SEACOAST BANKING CORP OF FLORIDA
Form S-1/A
July 21, 2010

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As filed with the Securities and Exchange Commission on July 20, 2010

Registration No. 333-167051

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Pre-Effective Amendment No. 2
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
Seacoast Banking Corporation of Florida
(Exact name of registrant as specified in its charter)

Florida	**6022**	**59-2260678**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

Seacoast Banking Corporation of Florida
815 Colorado Avenue
Stuart, Florida 34994
(772) 287-4000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Dennis S. Hudson, III
Chief Executive Officer
Seacoast Banking Corporation of Florida
815 Colorado Avenue
Stuart, Florida 34994
(772) 287-4000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to

Ralph F. MacDonald III, Esq.
Jones Day
1420 Peachtree Street, N.E., Suite 800
Atlanta, Georgia 30309
(404) 581-3939

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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 o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

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PROSPECTUS

6,000,000 Shares of Common Stock

This prospectus relates to the resale of 6,000,000 shares of our common stock previously issued by Seacoast Banking Corporation of Florida to CapGen Capital Group III LP, or CapGen, in connection with a private placement completed on December 17, 2009, which we refer to as the CapGen offering.

We will not receive any of the proceeds from the sale of these shares. We have and will continue to bear the costs relating to the registration of these shares.

The selling stockholder identified in this prospectus, or its pledgees, donees, transferees or other successors-in-interest, may offer the shares from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices.

Our common stock is traded on the NASDAQ Global Select Market under the symbol SBCF. On July 19, 2010, the closing sale price of our common stock on the NASDAQ Global Select Market was $1.30 per share. You are urged to obtain current market quotations for the common stock.

Investment in our common stock involves risks. See Risk Factors beginning on page 6 of this prospectus.

Our shares of common stock are unsecured and are not deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 20, 2010

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SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements made herein or incorporated by reference under the captions Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and elsewhere are forward-looking statements within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. You should not expect us to update any forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as may, will, anticipate, assume, sho indicate, would, believe, contemplate, expect, estimate, continue, further, plan, point to, project and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation:

the effects of future economic, business and market conditions and changes, domestic and foreign, including seasonality;

governmental monetary and fiscal policies;

legislative and regulatory changes, including changes in banking, securities and tax laws, regulations and policies and their application by our regulators, and changes in the scope and cost of Federal Deposit Insurance Corporation, or FDIC, insurance and other coverage;

changes in accounting policies, rules and practices;

the risks of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest sensitive assets and liabilities;

changes in borrower credit risks and payment behaviors;

changes in the availability and cost of credit and capital in the financial markets;

changes in the prices, values and sales volumes of residential and commercial real estate;

the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;

the failure of assumptions and estimates underlying the establishment of reserves for possible loan losses and other estimates;

the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;

changes in technology or products that may be more difficult, costly, or less effective than anticipated;

the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions;

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the failure of assumptions and estimates, as well as differences in, and changes to, economic, market and credit conditions, including changes in borrowers credit risks and payment behaviors from those used in our loan portfolio stress test;

the risks that our deferred tax assets could be reduced if estimates of future taxable income from our operations and tax planning strategies are less than currently estimated, and sales of our capital stock could trigger a reduction in the amount of net operating loss carryforwards that we may be able to utilize for income tax purposes; and

other factors and risks described under Risk Factors herein.

All written or oral forward-looking statements that are made by us or are attributable to us are expressly qualified in their entirety by this cautionary notice. We have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date of this prospectus, or after the respective dates on which such statements otherwise are made.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC s web site at www.sec.gov and on the investor relations page of our website at www.seacoastbanking.net. Information on our web site is not part of this prospectus. You may also read and copy any document we file with the SEC at the SEC s Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. You can also obtain copies of the documents upon the payment of a duplicating fee to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC like us. Our SEC filings are also available to the public from the SEC s website at http://www.sec.gov.

This prospectus omits some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits included in the registration statement for further information about us and the securities we are offering. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference information we file with it, which means that we can disclose important information to you by referring you to other documents. The information incorporated by reference is considered to be a part of this prospectus. Information contained in this prospectus supersedes information incorporated by reference that we have filed with the SEC prior to the date of this prospectus.

We incorporate by reference the following documents listed below, except to the extent that any information contained in such filings is deemed furnished in accordance with SEC rules:

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on March 23, 2010 and our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2009, filed with the SEC on May 18, 2010;

Our Definitive Proxy Statement on Schedule 14A, filed with the SEC on May 20, 2010;

Our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, filed with the SEC on May 13, 2010; and

Our Current Reports on Form 8-K filed with the SEC on February 1, 2010, March 24, 2010, April 13, 2010 (as amended on July 14, 2010), April 21, 2010, June 18, 2010, June 21, 2010 and June 25, 2010.

