

Edgar Filing: ALLETE INC - Form 10-Q

ALLETE INC  
Form 10-Q  
October 30, 2006

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 SEPTEMBER 30, 2006

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 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 (as defined in Rule 12b-2 of the Exchange Act).

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

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Common Stock, no par value,  
30,381,209 shares outstanding  
as of September 30, 2006

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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
2005 Form 10-K	ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2005
ADESA	ADESA, Inc.
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
Constellation Energy Commodities	Constellation Energy Commodities Group, Inc.
DOC	Minnesota Department of Commerce
Eventis Telecom	Eventis Telecom, Inc.
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
Florida Water	Florida Water Services Corporation
FSP	Financial Accounting Standards Board Staff Position
GAAP	Accounting Principles Generally Accepted in the United States of America
Hibbard	Hibbard Energy Center
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	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
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
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center

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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

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### 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 and regulatory actions, 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 capital investments, present or prospective wholesale and retail competition (including but not limited to transmission costs), and zoning and permitting of land held for resale;
- effects of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- natural disasters and pandemic diseases;
- war and acts of terrorism;
- wholesale power market conditions;
- competition for viable real estate for development purposes;
- population growth rates and demographic patterns;
- effects of competition, including competition for retail and wholesale customers;
- pricing and transportation of commodities;
- changes in tax rates or policies or in rates of inflation;
- unanticipated project delays or changes in project costs;
- unanticipated changes in operating expenses and capital expenditures;
- global and domestic economic conditions;

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- our ability to access capital markets;
- 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 under the heading "Risk Factors" in Part I, Item 1A of our 2005 Form 10-K and Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006. 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.

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

ALLETE  
CONSOLIDATED BALANCE SHEET  
MILLIONS - UNAUDITED

SEPTEMBER 30,  
2006

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ASSETS

Current Assets

Cash and Cash Equivalents	\$ 51.4
Short-Term Investments	121.6
Accounts Receivable (Less Allowance of \$1.0 for 2006 and 2005)	61.4
Inventories	43.1
Prepayments and Other	23.6
Deferred Income Taxes	7.4
Discontinued Operations	-

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Total Current Assets	308.5
Property, Plant and Equipment - Net	877.9
Investments	165.1
Other Assets	49.4
Discontinued Operations	-

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TOTAL ASSETS	\$1,400.9
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LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 27.8
Accrued Taxes	17.9
Accrued Interest	4.8
Long-Term Debt Due Within One Year	1.7
Deferred Profit on Sales of Real Estate	9.5
Other	20.9
Discontinued Operations	-
-----	
Total Current Liabilities	82.6
Long-Term Debt	385.2
Deferred Income Taxes	134.3
Other Liabilities	147.0
Minority Interest	6.0
-----	
Total Liabilities	755.1
-----	
COMMITMENTS AND CONTINGENCIES	
-----	
SHAREHOLDERS' EQUITY	
Common Stock Without Par Value, 43.3 Shares Authorized, 30.4 and 30.1 Shares Outstanding	435.0
Unearned ESOP Shares	(73.5)
Accumulated Other Comprehensive Loss	(12.2)
Retained Earnings	296.5
-----	
Total Shareholders' Equity	645.8
-----	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,400.9
-----	

The accompanying notes are an integral part of these statements.

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

	QUARTER ENDED SEPTEMBER 30,		
	2006	2005	2004
OPERATING REVENUE	\$199.1	\$177.4	\$569.1
OPERATING EXPENSES			
Fuel and Purchased Power	79.5	65.4	211.1
Operating and Maintenance	68.7	67.4	220.1
Kendall County Charge	-	-	
Depreciation	12.2	11.9	36.1
Total Operating Expenses	160.4	144.7	468.1
OPERATING INCOME FROM CONTINUING OPERATIONS	38.7	32.7	101.1
OTHER INCOME (EXPENSE)			
Interest Expense	(7.3)	(6.6)	(20.1)
Other	3.7	0.4	8.1
Total Other Expense	(3.6)	(6.2)	(11.1)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND INCOME TAXES	35.1	26.5	90.1
MINORITY INTEREST	1.1	1.0	3.1
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	34.0	25.5	86.1
INCOME TAX EXPENSE (BENEFIT)	12.1	9.7	32.1
INCOME (LOSS) FROM CONTINUING OPERATIONS	21.9	15.8	54.1
LOSS FROM DISCONTINUED OPERATIONS - NET OF TAX	(0.1)	(0.6)	(0.1)
NET INCOME (LOSS)	\$ 21.8	\$ 15.2	\$ 53.1
AVERAGE SHARES OF COMMON STOCK			
Basic	27.8	27.4	27.1
Diluted	27.9	27.5	27.1
BASIC EARNINGS (LOSS) PER SHARE OF COMMON STOCK			
Continuing Operations	\$0.78	\$0.58	\$1.1
Discontinued Operations	-	(0.02)	(0.1)

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	\$0.78	\$0.56	\$1.
-----			
DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK			
Continuing Operations	\$0.78	\$0.58	\$1.
Discontinued Operations	-	(0.02)	(0.
-----			
	\$0.78	\$0.56	\$1.
-----			
DIVIDENDS PER SHARE OF COMMON STOCK	\$0.3625	\$0.3150	\$1.08
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The accompanying notes are an integral part of these statements.

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ALLETE  
CONSOLIDATED STATEMENT OF CASH FLOWS  
MILLIONS - UNAUDITED

	NINE MON SEPTEMBER 2006
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OPERATING ACTIVITIES	
Net Income (Loss)	\$ 53.8
Loss from Discontinued Operations	0.5
Income from Equity Investments	(0.2)
Loss on Impairment of Investments	-
Depreciation	36.6
Deferred Income Taxes	19.3
Minority Interest	3.2
Stock Compensation Expense	1.4
Bad Debt Expense	0.4
Changes in Operating Assets and Liabilities	
Accounts Receivable	17.3
Inventories	(10.0)
Prepayments and Other	0.2
Accounts Payable	(13.5)
Other Current Liabilities	(6.3)
Other Assets	(4.8)
Other Liabilities	5.7
Net Operating Activities for Discontinued Operations	(13.1)
-----	
Cash from Operating Activities	90.5
-----	
INVESTING ACTIVITIES	
Proceeds from Sale of Available-For-Sale Securities	483.9
Payments for Purchase of Available-For-Sale Securities	(488.6)
Changes to Investments	(35.3)



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Additions to Property, Plant and Equipment	(53.3)
Other	(10.5)
Net Investing Activities from (for) Discontinued Operations	2.2
-----	
Cash from (for) Investing Activities	(101.6)
-----	
FINANCING ACTIVITIES	
Issuance of Common Stock	12.5
Issuance of Long-Term Debt	77.8
Payments of Long-Term Debt	(81.4)
Dividends on Common Stock and Distributions to Minority Shareholders	(32.6)
Net Decrease in Book Overdrafts	(3.4)
Net Financing Activities for Discontinued Operations	-
-----	
Cash for Financing Activities	(27.1)
-----	
CHANGE IN CASH AND CASH EQUIVALENTS	(38.2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	