

Edgar Filing: ALLETE INC - Form 10-Q

ALLETE INC
Form 10-Q
May 04, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended MARCH 31, 2007

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
(State or other jurisdiction of
incorporation or organization)

41-0418150
(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. Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Common Stock, no par value,

Edgar Filing: ALLETE INC - Form 10-Q

30,526,839 shares outstanding
as of April 30, 2007

INDEX

| | Page |
|---|-------------------------------------|
| Definitions | 2 |
| Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995 | 3 |
| Part I. Financial Information | |
| Item 1. Financial Statements | |
| Consolidated Balance Sheet - March 31, 2007 and December 31, 2006 | 4 |
| Consolidated Statement of Income - Quarter Ended March 31, 2007 and 2006 | 5 |
| Consolidated Statement of Cash Flows - Quarter Ended March 31, 2007 and 2006 | 6 |
| Notes to Consolidated Financial Statements | 7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 16 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 24 |
| Item 4. Controls and Procedures | 25 |
| Part II. Other Information | |
| Item 1. Legal Proceedings | 26 |
| Item 1A. Risk Factors | 26 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 26 |
| Item 3. Defaults Upon Senior Securities | 26 |
| Item 4. Submission of Matters to a Vote of Security Holders | 26 |
| Item 5. Other Information | 26 |
| Item 6. Exhibits | 28 |
| Signatures | 29 |
| 1 | ALLETE First Quarter 2007 Form 10-Q |

DEFINITIONS

The following abbreviations or acronyms are used in the text. References in this

Edgar Filing: ALLETE INC - Form 10-Q

report to "we," "us" and "our" are to ALLETE, Inc. and its subsidiaries, collectively.

| ABBREVIATION OR ACRONYM | TERM |
|--------------------------|--|
| ----- | |
| 2006 Form 10-K | ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2006 |
| ALLETE | ALLETE, Inc. |
| ALLETE Properties | ALLETE Properties, LLC |
| AREA | Arrowhead Regional Emission Abatement Plan |
| ATC | American Transmission Company LLC |
| BNI Coal | BNI Coal, Ltd. |
| Boswell | Boswell Energy Center |
| Company | ALLETE, Inc. and its subsidiaries |
| DOC | Minnesota Department of Commerce |
| EITF | Emerging Issues Task Force Issue No. |
| EPA | Environmental Protection Agency |
| ESOP | Employee Stock Ownership Plan |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| FIN | FASB Interpretations |
| FPL | FPL Energy, LLC |
| GAAP | Accounting Principles Generally Accepted in the United States of America |
| Heating Degree Days | Measure of the extent to which the average daily temperature is below 65 degrees Fahrenheit, increasing demand for heating |
| 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. |
| Moody's | Moody's Investors Service, Inc. |
| MPUC | Minnesota Public Utilities Commission |
| MW | Megawatt(s) |
| Note ____ | Note ____ to the consolidated financial statements in this Form 10-Q |
| NOX | Nitrogen Oxide |
| Palm Coast Park | Palm Coast Park development project in northeast 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 |
| Resource Plan | Integrated Resource Plan |
| SEC | Securities and Exchange Commission |
| SFAS | Statement of Financial Accounting Standards No. |
| SO2 | Sulfur Dioxide |
| Square Butte | Square Butte Electric Cooperative |
| Standard & Poor's | Standard & Poor's Ratings Group, a division of McGraw-Hill Companies |
| SWL&P | Superior Water, Light and Power Company |
| Taconite Harbor | Taconite Harbor Energy Center |
| Town Center | Town Center at Palm Coast development project in northeast Florida |
| Town Center District | Town Center at Palm Coast Community Development District |
| WDNR | Wisconsin Department of Natural Resources |

Edgar Filing: ALLETE INC - Form 10-Q

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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 in forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) made by or on behalf of ALLETE in this Quarterly Report on Form 10-Q, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions, or future events or performance (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 similar expressions) are not statements of historical facts and may be forward-looking.

