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

FORM 10-Q

(Mark One)

T Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **June 30, 2009**

or

£ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ______________ to ______________

Commission File Number **1-3548**

ALLETE, Inc.

(Exact name of registrant as specified in its charter)

Minnesota	**41-0418150**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

30 West Superior Street
Duluth, Minnesota 55802-2093
(Address of principal executive offices)
(Zip Code)

(218) 279-5000
(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer T	Accelerated Filer £
Non-Accelerated Filer £	Smaller Reporting Company £

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

Common Stock, no par value,
34,100,096 shares outstanding
as of June 30, 2009

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Definitions

The following abbreviations or acronyms are used in the text. References in this report to "we," "us" and "our" are to ALLETE, Inc. and its subsidiaries, collectively.

Abbreviation or Acronym	Term
AFUDC	Allowance for Funds Used During Construction – consisting of the cost of both the debt and equity funds used to finance utility plant additions during construction periods
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, LLC and its subsidiaries
APB	Accounting Principles Board
AREA	Arrowhead Regional Emission Abatement
ARS	Auction Rate Securities
ATC	American Transmission Company LLC
BNI Coal	BNI Coal, Ltd.
BNSF	BNSF Railway Company
Boswell	Boswell Energy Center
Company	ALLETE, Inc. and its subsidiaries
DC	Direct Current
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Form 10-K	ALLETE Annual Report on Form 10-K
Form 10-Q	ALLETE Quarterly Report on Form 10-Q
FSP	FASB Staff Position
FTR	Financial Transmission Rights
GAAP	United States Generally Accepted Accounting Principles
GHG	Greenhouse Gases
IBEW Local 31	International Brotherhood of Electrical Workers Local 31
Invest Direct	ALLETE's Direct Stock Purchase and Dividend Reinvestment Plan
kV	Kilovolt(s)
Laskin	Laskin Energy Center
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midwest Independent Transmission System Operator, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
Non-residential	Retail commercial, non-retail commercial, office, industrial, warehouse, storage and institutional
NO_X	Nitrogen Oxide
Note ___	Note ___ to the consolidated financial statements in this Form 10-Q
OES	Minnesota Office of Energy
Oliver Wind I	Oliver Wind I Energy Center
Oliver Wind II	Oliver Wind II Energy Center

Definitions (Continued)

Abbreviation or Acronym	Term
Palm Coast Park	Palm Coast Park development project in Florida
Palm Coast Park District	Palm Coast Park Community Development District
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation - Wisconsin
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards No.
SO_2	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
Town Center	Town Center at Palm Coast development project in Florida
Town Center District	Town Center at Palm Coast Community Development District
WDNR	Wisconsin Department of Natural Resources

Safe Harbor Statement
Under the Private Securities Litigation Reform Act of 1995

Statements in this report that are not statements of historical facts may be considered "forward-looking" and, accordingly, involve risks and uncertainties that could cause actual results to differ materially from those discussed. Although such forward-looking statements have been made in good faith and are based on reasonable assumptions, there is no assurance that the expected results will be achieved. Any statements that express, or involve discussions as to, future expectations, risks, beliefs, plans, objectives, assumptions, events, uncertainties, financial performance, or growth strategies (often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "will likely result," "will continue," "could," "may," "potential," "target," "outlook" or words of similar meaning) are not statements of historical facts and may be forward-looking.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are hereby filing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected, or expectations suggested, in forward-looking statements made by or on behalf of ALLETE in this Quarterly Report on Form 10-Q, in presentations, on our website, in response to questions or otherwise. These statements are qualified in their entirety by reference to, and are accompanied by, the following important factors, in addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements:

- our ability to successfully implement our strategic objectives;
- our ability to manage expansion and integrate acquisitions;
- prevailing governmental policies, regulatory actions, and legislation including those of the United States Congress, state legislatures, the FERC, the MPUC, the PSCW, and various local and county regulators, and city administrators, about allowed rates of return, financings, industry and rate structure, acquisition and disposal of assets and facilities, real estate development, operation and construction of plant facilities, recovery of purchased power, capital investments and other expenses, present or prospective wholesale and retail competition (including but not limited to transmission costs), zoning and permitting of land held for resale and environmental matters;
- the potential impacts of climate change and future regulation to restrict the emissions of GHG on our Regulated Operations;
- effects of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with laws and regulations;
- weather conditions;
- natural disasters and pandemic diseases;
- war and acts of terrorism;
- wholesale power market conditions;
- population growth rates and demographic patterns;
- effects of competition, including competition for retail and wholesale customers;
- changes in the real estate market;
- pricing and transportation of commodities;
- changes in tax rates or policies or in rates of inflation;
- project delays or changes in project costs;
- availability and management of construction materials and skilled construction labor for capital projects;
- changes in operating expenses, capital and land development expenditures;
- global and domestic economic conditions affecting us or our customers;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;
- our ability to replace a mature workforce and retain qualified, skilled and experienced personnel; and
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed in Item 1A under the heading "Risk Factors" beginning on page 20 of our 2008 Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are urged to carefully review and consider the various disclosures made by us in this Form 10-Q and in our other reports filed with the SEC that attempt to advise interested parties of the factors that may affect our business.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions – Unaudited

	June 30, 2009	December 31, 2008
Assets		
Current Assets		
Cash and Cash Equivalents	$72.4	$102.0
Accounts Receivable (Less Allowance of $0.7 at June 30, 2009 and $0.7 at December 31, 2008)	80.7	76.3
Inventories	53.6	49.7
Prepayments and Other	25.7	24.3
Total Current Assets	232.4	252.3
Property, Plant and Equipment - Net	1,481.7	1,387.3
Investment in ATC	82.1	76.9
Other Investments	135.6	136.9
Other Assets	285.8	281.4
Total Assets	$2,217.6	$2,134.8
Liabilities and Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$59.0	$75.7
Accrued Taxes	15.8	12.9
Accrued Interest	12.0	8.9
Long-Term Debt Due Within One Year	13.0	10.4
Notes Payable	6.0	6.0
Other	40.1	36.8
Total Current Liabilities	145.9	150.7
Long-Term Debt	627.2	588.3
Deferred Income Taxes	199.3	169.6
Other Liabilities	360.4	389.3
Total Liabilities	1,332.8	1,297.9
Commitments and Contingencies (Note 14)		
Equity		
ALLETE's Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 34.1 and 32.6 Shares Outstanding	575.1	534.1
Unearned ESOP Shares	(48.3)	(54.9)
Accumulated Other Comprehensive Loss	(31.6)	(33.0)
Retained Earnings	380.0	380.9
Total ALLETE's Equity	875.2	827.1
Non-Controlling Interest in Subsidiaries	9.6	9.8
Total Equity	884.8	836.9
Total Liabilities and Equity	$2,217.6	$2,134.8

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
Millions Except Per Share Amounts – Unaudited

	Quarter Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Operating Revenue				
Operating Revenue	$167.0	$189.8	$371.9	$403.2
Prior Year Rate Refunds	(2.3)	–	(7.6)	–
Total Operating Revenue	164.7	189.8	364.3	403.2
Operating Expenses				
Fuel and Purchased Power	56.8	75.0	129.6	161.3
Operating and Maintenance	76.7	84.4	157.2	167.5
Depreciation	15.5	12.9	30.7	25.6
Total Operating Expenses	149.0	172.3	317.5	354.4
Operating Income	15.7	17.5	46.8	48.8
Other Income (Expense)				
Interest Expense	(8.4)	(6.6)	(17.1)	(12.6)
Equity Earnings in ATC	4.3	3.6	8.5	7.0
Other	1.9	2.5	3.0	11.1
Total Other Income (Expense)	(2.2)	(0.5)	(5.6)	5.5
Income Before Non-Controlling Interest and Income Taxes	13.5	17.0	41.2	54.3
Income Tax Expense	4.2	6.2	15.0	19.9
Net Income	9.3	10.8	26.2	34.4
Less: Non-Controlling Interest in Subsidiaries	(0.1)	0.1	(0.1)	0.1
Net Income Attributable to ALLETE	$9.4	$10.7	$26.3	$34.3
Average Shares of Common Stock				
Basic	31.8	28.8	31.3	28.7
Diluted	31.8	28.9	31.4	28.8
Basic and Diluted Earnings Per Share of Common Stock	$0.29	$0.37	$0.84	$1.19
Dividends Per Share of Common Stock	$0.44	$0.43	$0.88	$0.86