These documents contain important information about us, our business and our financial condition. You may request a copy of these filings, at no cost, by writing or telephoning us at:

Seacoast Banking Corporation of Florida
P.O. Box 9012
Stuart, Florida 34995
Telephone: (772) 287-4000
Facsimile: (772) 288-6012

We maintain an Internet website at www.seacoastbanking.com where the incorporated reports listed above can be accessed. Neither this website nor the information on this website is included or incorporated in, or is a part of, this prospectus.

Unless otherwise stated, all references to us, our, Seacoast, we, the Company, and similar designations refer t Seacoast Banking Corporation of Florida. Our logo, trademarks and service marks are the property of Seacoast.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in, or incorporated by reference into, this prospectus and may not contain all of the information that may be important to you. You should read this entire prospectus and the documents incorporated by reference carefully, including the information set forth in Risk Factors before making an investment decision.

Seacoast Banking Corporation of Florida

General

We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended, or the BHC Act, and our principal subsidiary is Seacoast National Bank, or Seacoast National. Seacoast National commenced its operations in 1933, and operated prior to 2006 as First National Bank & Trust Company of the Treasure Coast.

We and our subsidiaries offer a full array of deposit accounts and retail banking services, engage in consumer and commercial lending and provide a wide variety of trust and asset management services, as well as securities and annuity products. Seacoast National had 40 banking offices in 13 counties in Florida at year-end 2009.

We have 24 branches in the Treasure Coast, including the counties of Martin, St. Lucie and Indian River on Florida s southeastern coast. In April 2005, we acquired a bank in Orlando, Florida. In April 2006, we acquired a bank with nine offices in seven counties, including DeSoto, Glades, Hardee, Hendry, Highlands, Okeechobee, and St. Lucie counties. De novo banking offices were opened in Palm Beach County in May 2006, Brevard County in February 2007 and April 2008, Broward County in October 2007, and St. Lucie County in March 2008. Seacoast National closed its Port St. Lucie Wal-Mart location in St. Lucie County in December 2007 and its operations were relocated to a nearby full-service branch, its Ft. Pierce Wal-Mart location in St. Lucie County in February 2008, and its Mariner Square and Juno Beach locations in Martin and Palm Beach County, respectively, in March 2008, and their operations moved to newer branches. More recently, Seacoast National closed its Ft. Lauderdale location in Broward County in December 2009 and its Northlake Blvd. location in Palm Beach County in June 2009. Our Ft. Pierce and Rivergate locations in St. Lucie County and Wedgewood location in Martin County were relocated to newly constructed buildings in close proximity to their original sites in June 2008, October 2008 and January 2009, respectively. We operate banking offices in the following locations:

- four in Stuart,
- two in Palm City,
- two in Jensen Beach,
- one on Hutchinson Island,
- one in Hobe Sound,
- six in Vero Beach,
- two in Sebastian,
- five in Port St. Lucie,
- one in Ft. Pierce,
- three in northern Palm Beach County,
- three in Orlando,

two in Okeechobee,

one in Arcadia,

one in Moore Haven,

one in Wauchula,

one in Clewiston,

one in Labelle,

one in Lake Placid, and

two in Viera.

Loan production offices for our Seacoast Marine Finance Division, described in more detail below, are located in Ft. Lauderdale, Florida and Alameda and Newport Beach, California.

Most of our banking offices have one or more automated teller machines, or ATMs, providing customers with 24-hour access to their deposit accounts. We are a member of the Star System, the largest electronic funds transfer organization in the United States, which permits banking customers access to their accounts at 2.2 million participating ATM and retail locations throughout the United States.

Seacoast National s MoneyPhone system allows customers to access information on their loan or deposit account balances, to transfer funds between linked accounts, to make loan payments, and to verify deposits or checks that may have cleared. This service is available 24 hours a day, seven days a week.

In addition, customers may access information via Seacoast National s Customer Service Center, or CSC. From 7 A.M. to 7 P.M., EST Monday through Friday, and on Saturdays from 9 A.M. to 4 P.M., our CSC staff is available to open accounts, take applications for certain types of loans, resolve account issues and offer information on other bank products and services to existing and potential customers.

We also offer Internet banking. Our Internet service allows customers to access transactional information on their deposit accounts, review loan and deposit balances, transfer funds between linked accounts and make loan payments from a deposit account, 24 hours a day, seven days a week.

We have operated an office of Seacoast Marine Finance Division, a division of Seacoast National, in Ft. Lauderdale, Florida since February 2000. Seacoast Marine is staffed with experienced marine lending professionals with a marketing emphasis on marine loans of $200,000 and greater, with the majority of loan production sold to correspondent banks on a non-recourse basis. In November 2002, the Seacoast Marine Finance Division added offices and personnel in California to serve the western markets.

