

Edgar Filing: ALLETE INC - Form 10-Q

ALLETE INC
Form 10-Q
July 27, 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 JUNE 30, 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

Edgar Filing: ALLETE INC - Form 10-Q

Common Stock, no par value,
30,701,629 shares outstanding
as of June 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 - June 30, 2007 and December 31, 2006	4
Consolidated Statement of Income - Quarter and Six Months Ended June 30, 2007 and 2006	5
Consolidated Statement of Cash Flows - Six Months Ended June 30, 2007 and 2006	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures about Market Risk	28
Item 4. Controls and Procedures	29
Part II. Other Information	
Item 1. Legal Proceedings	30
Item 1A. Risk Factors	30
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 3. Defaults Upon Senior Securities	30
Item 4. Submission of Matters to a Vote of Security Holders	30
Item 5. Other Information	31
Item 6. Exhibits	32
Signatures	33

Edgar Filing: ALLETE INC - Form 10-Q

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
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
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.
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
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

Edgar Filing: ALLETE INC - Form 10-Q

WDNR

Development District
Wisconsin Department of Natural
Resources

ALLETE Second Quarter 2007 Form 10-Q

2

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 capital 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;

Edgar Filing: ALLETE INC - Form 10-Q

- 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 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 Second Quarter 2007 Form 10-Q

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE CONSOLIDATED BALANCE SHEET MILLIONS - UNAUDITED

JUNE 30,
2007

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 37.1
Short-Term Investments	121.8
Accounts Receivable (Less Allowance of \$1.1 at June 30, 2007 and December 31, 2006)	67.7
Inventories	46.9
Prepayments and Other	33.5
Deferred Income Taxes	-

Total Current Assets	307.0
Property, Plant and Equipment - Net	977.2
Investments	207.8
Other Assets	137.7

Edgar Filing: ALLETE INC - Form 10-Q

TOTAL ASSETS	\$1,629.7

LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 47.7
Accrued Taxes	19.9
Accrued Interest	7.9
Long-Term Debt Due Within One Year	29.5
Deferred Profit on Sales of Real Estate	5.0
Other	20.5

Total Current Liabilities	130.5
Long-Term Debt	409.2
Deferred Income Taxes	130.5
Other Liabilities	237.4
Minority Interest	8.8

Total Liabilities	916.4

COMMITMENTS AND CONTINGENCIES	

SHAREHOLDERS' EQUITY	
Common Stock Without Par Value, 43.3 Shares Authorized, 30.7 and 30.4 Shares Outstanding	455.0
Unearned ESOP Shares	(68.2)
Accumulated Other Comprehensive Loss	(7.3)
Retained Earnings	333.8

Total Shareholders' Equity	713.3

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,629.7

The accompanying notes are an integral part of these statements.

Edgar Filing: ALLETE INC - Form 10-Q

MILLIONS EXCEPT PER SHARE AMOUNTS - UNAUDITED

	QUARTER ENDED JUNE 30,	
	2007	2006
OPERATING REVENUE	\$ 223.3	\$ 178.3
OPERATING EXPENSES		
Fuel and Purchased Power	92.9	63.0
Operating and Maintenance	84.6	76.8
Depreciation	11.9	12.2
Total Operating Expenses	189.4	152.0
OPERATING INCOME FROM CONTINUING OPERATIONS	33.9	26.3
OTHER INCOME (EXPENSE)		
Interest Expense	(6.1)	(6.4)
Other	7.3	3.4
Total Other Income (Expense)	1.2	(3.0)
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND INCOME TAXES	35.1	23.3
MINORITY INTEREST	1.3	0.8
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	33.8	22.5
INCOME TAX EXPENSE	11.2	8.9
INCOME FROM CONTINUING OPERATIONS	22.6	13.6
LOSS FROM DISCONTINUED OPERATIONS	-	(0.4)
NET INCOME	\$ 22.6	\$ 13.2
AVERAGE SHARES OF COMMON STOCK		
Basic	28.2	27.7
Diluted	28.3	27.9
BASIC EARNINGS PER SHARE OF COMMON STOCK		
Continuing Operations	\$0.80	\$0.50
Discontinued Operations	-	(0.02)
	\$0.80	\$0.48

Edgar Filing: ALLETE INC - Form 10-Q

DILUTED EARNINGS PER SHARE OF COMMON STOCK		
Continuing Operations	\$0.80	\$0.49
Discontinued Operations	-	(0.02)
<hr style="border-top: 1px dashed black;"/>		
	\$0.80	\$0.47
<hr style="border-top: 1px dashed black;"/>		
DIVIDENDS PER SHARE OF COMMON STOCK	\$0.4100	\$0.3625
<hr style="border-top: 1px dashed black;"/>		