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - - Unaudited

	Six Months Ended June 30, 2009	2008
Operating Activities		
Net Income	$26.2	$34.4
Allowance for Funds Used During Construction	(2.9)	(2.0)
Income from Equity Investments, Net of Dividends	(0.5)	(1.0)
Gain on Sale of Assets	–	(4.6)
Gain on Sale of Available-for-Sale Securities	–	(6.5)
Depreciation Expense	30.7	25.6
Amortization of Debt Issuance Costs	0.4	0.4
Deferred Income Tax Expense	24.0	9.1
Stock Compensation Expense	1.1	0.8
Bad Debt Expense	0.6	0.5
Changes in Operating Assets and Liabilities		
Accounts Receivable	(5.0)	19.7
Inventories	(3.9)	(4.2)
Prepayments and Other	(1.5)	11.1
Accounts Payable	(3.5)	(15.5)
Other Current Liabilities	9.4	(0.6)
Other Assets	(4.3)	(4.9)
Other Liabilities	(7.1)	(7.6)
Cash from Operating Activities	63.7	54.7
Investing Activities		
Proceeds from Sale of Available-for-Sale Securities	0.9	52.3
Payments for Purchase of Available-for-Sale Securities	(0.9)	(39.3)
Investment in ATC	(3.5)	(2.8)
Changes to Other Investments	5.2	6.5
Additions to Property, Plant and Equipment	(133.3)	(130.5)
Proceeds from Sale of Assets	–	20.2
Other	(3.4)	(3.0)
Cash for Investing Activities	(135.0)	(96.6)
Financing Activities		
Proceeds from Issuance of Common Stock	27.9	7.9
Proceeds from Issuance of Long-Term Debt	43.3	138.7
Reductions of Long-Term Debt	(1.8)	(8.2)
Debt Issuance Costs	(0.5)	(1.1)
Dividends on Common Stock	(27.2)	(25.6)
Changes in Notes Payable	–	6.0
Cash from Financing Activities	41.7	117.7
Change in Cash and Cash Equivalents	(29.6)	75.8
Cash and Cash Equivalents at Beginning of Period	102.0	23.3
Cash and Cash Equivalents at End of Period	$72.4	$99.1

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all of the information and notes required by GAAP for complete financial statements. Similarly, the December 31, 2008 consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by GAAP. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Certain prior year amounts within operating activities in our consolidated statement of cash flows have been reclassified between line items for comparative purposes. The reclassifications did not affect our net income or cash flows from operating activities. In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to make a fair statement of the consolidated financial position, results of operations and cash flows of ALLETE for the interim periods presented. Operating results for the period ended June 30, 2009, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2009. For further information, refer to the consolidated financial statements and notes included in our 2008 Form 10-K and Form 10-K/A.

Subsequent Events. The Company performed an evaluation of subsequent events for potential recognition and disclosure through the time of issuing the financial statements on August 5, 2009.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Inventories. Inventories are stated at the lower of cost or market. Amounts removed from inventory are recorded on an average cost basis.

Inventories	**June 30, 2009**	**December 31, 2008**
Millions		
Fuel	$21.7	$16.6
Materials and Supplies	31.9	33.1
Total Inventories	$53.6	$49.7

Other Assets and Other Liabilities.

Other Assets	**June 30, 2009**	**December 31, 2008**
Millions		
Deferred Regulatory Assets	$253.2	$249.3
Other	32.6	32.1
Total Other Assets	$285.8	$281.4

Other Liabilities		
Millions		
Future Benefit Obligation Under Defined Benefit Pension and Other Postretirement Plans	$221.8	$251.8
Deferred Regulatory Liabilities	60.6	50.0
Asset Retirement Obligation	43.3	39.5
Other	34.7	48.0
Total Other Liabilities	$360.4	$389.3

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplemental Statement of Cash Flows Information.

For the Six Months Ended June 30,	**2009**	**2008**
Millions		
Cash Paid During the Period for		
Interest – Net of Amounts Capitalized	$13.6	$11.8
Income Taxes	$0.8	$4.2
Noncash Investing and Financing Activities		
Change in Accounts Payable for Capital Additions to Property Plant and Equipment	$(13.2)	$12.0
ALLETE Common Stock contributed to the Pension Plan	$(12.0)	–

New Accounting Standards. *FSP FAS 157-2.* In February 2008, the FASB issued FSP FAS 157-2, "Effective Date of FASB Statement 157," which delayed the effective date of SFAS 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The implementation of FSP FAS 157-2 did not have a material impact on our consolidated financial position, results of operations or cash flows. (See Note 5. Fair Value.)

SFAS 160. In December 2007, the FASB issued SFAS 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin (ARB) 51," to improve the relevance, comparability, and transparency of the financial information a reporting entity provides in its consolidated financial statements. SFAS 160 amends ARB 51 to establish accounting and reporting standards for non-controlling interests in subsidiaries and to make certain consolidation procedures consistent with the requirements of SFAS 141R. SFAS 160 defines a non-controlling interest in a subsidiary as an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 changes the presentation of the consolidated income statement by requiring consolidated net income to include amounts attributable to the parent and the non-controlling interest. SFAS 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary which do not result in deconsolidation. SFAS 160 also requires expanded disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners of a subsidiary. SFAS 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. SFAS 160 shall be applied prospectively, with the exception of the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. SFAS 160 was adopted on January 1, 2009. ALLETE Properties does have certain non-controlling interests in consolidated subsidiaries. SFAS 160 impacted the presentation, but did not have a material impact on our consolidated financial position, results of operations or cash flows.

SFAS 161. In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement 133." SFAS 161 amends and expands the disclosure requirements of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 was adopted on January 1, 2009. As SFAS 161 provides only disclosure requirements, the adoption of this standard did not have an impact on our consolidated financial position, results of operations or cash flows. (See Note 4. Derivatives.)

FSP FAS 132(R)-1. In December 2008, the FASB issued FSP FAS 132(R)-1. This FSP amends SFAS 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits," to provide guidance on an employer's disclosures about plan assets, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. This FSP is effective for fiscal years ending after December 15, 2009. Upon initial adoption, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. As FSP FAS 132(R)-1 provides only disclosure requirements, the adoption of this standard will not have an impact on our consolidated financial position, results of operations or cash flows.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

FSP FAS 107-1 and APB 28-1. In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," which amends SFAS 107, "Disclosures about Fair Value of Financial Instruments" and APB Opinion 28, "Interim Financial Reporting," respectively, to require disclosure about fair value of financial instruments for interim reporting periods of publicly traded companies in addition to annual financial statements. FSP FAS 107-1 and APB 28-1 was adopted on June 30, 2009. As FSP FAS 107-1 and APB 28-1 provide only disclosure requirements, the adoption of this standard did not have a material impact on our consolidated financial position, results of operations or cash flows. (See Note 5. Fair Value.)

FSP FAS 157-4. In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," which provides additional guidance for applying the provisions of SFAS 157. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. This FSP requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has, transactions or quoted prices may not be indicative of fair value and a significant adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. FSP FAS 157-4 was adopted on June 30, 2009, and did not have a material impact on our consolidated financial position, results of operations or cash flows.

FSP FAS 115-2 and FAS 124-2. In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," which amends SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities" and SFAS 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." This standard establishes a different other-than-temporary impairment indicator for debt securities than previously prescribed. If it is more likely than not that an impaired security will be sold before the recovery of its cost basis, either due to the investor's intent to sell or because it will be required to sell the security, the entire impairment is recognized in earnings. Otherwise, only the portion of the impaired debt security related to estimated credit losses is recognized in earnings, while the remainder of the impairment is recorded in other comprehensive income and recognized over the remaining life of the debt security. In addition, the standard expands the presentation and disclosure requirements for other-than-temporary impairments for both debt and equity securities. FSP FAS 115-2 and FAS 124-2 was adopted on June 30, 2009, and did not have an impact on our consolidated financial position, results of operations or cash flows.

SFAS 165. In May 2009, the FASB issued SFAS 165, "Subsequent Events," to provide guidance on accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Entities are required to disclose the date through which subsequent events have been evaluated and the basis for that date. SFAS 165 was adopted on June 30, 2009, and did not have a material impact on our consolidated financial position, results of operations, or cash flows.

