BioTelemetry, Inc.
Form DEF 14A
March 23, 2016
Table of Contents

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

BioTelemetry, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
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Table of Contents

BioTelemetry, Inc.

Notice of 2016 Annual Meeting of Stockholders

1000 Cedar Hollow Road, Suite 102

Malvern, PA 19355

March 23, 2016

The 2016 Annual Meeting of Stockholders of BioTelemetry, Inc. will be held:

Tuesday, May 3, 2016

8:30 AM, local time

Philadelphia Marriott West

111 Crawford Avenue

West Conshohocken, Pennsylvania 19428

The items of business are:

1. Election of two Class III director nominees named in the proxy statement to hold office until the 2019 Annual Meeting of Stockholders or until their successors are elected and qualified;

2. Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2016; and

3. Conducting any other business properly brought before the meeting and any adjournment or postponement of the meeting.

Only stockholders of record of our common stock at the close of business on March 23, 2016 are entitled to vote at the meeting and any postponements or adjournments of the meeting.

Peter Ferola
Secretary

Important Notice Regarding the Internet Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on May 3, 2016

We are delivering to all stockholders paper copies of all proxy materials and our Annual Report on Form 10-K for the year ended December 31, 2015. In addition, this Notice of Annual Meeting and Proxy Statement and the Annual Report on Form 10-K for the year ended December 31, 2015 are available on our website at *http://www.gobio.com* in the *Investors* section.

Your Vote is Important

It is important that your shares be represented at the meeting, regardless of the number you may hold. Whether or not you plan to attend, please vote using the proxy card or voting instruction card as promptly as possible in order to ensure your representation at the meeting. This will not prevent you from voting your shares in person if you are present at the meeting.

Table of Contents

Table of Contents

Proxy Summary

Here are highlights of important information you will find in this proxy statement. This summary does not contain all of the information that you should consider and you should read the entire proxy statement carefully before voting.

Summary of Stockholder Voting Matters

	For More Information	Board Vote Recommendation
Proposal 1: Election of Two Class III Directors Rebecca W. Rimel Robert J. Rubin, M.D.	Page 46	ü **FOR** Each Nominee
Proposal 2: Ratification of Ernst & Young LLP Ratification of Appointment of Ernst & Young LLP (EY) as our Independent Registered Public Accounting Firm for 2016	Page 50	ü **FOR**

Our Director Nominees

You are being asked to vote on the election of Rebecca W. Rimel and Robert J. Rubin, M.D. as Class III directors to serve for a three-year term. The number of members of our Board of Directors (Board) is currently set at nine members and is divided into three classes of equal size, each of which has a three-year term. Class I consists of two directors, Class II consists of two directors and Class III consists of two directors. Currently, there is one vacancy in each of Class I, Class II and Class III, and we are continuing to seek to identify individuals to fill these vacancies. Our Board, by a majority vote of sitting directors, may fill any vacancies unless the Board has determined, by resolution, that any such vacancies shall be filled by stockholders. A director elected by the Board to fill a vacancy in a class, including vacancies created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until the director s successor is elected and qualified.

The term of office of our Class III directors expires at the 2016 Annual Meeting of Stockholders (the 2016 Annual Meeting). We are nominating Ms. Rimel and Dr. Rubin for reelection at the 2016 Annual Meeting to serve until the 2019 Annual Meeting of Stockholders and until each director s successor is elected and qualified. Directors are elected by a plurality of the votes of the holders of shares present in person or represented by proxy and entitled to vote on the election of directors. The two nominees receiving the most **FOR** votes (among votes properly cast in person or by proxy) will be elected. If no contrary indication is made, shares represented by executed proxies will be voted **FOR** the election of Ms. Rimel and Dr. Rubin or, if either nominee becomes unavailable for election as a result of an unexpected occurrence, **FOR** the election of a substitute nominee designated by our Board. Each nominee has agreed to serve as a director if elected, and we have no reason to believe that any nominee will be unable to serve.

Table of Contents

Detailed information about each director s and director nominee s background and areas of expertise can be found beginning on page 47.

Name	Age	Director Since	Occupation	Independent	Committee Memberships AC	CC	NCGC	Other Current Public Company Boards
Rebecca W. Rimel	64	2009	President and Chief Executive Officer, The Pew Charitable Trusts	Yes		M	M	1
Robert J. Rubin, M.D.	70	2007	Distinguished Professor of Medicine, Georgetown University	Yes	M		C	1

AC Audit Committee CC Compensation and Talent Development Committee M Member

NCGC Nominating and Corporate Governance Committee C Chair

2015 Performance and Compensation Highlights

Under the leadership of Joseph H. Capper, our President and Chief Executive Officer, and the rest of our management team, we had a record year, posting the highest revenue, patient and study volumes, net income and adjusted EBITDA in our corporate history. These achievements are a direct result of the successful implementation of our corporate strategy. Compared to 2014, revenue grew by 7.2%, gross profit grew by 14.0%, net income grew 175.5% and adjusted EBITDA grew by 61.2%.

(1)

(1) For a reconciliation of 2015 GAAP income from operations ($9.5 million) to adjusted EBITDA, please see Non-GAAP Financial Measures on page 18.

Table of Contents

The following table shows the components of 2015 compensation paid to our named executive officers (NEOs). This table is not a substitute for our 2015 Summary Compensation Table set forth on page 34.

2015 Summary Compensation

Name and Principal Position	Salary ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
Joseph H. Capper President and Chief Executive Officer	535,000	1,283,997	804,383	535,000	21,361	3,179,741
Heather C. Getz Senior Vice President and Chief Financial Officer	338,100	298,250	190,629	202,860	23,183	1,053,022
Michael Geldart Senior Vice President and Chief Operating Officer	284,307	176,400	189,441	—	17,695	667,843
Daniel Wisniewski Senior Vice President, Operations	320,000	192,001	120,279	160,000	20,758	813,038
Peter Ferola Senior Vice President and General Counsel	310,000	178,500	116,524	155,000	23,324	783,348
Fred (Andy) Broadway III Senior Vice President, Sales and Marketing	285,285	156,844	102,128	142,643	23,120	710,020

Key 2015 and Early 2016 Compensation-Related Actions

- Continued focus on long-term incentive compensation to ensure that our executives continue employment with us and to directly tie executive compensation to the generation of stockholder value.

- Reaffirmed compensation philosophy to target our executive compensation at the median (50th percentile) of peer group companies.

- Adopted stock ownership and holding policy to better align the financial interests of our executives with those of our stockholders.

- Evaluated our succession planning needs and are in the process of implementing a formal succession policy for senior-level executives in early 2016.

- Adopted a clawback policy allowing us to recoup incentive compensation paid in the event of a material restatement of our financial statements.

Table of Contents

Other Existing Key Compensation Features

- No tax gross-ups, including no excise tax gross-ups.
- No single trigger feature on parachute payments in employment agreements, with the exception of our Chief Executive Officer whose equity awards immediately accelerate and become fully vested upon a change in control.
- No hedging of company stock.
- Engagement of independent compensation consultant.
- Option repricing forbidden without stockholder approval.

Auditors

Set forth below is summary information with respect to EY s fees for services provided in 2015 and 2014.

Type of Fees	**2015**	**2014**
Audit Fees	$849,500	$858,995
Audit-Related Fees	17,500	104,500
Tax Fees	78,826	—
All Other Fees	26,000	18,000
Total	$971,826	$981,495

General Information About the Meeting

Proxy Solicitation

Our Board is soliciting your vote on matters that will be presented at the 2016 Annual Meeting and at any adjournment or postponement thereof. This proxy statement contains information on these matters to assist you in voting your shares.

The Notice of Annual Meeting (the Notice) and proxy statement, the accompanying proxy card or voting instructions and our Annual Report on Form 10-K for the year ended December 31, 2015, including our annual report wrapper (the 2015 Annual Report), are being mailed or made available on or about March 23, 2016.

Stockholders Entitled to Vote

All stockholders of record of our common stock, par value $0.001 per share, at the close of business on March 23, 2016, are entitled to receive the Notice and to vote their shares at the 2016 Annual Meeting. As of that date, 27,633,954 shares of our common stock were outstanding. Each share is entitled to one vote on each matter properly brought to the meeting.

Voting Methods

You may vote at the 2016 Annual Meeting by delivering a proxy card in person or you may cast your vote in any of the following ways:

Mailing your signed proxy card or voter instruction card.

Using the Internet at *www.voteproxy.com*.

Calling toll-free from the United States, U.S. territories and Canada to 1-800-776-9437.

How Your Shares Will Be Voted

In each case, your shares will be voted as you instruct. If you return a signed card, but do not provide voting instructions, your shares will be voted **FOR** each of the proposals. If you are the record holder of your shares, you may revoke or change your vote any time before the proxy is exercised by filing with our Corporate Secretary a notice of revocation or a duly executed proxy bearing a later date. You may also vote in person at the meeting, although attendance at the meeting will not by itself revoke a previously granted proxy. If your shares are held by your broker, bank or other holder of record as a nominee or agent (i.e., the shares are held in street name), you should follow the instructions provided by your broker, bank or other holder of record.

Deadline for Voting. The deadline for voting by telephone or Internet is 11:59 PM Eastern Time on May 2, 2016. If you are a registered stockholder and attend the meeting, you may deliver your completed proxy card in person. Street name stockholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

Broker Voting

If your shares are held in a stock brokerage account or by a bank or other holder of record, you are considered the beneficial owner of shares held in street name. The Notice has been forwarded to you by your broker, bank or other holder of record who is considered the stockholder of record of those shares. As the beneficial owner, you may direct your broker, bank or other holder of record on how to vote your shares by using the proxy card included in the materials made available or by following their instructions for voting on the Internet.

A broker non-vote occurs when a broker or other nominee that holds shares for another does not vote on a particular item because the nominee does not have discretionary voting authority for that item and has not received instructions from the beneficial owner of the shares. The following table summarizes how broker non-votes and abstentions are treated with respect to our proposals:

Proposal	Votes Required	Treatment of Abstentions and Broker Non-Votes	Broker Discretionary Voting
Proposal 1 - Election of two Class III Directors to hold office until the 2019 Annual Meeting of Stockholders	Plurality of the votes of the shares present in person or represented by proxy and entitled to vote on the proposal	Abstentions and broker non-votes will not be taken into account in determining the outcome of the proposal	No
Proposal 2 - Ratification of appointment of EY as our independent registered public accounting firm for the year ending December 31, 2016	Majority of the shares present or represented by proxy and entitled to vote on the proposal	Abstentions and broker non-votes will have the effect of negative votes	Yes

Quorum

We must have a quorum to conduct business at the 2016 Annual Meeting. A quorum consists of the presence at the meeting either in person or represented by proxy of the holders of a majority of the outstanding shares of our common stock entitled to vote. For the purpose of establishing a quorum, abstentions, including brokers holding customers shares of record who cause abstentions to be recorded at the meeting, and broker non-votes are considered stockholders who are present and entitled to vote, and count toward the quorum. If there is no quorum, the holders of a majority of shares present at the meeting in person or represented by proxy or the chairman of the meeting may adjourn the meeting to another date.

Mailings to Multiple Stockholders at the Same Address

We have adopted a procedure called householding for making this proxy statement and the 2015 Annual Report available. Householding means that stockholders who share the same last name and address will receive only one copy of the materials, unless we are notified that one or more of these stockholders wishes to continue receiving additional copies.

We will continue to make a proxy card available to each stockholder of record. If you prefer to receive multiple copies of the proxy materials at the same address, please contact us in writing or by telephone: Corporate Secretary, BioTelemetry, Inc., 1000 Cedar Hollow Road, Suite 102, Malvern, PA 19355.

Proxy Solicitation Costs

We pay the cost of soliciting proxies. Proxies will be solicited on behalf of the Board by mail, telephone, and other electronic means or in person. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

Results of the 2016 Annual Meeting

We will report final voting results from the 2016 Annual Meeting on a Current Report on Form 8-K to be filed with the SEC within four business days after the conclusion of the 2016 Annual Meeting.

Corporate Governance and Board Matters

During 2015, our Board met 14 times. Each director attended at least 75% of the Board meetings and the meetings of the Board committees on which he or she served. It is our policy to invite our directors and nominees for director to attend our annual meetings of stockholders. All of our directors then in office attended our 2015 Annual Meeting of Stockholders and we expect that all of our current directors and nominees for director will attend our 2016 Annual Meeting.

Our principal governance documents are our Board committee charters and Code of Business Conduct and Ethics. Aspects of our governance documents are summarized below.

We encourage our stockholders to read our governance documents, as they present a comprehensive picture of how the Board addresses its governance responsibilities to ensure our vitality and success. The documents are available in the *Investors Corporate Governance* section of our website at *www.gobio.com* and copies of these documents may be requested by writing to our Corporate Secretary, BioTelemetry, Inc., 1000 Cedar Hollow Road, Suite 102, Malvern, PA 19355.

Code of Business Conduct and Ethics

All of our employees, officers and directors are required to comply with our Code of Business Conduct and Ethics, which was amended and updated on October 30, 2015 to reflect current business practice and industry regulation. The Code of Business Conduct and Ethics covers fundamental ethical and compliance-related principles and practices such as accurate accounting records and financial reporting, avoiding conflicts of interest, the protection and use of our property and information and compliance with legal and regulatory requirements. If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waiver from a provision of the Code of Business Conduct and Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website.

Board Leadership Structure

The Board is currently composed of an independent Chairman of the Board and independent committees of the Board. Kirk E. Gorman has served as a member of our Board since 2008 and the Chairman of our Board since October 2011.