The accompanying notes are an integral part of these statements

5

ALLETE Second Quarter 2007 Form 10-Q

ALLETE CONSOLIDATED STATEMENT OF CASH FLOWS MILLIONS - UNAUDITED

		SIX MONTH JUN
		2007
<hr style="border-top: 1px dashed black;"/>		
OPERATING ACTIVITIES		
Net Income		\$ 48.9
Loss from Discontinued Operations		-
Income from Equity Investments		(1.6)
Gain on Sale of Assets		(2.1)
Depreciation		23.6
Deferred Income Taxes		(1.1)
Minority Interest		1.4
Stock Compensation Expense		1.0
Bad Debt Expense		0.5
Changes in Operating Assets and Liabilities		
Accounts Receivable		5.6
Inventories		(3.5)
Prepayments and Other		(9.7)
Accounts Payable		(6.9)
Other Current Liabilities		(9.7)
Other Assets		1.0
Other Liabilities		4.9
Net Operating Activities for Discontinued Operations		-
<hr style="border-top: 1px dashed black;"/>		
Cash from Operating Activities		52.3
<hr style="border-top: 1px dashed black;"/>		
INVESTING ACTIVITIES		
Proceeds from Sale of Available-For-Sale Securities		187.2
Payments for Purchase of Available-For-Sale Securities		(204.5)
Changes to Investments		(17.8)
Additions to Property, Plant and Equipment		(70.1)
Proceeds from Sale of Assets		1.4
Other		1.5
Net Investing Activities from Discontinued Operations		-
<hr style="border-top: 1px dashed black;"/>		

Edgar Filing: ALLETE INC - Form 10-Q

Cash for Investing Activities	(102.3)
<hr style="border-top: 1px dashed black;"/>	
FINANCING ACTIVITIES	
Issuance of Common Stock	15.4
Issuance of Debt	110.2
Payments of Long-Term Debt	(61.0)
Dividends on Common Stock and Distributions to Minority Shareholders	(22.3)
Net Decrease in Book Overdrafts	-
<hr style="border-top: 1px dashed black;"/>	
Cash from (for) Financing Activities	42.3
<hr style="border-top: 1px dashed black;"/>	
CHANGE IN CASH AND CASH EQUIVALENTS	(7.7)
<hr style="border-top: 1px dashed black;"/>	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	44.8
<hr style="border-top: 1px dashed black;"/>	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 37.1
<hr style="border-top: 1px dashed black;"/>	

The accompanying notes are an integral part of these statements.

ALLETE Second 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.

INVENTORIES	JUNE 30, 2007
<hr style="border-top: 1px dashed black;"/>	
MILLIONS	
Fuel	\$22.1
Materials and Supplies	24.8
<hr style="border-top: 1px dashed black;"/>	
Total Inventories	\$46.9
<hr style="border-top: 1px dashed black;"/>	

ASSET RETIREMENT OBLIGATION (ARO). At June 30, 2007, our ARO balance was \$35.9 million, (\$27.2 million at December 31, 2006). This increase is primarily due to the establishment of an ARO for our Taconite Harbor facility resulting from the

Edgar Filing: ALLETE INC - Form 10-Q

MPUC's approval of our decommissioning estimate.

SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION. Amount presented for June 30, 2006, which was \$19.4 million has been revised to eliminate intercompany interest payments of \$7.0 million from cash paid during the period for Interest - Net of Amounts Capitalized.

CONSOLIDATED STATEMENT OF CASH FLOWS
SUPPLEMENTAL DISCLOSURE
FOR THE SIX MONTHS ENDED JUNE 30,

2007

MILLIONS

Cash Paid During the Period for	
Interest - Net of Amounts Capitalized	\$14.3
Income Taxes	\$20.3
 Noncash Investing Activities	
Accounts Payable for Capital Additions to Property Plant and Equipment	\$1.2

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 Second Quarter 2007 Form 10-Q

NOTE 2. BUSINESS SEGMENTS

Edgar Filing: ALLETE INC - Form 10-Q

	ENERGY				E
	CONSOLIDATED	REGULATED UTILITY	NONREGULATED ENERGY OPERATIONS	INVESTMENT IN ATC	
MILLIONS					
FOR THE QUARTER ENDED JUNE 30, 2007					
Operating Revenue	\$223.3	\$179.0	\$16.2	-	\$
Fuel and Purchased Power	92.9	92.9	-	-	
Operating and Maintenance	84.6	61.2	14.9	-	
Depreciation	11.9	10.7	1.1	-	
Operating Income (Loss) from Continuing Operations	33.9	14.2	0.2	-	
Interest Expense	(6.1)	(5.2)	(0.2)	-	
Other Income	7.3	0.9	0.4	\$3.2	
Income from Continuing Operations Before Minority Interest and Income Taxes	35.1	9.9	0.4	3.2	
Minority Interest	1.3	-	-	-	
Income from Continuing Operations Before Income Taxes	33.8	9.9	0.4	3.2	
Income Tax Expense (Benefit)	11.2	3.8	(0.2)	1.3	
Income from Continuing Operations	22.6	\$ 6.1	\$ 0.6	\$1.9	\$
Loss from Discontinued Operations - Net of Tax	-				
Net Income	\$ 22.6				