SFAS 166. In June 2009, the FASB issued SFAS 166 "Accounting for Transfers of Financial Assets, an amendment of SFAS 140." SFAS 166 amends current guidance for accounting for the transfers of financial assets, and was issued with the objective of improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. Key provisions of SFAS 166 include (1) the removal of the concept of qualifying special purpose entities, (2) the introduction of the concept of a participating interest, in circumstances in which a portion of a financial asset has been transferred, and (3) the requirement that to qualify for sale accounting, the transferor must evaluate whether it maintains effective control over transferred financial assets either directly or indirectly. Further, SFAS 166 requires enhanced disclosures about transfers of financial assets and a transferor's continuing involvement. SFAS 166 is effective January 1, 2010, and is required to be applied prospectively. We are currently assessing the impact of SFAS 166 on our consolidated financial position, results of operations and cash flows, but we do not believe it will have a material impact on the Company.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SFAS 167. In June 2009, the FASB issued SFAS 167 "Amendments to FASB Interpretation No. 46(R)." SFAS 167 amends the manner in which entities evaluate whether consolidation is required for variable interest entities (VIEs). A company must first perform a qualitative analysis in determining whether it must consolidate a VIE, and if the qualitative analysis is not determinative, must perform a quantitative analysis. Further, SFAS 167 requires that companies continually evaluate VIEs for consolidation, rather than assessing based upon the occurrence of triggering events. SFAS 167 also requires enhanced disclosures about how an entity's involvement with a VIE affects its financial statements and exposure to risks. SFAS 167 is effective January 1, 2010. We are currently assessing the impact of SFAS 167 on our consolidated financial position, results of operations and cash flows, but we do not believe it will have a material impact on the Company.

SFAS 168. In June 2009, the FASB approved the FASB Accounting Standards Codification (Codification) as the single source of authoritative nongovernmental GAAP. The Codification is an online research system that reorganizes the thousands of GAAP pronouncements into a topical structure. The Codification was launched on July 1, 2009; at which time all existing accounting standard documents were superseded and all accounting literature not included in the Codification were considered non-authoritative, except for guidance issued by the SEC. The Codification is effective for interim and annual periods ending after September 15, 2009.

NOTE 2. BUSINESS SEGMENTS

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. 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, 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.

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Quarter Ended June 30, 2009			
Operating Revenue	$167.0	$147.4	$19.6
Prior Year Rate Refunds	(2.3)	(2.3)	–
Total Operating Revenue	164.7	145.1	19.6
Fuel and Purchased Power	56.8	56.8	–
Operating and Maintenance	76.7	56.9	19.8
Depreciation Expense	15.5	14.3	1.2
Operating Income (Loss)	15.7	17.1	(1.4)
Interest Expense	(8.4)	(6.6)	(1.8)
Equity Earnings in ATC	4.3	4.3	–
Other Income	1.9	1.7	0.2
Income (Loss) Before Non-Controlling Interest and Income Taxes	13.5	16.5	(3.0)
Income Tax Expense (Benefit)	4.2	5.8	(1.6)
Net Income (Loss)	9.3	10.7	(1.4)
Less: Non-Controlling Interest in Subsidiaries	(0.1)	–	(0.1)
Net Income (Loss) Attributable to ALLETE	$9.4	$10.7	$(1.3)

NOTE 2. BUSINESS SEGMENTS (Continued)

	Consolidated	Regulated Operations	Investments and Other
Millions			
For the Quarter Ended June 30, 2008			
Operating Revenue	$189.8	$163.5	$26.3
Fuel and Purchased Power	75.0	75.0	–
Operating and Maintenance	84.4	63.5	20.9
Depreciation Expense	12.9	11.7	1.2
Operating Income	17.5	13.3	4.2
Interest Expense	(6.6)	(5.6)	(1.0)
Equity Earnings in ATC	3.6	3.6	–
Other Income	2.5	1.1	1.4
Income Before Non-Controlling Interest and Income Taxes	17.0	12.4	4.6
Income Tax Expense	6.2	5.2	1.0
Net Income	10.8	7.2	3.6
Less: Non-Controlling Interest in Subsidiaries	0.1	–	0.1
Net Income Attributable to ALLETE	$10.7	$7.2	$3.5

	Consolidated	Regulated Operations	Investments and Other
Millions			
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)
Net Income (Loss) Attributable to ALLETE	$26.3	$28.4	$(2.1)
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 June 30,		Six Months Ended 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 June 30,		Six Months Ended 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, 2009	2008	Six Months Ended June 30 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 Basic	Dilutive Securities	Diluted	2008 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.

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.

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 SO_2, NO_X, 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.

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) %

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.

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 Six Months Ended June 30,	2009	2008	Quantity 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).

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.

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.

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, SO_2, NO_X, 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 NO_X Reduction Plan. In September 2008, we submitted to the MPCA and MPUC a $92 million environmental initiative proposing cost recovery for NO_X emission reductions from Boswell Units 1, 2, and 4. If approved by the MPUC, the Boswell NO_X Reduction Plan is expected to significantly reduce NO_X emissions from these units. In conjunction with the NO_X 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 **Land Available-for-Sale**	**Ownership**	**Acres *(a)***	**Residential Units *(b)***	**Non-residential 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.

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.

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).

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.

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:

	Votes For	Withheld
Directors		
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

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

	Votes For	Votes Against	Abstentions	Broker Nonvotes
ALLETE’s Amended and Restated Articles of Incorporation				
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

Exhibit 3

ARTICLES OF AMENDMENT
OF
ALLETE, INC.

Amending paragraph 1, Article III and Deleting Article V
of ALLETE, Inc.'s Articles of Incorporation
as Amended and Restated as of May 8, 2001
and as previously amended as of September 20, 2004

ARTICLE III

1. The total authorized number of shares of capital stock of this Corporation shall be 83,616,000 of which 116,000 shares of the par value of $100 each shall be 5% Preferred Stock, 1,000,000 shares without par value shall be Serial Preferred Stock, 2,500,000 shares without par value shall be Serial Preferred Stock A and 80,000,000 shares without par value shall be Common Stock. Any of the aforesaid shares may be issued and disposed of by the Board of Directors at any time and from time to time, to such persons, firms, corporations, or associations, upon such terms and for such consideration as the Board of Directors may, in its discretion, determine, except as may be limited by law or by these Articles of Incorporation.

ARTICLE V

[Deleted and intentionally reserved.]

ALLETE

AMENDED AND RESTATED

NON-EMPLOYEE DIRECTOR COMPENSATION DEFERRAL PLAN II

Effective May 1, 2009

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ALLETE
AMENDED AND RESTATED
NON-EMPLOYEE DIRECTOR COMPENSATION DEFERRAL PLAN II

Effective May 1, 2009

ARTICLE 1

Establishment and Purpose

This document includes the terms of the ALLETE Amended and Restated Non-Employee Director Compensation Deferral Plan II, the purpose of which is to provide Directors an opportunity to elect to defer his or her Annual Retainer. The Plan is a successor to the ALLETE Director Compensation Deferral Plan (the "Predecessor Plan"). On December 31, 2004, the Company froze the Predecessor Plan, and on January 1, 2005, the Company established the Plan to govern amounts initially deferred after December 31, 2004 and investment earnings thereon. From January 1, 2005 to the effective date hereof, the Company operated and administered the Plan in all material respects in good faith compliance with the applicable requirements of Section 409A, the final and proposed Treasury Regulations, IRS Notice 2005-1, and all other IRS guidance. Effective January 1, 2009, the Company amended and restated the Plan in its entirety to comply with Section 409A. Effective May 1, 2009, the Company further amends and restates the Plan to expand the types of compensation that Directors may defer. Capitalized terms, unless otherwise defined herein, shall have the meaning provided in Article 12.

ARTICLE 2

Administration

2.1 **Administrator.** The Executive Compensation Committee of the Board shall administer the Plan. Notwithstanding the foregoing, the Administrator may delegate any of its duties to such other person or persons from time to time as it may designate. Members of the Executive Compensation Committee may participate in the Plan; however, any Director serving on the Executive Compensation Committee shall not vote or act on any matter relating solely to himself or herself.