Forward-looking statements involve estimates, assumptions, risks and uncertainties, which are beyond our control and may cause actual results or outcomes to differ materially from those that may be projected. 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:

- 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 and capitl investments, present or prospective wholesale and retail competition (including but not limited to transmission costs), zoning and permitting of land held for resale and environmental regulation;
- effects of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with laws and policies;
- 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;
- unanticipated project delays or changes in project costs;
- availability of construction materials and skilled construction labor for capital projects;
- unanticipated changes in operating expenses and capital expenditures;
- global and domestic economic conditions;
- 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

Edgar Filing: ALLETE INC - Form 10-Q

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" in Part I of our 2006 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.

3

ALLETE First Quarter 2007 Form 10-Q

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
MILLIONS - UNAUDITED

MARCH 31
2007

ASSETS

Current Assets

| | | |
|---|----|------|
| Cash and Cash Equivalents | \$ | 46.4 |
| Short-Term Investments | | 82.1 |
| Accounts Receivable (Less Allowance of \$1.1 at March 31, 2007 and December 31, 2006) | | 73.4 |
| Inventories | | 44.3 |
| Prepayments and Other | | 35.6 |
| Deferred Income Taxes | | - |

| | | |
|----------------------|--|-------|
| Total Current Assets | | 281.8 |
|----------------------|--|-------|

| | | |
|-------------------------------------|--|-------|
| Property, Plant and Equipment - Net | | 933.0 |
|-------------------------------------|--|-------|

| | | |
|-------------|--|-------|
| Investments | | 206.7 |
|-------------|--|-------|

| | | |
|--------------|--|-------|
| Other Assets | | 138.6 |
|--------------|--|-------|

| | | |
|--------------|--|-----------|
| TOTAL ASSETS | | \$1,560.1 |
|--------------|--|-----------|

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

Edgar Filing: ALLETE INC - Form 10-Q

| | |
|---|-----------|
| Current Liabilities | |
| Accounts Payable | \$ 39.4 |
| Accrued Taxes | 39.2 |
| Accrued Interest | 6.4 |
| Long-Term Debt Due Within One Year | 32.3 |
| Deferred Profit on Sales of Real Estate | 3.2 |
| Other | 24.9 |
| ----- | |
| Total Current Liabilities | 145.4 |
| Long-Term Debt | 359.3 |
| Deferred Income Taxes | 131.0 |
| Other Liabilities | 229.2 |
| Minority Interest | 7.5 |
| ----- | |
| Total Liabilities | 872.4 |
| ----- | |
| COMMITMENTS AND CONTINGENCIES | |
| ----- | |
| SHAREHOLDERS' EQUITY | |
| Common Stock Without Par Value, 43.3 Shares Authorized, 30.5 and 30.4 Shares Outstanding | 442.9 |
| Unearned ESOP Shares | (69.7) |
| Accumulated Other Comprehensive Loss | (8.6) |
| Retained Earnings | 323.1 |
| ----- | |
| Total Shareholders' Equity | 687.7 |
| ----- | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,560.1 |
| ----- | |

The accompanying notes are an integral part of these statements.

ALLETE First Quarter 2007 Form 10-Q

4

ALLETE
CONSOLIDATED STATEMENT OF INCOME
MILLIONS EXCEPT PER SHARE AMOUNTS - UNAUDITED

| | |
|-------------------|---------|
| | Q |
| | 2007 |
| ----- | |
| OPERATING REVENUE | \$205.3 |
| ----- | |

Edgar Filing: ALLETE INC - Form 10-Q

| | |
|--|----------|
| OPERATING EXPENSES | |
| Fuel and Purchased Power | 77.7 |
| Operating and Maintenance | 74.6 |
| Depreciation | 11.7 |
| ----- | |
| Total Operating Expenses | 164.0 |
| ----- | |
| OPERATING INCOME FROM CONTINUING OPERATIONS | 41.3 |
| ----- | |
| OTHER INCOME (EXPENSE) | |
| Interest Expense | (6.3) |
| Other | 7.5 |
| ----- | |
| Total Other Income (Expense) | 1.2 |
| ----- | |
| INCOME FROM CONTINUING OPERATIONS | |
| BEFORE MINORITY INTEREST AND INCOME TAXES | 42.5 |
| MINORITY INTEREST | 0.1 |
| ----- | |
| INCOME FROM CONTINUING OPERATIONS | |
| BEFORE INCOME TAXES | 42.4 |
| INCOME TAX EXPENSE | 16.1 |
| ----- | |
| INCOME FROM CONTINUING OPERATIONS | 26.3 |
| LOSS FROM DISCONTINUED OPERATIONS | - |
| ----- | |
| NET INCOME | \$ 26.3 |
| ----- | |
| AVERAGE SHARES OF COMMON STOCK | |
| Basic | 28.1 |
| Diluted | 28.1 |
| ----- | |
| BASIC AND DILUTED EARNINGS PER SHARE OF COMMON STOCK | |
| Continuing Operations | \$0.93 |
| Discontinued Operations | - |
| ----- | |
| | \$0.93 |
| ----- | |
| DIVIDENDS PER SHARE OF COMMON STOCK | \$0.4100 |
| ----- | |