As Chairman, Mr. Gorman leads the activities of the Board, including:

- calling meetings of the Board and independent directors;
- setting the agenda for Board meetings in consultation with the Chief Executive Officer and Corporate Secretary;
- chairing executive sessions of the independent directors; and
- acting as an advisor to Mr. Capper on strategic aspects of the Chief Executive Officer role with regular consultations on major developments and decisions likely to interest the Board.

Our Board believes its leadership structure effectively allocates authority, responsibility and oversight between management and the independent members of our Board. It gives primary responsibility for the operational leadership and strategic direction of our company to our Chief Executive Officer, while the Chairman facilitates our Board s independent oversight of management, promotes communication between management and our Board, and leads our Board s consideration of key governance matters.

The Board s Role in Risk Oversight

Our Board recognizes the importance of effective risk oversight in running a successful business, and in fulfilling its fiduciary responsibilities to us and our stockholders. While the Chief Executive Officer, the General Counsel and other members of our senior leadership team are responsible for the day-to-day management of risk, our Board is responsible for ensuring that an appropriate culture.

Table of Contents

of risk management exists within our company and for setting the right tone at the top, overseeing our aggregate risk profile, and assisting management in addressing specific risks, such as strategic and competitive risks, financial risks, brand and reputation risks, legal risks, regulatory risks, operational risks and cybersecurity risks. While our Board focuses on the overall risks affecting us, each committee has been delegated the responsibility for the oversight of specific risks that fall within its area of responsibility. For example:

- the Compensation and Talent Development Committee (the Compensation Committee) is responsible for overseeing the management of risks relating to our executive compensation policies, plans and arrangements and the extent to which those policies or practices increase or decrease risk for our company.

- the Audit Committee oversees management of financial reporting, compliance and litigation risks as well as the steps management has taken to monitor and control such exposure.

- the Nominating and Corporate Governance Committee manages risks associated with the independence of the Board, potential conflicts of interest and the effectiveness of the Board.

Although each committee is responsible for evaluating certain risks and overseeing the management of those risks, the full Board is regularly informed about those risks through committee reports.

Our Board believes that our current leadership structure best facilitates its oversight of risk by combining independent leadership, through the independent Chairman, independent Board committees, and majority independent Board composition. The Chairman, independent committee chairs, and other independent directors also are experienced professionals or executives who can and do raise issues for Board consideration and review. Our Board believes there is a well-functioning and effective balance between the independent Chairman and non-executive Board members, which enhances risk oversight.

Committees

The Board has three standing committees: the Audit Committee; the Compensation and Talent Development Committee; and the Nominating and Corporate Governance Committee. Each committee consists solely of independent directors. Each committee has a written charter, each of which is posted in the *Investors Corporate Governance* section of our website at *www.gobio.com*. You may request a printed copy of each committee s charter from our Corporate Secretary.

Audit Committee

Anthony J. Conti (Chair)

Kirk E. Gorman

Robert J. Rubin, M.D.

The Audit Committee assists our Board in its oversight of (1) our corporate accounting and financial reporting processes; (2) our systems of internal control over financial reporting and audits of our financial statements; (3) the quality and integrity of our financial statements and reports; and (4) the qualifications, independence and performance of the firm or firms of certified public accountants engaged as our independent outside auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services. In carrying out these responsibilities, the Audit Committee, among other things:

- reviews and discusses our annual and quarterly financial statements with management and the independent auditors;
- manages our relationship with the independent auditors, including having sole authority for their appointment, compensation, retention and oversight;
- reviews the scope of their work; approving non-audit and audit services; and confirming the independence of the independent auditors;
- confers with management and the independent auditors, as appropriate, regarding the scope, adequacy and effectiveness of our internal control over financing reporting; and
- reports to the Board with respect to material issues that arise regarding the quality or integrity of our financial statements, our compliance with legal or regulatory requirements, the performance or independence of the independent auditors or such other matters as the Audit Committee deems appropriate from time to time.

Pursuant to the NASDAQ Marketplace Rules (the NASDAQ Listing Rules), each member of our Audit Committee must be able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. In addition, our Board has determined that Mr. Conti is an audit committee financial expert within the meaning of SEC regulations and has financial sophistication in accordance with the NASDAQ Listing Rules. In 2015, the Audit Committee met five times. All members of the Audit Committee are independent within the meaning of applicable SEC rules and regulations and the NASDAQ Listing Rules.

Compensation and Talent Development Committee

Joseph A. Frick (Chair)

Rebecca W. Rimel

The Compensation and Talent Development Committee develops our overall compensation philosophy, and, either as a committee or together with the other independent directors;

- determines and approves our executive compensation programs;
- makes all decisions about the compensation of our executive officers (with the exception of our Chief Executive Officer);
- evaluates the Chief Executive Officer s performance in light of his goals and objectives approved by the Compensation Committee and recommends to the full Board the Chief Executive Officer s base salary, and short-term and long-term incentive compensation;
- oversees our cash and equity-based incentive compensation plans;
- oversees and approves our management continuity planning process;
- reviews our workforce demographics and metrics related to hiring, promotions, employee turnover and diversity; and

- reviews our initiatives related to employee training and development, culture and mission, employee engagement and civic involvement.

Additional information about the roles and responsibilities of the Compensation Committee can be found under the heading Compensation Discussion and Analysis. In 2015, the Compensation Committee met four times. All members of the Compensation Committee are independent within the meaning of the NASDAQ Listing Rules.

Nominating and Corporate Governance Committee

Robert J. Rubin, M.D. (*Chair*)

Rebecca W. Rimel

The Nominating and Corporate Governance Committee oversees all aspects of our corporate governance functions on behalf of the Board, including:

- making recommendations to the Board regarding corporate governance issues;
- identifying, reviewing and evaluating candidates to serve as Board members consistent with criteria approved by the Board and reviewing and evaluating incumbent directors;
- serving as the focal point for communication between Board candidates, non-committee directors and our management;
- nominating candidates to serve as directors;

Table of Contents

- making recommendations to the Board regarding affairs relating to our directors;
- overseeing our director orientation and continuing education programs;
- overseeing our available defense mechanisms; and
- overseeing matters impacting our image and reputation and our standing as a responsible corporate citizen.

In 2015, the Nominating and Corporate Governance Committee met three times. All members of the Nominating and Corporate Governance Committee are independent within the meaning of the NASDAQ Listing Rules.

Director Independence

The NASDAQ Listing Rules require that a majority of the Board and all members of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee be comprised of directors who are independent, as such term is defined by the NASDAQ Listing Rules. Each year, the Board undertakes a review of director independence, which includes a review of each director s responses to questionnaires asking about any relationships with us. This review is designed to identify and evaluate any transactions or relationships between a director or any member of his or her immediate family and us, or members of our senior management or other members of the Board, and all relevant facts and circumstances regarding any such transactions or relationships. Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and us, in early 2016 the Board affirmatively determined that all of our non-employee directors are independent. Mr. Capper, our President and Chief Executive Officer, is not an independent director by virtue of his employment with us.

Compensation and Talent Development Committee Interlocks and Insider Participation

None of our executive officers or employees serves as a member of the compensation committee, or other committee serving an equivalent function, of any entity that has one or more of its executive officers serving as a member of our Board or our Compensation Committee. None of the members of our Compensation Committee has ever been an officer or employee of ours.

Executive Sessions of Independent Directors

Our Board also holds regular executive sessions of only independent directors to conduct a self-assessment of its performance and to review management s strategy and operating plans, the criteria by which our Chief Executive Officer and other senior executives are measured, management s performance against those criteria and other relevant topics. In 2015, our independent directors held five executive sessions.

Communicating with the Board

Our Board has adopted a formal process by which stockholders may communicate with the Board or any of its directors. Stockholders wishing to communicate with the Board or an individual director may send a written communication to the Board or such director at our corporate office. Each communication will be reviewed by our Corporate Secretary to determine whether it is appropriate for presentation to the Board or such director. Communications determined by the Corporate Secretary to be appropriate for presentation to the Board or such director will be submitted to the Board or such director on a periodic basis. This information is available in the *Investors Corporate Governance* section of our website at *www.gobio.com*.

Nomination of Director Candidates

Candidates for nomination to our Board are selected by the Nominating and Corporate Governance Committee in accordance with its charter, our Amended and Restated Certificate of Incorporation and our Bylaws. All persons recommended for nomination to our Board, regardless of the source of the recommendation (including director candidates recommended by stockholders), are evaluated in the same manner by the Nominating and Corporate Governance Committee.

The Board and the Nominating and Corporate Governance Committee consider, at a minimum, the following qualifications:

- a candidate s ability to read and understand basic financial statements;
- a candidate s age;
- a candidate s personal integrity and ethics;
- a candidate s background, skills and experience;
- a candidate s expertise upon which to be able to offer advice and guidance to management;
- a candidate s ability to devote sufficient time to the affairs of our company;
- a candidate s ability to exercise sound business judgment; and
- a candidate s commitment to rigorously represent the long-term interests of our stockholders.

Candidates for director are reviewed in the context of the current composition of the Board, our operating requirements and the long-term interests of stockholders. In conducting its assessment, the Nominating and Corporate Governance Committee considers diversity, age, skills, and such other factors as it deems appropriate given the current needs of us and the Board, in an effort to maintain a balance of knowledge, experience and capability.

The Nominating and Corporate Governance Committee places a high priority on identifying individuals with diverse skill sets and types of experience, including identification of individuals from among the medical professional and medical device communities. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Corporate Governance Committee reviews these directors overall service to our company during their terms, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair the directors independence. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee is independent.

The Nominating and Corporate Governance Committee then uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating and Corporate Governance Committee typically conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Nominating and Corporate Governance Committee typically meets to discuss and consider the candidates qualifications and then selects a nominee by majority vote.

Under the heading Director Qualifications and Biographies in this proxy statement, we provide an overview of each director s and director nominee s principal occupation, business experience and other directorships of publicly-traded companies, together with the qualifications, experience, key attributes and skills the Nominating and Corporate Governance Committee and the Board believe will best serve the interests of the Board, our company and our stockholders.

Stockholders who wish to recommend or nominate director candidates must provide information about themselves and their candidates and comply with procedures and timelines contained in our Bylaws. These procedures are described under Other Information 2017 Stockholder Proposals or Nominations in this proxy statement.

Related Person Transactions and Procedures

The Board has adopted a written policy and procedures relating to the Audit Committee s review and approval of transactions with related persons that are required to be disclosed in proxy statements under SEC regulations. A related person includes our directors, executive officers, 5% stockholders, as well as immediate family members of such persons and any entity owned or controlled by such persons.

Under the policy, where a transaction has been identified as a related person transaction, management must present information regarding the proposed related person transaction to our Audit Committee, or, where review by our Audit Committee would be inappropriate, to another independent body of our Board, for review. The presentation must include a description of, among other things, the material facts, the direct and indirect interests of the related persons, the benefits of the transaction to us and whether any alternative transactions are available.

In approving a transaction, the Audit Committee will take into account, among other factors, the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products and the terms available to or from, as the case may be, unrelated third parties or to or from our employees generally. Our policy requires that, in reviewing a related person transaction, our Audit Committee must consider, in light of known circumstances, whether the transaction is in, or is not inconsistent with, the best interests of us and our stockholders, as our Audit Committee determines in the good faith exercise of its discretion.

The Audit Committee reviews and pre-approves certain types of related person transactions, including the following:

- director and executive officer compensation that is otherwise required to be reported in our proxy statement under SEC regulations;
- certain transactions with companies at which the related person is an employee only; and
- charitable contributions that would not disqualify a director s independent status.

We have no related person transactions required to be reported under applicable SEC rules.

Director Compensation

2015 Director Compensation

Under our compensation program for non-employee directors (the Compensation Program for Non-Employee Directors), our non-employee directors receive the following forms of consideration for service on our Board:

- an initial grant of restricted stock units (RSUs) equal to $80,000;
- an annual retainer of $50,000, payable, at the director s election, in cash or RSUs; and
- an annual grant of RSUs equal to $80,000.

Our Chairman also receives an additional retainer of $50,000, payable, at his election, in cash or RSUs.

In July 2014, the Board amended the Compensation Program for Non-Employee Directors to provide administrative flexibility in setting vesting schedules for grants issued to new directors under the program, and to provide terms for the grant of discretionary awards under the program. All RSU grants, including those paid in lieu of cash compensation, currently have a 100% retention requirement since shares are not delivered until Board service terminates. Upon termination of Board service, a director receives all RSUs that have vested as of that date.

The following tables show the total 2015 compensation of our non-employee directors.

Non-Employee Director Compensation Elements

Compensation Item	2015 Amount ($)
Annual Retainers and Committee Membership Fees	
Board	130,000(1)
Independent Chairman	50,000
Audit Committee Chair	17,500
Compensation and Talent Development Committee Chair	17,500
Nominating and Corporate Governance Committee Chair	12,500
Audit Committee Member	7,500
Compensation and Talent Development Committee Member	5,000
Nominating and Corporate Governance Committee Member	5,000

(1) This amount reflects each non-employee director s (1) annual retainer of $50,000, payable in cash or RSUs, and (2) annual grant of RSUs equal to $80,000.