We have five indirect, wholly-owned subsidiaries:

FNB Brokerage Services, Inc., or FNB Brokerage, which provides brokerage and annuity services;

FNB Insurance Services, Inc., or FNB Insurance, an inactive subsidiary, which was formed to provide insurance agency services;

South Branch Building, Inc., which is a general partner in a partnership that constructed a branch facility of Seacoast National;

TCoast Holdings, LLC, which was formed to own and operate certain properties acquired through foreclosure;

- BR West, LLC, which was formed in 2008 to hold foreclosed real estate, but which was inactive at year-end 2009.

We directly own all the common equity in five statutory trusts:

- SBCF Capital Trust I, formed on March 31, 2005 for the purpose of issuing $20 million in trust preferred securities;
- SBCF Statutory Trust II, formed on December 16, 2005, also for the purpose of issuing $20 million in trust preferred securities;
- SBCF Statutory Trust III, formed on June 29, 2007, for the purpose of issuing $12 million in trust preferred securities; and
- SBCF Statutory Trusts IV and V, formed on May 16, 2008 for the purpose of issuing additional preferred securities in the future. These have been inactive since their formation.

FNB Property Holdings, Inc., a Delaware holding company, whose primary asset was an investment in FNB RE Services, Inc., was dissolved on June 1, 2009; and FNB RE Services, Inc., a real estate investment trust that held mortgage loans originated by Seacoast National, also was dissolved, at the end of May 2009.

In addition, Big O RV, Inc., also formed to own and operate certain properties acquired through foreclosure, was reactivated during 2008. It owned one asset that it sold in the fourth quarter of 2008, and was dissolved at the end of 2008.

With the exception of FNB Property Holdings, Inc. and FNB RE Services, Inc. (before dissolution), the operations of each of these direct and indirect subsidiaries represented less than 10% of our consolidated assets and contributed less than 10% of our consolidated revenues.

As a bank holding company, we are a legal entity separate and distinct from our subsidiaries, including Seacoast National. We coordinate the financial resources of the consolidated enterprise and maintain financial, operational and administrative systems that allow centralized evaluation of subsidiary operations and coordination of selected policies and activities. Our operating revenues and net income are derived primarily from Seacoast National through dividends and fees for services performed.

As of March 31, 2010, we had total consolidated assets of approximately $2,120.0 million, total deposits of approximately $1,759.4 million, total consolidated liabilities, including deposits, of approximately $1968.8 million and consolidated shareholders equity of approximately $151.2 million.

CapGen Private Placement

On December 17, 2009, we sold 6,000,000 shares of our common stock to CapGen pursuant to a Stock Purchase Agreement, dated as of October 23, 2009, between us and CapGen. We received total gross proceeds of $13.5 million from the sale. These securities were sold in a transaction exempt from the registration requirements of the Securities Act in reliance on Section (4)(2) of the Securities Act. The purchaser in such transaction was an accredited investor within the meaning of Rule 501 of Regulation D promulgated under the Securities Act.

Recent Developments

On April 9, 2010, we entered into an Investment Agreement, dated as of April 8, 2010, with certain investors for the purchase of $50 million of our Series B Mandatorily Convertible Noncumulative Nonvoting Preferred Stock, or Series B Preferred Stock. The Series B Preferred Stock was sold in a transaction exempt from the registration requirements of the Securities Act in reliance on Section (4)(2) of the Securities Act. The purchasers in such transaction were accredited investors within the meaning of Rule 501 of Regulation D promulgated under the Securities Act.

At our annual shareholders meeting held on June 22, 2010, our shareholders approved proposals two, four and five of the definitive proxy statement filed on May 20, 2010, hereby allowing us to:

- amend our Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock to permit the conversion in full of the Series B Preferred Stock and provide available authorized but unissued shares for general corporate purposes;

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approve the issuance of our common stock upon conversion of the Series B Preferred Stock for purposes of NASDAQ Stock Market Rule 5635; and

approve an amendment to our Amended and Restated Articles of Incorporation to permit our Board of Directors to (i) effect a reverse stock split of our common stock, at any time prior to June 21, 2011, at one of seven reverse split ratios, 1-for-2, 1-for-5, 1-for-10, 1-for-15, 1-for-20, 1-for-25 or 1-for-30, as determined by the Board of Directors in its sole discretion, and (ii) reduce the number of authorized shares of our common stock by the reverse stock split ratio determined by the Board of Directors.

Corporate Information

Our principal offices are located at 815 Colorado Avenue, Stuart, Florida 34994, and the telephone number at that address is (772) 287-4000. We and our subsidiary Seacoast National maintain Internet websites at www.seacoastbanking.com and www.seacoastnational.com, respectively. We are not incorporating the information on our or Seacoast National s website into this prospectus, and none of these websites nor the information appearing on these websites is included or incorporated in, or is a part of, this prospectus.

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The Offering

Common stock being offered by selling stockholder	Up to 6,000,000 shares.
Selling Stockholder	CapGen Capital Group III LP
Common stock outstanding	93,379,217 shares as of the date of this prospectus.(1)
Use of proceeds	We will not receive any proceeds from the sale of shares by the selling stockholder.
NASDAQ Global Select Market Symbol	SBCF
Risk Factors	Before investing, you should carefully consider the information set forth under Risk Factors, beginning on page 6, for a discussion of the risks related to an investment in our common stock.