The accompanying notes are an integral part of these statements.

Edgar Filing: ALLETE INC - Form 10-Q

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
MILLIONS - UNAUDITED

| | Q |
|--|--------|
| | 2007 |
| <hr/> | |
| OPERATING ACTIVITIES | |
| Net Income | \$26.3 |
| Income from Equity Investments | (0.8) |
| Gain on Sale of Assets | (1.9) |
| Depreciation | 11.7 |
| Deferred Income Taxes | 0.3 |
| Minority Interest | 0.1 |
| Stock Compensation Expense | 0.5 |
| Bad Debt Expense | 0.1 |
| Changes in Operating Assets and Liabilities | |
| Accounts Receivable | 0.4 |
| Inventories | (0.9) |
| Prepayments and Other | (11.8) |
| Accounts Payable | (10.5) |
| Other Current Liabilities | 10.7 |
| Other Assets | (0.1) |
| Other Liabilities | 2.1 |
| Net Operating Activities for Discontinued Operations | - |
| <hr/> | |
| Cash from Operating Activities | 26.2 |
| <hr/> | |
| INVESTING ACTIVITIES | |
| Proceeds from Sale of Available-For-Sale Securities | 32.9 |
| Payments for Purchase of Available-For-Sale Securities | (10.5) |
| Changes to Investments | (15.9) |
| Additions to Property, Plant and Equipment | (25.5) |
| Proceeds from Sale of Assets | 1.3 |
| Other | (2.5) |
| Net Investing Activities from Discontinued Operations | - |
| <hr/> | |
| Cash for Investing Activities | (20.2) |
| <hr/> | |
| FINANCING ACTIVITIES | |
| Issuance of Common Stock | 3.8 |
| Issuance of Long-Term Debt | 62.7 |
| Payments of Debt | (60.6) |
| Dividends on Common Stock and Distributions to Minority Shareholders | (10.3) |
| Net Decrease in Book Overdrafts | - |
| Net Financing Activities for Discontinued Operations | - |
| <hr/> | |
| Cash for Financing Activities | (4.4) |
| <hr/> | |
| CHANGE IN CASH AND CASH EQUIVALENTS | 1.6 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 44.8 |

Edgar Filing: ALLETE INC - Form 10-Q

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$46.4

The accompanying notes are an integral part of these statements.

ALLETE First Quarter 2007 Form 10-Q

6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with our 2006 Form 10-K. In our opinion, all adjustments necessary for a fair statement of the results for the interim periods have been made and have occurred in the normal course of business. The results of operations for an interim period are not necessarily indicative of the results to be expected for the full year.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

INVENTORIES. Inventories are stated at the lower of cost or market. Cost is determined by the average cost method.

| | MARCH 31, 2007 | DECEMBER 31, 2006 |
|------------------------|-------------------|----------------------|
| INVENTORIES | | |
| ----- | | |
| MILLIONS | | |
| Fuel | \$20.2 | \$18.9 |
| Materials and Supplies | 24.1 | 24.5 |
| ----- | | |
| Total Inventories | \$44.3 | \$43.4 |
| ----- | | |

SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION. Amounts presented for 2006 have been revised to eliminate intercompany interest payments from cash paid during the period for Interest - Net of Amounts Capitalized.