2.2 **Duties.** The Administrator has the authority to construe and interpret all provisions of the Plan, to resolve any ambiguities, to adopt rules and practices concerning the administration of the Plan, to make any determinations and calculations necessary or appropriate hereunder, and, to the maximum extent permitted by Section 409A, the authority to remedy any errors, inconsistencies or omissions. The Company shall pay all expenses and liabilities incurred in connection with Plan administration.

2.3 **Agents.** The Administrator may engage the services of accountants, attorneys, actuaries, investment consultants, and such other professional personnel as are deemed necessary or advisable to assist in fulfilling the Administrator's responsibilities. The Administrator, the Company and the Board may rely upon the advice, opinions or valuations of any such persons.

2.4 **<u>Binding Effect of Decisions</u>.** The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan. Neither the Administrator, its delegates, nor the Board shall be personally liable for any good faith action, determination or interpretation with respect to the Plan, and each shall be fully protected by the Company in respect of any such action, determination or interpretation.

2.5 **<u>Company Information</u>.** To enable the Administrator to perform its duties, the Company shall supply full and timely information to the Administrator on all matters relating to the Annual Retainer, the Directors, the date and circumstances of a Director's Separation from Service, and other pertinent information as the Administrator may reasonably require.

ARTICLE 3

<u>Participation</u>

Directors may participate in the Plan. Each Plan Year, the Administrator shall notify Directors of their eligibility to participate in the Plan and defer compensation to be paid on account of services as a Director during the next Service Period. A Director who is eligible to participate shall become a participant by completing an election form on which the Director elects to defer some or all of his or her Annual Retainer and delivering the completed form to the Company as specified in the Plan. The terms of this Plan shall continue to govern a Director's Accounts until the Accounts are paid in full.

ARTICLE 4

<u>Deferral Elections</u>

4.1 **<u>Annual Deferral Election</u>.** Each Plan Year, a Director may elect: (i) to defer some or all of the Director's Annual Cash Retainer, the Annual Stock Retainer, or both, attributable to the next Service Period; and (ii) to the extent permitted by this Plan, the time and form of distribution of Cash Deferrals and Stock Deferrals. Elections become irrevocable no later than the date specified by the Administrator, but in any event before the beginning of the Plan Year with which or during which occurs the Service Period to which the elections relate. A Director's election will become effective only if the forms required by the Administrator have been properly completed and signed by the Director, timely delivered to, and accepted by, the Administrator. A Director who fails to file the election before the required date will be treated as having elected not to defer any portion of the Annual Retainer for the following Service Period.

4.2 **<u>Initial Deferral Election.</u>** A Director who first becomes eligible to participate in the Plan during a Plan Year may elect to defer some or all of the Director's Annual Cash Retainer and Annual Stock Retainer by filing a signed election form with the Administrator no later than 30 days after the Director first becomes eligible to participate in the Plan. Such election shall be effective only with respect to the Director's Annual Retainer earned after the filing of such election. The election shall become irrevocable with respect to the Service Period covered by the election on the 30th day following the date on which the Director first becomes eligible to participate in the Plan. This election relating to initial participation in the Plan is available only to Directors who do not participate in any other nonqualified deferred compensation elective account balance plans (within the meaning of Section 409A) maintained by the Company or any Related Company. If a Director whose participation in the Plan is terminated again becomes a Director, he or she may elect to defer pursuant to this Section only if the Director was ineligible to defer compensation in this Plan and all other Related Company elective account balance plans for the 24 months preceding the date on which the Director again became eligible to participate in this Plan.

4.3 **<u>Cancellations of Deferral Elections due to Unforeseeable Emergency.</u>** If a Director experiences an Unforeseeable Emergency, the Director may submit to the Administrator a written request to cancel Deferrals for the Service Period to satisfy the Unforeseeable Emergency. If the Administrator either approves the Director's request to cancel Deferrals for the Service Period, or approves a request for a distribution of prior Deferrals in accordance with Section 6.1.3, then effective as of the date the request is approved the Administrator shall cancel the Director's deferral elections for the remainder of the Service Period. A Director whose Deferrals are canceled in accordance with this section may elect Deferrals for the following Service Period.

ARTICLE 5

<u>Accounts</u>

5.1 **<u>Accounts</u>.** The Company will establish notional accounts and sub-accounts for each Director as the Administrator deems necessary or advisable from time to time. The Company will establish a Director's Accounts during the year in which the Director first elects to defer any amounts. All amounts in a Director's Accounts are fully vested at all times.

5.2 **<u>Cash Account</u>.**

5.2.1 **<u>Establishment of Cash Account</u>.** The Company shall establish and maintain a Cash Account for each Director who has elected to defer any portion of the Annual Cash Retainer. A Director's Cash Account shall be credited as appropriate for Cash Deferrals and earnings with respect to Cash Deferrals and debited for distributions from the Cash Account.

5.2.2 **<u>Timing of Credits to Cash Accounts</u>.** No later than the end of the calendar year during which the Company would otherwise have paid the Annual Cash Retainer to the Director but for the Director's deferral election, the Administrator shall credit the Director's Cash Account with an amount equal to the portion of the Annual Cash Retainer that the Director elected to defer.

5.2.3 **<u>Investments</u>.** The Administrator may select investment funds to use for measuring notional gains and losses with respect to Cash Deferrals. The Administrator will establish, from time to time, rules and procedures for allowing each Director who has not had a Separation from Service to designate which one or more of the selected investment funds will be used to determine the notional gains and losses credited or debited to the Director's Cash Account prior to Separation from Service.

5.2.4 **Valuation Date.** As of each Valuation Date, each Cash Account will be adjusted to reflect the effect of notional investment gains or losses, additions, distributions, transfers and all other transactions with respect to that account since the previous Valuation Date.

5.3 **Stock Account.**

5.3.1 **Establishment of Stock Account.** The Company shall establish and maintain a Stock Account for each Director who has elected to defer any portion of the Annual Stock Retainer. A Director's Stock Account shall be credited as appropriate for Stock Deferrals and Dividend Equivalents and debited for distributions from the Stock Account. Stock Deferrals credited to a Director's Stock Account shall be used solely as a device for determining the number of shares of Common Stock to be distributed to such Director at a later time in accordance with this Plan. Stock Deferrals credited (and the Common Stock to which the Director is entitled under this Plan) shall be subject to adjustment in accordance with Section 5.3.4 of this Plan.

5.3.2 **Credits to Stock Accounts.** The Administrator shall credit a Director's Stock Account with Stock Deferrals as of the day on which the Annual Stock Retainer would otherwise have been paid to the Director pursuant to the Stock Plan but for the Director's deferral election. The number of Stock Deferrals credited to the Stock Account shall equal the number of shares of Common Stock that would have been issued to the Director pursuant to the Stock Plan in the absence of a deferral election.

5.3.3 **Dividend Equivalents.** Stock Deferrals credited to a Director's Stock Account shall be credited with Dividend Equivalents equal to cash dividends that are declared and paid on Common Stock. The Company will credit each Director's Stock Account with Dividend Equivalents as of the date that the Company pays a dividend on its Common Stock, and will convert the Dividend Equivalents into additional Stock Deferrals by dividing the amount of the Dividend Equivalents by the Fair Market Value of a share of Common Stock on that date.

5.3.4 **Adjustments in Case of Changes in Common Stock.** If the outstanding shares of Common Stock of the Company are increased, decreased, or exchanged for a different number or kind of shares or other securities, or if additional shares or new or different shares or other securities are distributed with respect to such shares of Common Stock or other securities, through merger, consolidation, sale of all or substantially all of the property of the Company, reorganization or recapitalization, reclassification, stock dividend, stock split, reverse stock split, combinations of shares, rights offering, distribution of assets or other distribution with respect to such shares of Common Stock or other securities or other change in the corporate structure or shares of Common Stock, the number of Stock Deferrals in a Director's Stock Account and the kind of shares that may be issued under the Plan or both shall be appropriately adjusted by the Committee. Any determination by the Committee as to any such adjustment will be final, binding, and conclusive.