(1) Does not include 589,623 shares of common stock issuable upon exercise of the warrant held by Treasury or 558,000 shares reserved for issuance upon exercise of stock options with a weighted-average exercise price of $21.21, which have been granted and remained outstanding as of March 31, 2010. See Description of Capital Stock.

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RISK FACTORS

Any of the following risks could harm our business, results of operations and financial condition and an investment in our common stock. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these risk factors.

Risks Related to Our Business

There can be no assurance that recent or future legislation and administrative actions authorizing the U.S. government to take direct actions within the financial services industry will help stabilize the U.S. financial system or how such actions will impact us.

Numerous actions have been taken by the U.S. Congress, the Board of Governors of the Federal Reserve System, or the Federal Reserve, the U.S. Department of the Treasury, or the Treasury, the FDIC, the SEC and others to address the liquidity and credit crisis that followed the sub-prime mortgage crisis that commenced in 2007. These actions include the Financial Stability Program adopted by the Treasury, the Emergency Economic Stabilization Act of 2008, or EESA, which was enacted on October 3, 2008 and the American Recovery and Reinvestment Act of 2009, or ARRA, which was enacted on February 17, 2009. Additional regulatory reform measures have also been proposed and are currently under consideration by Congress, the Executive branch and the various regulatory authorities.

We cannot predict the continued effects of EESA, the ARRA, any new proposed regulatory reform measures that become law and various other governmental, regulatory, monetary and fiscal initiatives which have been and may be proposed or adopted on the economy, the financial markets, on us and on Seacoast National. The terms and costs of these measures, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, and the trading prices of our securities. In addition, a number of the programs enacted in 2008 and 2009 are in the process of winding down and the effects of the wind-down on us and Seacoast National can not be predicted.

Difficult market conditions have adversely affected and may continue to affect our industry.

We are exposed to downturns in the U.S. economy and particularly the local markets in which we operate in Florida. Declines in the housing markets over the past two years, including falling home prices and sales volumes, and increasing foreclosures, have negatively affected the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks, as well as Seacoast National. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced or ceased providing funding to borrowers, including other financial institutions. This market turmoil and the tightening of credit have led to increased levels of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and reductions in business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and other financial institutions. In particular:

- We expect to face increased regulation of our industry, including as a result of proposed regulatory reform initiatives by the U.S. government. Compliance with such regulations may increase our costs and limit our ability to pursue business opportunities.

- Market developments, government programs and the winding down of various government programs may continue to adversely affect consumer confidence levels and may cause adverse changes in borrower behaviors and payment rates, resulting in further increases in delinquencies and default rates, which could affect our loan charge-offs and our provisions for credit losses.

Our ability to assess the creditworthiness of our customers or to estimate the values of our assets and collateral for loans will be reduced if the models and approaches we use become less predictive of future behaviors, valuations, assumptions or estimates. We estimate losses inherent in our credit exposure, the adequacy of our allowance for loan losses and the values of certain assets by using estimates based on difficult, subjective, and complex judgments, including estimates as to the effects of economic conditions and how these economic conditions might affect the ability of our borrowers to repay their loans or the value of assets.

Our ability to borrow from other financial institutions on favorable terms or at all, or to raise capital, could be adversely affected by further disruptions in the capital markets or other events, including, among other things, deterioration in investor expectations and changes in the FDIC s resolution authority or practices.

Failures of other depository institutions in our markets and increasing consolidation of financial services companies as a result of current market conditions could increase our deposits and assets, necessitating additional capital, and may have unexpected adverse effects upon our ability to compete effectively.

We have incurred losses since March 31, 2008, including the latest fiscal quarter ended June 30, 2010. We may incur losses in the future.

We have not been profitable since the quarter ended March 31, 2008. We also expect to report a net loss of approximately $ million in the three months ended June 30, 2010, an increase from the $ million of net losses realized in the first quarter of 2010. Most of these losses in the three months ended June 30, 2010 were attributable to loan sales and increased provisions for loan losses. We may have additional loan sales in future periods that result in losses on such loans and we may realize net losses for future periods.

We are not paying dividends on our preferred stock or common stock and are deferring distribution on our trust preferred securities, and we are restricted in otherwise paying cash dividends on our common stock. The failure to resume paying dividends on our preferred stock and trust preferred securities may adversely affect us.