Table of Contents

DIRECTOR COMPENSATION

2015 Non-Employee Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	All Other Compensation ($)	Total ($)
Kirk E. Gorman	62,500	137,515	—	200,015
Rebecca W. Rimel	43,750	80,003	2,637	126,390
Ronald A. Ahrens(1)	—	152,500	—	152,500
Robert J. Rubin, M.D.	34,062	115,023	1,788	150,873

For the Six Months Ended June 30, 2009			
Operating Revenue	$371.9	$333.8	$38.1
Prior Year Rate Refunds	(7.6)	(7.6)	–
Total Operating Revenue	364.3	326.2	38.1
Fuel and Purchased Power	129.6	129.6	–
Operating and Maintenance	157.2	119.7	37.5
Depreciation Expense	30.7	28.4	2.3
Operating Income (Loss)	46.8	48.5	(1.7)
Interest Expense	(17.1)	(13.9)	(3.2)
Equity Earnings in ATC	8.5	8.5	–
Other Income	3.0	2.9	0.1
Income (Loss) Before Non-Controlling Interest and Income Taxes	41.2	46.0	(4.8)
Income Tax Expense (Benefit)	15.0	17.6	(2.6)
Net Income (Loss)	26.2	28.4	(2.2)
Less: Non-Controlling Interest in Subsidiaries	(0.1)	–	(0.1)
	$26.3	$28.4	$(2.1)

Net Income (Loss) Attributable to ALLETE			
As of June 30, 2009			
Total Assets	$2,217.6	$1,947.6	$270.0
Property, Plant and Equipment – Net	$1,481.7	$1,429.7	$52.0
Accumulated Depreciation	$875.2	$824.5	$50.7
Capital Additions	$122.5	$121.3	$1.2

NOTE 2. BUSINESS SEGMENTS (Continued)

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Six Months Ended June 30, 2008			
Operating Revenue	$403.2	$356.8	$46.4
Fuel and Purchased Power	161.3	161.3	–
Operating and Maintenance	167.5	126.0	41.5
Depreciation Expense	25.6	23.2	2.4
Operating Income	48.8	46.3	2.5
Interest Expense	(12.6)	(11.4)	(1.2)
Equity Earnings in ATC	7.0	7.0	–
Other Income	11.1	2.2	8.9
Income Before Non-Controlling Interest and Income Taxes	54.3	44.1	10.2
Income Tax Expense	19.9	16.8	3.1
Net Income	34.4	27.3	7.1
Less: Non-Controlling Interest in Subsidiaries	0.1	–	0.1
Net Income Attributable to ALLETE	$34.3	$27.3	$7.0
As of June 30, 2008			
Total Assets	$1,788.8	$1,483.0	$305.8
Property, Plant and Equipment – Net	$1,224.3	$1,170.7	$53.6
Accumulated Depreciation	$858.8	$811.8	$47.0
Capital Additions	$144.3	$140.9	$3.4

NOTE 3. INVESTMENTS

Investments. Our long-term investment portfolio includes the real estate assets of ALLETE Properties, debt and equity securities consisting primarily of securities held to fund employee benefits, ARS, our Emerging Technology Investments, and land held-for-sale in Minnesota.

Investments	June 30, 2009	December 31, 2008
Millions		
ALLETE Properties	$88.3	$84.9
Available-for-Sale Securities	34.0	32.6
Emerging Technology Investments	6.2	7.4
Other	7.1	12.0
Total Investments	$135.6	$136.9

ALLETE Properties	June 30, 2009	December 31, 2008
Millions		
Land Held-for-Sale Beginning Balance	$71.2	$62.6
Additions During Period: Capitalized Improvements	1.4	10.5

Deductions During Period: Cost of Real Estate Sold	(0.6)	(1.9)
Land Held-for-Sale Ending Balance	72.0	71.2
Long-Term Finance Receivables	13.4	13.6
Other	2.9	0.1
Total Real Estate Assets	$88.3	$84.9

Land Held-for-Sale. Land held-for-sale is recorded at the lower of cost or fair value determined by the evaluation of individual land parcels. Land values are reviewed for impairment and no impairments have been recorded for the six months ended June 30, 2009 (none in 2008).

NOTE 3. INVESTMENTS (Continued)

Long-Term Finance Receivables. Long-term finance receivables, which are collateralized by property sold, accrue interest at market-based rates and are net of an allowance for doubtful accounts of $0.1 million at June 30, 2009 ($0.1 million at December 31, 2008). The majority are receivables having maturities up to four years. Finance receivables totaling $7.8 million at June 30, 2009, were due from an entity which filed for voluntary Chapter 11 bankruptcy protection in June 2009. The estimated fair value of the collateral relating to these receivables was greater than the $7.8 million amount due and no impairment was recorded. Due to the lack of recent market activity, we estimated fair value based primarily on recent property tax assessed values. This valuation technique constitutes a Level 3 non-recurring fair value measurement.

Auction Rate Securities. Included in Available-for-Sale Securities, as of June 30, 2009, are $14.3 million ($15.2 million at December 31, 2008) of three auction rate municipal bonds with stated maturity dates ranging between 15 and 27 years. These ARS consist of guaranteed student loans insured or reinsured by the federal government. These ARS were historically auctioned every 35 days to set new rates and provided a liquidating event in which investors could either buy or sell securities. Beginning in 2008, the auctions have been unable to sustain themselves due to the overall lack of market liquidity and we have been unable to liquidate all of our ARS. As a result, we have classified the ARS as long-term investments and have the ability to hold these securities to maturity, until called by the issuer, or until liquidity returns to this market. In the meantime, these securities will pay a default rate which is above market interest rates.

The Company used a discounted cash flow model to determine the estimated fair value of its investment in the ARS as of June 30, 2009. The assumptions used in preparing the discounted cash flow model include the following: estimated interest rates, estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), amount of cash flows, and expected holding periods of the ARS. These inputs reflect the Company’s judgments about assumptions that market participants would use in pricing ARS including assumptions about risk. Based upon the results of the discounted cash flow model, the fact that these ARS consist of guaranteed student loans insured or reinsured by the federal government and recent market activity, no other-than-temporary impairment loss has been reported.

NOTE 4. DERIVATIVES

In 2009, we entered into financial derivative instruments to manage price risk for certain power marketing contracts. These derivative instruments are recorded on our consolidated balance sheet at fair value. Changes in the derivatives’ fair value are recognized currently in earnings unless specific hedge accounting criteria is met. As of June 30, 2009, we recorded approximately $2.3 million of derivatives in other assets on our consolidated balance sheet. Changes in fair value of $0.3 million were recorded in operating revenue on our consolidated statement of income in the first quarter, and $0.1 million was recorded in the second quarter.

A total of $0.1 million has been designated as a cash flow hedge and any mark-to-market fluctuations have been recorded in other comprehensive income on the consolidated balance sheet. The derivative instrument designated as a cash flow hedge relates to an energy sale that includes pricing based on daily natural gas prices. The remaining $2.2 million of derivative instruments include $1.8 million of FTRs and $0.4 million relating to an energy swap. The FTRs were purchased to manage congestion risk for forward power sales contracts. Each of these derivative instruments expire at various times through out 2009 and the first five months of 2010.

NOTE 5. FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We classify fair value balances based on the observability of those inputs. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reported date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes primarily mutual fund investments held to fund employee benefits.

Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reported date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities. This category includes deferred compensation, fixed income securities, and derivative instruments.

Level 3 — Significant inputs that are generally less observable from objective sources. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value. This category includes ARS consisting of guaranteed student loans and derivative instruments of FTRs.

The following tables set forth by level within the fair value hierarchy our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2009 and December 31, 2008. Each asset and liability is classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Fair Value as of June 30, 2009			
Recurring Fair Value Measures	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Equity Securities	$13.9	–	–	$13.9
Corporate Debt Securities	–	$6.7	–	6.7
Derivatives	0.1	0.4	$1.8	2.3
Debt Securities Issued by States of the United States (ARS)	–	–	14.3	14.3
Money Market Funds	4.2	–	–	4.2
Total Fair Value of Assets	$18.2	$7.1	$16.1	$41.4

Liabilities:				
Deferred Compensation	–	$14.4	–	$14.4
Total Fair Value of Liabilities	–	$14.4	–	$14.4
Total Net Fair Value of Assets (Liabilities)	$18.2	$(7.3)	$16.1	$27.0

NOTE 5. FAIR VALUE (Continued)

	Fair Value as of December 31, 2008			
Recurring Fair Value Measures	Level 1	Level 2	Level 3	Total
Millions				
Assets:				
Equity Securities	$13.5	–	–	$13.5
Corporate Debt Securities	–	$3.3	–	3.3
Debt Securities Issued by States of the United States (ARS)	–	–	$15.2	15.2
Money Market Funds	10.6	–	–	10.6
Total Fair Value of Assets	$24.1	$3.3	$15.2	$42.6
Liabilities:				
Deferred Compensation	–	$13.5	–	$13.5
Total Fair Value of Liabilities	–	$13.5	–	$13.5
Total Net Fair Value of Assets (Liabilities)	$24.1	$(10.2)	$15.2	$29.1

Recurring Fair Value Measures	Derivatives		Auction Rate Securities	
Activity in Level 3	2009	2008	2009	2008
Millions				
Balance as of December 31, 2008 and December 31, 2007, respectively	–	–	$15.2	–
Purchases, Sales, Issuances and Settlements, Net	$1.8	–	(0.9)	$(5.9)
Level 3 Transfers In	–	–	–	25.2
Balance as of June 30,	$1.8	–	$14.3	$19.3

The fair value for the items below were based on quoted market prices for the same or similar instruments.

Financial Instruments	Carrying Amount	Fair Value
Millions		
Long-Term Debt, Including Current Portion		
December 31, 2008	$598.7	$561.6
June 30, 2009	$640.2	$609.4

NOTE 6. REGULATORY MATTERS

Electric Rates. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, the FERC or the PSCW.

Minnesota Power’s wholesale customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. SWL&P, a wholly-owned subsidiary of ALLETE, is also a private utility in Wisconsin and a wholesale customer of Minnesota Power. In 2008, Minnesota Power entered into new contracts with all of our wholesale customers with the exception of one small customer whose contract is now in the cancellation period. The new contracts transitioned each customer to formula-based rates, which means rates can be adjusted annually based on changes in cost. The new agreements with the private utilities in Wisconsin are subject to PSCW approval. In February 2009, the FERC approved our municipal contracts, including the formula-based rate provision. A 9.5 percent rate increase for our municipal customers was implemented on February 1, 2009 under the formula-based rate provision. Incremental revenue from this rate increase is expected to be approximately $7 million on an annualized basis.

On May 2, 2008, Minnesota Power filed a rate increase request with the MPUC. On May 4, 2009, the MPUC issued its order (May Order) on the rate filing, and on June 25, 2009, the MPUC reconsidered the May Order. While the reconsideration order has not been issued, we expect the MPUC reconsideration to result in an authorized rate increase of $20.4 million (slightly below the $21.1 million outcome in its May Order). The May Order allowing a 10.74 percent return on common equity and a capital structure consisting of 54.79 percent equity and 45.21 percent debt remains unchanged.

NOTE 6. REGULATORY MATTERS (Continued)

The reconsideration decision reduced Minnesota Power’s interim rates, which are in effect between August 2008 and the date final rates are implemented, by $6.3 million annually to approximately $15 million. This increases Minnesota Power’s refunding obligation for 2008 and 2009. Any party may appeal the final order to the Minnesota Court of Appeals. We will continue collecting interim rates until the new rates go into effect, which will be after the appeal period and all compliance filings are completed and accepted. Appeal of the final order or modifications during compliance could affect the final rate increase.

With the May Order, the MPUC also approved the stipulation and settlement agreement that affirmed the Company’s continued recovery of fuel and purchased power costs under the former base cost of fuel that was in effect prior to the retail rate filing. The transition to the former base cost of fuel will occur upon implementation of final rates. Any revenue impact associated with the transition will be identified in the fourth quarter.

As of June 30, 2009, we recorded a $16.4 million liability, including interest, for refunds anticipated to be paid to our customers as a result of the MPUC decision on our retail rate filing. Current year rate refunds totaling $8.3 million have been recorded on our consolidated statement of income and prior year rate refunds totaling $7.6 million are stated separately. Interest expense of $0.5 million was also recorded on our consolidated statement of income related to rate refunds. Refunds will commence when final rates are effective.

SWL&P’s current retail rates are based on a December 2008 PSCW retail rate order that became effective January 1, 2009, and allows for an 11.1 percent return on equity. The new rates reflect a 3.5 percent average increase in retail utility rates for SWL&P customers (a 13.4 percent increase in water rates, a 4.7 percent increase in electric rates, and a 0.6 percent decrease in natural gas rates). On an annualized basis, the rate increase will generate approximately $3 million in additional revenue.

NOTE 7. INVESTMENT IN ATC

Our wholly-owned subsidiary Rainy River Energy owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota, and Illinois. ATC provides transmission service under rates regulated by the FERC that are set in accordance with the FERC’s policy of establishing the independent operation and ownership of, and investment in, transmission facilities. We account for our investment in ATC under the equity method of accounting. On July 31, 2009, we invested an additional $1.9 million in ATC.

ALLETE’s Interest in ATC	
Millions	
Equity Investment Balance as of December 31, 2008	$76.9
Cash Investments	3.5
Equity in ATC Earnings	8.5
Distributed ATC Earnings	(6.8)
Equity Investment Balance as of June 30, 2009	$82.1

ATC's summarized financial data for the quarter and six months ended June 30, 2009 and 2008, is as follows:

	Quarter Ended		Six Months Ended	
ATC Summarized Financial Data	June 30,		June 30,	
Income Statement Data	2009	2008	2009	2008

Millions				
Revenue	$129.0	$116.1	$255.2	$225.2
Operating Expense	56.6	53.2	113.7	104.2
Other Expense	19.7	17.2	37.9	32.9
Net Income	$52.7	$45.7	$103.6	$88.1
ALLETE’s Equity in Net Income	$4.3	$3.6	$8.5	$7.0

NOTE 8. SHORT-TERM AND LONG-TERM DEBT

Long-Term Debt. In January 2009, we issued $42.0 million in principal amount of First Mortgage Bonds (Bonds) in the private placement market. The Bonds mature January 15, 2019, and carry a coupon rate of 8.17 percent. We have the option to prepay all or a portion of the Bonds at our discretion, subject to a make-whole provision. The Bonds are subject to additional terms and conditions which are customary for this type of transaction. We are using the proceeds from the sale of the Bonds to fund utility capital expenditures and for general corporate purposes.