CONSOLIDATED STATEMENT OF CASH FLOWS

SUPPLEMENTAL DISCLOSURE

| FOR THE QUARTER ENDED MARCH 31 | 2007 | 2006 |
|---|-------|-------|
| ----- | | |
| MILLIONS | | |
| Cash Paid During the Period for | | |
| Interest - Net of Amounts Capitalized | \$9.2 | \$8.8 |
| Income Taxes | \$1.9 | \$3.7 |
| Noncash Investing Activities | | |
| Accounts Payable for Capital Additions to Property Plant and Equipment | \$3.6 | - |
| ----- | | |

MILLIONS

Edgar Filing: ALLETE INC - Form 10-Q

NEW ACCOUNTING STANDARDS. SFAS 157. In September 2006, the FASB issued SFAS 157, "Fair Value Measurements," to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It clarifies the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and the effect of certain measurements on earnings for the period. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is applied on a prospective basis. We are currently evaluating the impact that the adoption of SFAS 157 would have on our consolidated financial position, results of operations and cash flows.

SFAS 159. In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which is an elective, irrevocable election to measure eligible financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The election may only be applied at specified election dates and to instruments in their entirety rather than to portions of instruments. Upon initial election, the entity reports the difference between the instruments' carrying value and their fair value as a cumulative-effect adjustment to the opening balance of retained earnings. At each subsequent reporting date, an entity shall report in earnings, unrealized gains and losses on items for which the fair value option has been elected. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and is applied on a prospective basis. Early adoption of SFAS 159 is permitted provided the entity also elects to adopt the provisions of SFAS 157 as of the early adoption date selected for SFAS 159. We are currently evaluating the impact that the adoption of SFAS 159 would have on our consolidated financial position, results of operations and cash flows.

7

ALLETE First Quarter 2007 Form 10-Q

NOTE 2. BUSINESS SEGMENTS

| | ENERGY | | | |
|---|--------------|----------------------|--------------------------------------|----------------------|
| | CONSOLIDATED | REGULATED UTILITY | NONREGULATED ENERGY OPERATIONS | INVESTMENT IN ATC |
| MILLIONS | | | | |
| FOR THE QUARTER ENDED MARCH 31, 2007 | | | | |
| Operating Revenue | \$205.3 | \$180.2 | \$16.8 | - |
| Fuel and Purchased Power | 77.7 | 77.7 | - | - |
| Operating and Maintenance | 74.6 | 56.9 | 14.4 | - |
| Depreciation Expense | 11.7 | 10.6 | 1.1 | - |
| <hr style="border-top: 1px dashed black;"/> | | | | |
| Operating Income (Loss) from | | | | |
| Continuing Operations | 41.3 | 35.0 | 1.3 | - |
| Interest Expense | (6.3) | (5.2) | (0.6) | - |
| Other Income | 7.5 | 0.5 | 2.3 | \$2.9 |

Edgar Filing: ALLETE INC - Form 10-Q

| | | | | |
|-----------------------------------|---------|---------|--------|-------|
| Income from Continuing Operations | | | | |
| Before Minority Interest | | | | |
| and Income Taxes | 42.5 | 30.3 | 3.0 | 2.9 |
| Minority Interest | 0.1 | - | - | - |
| ----- | | | | |
| Income from Continuing Operations | | | | |
| Before Income Taxes | 42.4 | 30.3 | 3.0 | 2.9 |
| Income Tax Expense | 16.1 | 11.5 | 0.8 | 1.1 |
| ----- | | | | |
| Income from Continuing Operations | 26.3 | \$ 18.8 | \$ 2.2 | \$1.8 |
| ----- | | | | |
| Loss from | | | | |
| Discontinued Operations - Net | | | | |
| of Tax | - | | | |
| ----- | | | | |
| Net Income | \$ 26.3 | | | |
| ----- | | | | |

AT MARCH 31, 2007

| | | | | |
|-------------------------------------|-----------|-----------|--------|--------|
| Total Assets | \$1,560.1 | \$1,182.8 | \$79.5 | \$63.7 |
| Property, Plant and Equipment - Net | \$933.0 | \$880.5 | \$49.0 | - |
| Accumulated Depreciation | \$817.5 | \$775.7 | \$40.1 | - |
| Capital Expenditures | \$21.9 | \$21.9 | - | - |