ARTICLE 6

Distributions

6.1 **Distributions.** The Plan provides for distributions in a Specified Year, upon a Separation from Service or upon an Unforeseeable Emergency. As described in Section 6.1.1, each Plan Year a Director may elect to have all or a portion of the Cash Deferrals, Stock Deferrals, or both, attributable to the next Service Period distributed in a Specified Year. With respect to Deferrals not subject to distribution in a Specified Year, the Plan requires distribution upon Separation from Service at a time and in a form elected by the Director, or for Directors who fail to elect, at a time and in a form specified by the Plan. A Director wishing to elect a time and form of distribution upon Separation from Service must, at the time of the Director's initial Deferrals, submit a distribution election, which may provide a different time and form of distribution upon Separation from Service for Cash Deferrals and Stock Deferrals. A Director's distribution elections are irrevocable and will govern the Deferrals to which the election relates until the Deferrals covered by the election are paid in full or until subsequently changed in accordance with Section 6.3. Notwithstanding any elections by a Director, all distributions are subject to the provisions of Section 6.2.

6.1.1 **Specified Year.** A Director may elect to receive a distribution of Cash Deferrals and Stock Deferrals in the same or different Specified Years. The Specified Year(s) elected may be no earlier than the third Plan Year beginning after the date on which the Director initially elects to receive a distribution in a Specified Year. Except as otherwise provided in this subsection or in Section 6.3, once a Director has elected to receive a distribution of Cash Deferrals in a Specified Year, the Director may not elect to receive a distribution of Cash Deferrals in a different Specified Year and, once a Director has elected to receive a distribution of Stock Deferrals in a Specified Year, the Director may not elect to receive a distribution of Stock Deferrals in a different Specified Year. Beginning during the year preceding a Specified Year previously elected by the Director, the Director may elect to receive a distribution of future Deferrals in a later Specified Year, subject, however, to the restrictions of this subsection. All amounts distributable in a Specified Year will be paid in a single lump sum, in the case of Cash Deferrals, or in a single distribution of Common Stock, in the case of Stock Deferrals.

6.1.2 **Separation from Service.** A Director may elect to receive a distribution of Deferrals commencing upon Separation from Service or during any of the first five years following the year of the Separation from Service. A Director may elect to receive the distribution in the form of a lump sum, annual installments over a period of five (5), ten (10), or fifteen (15) years, or a combination of both a lump sum and installments. A Director may elect a different time and form of distribution upon Separation from Service for Cash Deferrals and Stock Deferrals.

6.1.3 **Unforeseeable Emergency.** A Director may submit a written request for a distribution on account of an Unforeseeable Emergency. Upon approval by the Administrator of a Director's request, the Director's Accounts, or that portion of the Director's Accounts deemed necessary by the Administrator to satisfy the Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated because of the distribution, will be distributed in a single lump sum in a manner consistent with Section 409A.

6.2 **Additional Distribution Rules.**

6.2.1 **Medium of Payment.** All amounts in a Director's Cash Account shall be paid in cash. All amounts in a Director's Stock Account shall be paid in the form of an equivalent number of whole shares of Common Stock. Fractional shares may be distributed in cash.

6.2.2 **Default Time and Form of Payment.** If a Director fails timely to elect a time and form of payment, the Director's Accounts will be distributed upon any Separation from Service in the form of a single lump sum payment.

6.2.3 **Rules Applicable to All Distributions.** Except as otherwise provided in this section, if a Director has elected to receive a distribution commencing upon a Distribution Event, or if the distribution is required upon Separation from Service, the distribution will commence between the date of the Distribution Event and the end of the year in which the Distribution Event occurs. If a Director has elected, or is required, to receive a distribution commencing upon a Distribution Event, and the Distribution Event occurs on or after October 1 of a Plan Year, the distribution may, to the extent permitted by Section 409A, commence after the Distribution Event and on or before the 15th day of the third calendar month following the Distribution Event, even if after the end of the year during which the Distribution Event occurs; provided, however, the Director will not be permitted, directly or indirectly, to designate the taxable year of the distribution. If a Director has elected to receive a distribution commencing during any of the first five years following a Separation from Service, the distribution will commence during the year elected by the Director. If a Director has elected to receive a distribution in a Specified Year, the distribution will occur during the Specified Year. Any distribution that complies with this section shall be deemed for all purposes to comply with the Plan requirements regarding the time and form of distributions.

6.2.4 **Installment Payments.** If a Director elects to receive distributions in annual installments, the Director's Account(s) will be paid in substantially equal installments in consecutive years over the period elected by the Director. During the distribution period, the Director's Cash Account will be credited with interest compounded monthly at a rate of 7.5% per year, and the Director's Stock Account will continue to be credited with Dividend Equivalents pursuant to Section 5.3.3, until all amounts credited to the Director's Accounts have been distributed. Each annual installment will be paid during the Plan Year in which it is due. Any installment distribution that complies with this section shall be deemed for all purposes to comply with the Plan requirements regarding the time and form of distributions.

6.2.5 **Death After Commencement of Distributions.** Upon the death of a Director after distributions of the Director's Accounts have commenced, the balance of the Director's Accounts will be distributed to the Director's Beneficiary at the same times and in the same forms that the Accounts would have been distributed to the Director if the Director had survived.

6.3 **Subsequent Changes in Time and Form of Payment.** A Director may, in accordance with rules, procedures and forms specified from time to time by the Administrator, elect to change the time of payment or change the form in which the Director's Accounts are distributed or both, provided that: (i) the Director elects at least twelve (12) months prior to the date on which payments are otherwise scheduled to commence; (ii) the new election does not take effect for at least twelve (12) months; and (iii) with respect to changes applicable to distributions in a Specified Year or upon Separation from Service, the distributions must be deferred for at least five years from the date the distributions would otherwise have been paid, or in the case of installment payments, five years from the date the installments were scheduled to commence. For purposes of this section, distributions on account of a Specified Year are considered scheduled to commence on January 1 of the Specified Year and distributions on account of a Separation from Service are considered to commence on the date of the Separation from Service, or if the Director has elected to receive a distribution of Deferrals commencing during any of the first five years following the year of the Separation from Service, January 1 of the year elected by the Director. Any such election shall be irrevocable on the date it is filed with the Administrator unless subsequently changed pursuant to this Section.

ARTICLE 7

Payment Acceleration and Delay

7.1 **Permitted Accelerations of Payment.** Except as otherwise provided herein or permitted by Section 409A, the Plan prohibits the acceleration of the time or schedule of any payment due under the Plan.

7.1.1 **Distribution in the Event of Taxation.** If, for any reason, all or any portion of any benefit provided by the Plan becomes taxable to a Director because of a violation of Section 409A prior to receipt, the Director may file a written request with the Administrator for a distribution of that portion of the Plan benefit that has become taxable. Upon the grant of such a request, which grant shall not be unreasonably withheld, the Director shall receive a distribution equal to the taxable portion of the plan benefit. If the request is granted, the tax liability distribution shall be paid between the date on which the Director's request is approved and the end of the Plan Year during which the approval occurred, or if later, the 15th day of the third calendar month following the date on which the Director's request is approved.

7.1.2 **Compliance with Ethics Laws or Conflicts of Interests Laws.** The Administrator may, in its sole discretion, accelerate the time or schedule of a payment to the extent necessary to avoid the violation of any applicable Federal, state, local, or foreign ethics law or conflicts of interest law as provided in Treasury Regulations section 1.409A-3(j)(4)(iii)(B).

7.1.3 **Small Accounts.** The Administrator may, in its sole discretion, distribute the Director's Accounts in a single lump sum provided: (i) the distribution results in the payment of the Director's entire Accounts and all other account balance plans required to be aggregated with the Director's Accounts pursuant to Section 409A and (ii) the total distribution does not exceed the applicable dollar limit under Code section 402(g)(1)(B). The Administrator shall notify the Director in writing if the Administrator exercises its discretion pursuant to this Section. Any payment to a Director pursuant to this Section must represent the complete liquidation of the Director's interest in the Plan.

7.1.4 **Settlement of a Bona Fide Dispute.** The Administrator may, in its sole discretion, accelerate the time or schedule of a distribution as part of a settlement of a bona fide dispute between the Director and the Company over a Director's right to a distribution provided that the distribution relates only to the Deferrals in dispute and the Company is not experiencing a downturn in financial health.

7.2 **Permissible Distribution Delays.** Notwithstanding anything in the Plan to the contrary, to the extent permitted by Section 409A, the Administrator may, in its sole discretion, delay distribution to a Director:

7.2.1 If the distribution would jeopardize the Company's ability to continue as a going concern, provided that the delayed distribution is distributed in the first calendar year in which the distribution would not have such effect.