NOTE 9. OTHER INCOME (EXPENSE)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Millions				
Loss on Emerging Technology Investments	$(0.1)	$(0.1)	$(1.2)	$(0.6)
AFUDC – Equity	1.7	1.0	2.9	2.0
Investment and Other Income (a)	0.3	1.6	1.3	9.7
Total Other Income	$1.9	$2.5	$3.0	$11.1

(a) In 2008, Investment and Other Income included a gain from the sale of certain available-for-sale securities. The gain was triggered when securities were sold to reallocate investments to meet defined investment allocations based upon an approved investment strategy.

NOTE 10. INCOME TAX EXPENSE

		Quarter Ended		Six Months Ended	
		June 30,		June 30,	
		2009	2008	2009	2008
Millions					
Current Tax Expense (Benefit)					
	Federal (a)	$(8.1)	$3.2	$(8.8)	$8.0
	State	(1.2)	–	(0.2)	2.8
	Total Current Tax Expense (Benefit)	(9.3)	3.2	(9.0)	10.8
Deferred Tax Expense					
	Federal (a)	11.6	2.7	20.9	8.1
	State	2.1	0.6	3.6	1.5
	Deferred Tax Credits	(0.2)	(0.3)	(0.5)	(0.5)
	Total Deferred Tax Expense	13.5	3.0	24.0	9.1
Total Income Tax Expense		$4.2	$6.2	$15.0	$19.9

(a) Due to the bonus depreciation provisions in the American Recovery and Reinvestment Act of 2009, we expect to be in a net operating loss position for the current year. The loss will be utilized by carrying it back against prior year's taxable income.

For the six months ended June 30, 2009, the effective tax rate was 36.4 percent (36.6 percent for the six months ended June 30, 2008). The 2009 effective tax rate deviated from the statutory rate of approximately 41 percent primarily due to deductions for Medicare health subsidies, AFUDC-Equity, investment tax credits, wind production tax credits, and depletion.

Uncertain Tax Positions. Under the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109," we have gross unrecognized tax benefits of $8.7 million as of June 30, 2009. Of this total, $1.3 million (net of federal tax benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate.

We expect that the total amount of unrecognized tax benefits as of June 30, 2009 will change by less than $1.0 million in the next 12 months.

NOTE 11. OTHER COMPREHENSIVE INCOME

The components of total comprehensive income were as follows:

Other Comprehensive Income Net of Tax	Quarter Ended June 30,		Six Months Ended June 30	
	2009	2008	2009	2008
Millions				
Net Income Attributable to ALLETE	$9.4	$10.7	$26.3	$34.3
Other Comprehensive Income				
Unrealized Gain (Loss) on Securities	1.9	0.6	0.9	(0.8)
Reclassification Adjustment for Gains Included in Income (a)	(0.1)	–	(0.1)	(3.8)
Defined Benefit Pension and Other Postretirement Plans	0.2	0.8	0.6	1.3
Total Other Comprehensive Income (Loss)	2.0	1.4	1.4	(3.3)
Total Comprehensive Income	$11.4	$12.1	$27.7	$31.0

(a) Reclassification adjustments include $0.1 million relating to derivatives in 2009 and $3.8 million relating to the sale of certain available-for-sale securities in 2008.

NOTE 12. EARNINGS PER SHARE AND COMMON STOCK

The difference between basic and diluted earnings per share, if any, arises from outstanding stock options and performance share awards granted under our Executive and Director Long-Term Incentive Compensation Plans. In accordance with SFAS 128, "Earnings per Share," for the quarter and six months ended June 30, 2009, 0.6 million options to purchase shares of common stock were excluded from the computation of diluted earnings per share because the option exercise prices were greater than the average market prices, and therefore, their effect would have been anti-dilutive. For the quarter and six months ended June 30, 2008, 0.2 million options to purchase shares of common stock were excluded from the computation of diluted earnings per share.

Authorized Common Stock. On May 12, 2009, shareholders approved an amendment to the Company's Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock from 43,333,333 to 80,000,000.

Shareholder Rights Plan. On July 25, 1996, ALLETE adopted a shareholder rights plan, which was amended and restated on July 12, 2006 (collectively, the "Rights Plan"). The amendment to the Rights Plan, among other things, extended the final expiration date of the Rights Plan to July 11, 2009. The Rights Plan expired according to its terms on July 11, 2009. As a result, ALLETE's preferred share purchase rights issued in accordance with the Rights Plan are no longer outstanding.

Reconciliation of Basic and Diluted Earnings Per Share	2009			2008		
	Basic	Dilutive Securities	Diluted	Basic	Dilutive Securities	Diluted
Millions Except Per Share Amounts						
For the Quarter Ended June 30,						
Net Income	$9.4	–	$9.4	$10.7	–	$10.7

Common Shares	31.8	–	31.8	28.8	0.1	28.9
Earnings Per Share	$0.29	–	$0.29	$0.37	–	$0.37
For the Six Months Ended June 30,						
Net Income	$26.3	–	$26.3	$34.3	–	$34.3
Common Shares	31.3	0.1	31.4	28.7	0.1	28.8
Earnings Per Share	$0.84	–	$0.84	$1.19	–	$1.19

NOTE 13. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

	Pension		Postretirement Health and Life	
Components of Net Periodic Benefit Expense	2009	2008	2009	2008
Millions				
For the Quarter Ended June 30,				
Service Cost	$1.5	$1.4	$1.1	$1.0
Interest Cost	6.6	6.3	2.5	2.4
Expected Return on Plan Assets	(8.5)	(8.1)	(2.1)	(1.8)
Amortization of Prior Service Costs	0.2	0.1	–	–
Amortization of Net Loss	0.8	0.4	0.6	0.4
Amortization of Transition Obligation	–	–	0.6	0.6
Net Periodic Benefit Expense	$0.6	$0.1	$2.7	$2.6
For the Six Months Ended June 30,				
Service Cost	$2.9	$2.9	$2.1	$2.0
Interest Cost	13.1	12.6	5.0	4.8
Expected Return on Plan Assets	(16.9)	(16.2)	(4.2)	(3.6)
Amortization of Prior Service Costs	0.3	0.3	–	–
Amortization of Net Loss	1.7	0.8	1.2	0.8
Amortization of Transition Obligation	–	–	1.3	1.2
Net Periodic Benefit Expense	$1.1	$0.4	$5.4	$5.2

Employer Contributions. For the six months ended June 30, 2009, we contributed $24.0 million to our pension plan; $12.0 million was contributed through the issuance of 463,000 shares of ALLETE common stock. We also contributed $9.3 million to our postretirement health and life plan. We expect to make additional contributions of $8.9 million to our pension plan and no additional contributions to our postretirement health and life plan in 2009.

We provide postretirement health benefits that include prescription drug benefits which qualify us for the federal subsidy under the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The expected reimbursement for Medicare health subsidies reduced our after-tax postretirement medical expense by $2.0 million for 2009 ($1.2 million for 2008). For the six months ended June 30, 2009, we have received $0.3 million in prescription drug reimbursements.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Off-Balance Sheet Arrangements. Square Butte Power Purchase Agreement. Minnesota Power has a power purchase agreement with Square Butte that extends through 2026 (Agreement). It provides a long-term supply of low-cost energy to customers in our electric service territory and enables Minnesota Power to meet power pool reserve requirements. Square Butte, a North Dakota cooperative corporation, owns a 455-MW coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota Power, a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota Power serves as the operator of the Unit and also purchases power from Square Butte.

Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Our output entitlement under the Agreement is 50 percent for the remainder of the contract. Minnesota Power's payment obligation will be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At June 30, 2009, Square Butte had total debt outstanding of $365.0 million. Total annual debt service for Square Butte is expected to be approximately $29 million in each of the years 2009 through 2013. Variable operating costs include the price of coal purchased from BNI Coal, our subsidiary, under a long-term contract.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

North Dakota Wind Project. On July 7, 2009, the MPUC approved our plan petition to qualify for current cost recovery of investments and expenditures related to our Bison I Wind Project (Bison I) and associated transmission upgrades. We anticipate filing a petition with the MPUC in the near future to establish cost recovery and customer billing rates. Bison I is the first portion of several hundred MWs of our North Dakota Wind Project, which upon completion will complete the 2025 renewable energy supply requirement for our retail load. Bison I will be located near Center, North Dakota and will be comprised of 33 wind turbines with a total nameplate capacity of 75.9 MWs. In September 2008, we signed an agreement to purchase an existing 250 kV DC transmission line for approximately $80 million to transport this wind energy to our customers while gradually reducing the supply of energy currently delivered to our system on this same transmission line from Square Butte's Unit. The transaction is subject to regulatory approvals and is anticipated to close in 2009. On May 14, 2009, we filed a petition with the MPUC for approval of the DC transmission line purchase and the restructuring of the power purchase agreement with Square Butte.

Wind Power Purchase Agreements. We have two wind power purchase agreements with an affiliate of NextEra Energy to purchase the output from two wind facilities, Oliver Wind I (50 MWs) and Oliver Wind II (48 MWs) located near Center, North Dakota. Each agreement is for 25 years and provides for the purchase of all output from the facilities.

Leasing Agreements. BNI Coal is obligated to make lease payments for a dragline totaling $2.8 million annually for the lease term which expires in 2027. BNI Coal has the option at the end of the lease term to renew the lease at a fair market rental, to purchase the dragline at fair market value, or to surrender the dragline and pay a $3.0 million termination fee. We lease other properties and equipment under operating lease agreements with terms expiring through 2016. The aggregate amount of minimum lease payments for all operating leases is $8.3 million in 2009, $8.2 million in 2010, $8.3 million in 2011, $8.2 million in 2012, $7.8 million in 2013 and $52.9 million thereafter.

Coal, Rail and Shipping Contracts. We have three primary coal supply agreements with various expiration dates ranging from December 2009 to December 2011. We also have rail and shipping agreements for the transportation of all of our coal, with various expiration dates ranging from December 2009 to January 2012. Our remaining minimum payment obligation as of June 30, 2009, under these coal, rail and shipping agreements for 2009 is $23.5 million. Annual payment obligations for 2010 and 2011 are $11.7 million and $7.6 million, respectively, with no specific commitments beyond 2011. Our minimum annual payment obligations will increase when annual nominations are made for coal deliveries in future years.

On January 24, 2008, we received a letter from BNSF alleging that the Company defaulted on a material obligation under the Company's Coal Transportation Agreement (CTA). In the notice, BNSF claimed we underpaid approximately $1.6 million for coal transportation services in 2006 and that failure to pay such amount plus interest may result in BNSF's termination of the CTA. On April 1, 2008, to ensure that BNSF did not attempt to terminate the CTA, we paid under protest the full amount claimed by BNSF and filed a demand for arbitration of the issue. On April 22, 2008, BNSF filed a counterclaim in the arbitration disputing our position that we are entitled to a refund from BNSF of $1.5 million plus interest for amounts that we overpaid for 2007 deliveries. On March 11, 2009, the Company and BNSF resolved the disputes with no resulting associated Company liability or loss contingencies, and by an order dated March 27, 2009, the arbitrator dismissed the case. The delivered costs of fuel for the Company's generation are recoverable from Minnesota Power's utility customers through the fuel adjustment clause.

Emerging Technology Investments. We have investments in emerging technologies through minority investments in venture capital funds structured as limited liability companies, and direct investments in privately-held, start-up companies. We have committed to make $0.5 million in additional investments in certain emerging technology venture capital funds. We do not have plans to make any additional investments beyond this commitment.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters. Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. We consider our businesses to be in substantial compliance with currently applicable environmental regulations and believe all necessary permits to conduct such operations have been obtained. Due to future restrictive environmental requirements through legislation and/or rulemaking, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. We review environmental matters for disclosure on a quarterly basis. Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in our consolidated balance sheet at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. Costs related to environmental contamination treatment and cleanup are charged to expense unless recoverable in rates from customers.

EPA Clean Air Interstate Rule. In March 2005, the EPA announced the Clean Air Interstate Rule (CAIR) that sought to reduce and permanently cap emissions of SO2, NOX, and particulates in the eastern United States. Minnesota was included as one of the 28 states considered as “significantly contributing” to air quality standards non-attainment in other downwind states. On July 11, 2008, the United States Court of Appeals for the District of Columbia Circuit (Court) vacated the CAIR and remanded the rulemaking to the EPA for reconsideration while also granting our petition that the EPA reconsider including Minnesota as a CAIR state. In September 2008, the EPA and others petitioned the Court for a rehearing or alternatively requested that the CAIR be remanded without a court order. In December 2008, the Court granted the request that the CAIR be remanded without a court order, effectively reinstating a January 1, 2009, compliance date for the CAIR, including Minnesota. However, in the May 12, 2009 Federal Register the EPA issued a proposed rule that would amend the CAIR to stay its effectiveness with respect to Minnesota until completion of the EPA’s determination of whether Minnesota should be included as a CAIR state. The EPA took public comment through June 11, 2009 and is expected to render a final decision pending evaluation of comments received.

Minnesota Regional Haze. The regional haze rule requires states to submit state implementation plans (SIPs) to the EPA to address regional haze visibility impairment in 156 federally-protected parks and wilderness areas. Under the regional haze rule, certain large stationary sources of visibility-impairing emissions that were put in place between 1962 and 1977 are required to install emission controls, known as best available retrofit technology (BART). We have certain steam units, Boswell Unit 3 and Taconite Harbor Unit 3, which are subject to BART requirements.