FOR THE QUARTER ENDED MARCH 31, 2006

| | | | | |
|---------------------------|---------|---------|---------|---|
| Operating Revenue | \$192.5 | \$162.4 | \$ 16.3 | - |
| Fuel and Purchased Power | 69.4 | 69.4 | - | - |
| Operating and Maintenance | 74.5 | 55.8 | 14.1 | - |
| Depreciation Expense | 12.2 | 11.1 | 1.1 | - |
| ----- | | | | |

| | | | | |
|------------------------------|-------|-------|-------|---|
| Operating Income (Loss) from | | | | |
| Continuing Operations | 36.4 | 26.1 | 1.1 | - |
| Interest Expense | (6.4) | (5.1) | (0.5) | - |
| Other Income | 1.7 | - | 0.3 | - |
| ----- | | | | |

| | | | | |
|-------------------------------|------|------|-----|---|
| Income (Loss) from Continuing | | | | |
| Operations | | | | |
| Before Minority Interest | | | | |
| and Income Taxes | 31.7 | 21.0 | 0.9 | - |
| Minority Interest | 1.3 | - | - | - |
| ----- | | | | |

| | | | | |
|-------------------------------|------|------|-----|---|
| Income (Loss) from Continuing | | | | |
| Operations | | | | |
| Before Income Taxes | 30.4 | 21.0 | 0.9 | - |
| Income Tax Expense (Benefit) | 11.6 | 8.0 | - | - |
| ----- | | | | |

| | | | | |
|-------------------------------|------|---------|--------|---|
| Income (Loss) from Continuing | | | | |
| Operations | 18.8 | \$ 13.0 | \$ 0.9 | - |
| ----- | | | | |

Loss from

Edgar Filing: ALLETE INC - Form 10-Q

Discontinued Operations - Net
of Tax -

Net Income \$ 18.8

AT MARCH 31, 2006

| | | | | |
|-------------------------------------|-----------|---------|---------|---|
| Total Assets | \$1,404.0 | \$974.3 | \$105.2 | - |
| Property, Plant and Equipment - Net | \$862.3 | \$803.2 | \$54.3 | - |
| Accumulated Depreciation | \$797.5 | \$760.8 | \$35.1 | - |
| Capital Expenditures | \$13.6 | \$13.3 | \$0.3 | - |

ALLETE First Quarter 2007 Form 10-Q

8

NOTE 3. INVESTMENTS

SHORT-TERM INVESTMENTS. At March 31, 2007 and December 31, 2006, we held \$82.1 million and \$104.5 million, respectively, of Short-Term investments, consisting of auction rate bonds and variable rate demand notes classified as available-for-sale securities. Our investments in these securities are recorded at cost; however, their cost approximates fair value because the variable interest rates for these securities typically reset every 7 to 35 days. Despite the long-term nature of their stated contractual maturities, we have the ability to quickly liquidate these securities. As a result, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from our short-term investments. All income generated from these short-term investments was recorded as interest income.

LONG-TERM INVESTMENTS. At March 31, 2007, Investments included the real estate assets of ALLETE Properties, our investment in ATC, debt and equity securities consisting primarily of securities held to fund employee benefits and our emerging technology investments.

We account for our investment in ATC under the equity method of accounting, pursuant to EITF 03-16, "Accounting for Investments in Limited Liability Companies," which requires the use of the equity method of accounting for investments in limited liability companies.

| | |
|---|-----------|
| | MARCH 31, |
| INVESTMENTS | 2007 |
| <hr style="border-top: 1px dashed black;"/> | |
| MILLIONS | |
| Real Estate Assets | \$ 90.6 |
| Debt and Equity Securities | 43.4 |
| Investment in ATC | 63.7 |
| Emerging Technology Investments | 9.0 |
| <hr style="border-top: 1px dashed black;"/> | |
| Total Investments | \$206.7 |
| <hr style="border-top: 1px dashed black;"/> | |

Edgar Filing: ALLETE INC - Form 10-Q

MARCH 31,
2007

REAL ESTATE ASSETS

MILLIONS

| | |
|--|--------|
| Land Held for Sale Beginning Balance | \$58.0 |
| Additions during period: Capitalized Improvements | 2.8 |
| Purchases | - |
| Deductions during period: Cost of Real Estate Sold | (0.9) |
| ----- | |
| Land Held for Sale Ending Balance | 59.9 |
| Long-Term Finance Receivables | 17.1 |
| Other | |