We historically paid cash dividends before we suspended dividend payments on our preferred and common stock and distributions on our trust preferred securities on May 19, 2009, pursuant to the request of the Federal Reserve, because, as a matter of policy, the Federal Reserve indicated that bank holding companies should not pay dividends or make distributions on trust preferred securities using funds from the Troubled Assets Relief Program, or TARP, Capital Purchase Program, or CPP. There is no assurance that we will receive approval to resume paying cash dividends. Even if we are allowed to resume paying dividends again by the Federal Reserve, future payment of cash dividends on our common stock, if any, will be subject to the prior payment of all unpaid dividends and deferred distributions on our Series A Preferred Stock and trust preferred securities. Further, we need prior Treasury approval to increase our quarterly cash dividends above $0.01 per common share through the earliest of December 19, 2011, the date we redeem all shares of Series A Preferred Stock or the Treasury has transferred all shares of Series A Preferred Stock to third parties. All dividends are declared and paid at the discretion of our board of directors and are dependent upon our liquidity, financial condition, results of operations, capital requirements and such other factors as our board of directors may deem relevant.

Further, dividend payments on our Series A Preferred Stock and distributions on our trust preferred securities are cumulative and therefore unpaid dividends and distributions will accrue and compound on each subsequent dividend payment date. In the event of any liquidation, dissolution or winding up of the affairs of our company, holders of the Series A Preferred Stock shall be entitled to receive for each share of Series A Preferred Stock the liquidation amount plus the amount of any accrued and unpaid dividends. If we miss six quarterly dividend payments on the Series A Preferred Stock, whether or not consecutive, the Treasury will have the right to appoint two directors to our board of directors until all accrued but unpaid dividends have been paid. We cannot pay dividends on our outstanding shares of Series A Preferred Stock or our common stock until we have paid in full all deferred distributions on our trust preferred securities, which will require prior approval of the Federal Reserve.

Nonperforming assets take significant time and adversely affect our results of operations and financial condition.

At March 31, 2010 and 2009, our nonperforming loans (which consist of non-accrual loans) totaled $96.3 million and $109.4 million, or 7.0 percent and 6.7 percent of the loan portfolio, respectively. At March 31, 2010 and 2009, our nonperforming assets (which include foreclosed real estate) were $115.4 million and $122.1 million, or 5.4 percent and 5.3 percent of assets, respectively. In addition, we had approximately $163,000 and $4.5 million in accruing loans that were 90 days or more delinquent at March 31, 2010 and 2009, respectively. Our nonperforming

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assets adversely affect our net income in various ways. Until economic and market conditions improve, we may incur additional losses relating to an increase in nonperforming loans. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our income, and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related loan to the then fair market value of the collateral, which may result in a loss. These loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks.

Seacoast National has adopted and implemented a written program to ensure bank adherence to a process designed to eliminate the basis of criticism of criticized assets as required by the Office of the Comptroller of the Currency, or OCC, pursuant to the formal agreement that Seacoast National entered into with the OCC. While we have reduced our problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of these remaining assets, or the underlying collateral, or in these borrowers performance or financial conditions, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience further increases in nonperforming loans in the future, or that nonperforming assets will not result in further losses in the future.

Our allowance for loan losses may prove inadequate or we may be adversely affected by credit risk exposures.

Our business depends on the creditworthiness of our customers. We periodically review our allowance for loan losses for adequacy considering economic conditions and trends, collateral values and credit quality indicators, including past charge-off experience and levels of past due loans and nonperforming assets. We cannot be certain that our allowance for loan losses will be adequate over time to cover credit losses in our portfolio because of unanticipated adverse changes in the economy, market conditions or events adversely affecting specific customers, industries or markets, or borrower behaviors towards repaying their loans. The credit quality of our borrowers has deteriorated as a result of the economic downturn in our markets. If the credit quality of our customer base or their debt service behavior materially decreases further, if the risk profile of a market, industry or group of customers declines further or weaknesses in the real estate markets and other economics persist or worsen, or if our allowance for loan losses is not adequate, our business, financial condition, including our liquidity and capital, and results of operations could be materially adversely affected.

All of our loan portfolios have been affected by the sustained economic weakness of our markets and the effects of higher unemployment rates. Our commercial and residential real estate and real estate-related portfolios have been especially affected by adverse market conditions, including reduced real estate prices and sales levels.

Our commercial and residential real estate and real estate-related loans, especially construction and development loans, have been affected adversely by the on-going correction in real estate prices, reduced levels of sales during the recessions, and the economic weakness of our Florida markets and the effects of higher unemployment rates. We may have to increase our allowance for loan losses through additional provisions for loan losses because of continued adverse changes in the economy, market conditions, and events that adversely affect our customers or markets. Our business, financial condition, liquidity, capital (especially tangible common equity), and results of operations could be materially adversely affected by additional provisions for loan losses.

Weaknesses in the real estate markets, including the secondary market for residential mortgage loans, have adversely affected us and may continue to adversely affect us.