Pursuant to the regional haze rule, Minnesota was required to develop its SIP by December 2007. As a mechanism for demonstrating progress towards meeting the long-term regional haze goal, in April 2007, the MPCA advanced a draft conceptual SIP which relied on the implementation of the CAIR. However, a formal SIP was never filed due to the Court’s review of CAIR as more fully described above under “EPA Clean Air Interstate Rule.” Subsequently, the MPCA has requested that companies with BART eligible units complete and submit a BART emissions control retrofit study, which was done on Taconite Harbor Unit 3 in November 2008 in order to develop a final SIP for submission to the EPA. The retrofit work currently underway on Boswell Unit 3 meets the BART requirement for that unit. It is uncertain what controls will ultimately be required at Taconite Harbor Unit 3 in connection with the regional haze rule.

EPA Clean Air Mercury Rule. In March 2005, the EPA also announced the Clean Air Mercury Rule (CAMR) that would have reduced and permanently capped electric utility mercury emissions in the continental United States through a cap and trade program. In February 2008, the Court vacated the CAMR and remanded the rulemaking to the EPA for reconsideration. In October 2008, the Department of Justice, on behalf of the EPA, petitioned the Supreme

Court to review the Court's decision in the CAMR case. In January 2009, the EPA withdrew their petition, paving the way for possible regulation of mercury emissions through Section 112 of the Clean Air Act, setting Maximum Achievable Control Technology standards for the utility sector. Cost estimates for complying with potential future mercury regulations under the Clean Air Act are premature at this time.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

New Source Review. On August 8, 2008, Minnesota Power received a Notice of Violation (NOV) from the United States EPA asserting violations of the New Source Review (NSR) requirements of the Clean Air Act at Boswell Units 1-4 and Laskin Unit 2. The NOV also asserts that the Boswell Unit 4 Title V permit was violated. The NOV asserts that seven projects undertaken at these coal-fired plants between the years 1981 and 2000 should have been reviewed under the NSR requirements. Minnesota Power believes the projects were in full compliance with the Clean Air Act, NSR requirements and applicable permits.

The EPA has been conducting a nationwide enforcement initiative since 1999 relating to NSR requirements. In 2000, 2001, and 2002 Minnesota Power received requests from the EPA pursuant to Section 114(a) of the Clean Air Act seeking information regarding capital expenditures with respect to Boswell and Laskin. Minnesota Power responded to these requests; however, we had no further communications from the EPA regarding the information provided until receipt of the NOV.

We are engaged in discussions with the EPA regarding resolution of these matters, but we are unable to predict the outcome of these discussions. Since 2006, Minnesota Power has significantly reduced, and continues to reduce, emissions at Boswell and Laskin. The resolution could result in civil penalties and the installation of control technology, some of which is already planned or completed for other regulatory requirements. Any costs of installing pollution control technology would likely be eligible for recovery in rates over time subject to MPUC and FERC approval in a rate proceeding. We are unable to predict the ultimate financial impact or the resolution of these matters at this time.

Manufactured Gas Plant Site. We are reviewing and addressing environmental conditions at a former manufactured gas plant site within the City of Superior, Wisconsin and formerly operated by SWL&P. We have been working with the WDNR to determine the extent of contamination and the remediation of contaminated locations. We have accrued a $0.5 million liability for this site as of June 30, 2009, and have recorded a corresponding regulatory asset as we expect recovery of remediation costs to be allowed by the PSCW.

BNI Coal. As of June 30, 2009, BNI Coal had surety bonds outstanding of $18.5 million related to the reclamation liability for closing costs associated with its mine and mine facilities. Although the coal supply agreements obligate the customers to provide for the closing costs, an additional guarantee is required by federal and state regulations. In addition to the surety bond, BNI has secured a Letter of Credit with CoBank for an additional $10.0 million to meet the requirements for BNI's total reclamation liability currently estimated at $27.6 million.

ALLETE Properties. As of June 30, 2009, ALLETE Properties, through its subsidiaries, had surety bonds outstanding of $18.9 million primarily related to performance and maintenance obligations for governmental entities to construct improvements in the Company's various projects. The cost of the remaining work to be completed on these improvements is estimated to be approximately $11.1 million, and ALLETE Properties does not believe it is likely that any of these outstanding bonds will be drawn upon.

Community Development District Obligations. In March 2005, the Town Center District issued $26.4 million of tax-exempt, 6 percent Capital Improvement Revenue Bonds, Series 2005; and in May 2006, the Palm Coast Park District issued $31.8 million of tax-exempt, 5.7 percent Special Assessment Bonds, Series 2006. The Capital Improvement Revenue Bonds and the Special Assessment Bonds are payable through property tax assessments on the land owners over 31 years (by May 1, 2036 and 2037 respectively). The bond proceeds were used to pay for the construction of a portion of the major infrastructure improvements in each district, and to mitigate traffic and environmental impacts. The bonds are payable from and secured by the revenue derived from assessments imposed, levied and collected by each district. The assessments were billed to the landowners in November 2006, for Town

Center and November 2007, for Palm Coast Park. To the extent that we still own land at the time of the assessment, in accordance with EITF 91-10, "Accounting for Special Assessments and Tax Increment Financing Entities," we will incur the cost of our portion of these assessments, based upon our ownership of benefited property. At June 30, 2009, we owned 69 percent of the assessable land in the Town Center District (69 percent at December 31, 2008) and 86 percent of the assessable land in the Palm Coast Park District (86 percent at December 31, 2008). As we sell property, the obligation to pay special assessments will pass to the new landowners. Under current accounting rules, these bonds are not reflected as debt on our consolidated balance sheet.

NOTE 14. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Other. We are involved in litigation arising in the normal course of business. Also, in the normal course of business, we are involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base and cost of service issues, among other things. While the resolution of such matters could have a material effect on earnings and cash flows in the year of resolution, none of these matters are expected to materially change our present liquidity position, or have a material adverse effect on our financial condition.

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

The following discussion should be read in conjunction with our consolidated financial statements, notes to those statements, Management's Discussion and Analysis of Financial Condition and Results of Operations from the 2008 Form 10-K and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this Form 10-Q contain forward-looking information that involves risks and uncertainties. Readers are cautioned that forward-looking statements should be read in conjunction with our disclosures in this Form 10-Q under the heading: "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" located on page 5 and "Risk Factors" located in Part I, Item 1A, page 20 of our 2008 Form 10-K. The risks and uncertainties described in this Form 10-Q and our 2008 Form 10-K are not the only risks facing our Company. Additional risks and uncertainties that we are not presently aware of, or that we currently consider immaterial, may also affect our business operations. Our business, financial condition or results of operations could suffer if the concerns set forth are realized.

OVERVIEW

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based regulated utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. Minnesota Power provides regulated utility electric service in Northeastern Minnesota to 144,000 retail customers and wholesale electric service to 16 municipalities. SWL&P provides regulated electric service, natural gas and water service in northwestern Wisconsin to 15,000 electric customers, 12,000 natural gas customers and 10,000 water customers. Our regulated utility operations include retail and wholesale activities under the jurisdiction of state and federal regulatory authorities.

Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, and ALLETE Properties, our Florida real estate business. This segment also includes Emerging Technology Investments ($6.2 million at June 30, 2009), a small amount of non-rate base generation, approximately 7,000 acres of land for sale in Minnesota, and earnings on cash and short-term investments.

ALLETE is incorporated under the laws of Minnesota. Our corporate headquarters are in Duluth, Minnesota. Statistical information is presented as of June 30, 2009, unless otherwise indicated. All subsidiaries are wholly owned unless otherwise specifically indicated. References in this report to "we," "us," and "our" are to ALLETE and its subsidiaries, collectively.

Financial Overview

(See Note 2. Business Segments for financial results by segment.)

The following net income discussion summarizes a comparison of the six months ended June 30, 2009 to the six months ended June 30, 2008.

Net income for 2009 was $26.3 million, or $0.84 per diluted share compared to $34.3 million, or $1.19 per diluted share for 2008. Earnings per diluted share decreased approximately $0.07 compared to 2008 as a result of additional shares of common stock outstanding in 2009. (See Note 12. Earnings Per Share.)

Financial Overview (Continued)

Regulated Operations contributed income of $28.4 million in 2009 ($27.3 million in 2008). The increase in earnings is primarily due to increased earnings from our investment in ATC as a result of additional investments we have made to fund our pro-rata share of ATC's capital expansion program. Higher retail and FERC approved wholesale rates were offset by accrued retail rate refunds related to 2008 and higher depreciation and interest expense.

In addition, lower sales to our large power customers were mostly offset by higher sales to Other Power Suppliers.

Investments and Other reflected a net loss of $2.1 million in 2009 ($7.0 million net income in 2008). The decrease in 2009 is primarily due to the sale of certain available-for-sale securities in the first quarter of 2008, and a net loss at ALLETE Properties of $2.4 million ($2.0 million net income 2008), which continues to experience difficult real estate market conditions in Florida.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2009 AND 2008

(See Note 2 – Business Segments for financial results by segment.)

Regulated Operations

Operating revenue decreased $18.4 million, or 11 percent, from 2008 due to lower fuel and purchased power recoveries, lower retail and municipal kilowatt-hour sales, lower natural gas sales, which are primarily a pass-through (See Operating and Maintenance Expense discussion below), and the accrual of estimated prior year retail rate refunds related to our 2008 retail rate case. These decreases were partially offset by higher sales to Other Power Suppliers and higher rates.

Lower fuel and purchased power recoveries along with a decrease in retail and municipal kilowatt-hour sales combined for a total revenue reduction of $39.7 million. Fuel and purchased power recoveries decreased due to a $18.2 million reduction in fuel and purchased power expense. (See Fuel and Purchased Power Expense discussion below.) Total kilowatt-hour sales to retail and municipal customers decreased 35.4 percent from 2008 primarily due to idle production lines and plant closures at some of our taconite customers.

Estimated prior year retail rate refunds based on the June 25, 2009, MPUC rate reconsideration decision in the quarter total $2.3 million.

The decrease in kilowatt-hour sales to retail and municipal customers was mostly offset by revenue from electric sales to Other Power Suppliers which increased $21.0 million in 2009. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

Higher rates resulting from the August 1, 2008, interim rate increase for retail customers in Minnesota increased revenue by $1.1 million, net of estimated refunds, and the FERC approved wholesale rate increase for our municipal customers on February 1, 2009, increased revenue by $1.4 million.

Kilowatt-hours Sold			Quantity	%
Quarter Ended June 30,	2009	2008	Variance	Variance
Millions				
Regulated Utility				

Retail and Municipals				
Residential	242	239	3	1.3 %
Commercial	331	327	4	1.2 %
Industrial	874	1,789	(915)	(51.2) %
Municipals	222	227	(5)	(2.2) %
Total Retail and Municipals	1,669	2,582	(913)	(35.4) %
Other Power Suppliers	1,107	375	732	195.2 %
Total Regulated Utility Kilowatt-hours Sold	2,776	2,957	(181)	(6.1) %

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2009 AND 2008 (Continued)
Regulated Operations (Continued)

Revenue from electric sales to taconite customers accounted for 13 percent of consolidated operating revenue in 2009 (26 percent in 2008). The decrease in revenue from our taconite customers was partially offset by revenue from electric sales to Other Power Suppliers which accounted for 23 percent of consolidated operating revenue in 2009 (9 percent in 2008). Revenue from electric sales to paper and pulp mills accounted for 10 percent of consolidated operating revenue in 2009 (10 percent in 2008). Revenue from electric sales to pipelines and other industrials accounted for 8 percent of consolidated operating revenue in 2009 (7 percent in 2008).

Operating expenses decreased $22.2 million, or 15 percent, from 2008.

Fuel and Purchased Power Expense decreased $18.2 million, or 24 percent, from 2008 primarily due to a decrease in purchased power expense reflecting lower market prices for energy.

Operating and Maintenance Expense decreased $6.6 million from 2008 reflecting lower natural gas costs due to a decline in the price and quantity of natural gas and lower contract and professional services related to a prior year planned outage at our Boswell Unit 4 facility.

Depreciation Expense increased $2.6 million, or 22 percent, from 2008 reflecting higher property, plant, and equipment balances placed in service and higher annual depreciation rates for distribution and transmission.

Interest expense increased $1.0 million, or 18 percent, from 2008 primarily due to additional long-term debt issued to fund new capital investments.

Investments and Other

Operating revenue decreased $6.7 million, or 25 percent, from 2008 primarily due to a decrease in revenue at ALLETE Properties reflecting the sale of the retail shopping center in Winter Haven, Florida in the second quarter of 2008.

ALLETE Properties	2009		2008	
Revenue and Sales Activity	Quantity	Amount	Quantity	Amount
Dollars in Millions				
Revenue from Land Sales				
Acres (a)	–	–	49	$2.6
Contract Sales Price (b)		–		2.6
Deferred Revenue		–		–
Revenue from Land Sales		–		2.6
Other Revenue (c)		$0.1		5.3
Total ALLETE Properties Revenue		$0.1		$7.9

(a) Acreage amounts are shown on a gross basis, including wetlands and non-controlling interest.
(b) Reflects total contract sales price on closed land transactions. Land sales are recorded using a percentage-of-completion method.
(c) Included a $4.5 million pre-tax gain from the sale of a shopping center in Winter Haven, Florida in 2008.

Operating expenses decreased $1.1 million, or 5 percent, from 2008 reflecting a decrease in the cost of real estate sold and decreased selling expenses.

Interest expense increased $0.8 million from 2008 primarily due to additional long-term debt issued to fund new capital investments.