7.2.2 If the distribution would violate Federal securities or other applicable laws, provided that the delayed distribution is distributed at the earliest date at which the Administrator reasonably anticipates that the distribution will not cause such violation.

7.2.3 If calculation of the distribution is not administratively practicable due to events beyond the control of the Director, provided that the delayed distribution is paid in the first calendar year in which the calculation of the distribution is administratively practicable.

7.3 **Suspension Not Allowed.** If a Director whose distributions have commenced becomes eligible again to defer compensation under any plan maintained by a Related Company, distribution of any remaining amounts in his Accounts may not be suspended.

ARTICLE 8

Beneficiary Designation

8.1 **Beneficiary.** Each Director shall have the right, at any time, to designate a Beneficiary(ies) (both primary as well as contingent) to whom a Director's Accounts shall be paid if a Director dies prior to complete distribution of the Accounts. Each Beneficiary designation shall be in a written form prescribed by the Administrator, and will be effective only when filed with the Administrator during the Director's lifetime. Any Beneficiary designation may be changed by a Director without the consent of the previously named Beneficiary by filing a new Beneficiary designation with the Administrator. The most recent Beneficiary designation received by the Administrator shall control the distribution of a Director's Accounts in the event of the Director's death.

8.2 **No Beneficiary Designation.** In the absence of an effective Beneficiary designation, or if all designated Beneficiaries predecease the Director or die prior to the complete distribution of the Director's Accounts, the Accounts shall be paid in the following order of precedence: (a) the Director's surviving spouse; (b) the Director's children (including adopted children), per stirpes; or (c) the Director's estate.

ARTICLE 9

Claims Procedures

Any Director or Beneficiary, or his or her authorized representative, may file a claim for benefits due him or her under the Plan by written request to the Company, setting forth with specificity the facts and events which give rise to the claim. The Company shall promptly respond, consistent with any legal requirements that might apply.

ARTICLE 10

Amendment or Termination

The Company hereby reserves the right to amend, modify, or terminate the Plan at any time by action of the Board, with or without prior notice. No amendment or termination shall reduce any Director's Accounts without the written consent of the affected Director. Notwithstanding anything herein to the contrary, to the extent consistent with Section 409A, the Board may terminate the Plan and distribute to each Director the amount in his or her Accounts in a lump sum; provided that all distributions (i) commence no earlier than the date that is twelve (12) months following the termination date (or any earlier date that would comply with Section 409A) and (ii) are completed by the date that is twenty-four (24) months following the termination date (or any later date that would comply with Section 409A). In addition, distributions may be accelerated upon a Plan termination as provided above only if, to the extent required under Section 409A, (i) all other nonqualified deferred compensation "account balance plans" (within the meaning of Section 409A), in which any Director participates are terminated along with the Plan, and (ii) the Company does not adopt any new nonqualified deferred compensation "account balance plan" (within the meaning of Section 409A), for three years following the date of Plan termination.

ARTICLE 11

Miscellaneous Provisions

11.1 **Unsecured General Creditor.** Directors and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Company. Any and all of the Company's assets shall be, and remain, the general, unpledged unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

11.2 **Trust Fund.** At its discretion, the Company may establish a Trust, with such trustees as the Company may approve, for the purpose of providing for the distribution of benefits owed under this Plan. The Trust's assets shall be held for distribution of all the Company's general creditors in the event of insolvency or bankruptcy. To the extent any Plan benefits are paid from any such Trust, the Company shall have no further obligations to pay them. If not paid from the Trust, such benefits shall remain the obligation of the Company.

11.3 **Section 409A Compliance.** All provisions of the Plan shall be interpreted and administered to the extent possible in a manner consistent with Section 409A. To the extent that any provision of the Plan would cause a conflict with the requirements of Section 409A, or would cause the administration of the Plan to fail to satisfy Section 409A, such provision shall be deemed null and void to the extent permitted by applicable law. Nothing herein shall be construed as a guarantee of any particular tax treatment to a Director.

11.4 **Company's Liability.** The Company's liability for the distribution of benefits shall be defined only by the Plan. The Company shall have no obligation to a Director except as expressly provided in the Plan.

11.5 **Nonassignability.** Neither a Director nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Director or any other person, be transferable by operation of law in the event of a Director's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

11.6 **No Right to Board Position.** Nothing in the Plan shall be deemed to create any obligation on the part of the Board to nominate any of its members for reelection by the Company's stockholders, nor confer upon any Director the right to remain a member of the Board for any period of time, or at any particular rate of compensation.

11.7 **Incompetency.** If the Administrator determines that a distribution under this Plan is to be paid to a minor, to a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Administrator may direct such distribution to be paid to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Administrator may require proof of majority, competence, capacity, guardianship or status as a legal representative, as it may deem appropriate prior to distribution. Any distribution shall be for the account of the Director and the Director's Beneficiary, as the case may be, and shall completely discharge any liability for such amount.

11.8 **Furnishing Information.** A Director or his Beneficiary will cooperate with the Administrator by furnishing any and all information requested by the Administrator and take such other actions as may be requested in order to facilitate the administration of the Plan and the distributions hereunder.

11.9 **Notice.** Any notice or filing required or permitted under the Plan shall be sufficient if in writing and if (i) hand-delivered or sent by telecopy, (ii) sent by registered or certified mail, or (iii) sent by nationally-recognized overnight courier. Such notice shall be deemed given as of (i) the date of delivery if hand-delivered or sent by telecopy, (ii) as of the date shown on the postmark on the receipt for registration or certification, if delivery is by mail, or (iii) on the first business day after dispatch, if sent by nationally-recognized overnight courier.

11.10 **Compliance with Government Regulations.** Neither the Plan nor the Company shall be obligated to issue any shares of Common Stock pursuant to the Plan at any time unless and until all applicable requirements imposed by any federal and state securities and other laws, rules and regulations, by any regulatory agencies or by any stock exchanges upon which the Common Stock may be listed have been fully met. As a condition precedent to any issuance of shares of Common Stock and delivery of certificates evidencing such shares pursuant to the Plan, the Board or the Administrator may require a Director to take any such action and to make any such covenants, agreements, and representations as the Board or the Administrator, as the case may be, in its discretion deems necessary or advisable to ensure compliance with such requirements. The Company shall in no event be obligated to register the shares of Common Stock deliverable under the Plan pursuant to the Securities Act of 1933, as amended, or to qualify or register such shares under any securities laws of any state upon their issuance under the Plan or at any time thereafter, or to take any other action in order to cause the issuance and delivery of such shares under the Plan or any subsequent offer, sale, or other transfer of such shares to comply with any such law, regulation, or requirement. Directors are responsible for complying with all applicable federal and state securities and other laws, rules, and regulations in connection with any offer, sale, or other transfer of the shares of Common Stock issued under the Plan or any interest therein including, without limitation, compliance with the registration requirements of the Securities Act of 1933 as amended (unless an exception therefrom is available) or with the provisions of Rule 144 promulgated thereunder, if applicable, or any successor provisions. Certificates for shares of Common Stock may be legended as the Administrator shall deem appropriate.

11.11 **Exchange Act Exemption.** It is the intent of the Company that transactions pursuant to this Plan satisfy and be interpreted in a manner that satisfies the applicable requirements of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3") so that, to the extent elections are timely, the crediting of Stock Deferrals and Dividend Equivalents, the distribution of shares of Common Stock and any other event with respect to Stock Deferrals under the Plan will be entitled to the benefits of Rule 16b-3 or other exemptive rules under Section 16 of the Exchange Act and will not be subjected to liability thereunder.

11.12 **Gender and Number.** Except when otherwise indicated by context, words in the masculine gender shall include the feminine and neuter genders, the singular shall include the plural, and the plural shall include the singular.

11.13 **Headings.** The headings contained in this Plan are for convenience only and will not control or affect the meaning or construction of any of the terms or provisions of this Plan**.**

11.14 **Applicable Law and Construction.** This Plan shall be governed by, construed and administered in accordance with the laws of the State of Minnesota, other than its laws respecting choice of law.

11.15 **Invalid or Unenforceable Provisions.** If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Administrator may elect in its sole discretion to construe such invalid or unenforceable provisions in a manner that conforms to applicable law or as if such provisions, to the extent invalid or unenforceable, had not been included.