The effects of ongoing mortgage market challenges, combined with the correction in residential real estate market prices and reduced levels of home sales, could result in further price reductions in single family home values, further adversely affecting the liquidity and value of collateral securing commercial loans for residential land acquisition, construction and development, as well as residential mortgage loans and residential property collateral securing loans that we hold, mortgage loan originations and gains on sale of mortgage loans. Declining real estate prices have caused higher delinquencies and losses on certain mortgage loans, generally, particularly second lien mortgages and home equity lines of credit. Significant ongoing disruptions in the secondary market for residential mortgage loans have limited the market for and liquidity of most residential mortgage loans other than conforming Fannie Mae and Freddie Mac loans. These trends could continue, notwithstanding various government programs to

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boost the residential mortgage markets and stabilize the housing markets. Declines in real estate values, home sales volumes and financial stress on borrowers as a result of job losses, interest rate resets on adjustable rate mortgage loans or other factors could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which would adversely affect our financial condition, including capital and liquidity, or results of operations. In the event our allowance for loan losses is insufficient to cover such losses, our earnings, capital and liquidity could be adversely affected.

Our real estate portfolios are exposed to weakness in the Florida housing market and the overall state of the economy.

The declines in home prices and the volume of home sales in Florida, along with the reduced availability of certain types of mortgage credit, have resulted in increases in delinquencies and losses in our portfolios of home equity lines and loans, and commercial loans related to residential real estate acquisition, construction and development. Further declines in home prices coupled with the continued economic recession in our markets and continued high or increased unemployment levels could cause additional losses which could adversely affect our earnings and financial condition, including our capital and liquidity.

Our concentration of commercial real estate loans could result in further increased loan losses.

Commercial real estate, or CRE, is cyclical and poses risks of loss to us due to concentration levels and similar risks of the asset, especially since we had 49.9 percent and 53.0 percent of our portfolio in CRE loans at March 31, 2010 and 2009, respectively. The banking regulators continue to give CRE lending greater scrutiny, and banks with higher levels of CRE loans are expected to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as higher levels of allowances for possible losses and capital levels as a result of CRE lending growth and exposures. During the first quarter of 2009, we added $2.0 million of provisioning for loan losses in addition to provisioning of $124.8 million for the entire year in 2009, $88.6 million in 2008 and $12.7 million in 2007, in part reflecting collateral evaluations in response to recent changes in the market values of land collateralizing acquisition and development loans.

Pursuant to the formal agreement that Seacoast National entered into with the OCC, Seacoast National adopted and implemented a written commercial real estate concentration risk management program. However, there is no guarantee that the program will effectively reduce our concentration of commercial real estate.

Higher FDIC deposit insurance premiums and assessments could adversely affect our financial condition.

FDIC insurance premiums increased substantially in 2009 and we expect to pay significantly higher FDIC premiums in the future. Market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. The FDIC adopted a revised risk-based deposit insurance assessment schedule on February 27, 2009, which raised deposit insurance premiums. On May 22, 2009, the FDIC implemented a five basis point special assessment of each insured depository institution s assets minus Tier 1 capital as of June 30, 2009, but no more than 10 basis points times the institution s assessment base for the second quarter of 2009, collected on September 30, 2009. The FDIC has also required all FDIC-insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, which was paid on December 30, 2009.

We also participate in the FDIC s Temporary Liquidity Guarantee Program, or TLG, for noninterest-bearing transaction deposit accounts. Banks that participate in the TLG s noninterest-bearing transaction account guarantee paid the FDIC an annual assessment of 10 basis points on the amounts in such accounts above the amounts covered by FDIC deposit insurance. TLG s noninterest-bearing transaction deposit account guarantee program was scheduled to expire on December 31, 2009, but has been extended to December 31, 2010. Our management has decided that we will participate in the extended program. Institutions that participate in the extended program are required to pay an annualized fee of 15 to 25 basis points in accordance with their risk category rating assigned by the FDIC. To the extent that these TLG assessments are insufficient to cover any loss or expenses arising from the TLG program, the FDIC is authorized to impose an emergency special assessment on all FDIC-insured depository institutions. The FDIC has authority to impose charges for the TLG program upon depository institution holding companies, as well. The increased premiums and TLG assessments charged by the FDIC increased our noninterest expense for the first quarter of 2010 and may continue to increase our noninterest expense prospectively.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than two years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial condition or performance. If current levels of market disruption and volatility continue or worsen, we may experience adverse effects, which may be material, on our ability to maintain or access capital and on our business, financial condition and results of operations.

Liquidity risks could affect operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our funding sources include federal funds purchases, securities sold under repurchase agreements, non-core deposits, and short- and long-term debt. We are also members of the Federal Home Loan Bank of Atlanta and the Federal Reserve Bank of Atlanta, where we can obtain advances collateralized with eligible assets. We maintain a portfolio of securities that can be used as a secondary source of liquidity. There are other sources of liquidity available to us or Seacoast National should they be needed, including our ability to acquire additional non-core deposits, the issuance and sale of debt securities, and the issuance and sale of preferred or common securities in public or private transactions. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Our liquidity, on a parent only basis, is adversely affected by our current inability to receive dividends from Seacoast National without prior regulatory approval. However, we held approximately $10 million of cash and short-term investments at March 31, 2010, largely due to the receipt of proceeds from our common stock offering, which was consummated in the third quarter of 2009, a private placement of common stock completed in the fourth quarter of 2009. We expect an additional $46.9 million in proceeds from a convertible preferred stock offering in the second quarter of 2010. We invested all of the $50.0 million of the TARP CPP proceeds and an additional $73.0 million of proceeds from our offerings in Seacoast National to meet the OCC capital requirements. Our ability to borrow could also be impaired by factors that are not specific to us, such as further disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of recent turmoil faced by banking organizations and the continued deterioration in credit markets.