Other income decreased $1.2 million from 2008 primarily due to lower average cash balances.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2009 AND 2008 (Continued)

Income Taxes – Consolidated

For the quarter ended June 30, 2009, the effective tax rate was 31.5 percent (36.5 percent for the quarter ended June 30, 2008). The effective tax rate in both years deviated from the statutory rate (approximately 41 percent) primarily due to deductions for Medicare health subsidies, AFUDC-Equity, investment tax credits, wind production tax credits, and depletion. In addition, the effective tax rate for the second quarter of 2009 was impacted by lower pre-tax income and a state income tax refund. We expect the effective tax rate for 2009 to be approximately 35 percent.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008

Regulated Operations

Operating revenue decreased $30.6 million, or 9 percent, from 2008 due to lower fuel and purchased power recoveries, lower retail and municipal kilowatt-hour sales, lower natural gas sales, which are primarily a pass-through (See Operating and Maintenance Expense discussion below), and the accrual of estimated prior year retail rate refunds related to our 2008 retail rate case. These decreases were partially offset by higher sales to Other Power Suppliers and higher rates.

Lower fuel and purchased power recoveries along with a decrease in retail and municipal kilowatt-hour sales combined for a total revenue reduction of $68.1 million. Fuel and purchased power recoveries decreased due to a $31.7 million reduction in fuel and purchased power expense. (See Fuel and Purchased Power Expense discussion below.) Total kilowatt-hour sales to retail and municipal customers decreased 26 percent from 2008 primarily due to idled production lines and plant closures at some of our taconite customers.

Estimated prior year retail rate refunds based on the MPUC May Order and the June 25, 2009, MPUC rate reconsideration decision total $7.6 million.

The decrease in kilowatt-hour sales to retail and municipal customers has been mostly offset by revenue from electric sales to Other Power Suppliers which increased $36.0 million in 2009. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through bilateral agreements of various durations.

Higher rates resulting from the August 1, 2008 interim rate increase for retail customers in Minnesota increased revenue by $5.9 million, net of estimated refunds, and the FERC approved wholesale rate increases for our municipal customers on March 1, 2008 and February 1, 2009 increased revenue by $3.8 million.

Kilowatt-hours Sold			Quantity	%
Six Months Ended June 30,	2009	2008	Variance	Variance
Millions				
Regulated Utility				
Retail and Municipals				
Residential	617	602	15	2.5 %
Commercial	709	709	–	– %
Industrial	2,197	3,612	(1,415)	(39.2) %
Municipals	487	499	(12)	(2.4) %
Total Retail and Municipals	4,010	5,422	(1,412)	(26.1) %

Other Power Suppliers	2,024	779	1,245	159.8 %
Total Regulated Utility Kilowatt-hours Sold	6,034	6,201	(167)	(2.7) %

Revenue from electric sales to taconite customers accounted for 16 percent of consolidated operating revenue in 2009 (26 percent in 2008). The decrease in revenue from our taconite customers was partially offset by revenue from electric sales to Other Power Suppliers which accounted for 20 percent of consolidated operating revenue in 2009 (9 percent in 2008). Revenue from electric sales to paper and pulp mills accounted for 9 percent of consolidated operating revenue in 2009 (9 percent in 2008). Revenue from electric sales to pipelines and other industrials accounted for 7 percent of consolidated operating revenue in 2009 (7 percent in 2008).

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (Continued)
Regulated Operations (Continued)

Operating expenses decreased $32.8 million, or 11 percent, from 2008.

Fuel and Purchased Power Expense decreased $31.7 million, or 20 percent, from 2008 primarily due to a decrease in purchased power expense reflecting lower market prices for energy.

Operating and Maintenance Expense decreased $6.3 million from 2008 primarily due to $5.5 million in lower natural gas costs due to a decline in the price and quantity of natural gas.

Depreciation Expense increased $5.2 million, or 22 percent, from 2008 reflecting higher property, plant, and equipment balances placed in service and higher annual depreciation rates for distribution and transmission.

Interest expense increased $2.5 million, or 22 percent, from 2008 primarily due to additional long-term debt issued to fund new capital investments and $0.5 million related to estimated retail rate refunds.

Investments and Other

Operating revenue decreased $8.3 million, or 18 percent, from 2008 primarily due to a decrease in revenue at ALLETE Properties reflecting the sale of the retail shopping center in Winter Haven, Florida in the second quarter of 2008.

ALLETE Properties	2009		2008	
Revenue and Sales Activity	Quantity	Amount	Quantity	Amount
Dollars in Millions				
Revenue from Land Sales				
Acres (a)	19	$2.2	51	$3.9
Contract Sales Price (b)		2.2		3.9
Deferred Revenue		(0.6)		–
Revenue from Land Sales		1.6		3.9
Other Revenue (c)		0.2		6.7
Total ALLETE Properties Revenue		$1.8		$10.6

(a) Acreage amounts are shown on a gross basis, including wetlands and non-controlling interest.
(b) Reflects total contract sales price on closed land transactions. Land sales are recorded using a percentage-of-completion method.
(c) Included a $4.5 million pre-tax gain from the sale of a shopping center in Winter Haven, Florida in 2008.

Operating expenses decreased $4.1 million, or 9 percent, from 2008 reflecting a decrease in the cost of real estate sold and decreased selling expenses.

Interest expense increased $2.0 million from 2008 primarily due to additional long-term debt issued to fund new capital investments.

Other income decreased $8.8 million from 2008 primarily due to the absence of a $6.8 million gain realized from the sale of certain available-for-sale securities in the first quarter of 2008.

Income Taxes – Consolidated

For the six months ended June 30, 2009, the effective tax rate was 36.4 percent (36.6 percent for the six months ended June 30, 2008). The effective tax rate in each period deviated from the statutory rate (approximately 41 percent) primarily due to deductions for Medicare health subsidies, AFUDC-Equity, investment tax credits, wind production tax credits, and depletion.

CRITICAL ACCOUNTING ESTIMATES

Certain accounting measurements under applicable GAAP involve management's judgment about subjective factors and estimates, the effects of which are inherently uncertain. Accounting measurements that we believe are most critical to our reported results of operations and financial condition include: regulatory accounting, valuation of investments, pension and postretirement health and life actuarial assumptions, and taxation. These policies are reviewed with the Audit Committee of our Board of Directors on a regular basis and summarized in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2008 Form 10-K.

OUTLOOK

ALLETE is committed to earning a financial return that rewards our shareholders, allows for reinvestment in our businesses and sustains growth. Minnesota Power's industrial customers are facing weak conditions in the markets for their products, and have and may continue to reduce the amount of energy they use. We will work to sell any released energy in the wholesale markets, and believe that our ability to produce energy at low cost will be a competitive advantage. Our focus will be to maintain the competitively-priced production of energy, while meeting environmental requirements. Minnesota Power will also focus on maintaining competitive retail rates, as we believe this is important to the success of our customers.

Our strategy going forward is to focus on growth opportunities within our core business as we expect to continue making significant investments to comply with renewable and environmental requirements, maintain our existing low-cost generation fleet, and strengthen and enhance the regional transmission grid. We will also look for additional transmission and renewable energy opportunities which take advantage of our geographical location between sources of renewable energy and growing energy markets. Earnings from our investment in ATC are expected to grow as we anticipate making additional investments to fund our pro-rata share of ATC's capital expansion program. We expect to invest approximately $8 million in ATC throughout 2009.

Regulated Operations. Minnesota Power expects significant rate base growth over the next several years as it continues its program to comply with renewable energy requirements and environmental mandates, as well as make significant investments in our existing low-cost generation fleet to provide for continued future operations. We anticipate our capital investments will be recovered through a combination of current cost recovery riders and anticipated increased base electric rates.

Rate Cases. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, the FERC or the PSCW.

Minnesota Power's wholesale customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. SWL&P, a wholly-owned subsidiary of ALLETE, is also a private utility in Wisconsin and a wholesale customer of Minnesota Power. In 2008, Minnesota Power entered into new contracts with all of our wholesale customers with the exception of one small customer whose contract is now in the cancellation period. The new contracts transition each customer to formula-based rates, which means rates can be adjusted annually based on changes in costs. The new agreements with the private utilities in Wisconsin are subject to PSCW approval. In February 2009, the FERC approved our municipal contracts, including the formula-based rate provision. A 9.5 percent rate increase for our municipal customers was implemented on February 1, 2009 under the formula-based rate provision. Incremental revenue from this rate increase is expected to be approximately $7 million on an annualized basis.

On May 2, 2008, Minnesota Power filed a rate increase request with the MPUC. On May 4, 2009, the MPUC issued its order (May Order) on the rate filing, and on June 25, 2009, the MPUC reconsidered the May Order. While the reconsideration order has not been issued, we expect the MPUC reconsideration to result in an authorized rate increase of $20.4 million (slightly below the $21.1 million outcome in its May Order). The May Order allowing a 10.74 percent return on common equity and a capital structure consisting of 54.79 percent equity and 45.21 percent debt remains unchanged.

OUTLOOK (Continued)
Regulated Operations (Continued)

The reconsideration decision reduced Minnesota Power's interim rates, which are in effect between August 2008 and the date final rates are implemented, by $6.3 million annually to approximately $15 million. This increases Minnesota Power's refunding obligation for 2008 and 2009. Any party may appeal the final order to the Minnesota Court of Appeals. We will continue collecting interim rates until the new rates go into effect, which will be after the appeal period and all compliance filings are completed and accepted. Appeal of the final order or modifications during compliance could affect the final rate increase.

With the May Order, the MPUC also approved the stipulation and settlement agreement that affirmed the Company's continued recovery of fuel and purchased power costs under the former base cost of fuel that was in effect prior to the retail rate filing. The transition to the former base cost of fuel will occur upon implementation of final rates. Any revenue impact associated with the transition will be identified in the fourth quarter.

As of June 30, 2009, we recorded a $16.4 million liability, including interest, for refunds anticipated to be paid to our customers as a result of the MPUC decision on our retail rate filing. Current year rate refunds totaling $8.3 million have been recorded on our consolidated statement of income and prior year rate refunds totaling $7.6 million are stated separately. Interest expense of $0.5 million was also recorded on our consolidated statement of income related to rate refunds. Refunds will commence when final rates are effective.

Ongoing capital investments necessary to meet state-mandated renewable energy and environmental standards, as well as to maintain our low-cost generation fleet and enhance the regional transmission grid will require continual cost recovery filings with the MPUC. These will take the form of current cost recovery filings and general rate cases. Minnesota Power anticipates filing a general rate case late in 2009.

SWL&P's current retail rates are based on a December 2008 PSCW retail rate order that became effective January 1, 2009, and allows for an 11.1 percent return on equity. The new rates reflect a 3.5 percent average increase in retail utility rates for SWL&P customers (a 13.4 percent increase in water rates, a 4.7 percent increase in electric rates, and a 0.6 percent decrease in natural gas rates). On an annualized basis, the rate increase will generate approximately $3 million in additional revenue.

Industrial Customers. Electric power is one of several key inputs in the taconite mining, paper production, and pipeline industries. Approximately 36 percent of our Regulated Utility kilowatt-hour sales were made to our industrial customers through the six months ended June 30, 2009, which includes the taconite, paper and pulp, and pipeline industries.

Strong worldwide steel demand, driven largely by extensive infrastructure development in China, resulted in very robust world iron ore demand and steel pricing for nearly a six year period which lasted through the summer of 2008. Between 2004 and 2008, annual taconite production averaged just over 40 million tons per year from taconite mines in Northeastern Minnesota. Beginning in the fall of 2008, worldwide steel makers began to dramatically cut steel production in response to reduced demand driven largely by the world credit situation. Currently, domestic raw steel production is at approximately 50 percent of capacity reflecting an increasing demand in automobiles, durable goods, structural, and other steel products. In late 2008, Minnesota taconite producers began to feel the impacts of decreased steel demand. As a result, reduced taconite production levels are occurring in 2009. Consequently, 2009 demand nominations for power from our taconite customers are lower by approximately 40 percent from 2008 levels. We continue to remarket available power to Other Power Suppliers in an effort to mitigate the earnings impact of these lower industrial sales. These sales are dependent upon the availability of generation and are sold at market based prices into the MISO market on a daily basis or through bilateral agreements of various durations. For 2009, we have successfully mitigated approximately 85 percent of the earnings impact.

OUTLOOK (Continued)
Regulated Operations (Continued)

Renewable Generation Sources. In February 2007, Minnesota enacted a law requiring Minnesota Power to generate or procure 25 percent of its energy from renewable energy sources by 2025. The law also requires Minnesota Power to meet interim milestones of 12 percent by 2012, 17 percent by 2016, and 20 percent by 2020. The law allows the MPUC to modify or delay a standard obligation if implementation will cause significant ratepayer cost or technical reliability issues. If a utility is not in compliance with a standard, the MPUC may order the utility to construct facilities, purchase renewable energy or purchase renewable energy credits. Minnesota Power was developing and making renewable supply additions as part of its generation planning strategy prior to the enactment of this law and this activity continues. Minnesota Power believes it will meet the requirements of this legislation.

The areas in which we operate have strong wind, water, and biomass resources and provide us with opportunities to develop a number of renewable forms of generation. Our electric service area in Northeastern Minnesota is situated for delivery of renewable energy that is generated here and in adjoining regions. We intend to secure the most cost competitive and geographically advantageous renewable energy resources available. We believe that the demand for these resources is likely to grow, and the costs of the resources to generate renewable energy will continue to escalate. While we intend to maintain our disciplined approach to developing generation assets, we also believe that by acting sooner rather than later we can deliver lower cost power to our customers and maintain or improve our cost competitiveness among regional utilities. We will continue to work with our customers, our regulators and the communities we serve to develop generation options that reflect the needs of our customers as well as the environment. We believe that our location and our proactive leadership in developing renewable generation provide us with a competitive advantage. For more than a century, we have been Minnesota’s leading producer of renewable hydroelectric energy.