11.16 **Successors.** This Plan shall bind any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, in the same manner and to the same extent that the Company would be obligated under this Plan if no succession had taken place. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by this Plan, the Company shall require such successor expressly and unconditionally to assume and agree to perform the obligations of the Company and each Company under this Plan, in the same manner and to the same extent that the Company and each Company would be required to perform if no such succession had taken place.

ARTICLE 12

Definitions

The following terms shall have the meanings set forth below:

"Account" or "Accounts" shall mean a Director's Deferral Account, Stock Account, or both, as the context so requires.

"Administrator" means the Executive Compensation Committee of the Board.

"Annual Cash Retainer" means that portion of the Director's Annual Retainer payable in cash.

"Annual Retainer" means the compensation, consisting of the Annual Cash Retainer and the Annual Stock Retainer and excluding perquisites and reimbursements, paid to a Director pursuant to the Stock Plan for service on the Board and any committee of the Board.

"Annual Stock Retainer" means that portion of a Director's Annual Retainer payable in Company Stock.

"Beneficiary" means one or more persons, trusts, estates or other entities, designated in accordance with this Plan, that are entitled to receive Plan benefits upon the death of a Director.

"Board" means the Board of Directors of the Company.

"Cash Account" means the bookkeeping account maintained by the Company for each Director that is credited with Cash Deferrals, and such other accounts or sub-accounts as the Administrator deems necessary or appropriate.

"Cash Deferral" means any portion of a Director's Annual Cash Retainer that a Director elects to defer in accordance with the Plan.

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

"Common Stock" means the common stock of ALLETE, Inc.

"Company" means ALLETE, Inc., a Minnesota Corporation, and any successor to all, or substantially all, of the Company's assets or business.

"Deferrals" means the Cash Deferrals, Stock Deferrals, or both, that a Director elects to defer in accordance with the Plan, as the context so requires.

"Director" means a member of the Board who is not an employee of any Related Company.

"Distribution Event" means a Specified Year, a Separation from Service or the Administrator's determination regarding the occurrence of an Unforeseeable Emergency.

"Dividend Equivalent" means the amount of cash dividends or other cash distributions paid by the Company on that number of shares of Common Stock equal to the number of Stock Deferrals credited to a Director's Stock Account as of the applicable record date for the dividend or other distribution, and which shall be credited in the form of additional Stock Deferrals to the Director's Stock Account, as provided in Section 5.3.3.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

"Fair Market Value" means the closing sale price as reported in the composite reporting system or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported.

"IRS" means the Internal Revenue Service.

"Plan" means the ALLETE Amended and Restated Non-Employee Director Compensation Deferral Plan II, as amended from time to time.

"Plan Year" means a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

"Related Company" means the Company and all persons with whom the Company would be considered a single employer under Code section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code section 414(c) (employees of partnerships, proprietorships, etc., under common control); provided that in applying Code sections 1563(a)(1), (2), and (3) for purposes of determining a controlled group of corporations under Code section 414(b), the language "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Code sections 1563(a)(1), (2), and (3), and in applying Treasury Regulations section 1.414(c)-2 for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Code section 414(c), "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Treasury Regulations section 1.414(c)-2.

"Section 409A" means section 409A of the Code (and any successor provision), and regulations and other guidance issued by the Treasury Department and Internal Revenue Service thereunder.

"Separation from Service" means that the Director ceases to perform services as a Director and the Company does not then anticipate that the Director will continue to perform services in any capacity for any Related Company.

“Service Period” means, with respect to the Annual Cash Retainer, a Plan Year, and with respect to the Annual Stock Retainer, the 12-month period beginning on June 1 of each Plan Year or, with respect to a Director who first becomes eligible to participate in the Plan after June 1 of a Plan Year, such lesser period beginning on the date the Director joins the Board and ending on the following May 31.

“Specified Year” means the year specified by a Director as the year in which the Director will receive a distribution payment of all or a portion of his Account(s). The Specified Year must be at least two years after the year the Annual Retainer would have been paid but for the Director’s deferral election.

“Stock Account” means the bookkeeping Account maintained by the Company for each Director that is credited with any Stock Deferrals and Dividend Equivalents with respect to such Stock Deferrals, and such other accounts or sub-accounts as the Administrator deems necessary or appropriate.

“Stock Deferral” means a non-voting unit of measurement, which is deemed solely for bookkeeping purposes under this Plan to be equivalent to one outstanding share of Common Stock. No Director shall be entitled to any voting or other stockholder rights with respect to Stock Deferrals credited under this Plan.

“Stock Plan” means the ALLETE Director Stock Plan, dated May 9, 1995, as amended, or any predecessor or successor plan.

“Trust” means one or more trusts established pursuant to the ALLETE, Inc. Non-Employee Director Compensation Trust Agreement, effective October 11, 2004, between the Company and the trustee named therein, as amended from time to time.

“Unforeseeable Emergency” means an unanticipated emergency that is caused by an event beyond the control of the Director that would result in severe financial hardship to the Director resulting from (i) an illness or accident of the Director or the Director’s spouse, the Director’s beneficiary, or the Director’s dependent (as defined in Code section 152, without regard to Code sections 152(b)(1), (b)(2), and (d)(1)(B)), (ii) a loss of the Director’s property due to casualty, or (iii) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Director, all as determined in the sole discretion of the Administrator.

“Valuation Date” means each day that the U.S. stock markets are open or such other dates as may be set by the Administrator from time to time.

IN WITNESS WHEREOF, ALLETE, Inc. has caused these presents to be signed and its corporate seal to be hereunto affixed by its duly authorized officers, effective as of May 1, 2009.

ALLETE, Inc.:

Donald J. Shippar

Donald J. Shippar

Chairman and Chief Executive Officer

ATTEST:

Deborah A. Amberg

Deborah A. Amberg

Senior Vice President, General Counsel and Secretary

Exhibit 10(b)

AMENDMENT TO THE
ALLETE DIRECTOR STOCK PLAN

The ALLETE Director Stock Plan (the “Plan”), dated May 9, 1995, as amended, is amended as follows, effective May 1, 2009:

1. Section II is amended to add the following additional definition:

> “Service Period” means, with respect to the Annual Cash Retainer, a Plan Year, and with respect to the Annual Stock Retainer, the 12-month period beginning on June 1 of each Plan Year or, with respect to a Director who first becomes eligible to participate in the Plan after June 1 of a Plan Year, such lesser period beginning on the date the Director joins the Board and ending on the following May 31.

2. Section V is amended by deleting section B. in its entirety and replacing it with the following:

> B. Each Director shall receive a Stock Payment for services rendered during the Service Period equal in value to $60,000 on the first business day of June or as soon as practicable following that date. The number of shares shall be calculated by dividing the amount of the Stock Payment by the fair market value of a share of Common Stock, which for this purpose means the average New York Stock Exchange closing price for the last 5 days up to and including the date that is 10 calendar days prior to June 1 of the Service Period (or on the first business day thereafter if June 1 is not a business day). To the extent the Director has not elected to defer some or all of the Stock Payment pursuant to the ALLETE Amended and Restated Non-Employee Director Compensation Deferral Plan II, the Company shall either issue shares or cause the appropriate number of shares of Common Stock to be purchased in the market and delivered to the Director or, at the Company’s election, to the Director’s Invest Direct account or to the Director’s account in such successor dividend reinvestment plan as the Company may establish. Fractional shares may be paid in cash. Directors joining the Board during a Service Period after the first business day in June will receive their Stock Payment, valued using the same general methodology described above, as soon as practicable after the first business day following the effective date of their election or appointment to the Board.

3. Section V is amended by adding the following new subsections E. and F.

> E. The cash portion of the Annual Retainer for such Plan Year shall be paid to Directors at such times and in such manner as may be determined by the Board of Directors, unless the Director has elected to defer some or all of the cash portion of the Annual Retainer pursuant to the ALLETE Amended and Restated Non-Employee Director Compensation Deferral Plan II.
>
> F. Any portion of the Annual Retainer that a Director elects to defer pursuant to the ALLETE Amended and Restated Non-Employee Director Compensation Deferral Plan II shall be considered a deferral under that plan and not this Plan.