We could encounter difficulties as a result of our growth.

Our loans, deposits, fee businesses and employees have increased as a result of our organic growth and acquisitions. Our failure to successfully manage and support this growth with sufficient human resources, training and operational, financial and technology resources in challenging markets and economic conditions could have a material adverse effect on our operating results and financial condition. We may not be able to sustain our historical growth rates.

We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our regulatory requirements, would be adversely affected.

Both we and Seacoast National must meet regulatory capital requirements and maintain sufficient liquidity and our regulators may modify and adjust such requirements in the future. Seacoast National agreed to an informal letter agreement with the OCC to maintain a Tier 1 leverage capital ratio of 8.50 percent and a total risk-based capital ratio of 12.00 percent at Seacoast National, which are higher than the regulatory minimum capital ratios. We also face significant regulatory and other governmental risk as a financial institution and a participant in the TARP CPP.

Our ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry and market condition, and governmental activities, many of which are outside our control, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to meet these capital and other regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

Although we currently comply with all capital requirements, we may be subject to more stringent regulatory capital ratio requirements in the future and we may need additional capital in order to meet those requirements. Our failure to remain well capitalized for bank regulatory purposes could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common and preferred stock, make distributions on our trust preferred securities, our ability to make acquisitions, and our business, results of operation and financial conditions, generally. Under FDIC rules, if Seacoast National ceases to be a well capitalized institution for bank regulatory purposes, its ability to accept brokered deposits may be restricted and the interest rates that it pays may be restricted.

Our ability to realize our deferred tax assets may be reduced in the future if our estimates of future taxable income from our operations and tax planning strategies do not support our deferred tax amount, and the amount of net operating loss carry-forwards and certain other tax attributes realizable for income tax purposes may be reduced under Section 382 of the Internal Revenue Code by sales of our capital securities.

As of March 31, 2010, we had net deferred tax assets of $18.4 million after we recorded a $35.8 million of valuation allowance based on management s estimation of the likelihood of those deferred tax assets being realized. These and future deferred tax assets may be further reduced in the future if our estimates of future taxable income from our operations and tax planning strategies do not support the amount of our deferred tax asset.

The amount of net operating loss carry-forwards and certain other tax attributes realizable annually for income tax purposes may be reduced by an offering and/or other sales of our capital securities, including transactions in the open market by 5% or greater shareholders, if an ownership change is deemed to occur under Section 382 of the Internal Revenue Code. The determination of whether an ownership change has occurred under Section 382 is highly fact specific and can occur through one or more acquisitions of capital stock (including open market trading) if the result of such acquisitions is that the percentage of our outstanding common stock held by shareholders or groups of shareholders owning at least 5% of our common stock at the time of such acquisition, as determined under Section 382, is more than 50 percentage points higher than the lowest percentage of our outstanding common stock owned by such shareholders or groups of shareholders within the prior three-year period. Our sales of common stock in April 2010 increase the risk of a possible future change in control under Section 382.

Our cost of funds may increase as a result of general economic conditions, FDIC insurance assessments, interest rates and competitive pressures.

Our cost of funds may increase as a result of general economic conditions, FDIC insurance assessments, interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits and we have a base of lower cost transaction deposits. Generally, we believe local deposits are a cheaper and more stable source of funds than other borrowings because interest rates paid for local deposits are typically lower than interest rates charged for borrowings from other institutional lenders and reflect a mix of transaction and time deposits, whereas brokered deposits typically are higher cost time deposits. Our costs of funds and our profitability and liquidity are likely to be adversely affected if, and to the extent, we have to rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs, and changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

Our profitability and liquidity may be affected by changes in interest rates and economic conditions.

Our profitability depends upon net interest income, which is the difference between interest earned on assets, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Net interest income will be adversely affected if market interest rates change such that the interest we pay on deposits and borrowings and our FDIC deposit insurance assessments increase faster than the interest earned on loans and investments. Interest rates, and consequently our results of operations, are affected by general economic conditions (domestic and foreign) and fiscal and monetary policies may materially affect the level and direction of interest rates. From June 2004 to mid-2006, the Federal Reserve raised the federal funds rate from 1.0 percent to 5.25 percent. Since then,

beginning in September 2007, the Federal Reserve decreased the federal funds rates by 100 basis points to 4.25 percent over the remainder of 2007, and has since reduced the target federal funds rate by an additional 400 basis points to a range between zero and 25 basis points beginning in December 2008. Decreases in interest rates generally increase the market values of fixed-rate, interest-bearing investments and loans held, and increase the values of loan sales and mortgage loan activities. However, the production of mortgages and other loans and the value of collateral securing our loans, are dependent on demand within the markets we serve, as well as interest rates. The levels of sales, as well as the values of real estate in our markets, have declined. Declining rates reflect efforts by the Federal Reserve to stimulate the economy, but may not be effective, and thus may negatively affect our results of operations and financial condition, liquidity and earnings.