We are executing our renewable energy and environmental compliance strategy. Taconite Ridge Wind I, a $50 million, 25-MW wind facility located in Northeastern Minnesota became operational in 2008. In 2006 and 2007, we entered into two long-term purchase power agreements for a total of 98 MWs of wind energy constructed in North Dakota (Oliver Wind I and II); 366,945 megawatt-hours were purchased under these agreements in 2008.

North Dakota Wind Project. On July 7, 2009, the MPUC approved our plan petition to qualify for current cost recovery of investments and expenditures related to our Bison I Wind Project (Bison I) and associated transmission upgrades. We anticipate filing a petition with the MPUC in the near future to establish cost recovery and customer billing rates. Bison I is the first portion of several hundred MWs of our North Dakota Wind Project, which upon completion will complete the 2025 renewable energy supply requirement for our retail load. Bison I will be located near Center, North Dakota and will be comprised of 33 wind turbines with a total nameplate capacity of 75.9 MWs. In September 2008, we signed an agreement to purchase an existing 250 kV DC transmission line for approximately $80 million to transport this wind energy to our customers while gradually reducing the supply of energy currently delivered to our system on this same transmission line from Square Butte’s Unit. The transaction is subject to regulatory approvals and is anticipated to close in 2009. On May 14, 2009, we filed a petition with the MPUC for approval of the DC transmission line purchase and the restructuring of the power purchase agreement with Square Butte.

Integrated Resource Plan. On October 31, 2007, Minnesota Power filed its Integrated Resource Plan (IRP), a comprehensive estimate of future capacity needs within the Minnesota Power service territory. In October 2008, the MPUC issued an order approving our request to re-file the IRP by October 1, 2009 in order to incorporate the North Dakota Wind Project and otherwise update our load forecasting and modeling in the IRP.

Climate Change. We believe that future regulations may restrict the emissions of GHGs from our generation facilities. Several proposals at the Federal level to “cap” the amount of GHG emissions have been made. On June 26, 2009, the U.S. House of Representatives passed H.R. 2454, the American Clean Energy and Security Act of 2009. H.R. 2454 is a comprehensive energy bill that also includes a cap and trade program. H.R. 2454 allocates a significant number of allowances to the electric utility sector to mitigate cost impacts on consumers. Congress may consider proposals other than cap and trade programs to address GHG emissions. We are unable to predict the outcome of H.R. 2454 or other efforts that Congress may make with respect to GHG emissions, and the impact that any GHG emission regulations may have on the Company.

OUTLOOK (Continued)
Regulated Operations (Continued)

CapX 2020. Minnesota Power is a participant in the CapX 2020 initiative which represents an effort to ensure electric transmission and distribution reliability in Minnesota and the surrounding region for the future. CapX 2020, which includes Minnesota's largest transmission owners, consists of electric cooperatives, municipals and investor-owned utilities, and has assessed the transmission system and projected growth in customer demand for electricity through 2020. Studies show that the region's transmission system will require major upgrades and expansion to accommodate increased electricity demand as well as support renewable energy expansion through 2020.

The CapX 2020 participants filed a request for a Certificate of Need for three 345 kV lines and associated system interconnections with the MPUC in August 2007. The MPUC issued the Certificate of Need for these 345 kV lines in May 2009. The MPUC must now determine routes for the new lines in subsequent proceedings. Portions of the 345 kV lines will also require approvals by federal officials and by regulators in North Dakota, South Dakota and Wisconsin. A fourth line, a 70-mile, 230 kV line in north central Minnesota, is also among the CapX 2020 projects. A request for a Certificate of Need for this line was filed in March 2008, and a Route Permit application was filed in June 2008. The MPUC issued the Certificate of Need for the 230 kV line on July 9, 2009. The MPUC decision on routing is expected in 2010.

Minnesota Power may invest in two of the lines, a 250-mile 345 kV line between Fargo, North Dakota and Monticello, Minnesota, and a 70-mile, 230 kV line between Bemidji and Grand Rapids, Minnesota. Our total investment in these two lines is expected to be approximately $80 million. Upon receipt of the required Certificates of Need, we intend to include these costs in an annual filing with the MPUC for current cost recovery of the expenditures related to our investment in the lines under a Minnesota Power transmission cost recovery tariff rider mechanism authorized by Minnesota legislation. Construction of the lines is targeted to begin in 2010 and last approximately three to four years.

Boswell Unit 3 Emission Reduction Plan. We are making emission reduction investments at our Boswell Unit 3 generating unit. The investments in pollution control equipment will reduce particulates, SO2, NOX, and mercury emissions to meet future federal and state requirements. The MPUC has authorized a cash return on construction work in progress during the construction phase in lieu of AFUDC and allows for a return on investment and current cost recovery of incremental operations and maintenance expenses once the new equipment is installed and the unit is placed back in service in late 2009. We began cost recovery on January 1, 2008. In September 2008, we filed a petition with the MPUC to approve the Boswell Unit 3 billing factor adjustment for 2009. Pending approval, customers will continue to be billed under the 2008 billing factor previously approved by the MPUC.

Boswell NOX Reduction Plan. In September 2008, we submitted to the MPCA and MPUC a $92 million environmental initiative proposing cost recovery for NOX emission reductions from Boswell Units 1, 2, and 4. If approved by the MPUC, the Boswell NOX Reduction Plan is expected to significantly reduce NOX emissions from these units. In conjunction with the NOX reduction, we plan to install an efficiency improvement to the existing turbine/generator at Boswell Unit 4, adding approximately 60 MWs of total output with no additional emissions. Cost recovery for these projects will occur either through a current cost recovery rider or a rate case.

Transmission. In September 2008, in connection with our existing cost recovery rider for transmission expenditures, we filed a petition with the MPUC to approve our 2009 billing factor adjustment for ongoing transmission expenditures. The annual billing factor allows us to charge our retail customers on a current basis for the costs of constructing these facilities plus a return on the capital invested. These expenditures include the Badoura and Tower transmission projects and certain statutorily authorized MISO related transmission facility charges. The Badoura and Tower transmission projects are being developed to address transmission inadequacies in Northeastern Minnesota.

Both projects will provide regional transmission benefits through increased voltage support and additional line capacity. The MPUC approved the 2009 billing factor adjustment in June 2009 allowing new rates to go into effect July 1, 2009.

OUTLOOK (Continued)
Regulated Operations (Continued)

Investment in ATC. At June 30, 2009, our equity investment was $82.1 million, representing an approximate 8 percent ownership interest. ATC provides transmission service under rates regulated by the FERC that are set in accordance with the FERC's policy of establishing the independent operation and ownership of, and investment in, transmission facilities. ATC rates are based on a 12.2 percent return on common equity dedicated to utility plant. ATC has identified $2.7 billion in future projects needed over the next 10 years to improve the adequacy and reliability of the electric transmission system. These investments are expected to be funded through a combination of internal cash, debt and investor contributions. As additional opportunities arise, we plan to make additional investments in ATC through general capital calls based upon our pro-rata ownership interest in ATC; these future capital investments are voluntary and not a long-term binding commitment. As of July 31, 2009, we have invested $5.4 million of the approximately $8 million for 2009.

Investments and Other

BNI Coal. BNI Coal anticipates selling approximately 4.5 million tons of coal in 2009 (4.5 million tons were sold in 2008) and has sold approximately 2.2 million tons through June 30, 2009 (2.2 million tons sold as of June 30, 2008).

ALLETE Properties. ALLETE Properties is our real estate business that has operated in Florida since 1991. Our current strategy is to complete and maintain key entitlements and infrastructure improvements which enhance values without requiring significant additional investment, and position the current property portfolio for a maximization of value and cash flow.

Our two major development projects include Town Center and Palm Coast Park. A third proposed development project, Ormond Crossings, is in the permitting and planning stage. Development activities involve mainly zoning, permitting, platting, and master infrastructure construction. Development costs are financed through a combination of community development district bonds, bank loans, and internally-generated funds.

Summary of Development Projects			Residential	Non-residential
Land Available-for-Sale	Ownership	Acres (a)	Units (b)	Sq. Ft. (b, c)
Current Development Projects				
Town Center	80%	991	2,289	2,228,200
Palm Coast Park	100%	3,436	3,239	3,116,800
Total Current Development Projects		4,427	5,528	5,345,000
Proposed Development Project				
Ormond Crossings	100%	5,968	(d)	(d)
Total of Development Projects		10,395	5,528	5,345,000

(a) Acreage amounts are approximate and shown on a gross basis, including wetlands and non-controlling interest.
(b) Estimated and includes non-controlling interest. Density at build out may differ from these estimates.
(c) Depending on the project, non-residential includes retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional.
(d) A development order approved by the City of Ormond Beach includes up to 3,700 residential units and 5 million square feet of non-residential space. We estimate the first two phases of Ormond Crossings will include

2,500-3,200 residential units and 2.5 million - 3.5 million square feet of various types of non-residential space. Density of the residential and non-residential components of the project will be determined based upon market and traffic mitigation cost considerations. Approximately 2,000 acres will be devoted to a regionally significant wetlands mitigation bank.

Other Land Available-for-Sale (a)	Total	Mixed Use	Residential	Non-Residential	Agricultural
Acres (b)					
Other Land	1,327	353	114	376	484

(a) Other land available-for-sale includes land located in Palm Coast, Florida not included in development projects and land held by Lehigh Acquisition Corporation and Cape Coral Holdings, Inc.

(b) Acreage amounts are approximate and shown on a gross basis, including wetlands and non-controlling interest.

OUTLOOK (Continued)
Investments and Other (Continued)

At June 30, 2009, total pending land sales under contract were $8.4 million ($12.4 million at December 31, 2008) and are scheduled to close at various times through 2010. However, given current market conditions it may be difficult to complete these closings by 2010. We continue to have discussions with our buyers under pending contracts. Our objective is to proactively assist our buyers through this current period of weak market conditions, as we believe the long-term prospects for our properties are favorable. Our discussions sometimes result in adjustments to contract terms, and may include extending closing dates, revised pricing or termination. If a purchaser defaults on a sales contract, the legal remedy is usually limited to terminating the contract and retaining the purchaser's deposit. The property is then available for resale. In many cases, contract purchasers incur significant costs during due diligence, planning, designing and marketing the property before the contract closes, therefore they have substantially more at risk than the deposit.

At June 30, 2009, our finance receivables included $7.8 million due from an entity which filed for voluntary Chapter 11 bankruptcy protection in June 2009. The estimated fair value of the collateral relating to these receivables was greater than the $7.8 million amount due and no impairment was recorded.

Emerging Technology. We have the potential to recognize gains or losses on the sale of investments in our Emerging Technology Investments. We plan to sell investments in our Emerging Technology Investments when publicly traded shares are distributed to us. Some restrictions on sales may apply, including, but not limited to, underwriter lock-up periods that typically extend for 180 days following an initial public offering. We have committed to make up to $0.5 million in additional investments in certain emerging technology holdings. We do not have plans to make any additional investments beyond this commitment.

Income Taxes. ALLETE's aggregate federal and multi-state statutory tax rate is approximately 41 percent for 2009. On an ongoing basis, ALLETE has certain tax credits and other tax adjustments that will reduce the statutory rate to the expected effective tax rate. These tax credits and adjustments historically have included items such as investment tax credits, wind production tax credits, AFUDC-Equity, domestic manufacturer's deduction, depletion, Medicare prescription reimbursement, as well as other items. The annual effective rate can also be impacted by such items as changes in income from operations before non-controlling interest and income taxes, state and federal tax law changes that become effective during the year, business combinations and configuration changes, tax planning initiatives and resolution of prior years' tax matters. We expect our effective tax rate to be approximately 35 percent for 2009.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Activities

ALLETE is well-positioned to meet the Company's immediate cash flow needs, including the payment of future dividends. With our cash balance of approximately $72 million, $160.0 million in lines-of-credit which includes a committed, syndicated, unsecured revolving line of credit of $150.0 million, and a debt-to-capital ratio of 42 percent at June 30, 2009, we project sufficient capital availability through the immediate term. If needed, we have the flexibility to reduce our planned capital expenditure program to meet changing capital market conditions.

Operating Activities. Cash from operating activities was $63.7 million for the six months ended June 30, 2009 ($54.7 million for the six months ended June 30, 2008). Cash from operating activities was higher in 2009 due to higher depreciation and deferred tax expense in 2009 and the exclusion of non-operating asset sales in 2008. These increases were partially offset by lower net income and higher working capital requirements in 2009.

Investing Activities. Cash used for investing activities was $135.0 million for the six months ended June 30, 2009 ($96.6 million for the six months ended June 30, 2008). Cash used for investing activities was lower in 2008 due to the proceeds from the sale of assets (retail shopping center) in Winter Haven, Florida and available-for-sale securities.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Financing Activities. Cash from financing activities was $41.7 million for the six months ended June 30, 2009 ($117.7 million for the six months ended June 30, 2008). Cash from financing activities was lower in 2009 than 2008 due to less debt issuance which was partially offset by the issuance of 1.5 million shares of common stock with net proceeds of approximately $27.9 million

Working Capital. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. We have 0.6 million original issue shares of our common stock available for issuance through Invest Direct, our direct stock purchase and dividend reinvestment plan. Additionally, we have 4.2 million original issue shares of common stock available for issuance through a Distribution Agreement with KCCI, Inc. We have consolidated bank lines of credit aggregating $160.0 million, the majority of which expire in January 2012. The amount and timing of future sales of our securities will depend upon market conditions and our specific needs. We may sell securities to meet capital requirements, to provide for the retirement or early redemption of issues of long-term debt, to reduce short-term debt and for other corporate purposes.