4. Section VI is amended by deleting the sentence that provides that “Cash in lieu of any fractional share shall be paid to the Participant” and replacing it with “Cash in lieu of any fractional share may be paid to the Participant.”

5. In all respects not amended, the Plan is hereby ratified and confirmed.

IN WITNESS WHEREOF, this amendment is effective as of May 1, 2009 and has been executed on the dates written below.

ALLETE, Inc.

By: Donald J. Shippar
Donald J. Shippar
Chairman and Chief Executive Officer

ATTEST:

By: Deborah A. Amberg
Deborah A. Amberg
Senior Vice President, General Counsel & Secretary

Exhibit 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

I, Donald J. Shippar, of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2009, of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2009 Donald J. Shippar

Donald J. Shippar
Chairman and Chief Executive Officer

Exhibit 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

I, Mark A. Schober, of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2009, of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2009 Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, each of the undersigned officers of ALLETE, Inc. (ALLETE), does hereby certify that:

1. The Quarterly Report on Form 10-Q of ALLETE for the quarterly period ended June 30, 2009, (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ALLETE.

Date: August 5, 2009 Donald J. Shippar

Donald J. Shippar
Chairman and Chief Executive Officer

Date: August 5, 2009 Mark A. Schober

Mark A. Schober
Senior Vice President and Chief Financial Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability pursuant to that section. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that ALLETE specifically incorporates it by reference.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to ALLETE and will be retained by ALLETE and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99

NEWS

For Release:	August 5, 2009
Investor Contact:	Tim Thorp 218-723-3953 tthorp@allete.com
Contact:	Amy Rutledge 218-723-7400 218-348-2961 arutledge@mnpower.com

ALLETE reports second quarter earnings

Duluth, Minn. — ALLETE, Inc. (NYSE: ALE) today reported second quarter 2009 earnings of 29 cents per share, on net income of $9.4 million and total operating revenue of $164.7 million. Quarterly results included a $1.5 million, or 5 cent per share, after-tax charge related to interim rates collected in 2008.

In 2008, ALLETE reported second quarter earnings of 37 cents per share on net income of $10.7 million and operating revenue of $189.8 million. Last year's results included a $3 million after-tax gain, equivalent to 10 cents per share, from the sale of a shopping center in Winter Haven, Fla.

Regulated Operations net income increased $3.5 million from the second quarter of 2008. Last year's results were reduced by higher operating and maintenance expenses related to a planned generating plant outage at Minnesota Power. New wholesale and retail electric rates, and higher income from ALLETE's investment in the American Transmission Co. were reflected in this year's second quarter results. Total electric kilowatt hours sales were down 6 percent from the same period a year ago.

The Minnesota Public Utilities Commission (MPUC) recently held a hearing to address requests for reconsideration filed by parties to Minnesota Power's current retail rate increase request. At the hearing, the MPUC approved a final annual rate increase of $20.4 million, but reduced the allowed revenue collected during the interim rate period by $6.3 million. As a result, the company recorded an additional liability for refunds during the second quarter, including the aforementioned amount related to interim rates collected in 2008.

ALLETE's **Investments and Other** segment recorded a $1.3 million net loss for the quarter compared to $3.5 million net income a year ago. The year-over-year comparison was impacted by the shopping center sale at ALLETE Properties in 2008 and lower earnings on cash in 2009.

Earnings in the second quarter of 2009 were also diluted by three cents per share due to an increase in common shares outstanding year-over-year.

Based on its revised outlook for 2009 which reflects the impact of the MPUC's rate case reconsideration, ALLETE expects to report year-end earnings of $2.00 to $2.15 per share, excluding the 2008 portion of interim rate refunds.

"Minnesota Power intends to seek additional rate relief soon," said ALLETE Chairman and CEO Don Shippar. "Our significant capital investment program is the primary reason we plan to file a rate increase request with the MPUC before the end of this year." Shippar explained that Minnesota Power's capital expenditures are necessary to meet state-mandated renewable energy and environmental standards, as well as to maintain its low-cost generation fleet and enhance the regional transmission grid.

ALLETE provides regulated energy services in Minnesota and Wisconsin, owns BNI Coal of North Dakota and maintains investments in the American Transmission Company and Florida real estate. More information about the company is available at www.allete.com.

The statements contained in this release and statements that ALLETE may make orally in connection with this release that are not historical facts, are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties and investors are directed to the risks discussed in documents filed by ALLETE with the Securities and Exchange Commission.

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ALLETE, Inc.

Consolidated Statement of Income
For the Periods Ended June 30, 2009 and 2008
Millions Except Per Share Amounts – Unaudited

	Quarter Ended		Year to Date	
	2009	**2008**	**2009**	**2008**
Operating Revenue				
Operating Revenue	$167.0	$189.8	$371.9	$403.2
Prior Year Rate Refunds	(2.3)	–	(7.6)	–
Total Operating Revenue	164.7	189.8	364.3	403.2
Operating Expenses				
Fuel and Purchased Power	56.8	75.0	129.6	161.3
Operating and Maintenance	76.7	84.4	157.2	167.5
Depreciation	15.5	12.9	30.7	25.6
Total Operating Expenses	149.0	172.3	317.5	354.4
Operating Income	15.7	17.5	46.8	48.8
Other Income (Expense)				
Interest Expense	(8.4)	(6.6)	(17.1)	(12.6)
Equity Earnings in ATC	4.3	3.6	8.5	7.0
Other	1.9	2.5	3.0	11.1
Total Other Income (Expense)	(2.2)	(0.5)	(5.6)	5.5
Income Before Non-Controlling Interest and Income Taxes	13.5	17.0	41.2	54.3
Income Tax Expense	4.2	6.2	15.0	19.9
Net Income	9.3	10.8	26.2	34.4
Less: Non-Controlling Interest in Subsidiaries	(0.1)	0.1	(0.1)	0.1
Net Income Attributable to ALLETE	$9.4	$10.7	$26.3	$34.3
Average Shares of Common Stock				
Basic	31.8	28.8	31.3	28.7
Diluted	31.8	28.9	31.4	28.8
Basic and Diluted Earnings Per Share of Common Stock	$0.29	$0.37	$0.84	$1.19
Dividends Per Share of Common Stock	$0.44	$0.43	$0.88	$0.86

Consolidated Balance Sheet
Millions – Unaudited

	Jun. 30, 2009	Dec. 31, 2008		Jun. 30, 2009	Dec. 31, 2008
Assets			**Liabilities and Equity**		
Cash and Short-Term Investments	$72.4	$102.0	Current Liabilities	$145.9	$150.7
Other Current Assets	160.0	150.3	Long-Term Debt	627.2	588.3
Property, Plant and Equipment	1,481.7	1,387.3	Other Liabilities	360.4	389.3
Investment in ATC	82.1	76.9	Deferred Income Taxes & Investment Tax Credits	199.3	169.6
Investments	135.6	136.9	Equity	884.8	836.9
Other	285.8	281.4			
Total Assets	$2,217.6	$2,134.8	**Total Liabilities and Equity**	$2,217.6	$2,134.8

ALLETE, Inc.	Quarter Ended June 30, 2009	Quarter Ended June 30, 2008	Year to Date June 30, 2009	Year to Date June 30, 2008
Income (Loss)				
Millions				
Regulated Operations	$10.7	$7.2	$28.4	$27.3
Investments and Other	(1.3)	3.5	(2.1)	7.0
Net Income Attributable to ALLETE	$9.4	$10.7	$26.3	$34.3
Diluted Earnings Per Share	$0.29	$0.37	$0.84	$1.19
Statistical Data				
Corporate				
Common Stock				
High	$29.14	$46.11	$33.27	$46.11
Low	$24.45	$38.82	$23.35	$33.76
Close	$28.75	$42.00	$28.75	$42.00
Book Value	$25.66	$24.51	$25.66	$24.51
Kilowatt-hours Sold				
Millions				
Regulated Utility				
Retail and Municipals				
Residential	242	239	617	602
Commercial	331	327	709	709
Municipals	222	227	487	499
Industrial	874	1,789	2,197	3,612
Total Retail and Municipal	1,669	2,582	4,010	5,422
Other Power Suppliers	1,107	375	2,024	779
Total Regulated Utility	2,776	2,957	6,034	6,201
Non-regulated Energy Operations	49	59	106	109
Total Kilowatt-hours Sold	2,825	3,016	6,140	6,310