Electric Cooperatives Employees' Credit Union (MECECU) to educate employees not only on the benefits of a High Deductible Plan but on the logistics as well. Sho-Me now joins most other cooperatives in Missouri offering a High Deductible Plan to employees.

Health Care Reform was passed in March, mandating certain employer requirements effective six months later (September); therefore, Human Resources researched and presented a summary presentation to Staff of requirements affecting us immediately and what we can expect in the future. Immediate costs to Sho-Me (in the form of additional insurance premiums as a result of the requirement to cover age 26 dependent children) are estimated at \$8,000 for 2011.

A new Sick Leave Policy and accompanying procedure was implemented giving employees a choice of a personal short term disability bank using their accumulated sick leave or a percentage payout on accrued hours. For those choosing a payout, a new cooperative-funded Short Term Disability Plan

was developed. Employees with a qualifying illness or disability (unable to work for 15 consecutive days), as determined by an employer approved physician, may receive 70% of their base salary for 13 weeks, at which time their standard Long Term Disability Plan begins. Employees overwhelmingly embraced the new Plan, with the majority electing to cash-out their prior accrued leave and fund their new Health Savings Account with the balances.

Human Resources coordinated over 60 hours of training, including new employee orientations, six supervisor/management training programs, as well as NRECA benefit update meetings and employee meetings and training.

Successful recruiting efforts with Missouri S&T as well as local universities resulted in hiring two engineers, including a Civil Engineer and an Electrical Engineer, one accountant, three linemen, a Meter and Relay technician and a Central Office Technician. There were 19 promotions and two transfers

within the cooperative in 2010. The number of employees increased from 143 in 2009 to 147 in 2010. Additional contractors were selected through our continued relationship with ManPower Temporary Services to assist with temporary projects required as a result of the receipt of \$26 million in stimulus funds to expand broadband to rural Missouri. Two employees were recruited to arrive in January, 2011 as a result of this award.



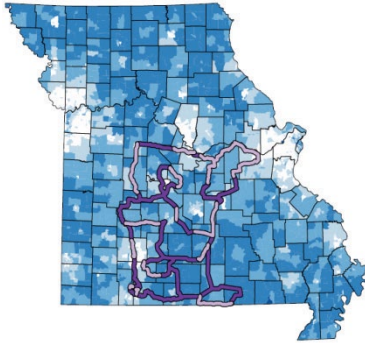
HR conducts frequent management training sessions

The Salary Structure was adjusted to accommodate range spreads commonly accepted in the industry among different types of jobs rather than the uniform structure design used since 2007 and accepted by most industries for several years. All company job descriptions were updated to ensure compliance with Federal agencies and reflect new duties as position responsibilities have expanded. Due to the addition of Sho-Me Technologies, several new Union positions have been implemented and Human Resources updated all of the Union job descriptions when writing descriptions for the new positions required.

At the end of 2010, Sho-Me's work force included 147 full-time employees. 32 employees are based out of satellite offices at Fanning (Cuba) and Willow Springs, with all other employees based out of Marshfield.

Telecom Engineering and Operations

In April of 2009, Sho-Me began working on a plan, in support of the American Recovery and Reinvestment Act, to bring broadband to rural Missouri. In September of 2010, we received approval from NTIA to proceed with a \$38 million



project that enables a 1,400 mile network to connect 30 counties in south-central Missouri. The importance of the network is to connect community anchor institutions and make broadband available to more potential users of the Internet. The project is expected to be completed by July of 2012.

Throughout half of the year, we assisted Verizon Wireless (VZW) on a large scale conversion project that will ultimately provide more bandwidth capabilities for their customers.

In doing so, Sho-Me upgraded over 100 VZW towers with Ethernet switches and increased capacity by as much as 30 times. The project created the first 10 Gbit/sec transport networks in our system.

During the summer we began investigating the possibility of providing dedicated Internet bits to those customers who wanted to connect directly to a tier 1 provider. According to the Cooperative Association for Internet-Data Analysis there are 300,000 tiered Internet routes in the world. However, tier 1 routes in Missouri are only accessible in St. Louis and Kansas City. Today we are connected to a tier 1 in St. Louis and receive 100 Meg of Internet pipe. Our customers are subscribing through us for 20% of the pipe and demand is growing.

We are not an Internet Service Provider (ISP), but through high speed connectivity we can provide others the access they need to various ISPs.

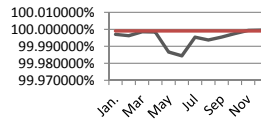
During the early winter months the Woodruff Building in Springfield flooded when water pipes on the top floor burst after freezing. It took over a week to get the water shut off. Elevator shafts were flooded. Utilities were shut off. As a result, the tenants have left or are in the process of leaving.



The Network Operations Center

Sho-Me has fiber and equipment in the building too. Today we have a new location on the south side of town, have installed a new telecom shelter, have completed fiber construction and are ready to start re-grooming traffic from the old location to the new location. Estimated completion date is set for the summer of 2011.

Our reliability goal throughout each year has always been 5-9s, or 99.999% of the time the communications circuits are to be working. When we consistently achieve this goal, we



raise the mark to 6-9s. But things happen. During the summer we saw tornadoes rip through the system causing several outages.

Other outages occur when animals chew through the cables or vehicles take out poles and fiber has to be repaired. The other source of outages to customers is in the electronics. As equipment ages, it begins to become more unreliable. As we upgrade services we make use of that opportunity to replace older outdated equipment.

We installed approximately 65 additional miles of fiber optic cable throughout the system bringing the total amount of fiber owned by Power and Technologies to almost 2,000 miles. The majority of the 2010 construction was in the Columbia, MO vicinity.

(Center) Switches for the VZW project are programmed in the lab before being deployed (Right) Splicing fiber



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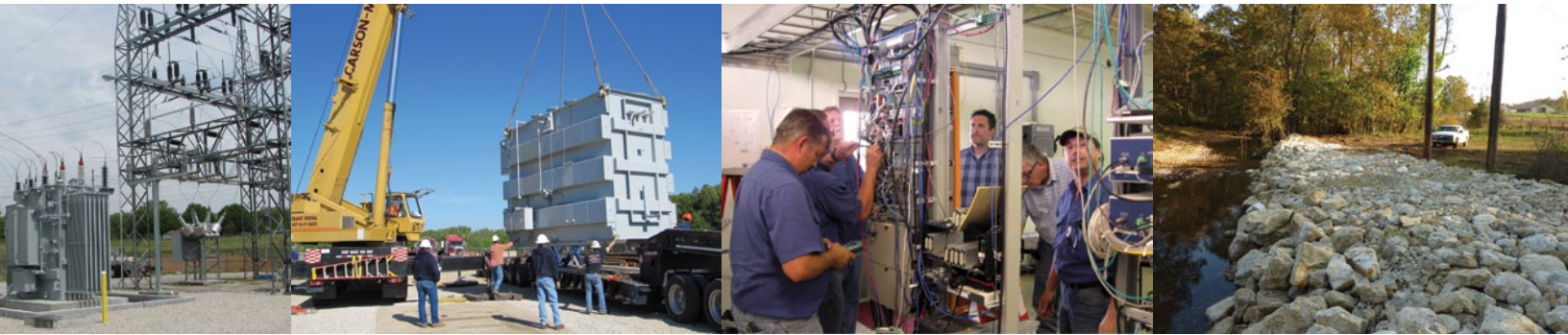
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