Auction Rate Securities. Included in Available-for-Sale Securities, as of June 30, 2009, are $14.3 million ($15.2 million at December 31, 2008) of three auction rate municipal bonds with stated maturity dates ranging between 15 and 27 years. These ARS consist of guaranteed student loans insured or reinsured by the federal government. These ARS were historically auctioned every 35 days to set new rates and provided a liquidating event in which investors could either buy or sell securities. Beginning in 2008, the auctions have been unable to sustain themselves due to the overall lack of market liquidity and we have been unable to liquidate all of our ARS. As a result, we have classified the ARS as long-term investments and have the ability to hold these securities to maturity, until called by the issuer, or until liquidity returns to this market. In the meantime, these securities will pay a default rate which is above market interest rates.

The Company used a discounted cash flow model to determine the estimated fair value of its investment in the ARS as of June 30, 2009. The assumptions used in preparing the discounted cash flow model include the following: estimated interest rates, estimated discount rates (using yields of comparable traded instruments adjusted for illiquidity and other risk factors), amount of cash flows, and expected holding periods of the ARS. These inputs reflect the Company’s judgments about assumptions that market participants would use in pricing ARS including assumptions about risk. Based upon the results of the discounted cash flow model, the fact that these ARS consist of guaranteed student loans insured or reinsured by the federal government and recent market activity, no other-than-temporary impairment loss has been reported.

Securities. In January 2009, we issued $42.0 million in principal amount of First Mortgage Bonds (Bonds) in the private placement market. The Bonds mature January 15, 2019 and carry a coupon rate of 8.17 percent. We have the option to prepay all or a portion of the Bonds at our discretion, subject to a make-whole provision. The Bonds are subject to additional terms and conditions which are customary for this type of transaction. We are using the proceeds from the sale of the Bonds to fund utility capital expenditures and for general corporate purposes.

In February 2008, we entered into a Distribution Agreement with KCCI, Inc. with respect to the issuance and sale of up to 2.5 million shares of our common stock. In February 2009, we amended and restated the Distribution Agreement with KCCI, Inc. such that it now provides for the issuance and sale of up to 5.0 million shares of our common stock, without par value. The shares may be offered for sale, from time to time, in accordance with the terms of the agreement. For the six months ended June 30, 2009, 0.8 million shares of common stock were issued under this agreement resulting in net proceeds of $21.5 million.

In March 2009, we contributed 463,000 shares of ALLETE common stock, with an aggregate value of $12.0 million, to our pension plan. On May 19, 2009, we registered the 463,000 shares of ALLETE common stock with the SEC pursuant to Rule 424(b)(7).

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Financial Covenants. Our long-term debt arrangements contain customary covenants. In addition, our lines of credit and letters of credit supporting certain long-term debt arrangements contain financial covenants. The most restrictive covenant requires ALLETE to maintain a ratio of its Funded Debt to Total Capital of less than or equal to 0.65 to 1.00 measured quarterly. As of June 30, 2009 our ratio was approximately 0.40 to 1.00. Failure to meet this covenant could give rise to an event of default, if not corrected after notice from the lender, in which event ALLETE may need to pursue alternative sources of funding. Some of ALLETE's debt arrangements contain "cross-default" provisions that would result in an event of default if there is a failure under other financing arrangements to meet payment terms or to observe other covenants that would result in an acceleration of payments due. As of June 30, 2009, ALLETE was in compliance with its financial covenants.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements are summarized in our 2008 Form 10-K, with additional disclosure discussed in Note 14. Commitments, Guarantees and Contingencies of this Form 10-Q.

Capital Requirements

For the six months ended June 30, 2009, capital expenditures totaled $122.5 million ($144.3 million at June 30, 2008). The expenditures were primarily made in the Regulated Operations segment. Internally generated funds and additional long-term debt and equity issuances were the primary sources of funding.

ENVIRONMENTAL MATTERS AND OTHER

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. Due to restrictive environmental requirements through legislation and/or rulemaking in the future, we anticipate that potential expenditures for environmental matters will be material and will require significant capital investments. We are unable to predict the outcome of the matters discussed in Note 14. Commitments, Guarantees and Contingencies of this Form 10-Q.

NEW ACCOUNTING STANDARDS

New accounting standards are discussed in Note 1. Operations and Significant Accounting Policies of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

Available-For-Sale Securities. As of June 30, 2009, our available-for-sale securities portfolio consisted of securities in a grantor trust, established to fund certain employee benefits, and ARS. (See Note 3. Investments.)

Emerging Technology Investments. As part of our Emerging Technology Investments, we have several minority investments in venture capital funds and direct investments in privately-held, start-up companies.

COMMODITY PRICE RISK

Our regulated utility operations in Minnesota and Wisconsin incur costs for fuel (primarily coal), power and natural gas purchased for resale in our regulated service territories, and related transportation. Our regulated utilities' exposure to price risk for these commodities is significantly mitigated by the current ratemaking process and regulatory environment, which generally allows a fuel clause surcharge if costs are in excess of those in our last rate filing. Conversely, costs below those in our last rate filing result in a credit to our ratepayers. We seek to prudently manage our customers' exposure to price risk by entering into contracts of various durations and terms for the purchase of coal and power (in Minnesota), power and natural gas (in Wisconsin), and related transportation costs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

POWER MARKETING

Our power marketing activities consist of (1) purchasing energy in the wholesale market for resale in our regulated service territories when retail energy requirements exceed generation output and (2) selling excess available energy and purchased power. From time to time, our utility operations may have excess energy that is temporarily not required by retail and wholesale customers in our regulated service territory. We actively sell this energy to the wholesale market to optimize the value of our generating facilities.

Demand nominations for power from our taconite customers in 2009 are lower by approximately 40 percent from 2008 levels. We continue to remarket available power to Other Power Suppliers in an effort to mitigate the earnings impact of these lower industrial sales. These sales are dependent upon the availability of generation and are sold at market based prices into the MISO market on a daily basis or through bilateral agreements of various durations. For 2009, we have successfully mitigated approximately 85 percent of the earnings impact.

In 2009, we have entered into financial and commodity swap derivative instruments to manage price risk for certain power marketing contracts. These derivative instruments are recorded on our consolidated balance sheet at fair value. Changes in the derivatives' fair value are recognized currently in earnings unless specific hedge accounting criteria is met. As of June 30, 2009, we have recorded approximately $2.3 million of derivatives in other assets on our consolidated balance sheet. Of this total, $0.1 million has been designated as a cash flow hedge and any mark-to-market fluctuations have been recorded in other comprehensive income on the consolidated balance sheet. (See Note 4. Derivatives.)

Approximately 200 MWs of capacity and energy from our Taconite Harbor facility in northern Minnesota has been sold through two sales contracts totaling 175 MWs (201 MWs including a 15 percent reserve), which were effective May 1, 2005, and expire on April 30, 2010. Both contracts contain fixed monthly capacity charges and fixed minimum energy charges. One contract provides for an annual escalator to the energy charge based on increases in our cost of coal, subject to a small minimum annual escalation. The other contract provides that the energy charge will be the greater of the fixed minimum charge or an annual amount based on the variable production cost of a combined-cycle, natural gas unit. Our exposure in the event of a full or partial outage at our Taconite Harbor facility is significantly limited under both contracts. When the buyer is notified at least two months prior to an outage, there is no liability. Outages with less than two months notice are subject to an annual duration limitation typical of this type of contract. These contracts qualify for the normal purchase normal sale exception under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" and are not required to be recorded at fair value.

We are exposed to credit risk primarily through our power marketing activities. We use credit policies to manage credit risk, which includes utilizing an established credit approval process and monitoring counterparty limits.

INTEREST RATE RISK

We are also exposed to risks resulting from changes in interest rates as a result of our issuance of variable rate debt. We manage our interest rate risk by varying the issuance and maturity dates of our fixed rate debt, limiting the amount of variable rate debt, and continually monitoring the effects of market changes in interest rates. Interest rates on variable rate long-term debt are reset on a periodic basis reflecting current market conditions. Based on the variable rate debt outstanding at June 30, 2009, and assuming no other changes to our financial structure, an increase or decrease of 100 basis points in interest rates would impact the amount of pretax interest expense by $0.8 million. This amount was determined by considering the impact of a hypothetical 100 basis point change to the average variable interest rate on the variable rate debt outstanding as of June 30, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of June 30, 2009, evaluations were performed, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of ALLETE's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act)). Based upon those evaluations, our principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are effective to provide assurance that information required to be disclosed in ALLETE's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls. While we continue to enhance our internal control over financial reporting, there has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) We held our Annual Meeting of Shareholders on May 12, 2009.

(b) Included in (c) below.

(c) The election of directors, the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2009, and the amendment of Article III and the deletion of

Article V of ALLETE's Amended and Restated Articles of Incorporation were voted on at the 2009 Annual Meeting of Shareholders.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (Continued)

The results were as follows:

Directors	Votes For	Withheld
Kathleen A. Brekken	26,944,114	359,750
Heidi J. Eddins	26,991,269	312,594
Sidney W. Emery, Jr.	26,953,869	349,994
James J. Hoolihan	26,833,220	470,644
Madeleine W. Ludlow	26,972,791	331,072
George L. Mayer	26,897,929	405,934
Douglas C. Neve	27,018,456	285,407
Jack I. Rajala	20,938,156	6,365,708
Leonard C. Rodman	26,895,550	408,313
Donald J. Shippar	26,803,979	499,884
Bruce W. Stender	26,824,142	479,721

Independent Registered Public Accounting Firm	Votes For	Votes Against	Abstentions	Broker Nonvotes
PricewaterhouseCoopers LLP	27,010,433	558,949	151,120	–

ALLETE's Amended and Restated Articles of Incorporation	Votes For	Votes Against	Abstentions	Broker Nonvotes
Amend Article III	22,092,287	5,374,224	253,990	–
Delete Article V	25,628,952	1,711,893	379,657	–

(d) Not applicable.

ITEM 5. OTHER INFORMATION

Reference is made to our 2008 Form 10-K for background information on the following updates.

Ref. Page 12 – Regulated Operations, Minnesota Public Utilities Commission – First Paragraph

On May 2, 2008, Minnesota Power filed a rate increase request with the MPUC. On May 4, 2009, the MPUC issued its order (May Order) on the rate filing, and on June 25, 2009, the MPUC reconsidered the May Order. While the reconsideration order has not been issued, we expect the MPUC reconsideration to result in an authorized rate increase of $20.4 million (slightly below the $21.1 million outcome in its May Order). The May Order allowing a 10.74

percent return on common equity and a capital structure consisting of 54.79 percent equity and 45.21 percent debt remains unchanged.

The reconsideration decision reduced Minnesota Power's interim rates, which are in effect between August 2008 and the date final rates are implemented, by $6.3 million annually to approximately $15 million. This increases Minnesota Power's refunding obligation for 2008 and 2009. Any party may appeal the final order to the Minnesota Court of Appeals. We will continue collecting interim rates until the new rates go into effect, which will be after the appeal period and all compliance filings are completed and accepted. Appeal of the final order or modifications during compliance could affect the final rate increase.

ITEM 5. OTHER INFORMATION (Continued)

With the May Order, the MPUC also approved the stipulation and settlement agreement that affirmed the Company's continued recovery of fuel and purchased power costs under the former base cost of fuel that was in effect prior to the retail rate filing. The transition to the former base cost of fuel will occur upon implementation of final rates. Any revenue impact associated with the transition will be identified in the fourth quarter.

As of June 30, 2009, we recorded a $16.4 million liability, including interest, for refunds anticipated to be paid to our customers as a result of the MPUC decision on our retail rate filing. Current year rate refunds totaling $8.3 million have been recorded on our consolidated statement of income and prior year rate refunds totaling $7.6 million are stated separately. Interest expense of $0.5 million was also recorded on our consolidated statement of income related to rate refunds. Refunds will commence when final rates are effective.

Ref. Page 18 – Employees – Second Paragraph

Minnesota Power, SWL&P and IBEW Local 31, continue to work under contract extensions of the agreements which expired on January 31, 2009. On April 10, 2009, IBEW Local 31 requested binding arbitration in accordance with the provisions of the contracts. The contracts also provide Minnesota Power and SWL&P with the protections of no strike clauses. Arbitrations are scheduled in October with final resolutions anticipated in November 2009. We remain optimistic that we will achieve a fair and equitable result in both agreements.

Ref. Page 20 – Executive Officers of the Registrant

Executive Officer	Initial Effective Date
Donald J. Shippar, Age 60	
Chairman and Chief Executive Officer	May 12, 2009
Chairman, President and Chief Executive Officer	January 1, 2006
President and Chief Executive Officer	January 21, 2004
Executive Vice President – ALLETE and President – Minnesota Power	May 13, 2003
President and Chief Operating officer – Minnesota Power	January 1, 2002
Alan R. Hodnik, Age 50	
President – ALLETE	May 12, 2009
Chief Operating Officer – Minnesota Power	May 8, 2007
Senior Vice President – Minnesota Power Operations	September 22, 2006
Vice President – Minnesota Power Generation	May 1, 2005

ITEM 6. EXHIBITS

Exhibit
Number

3 Amendment to the Articles of Incorporation, dated as of May 12, 2009

10(a) ALLETE Amended and Restated Non-Employee Director Compensation Deferral Plan II, effective May 1, 2009.

10(b) Amendment to the ALLETE Director Stock Plan, effective May 1, 2009.

31(a) Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31(b) Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Section 1350 Certification of Periodic Report by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99 ALLETE News Release dated August 5, 2009, announcing 2009 second quarter earnings. (This exhibit has been furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.)

SIGNATURES

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.

ALLETE, INC.

August 5, 2009	/s/ Mark A. Schober Mark A. Schober Senior Vice President and Chief Financial Officer
August 5, 2009	/s/ Steven Q. DeVinck Steven Q. DeVinck Controller