FOR THE QUARTER ENDED JUNE 30, 2006

Operating Revenue	\$178.3	\$146.5	\$ 16.5	-	\$
Fuel and Purchased Power	63.0	63.0	-	-	
Operating and Maintenance	76.8	57.2	14.1	-	
Depreciation	12.2	11.1	1.0	-	
Operating Income (Loss) from Continuing Operations	26.3	15.2	1.4	-	
Interest Expense	(6.4)	(4.9)	(0.5)	-	
Other Income	3.4	0.5	-	-	
Income from Continuing Operations					

Edgar Filing: ALLETE INC - Form 10-Q

Before Minority Interest and Income Taxes	23.3	10.8	0.9	-
Minority Interest	0.8	-	-	-

Income from Continuing Operations Before Income Taxes	22.5	10.8	0.9	-
Income Tax Expense	8.9	4.0	-	-

Income from Continuing Operations	13.6	\$ 6.8	\$ 0.9	-

Loss from Discontinued Operations - Net of Tax	(0.4)			

Net Income	\$ 13.2			

ALLETE Second Quarter 2007 Form 10-Q

8

NOTE 2. BUSINESS SEGMENTS (CONTINUED)

	CONSOLIDATED	ENERGY		
		REGULATED UTILITY	NONREGULATED ENERGY OPERATIONS	INVESTMENT IN ATC

MILLIONS				
FOR THE SIX MONTHS ENDED JUNE 30, 2007				
Operating Revenue	\$428.6	\$359.2	\$33.0	-
Fuel and Purchased Power	170.6	170.6	-	-
Operating and Maintenance	159.2	118.1	29.3	-
Depreciation	23.6	21.3	2.2	-

Operating Income (Loss) from Continuing Operations	75.2	49.2	1.5	-
Interest Expense	(12.4)	(10.4)	(0.8)	-
Other Income	14.8	1.4	2.7	\$6.1

Income from Continuing Operations Before Minority Interest and Income Taxes	77.6	40.2	3.4	6.1
Minority Interest	1.4	-	-	-

Income from Continuing Operations Before Income Taxes	76.2	40.2	3.4	6.1
Income Tax Expense (Benefit)	27.3	15.3	0.6	2.4

Income from Continuing Operations	48.9	\$ 24.9	\$ 2.8	\$3.7

Edgar Filing: ALLETE INC - Form 10-Q

Loss from
 Discontinued Operations -
 Net of Tax -

Net Income \$ 48.9

AT JUNE 30, 2007

Total Assets	\$1,629.7	\$1,218.9	\$79.7	\$64.4
Property, Plant and Equipment - Net	\$977.2	\$925.2	\$48.6	-
Accumulated Depreciation	\$833.6	\$790.7	\$41.1	-
Capital Expenditures	\$71.3	\$70.4	\$0.9	-

FOR THE SIX MONTHS ENDED JUNE 30, 2006

Operating Revenue	\$370.8	\$308.9	\$ 32.8	-
Fuel and Purchased Power	132.4	132.4	-	-
Operating and Maintenance	151.3	113.0	28.2	-
Depreciation	24.4	22.2	2.1	-

Operating Income (Loss) from Continuing Operations	62.7	41.3	2.5	-
Interest Expense	(12.8)	(10.0)	(1.0)	-
Other Income	5.1	0.5	0.3	-

Income from Continuing Operations Before Minority Interest and Income Taxes	55.0	31.8	1.8	-
Minority Interest	2.1	-	-	-

Income from Continuing Operations Before Income Taxes	52.9	31.8	1.8	-
Income Tax Expense (Benefit)	20.5	12.0	-	-

Income from Continuing Operations	32.4	\$ 19.8	\$ 1.8	-
-----------------------------------	------	---------	--------	---

Loss from
 Discontinued Operations -
 Net of Tax (0.4)

Net Income \$ 32.0

AT JUNE 30, 2006

Total Assets	\$1,386.1	\$995.0	\$104.6	-
Property, Plant and Equipment - Net	\$871.6	\$813.6	\$53.2	-
Accumulated Depreciation	\$807.4	\$769.4	\$36.4	-
Capital Expenditures	\$35.3	\$34.5	\$0.8	-

Edgar Filing: ALLETE INC - Form 10-Q

9

ALLETE Second Quarter 2007 Form 10-Q

NOTE 3. INVESTMENTS

SHORT-TERM INVESTMENTS. At June 30, 2007 and December 31, 2006, we held \$121.8 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 June 30, 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.

INVESTMENTS	JUNE 30, 2007
MILLIONS	
Real Estate Assets	\$ 88.1
Debt and Equity Securities	46.3
Investment in ATC	64.4
Emerging Technology Investments	9.0
Total Investments	
	\$207.8

REAL ESTATE ASSETS	JUNE 30, 2007
MILLIONS	
Land Held for Sale Beginning Balance	\$58.0
Additions during period: Capitalized Improvements	5.6
Purchases	-
Deductions during period: Cost of Real Estate Sold	(5.0)
Land Held for Sale Ending Balance	
	58.6
Long-Term Finance Receivables	16.0
Other	