On February 18, 2010, the Federal Reserve raised the discount rate from 0.5 percent to 0.75%. Increases in interest rates generally decrease the market values of fixed-rate, interest-bearing investments and loans held and the production of mortgage and other loans and the value of collateral securing our loans, and therefore may adversely affect our liquidity and earnings.

The TARP CPP and the ARRA impose, and other proposed rules may impose additional, executive compensation and corporate governance requirements that may adversely affect us and our business, including our ability to recruit and retain qualified employees.

The purchase agreement we entered into in connection with our participation in the TARP CPP required us to adopt the Treasury s standards for executive compensation and corporate governance while the Treasury holds the equity issued pursuant to the TARP CPP, including the common stock which may be issued pursuant to the warrant to purchase 589,623 shares of common stock, or the Warrant, which we refer to as the TARP Assistance Period. These standards generally apply to our chief executive officer, chief financial officer and the three next most highly compensated senior executive officers. The standards include:

- ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution;

- required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate;

- prohibition on making golden parachute payments to senior executives; and

- agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive.

In particular, the change to the deductibility limit on executive compensation may increase the overall cost of our compensation programs in future periods.

The ARRA imposed further limitations on compensation during the TARP Assistance Period including:

- a prohibition on making any golden parachute payment to a senior executive officer or any of our next five most highly compensated employees;

- a prohibition on any compensation plan that would encourage manipulation of the reported earnings to enhance the compensation of any of its employees; and

- a prohibition of the five highest paid executives from receiving or accruing any bonus, retention award or incentive compensation, or bonus except for long-term restricted stock with a value not greater than one-third of the total amount of annual compensation of the employee receiving the stock.

The Treasury released an interim final rule on TARP standards for compensation and corporate governance on June 10, 2009, which implemented and further expanded the limitations and restrictions imposed on executive compensation and corporate governance by the TARP CPP and ARRA. The new Treasury interim final rules also prohibit any tax gross-up payments to senior executive officers and the next 20 highest paid executives; require a

say on pay vote in annual shareholders meetings; and restrict stock or units that may vest or become transferable granted to executives.

The Federal Reserve has proposed guidelines on executive compensation. The FDIC also has proposed a rule to incorporate employee compensation factors into the risk assessment system which would adjust risk-based deposit insurance assessment rates if the design of certain compensation programs does not satisfy certain FDIC goals to prevent executive compensation from encouraging undue risk-taking.

These provisions and any future rules issued by the Treasury, the Federal Reserve and the FDIC or any other regulatory agencies could adversely affect our ability to attract and retain management capable and motivated sufficiently to manage and operate our business through difficult economic and market conditions. If we are unable to attract and retain qualified employees to manage and operate our business, we may not be able to successfully execute our business strategy.

Changes in accounting and tax rules applicable to banks could adversely affect our financial conditions and results of operations.

From time to time, the Financial Accounting Standards Board and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements.

TARP lending goals may not be attainable.

Congress and the bank regulators have encouraged recipients of TARP capital to use such capital to make loans and it may not be possible to safely, soundly and profitably make sufficient loans to creditworthy persons in the current economy to satisfy such goals. Congressional demands for additional lending by recipients of TARP capital, and regulatory demands for demonstrating and reporting such lending, are increasing. On November 12, 2008, the bank regulatory agencies issued a statement encouraging banks to, among other things, lend prudently and responsibly to creditworthy borrowers and to work with borrowers to preserve homeownership and avoid preventable foreclosures. We continue to lend and have expanded our mortgage loan originations, and to report our lending to the Treasury. The future demands for additional lending are unclear and uncertain, and we could be forced to make loans that involve risks or terms that we would not otherwise find acceptable or in our shareholders best interest. Such loans could adversely affect our results of operation and financial condition, and may be in conflict with bank regulations and requirements as to liquidity and capital. The profitability of funding such loans using deposits may be adversely affected by increased FDIC insurance premiums.

Changes of TARP program and future rules applicable to banks generally or to TARP recipients could adversely affect our operations, financial condition, and results of operations.

The rules and policies applicable to recipients of capital under the TARP CPP continue to evolve and their scope, timing and effect cannot be predicted. Any redemption of the securities sold to the Treasury to avoid these restrictions would require prior Federal Reserve and Treasury approval. Based on recently issued Federal Reserve guidelines, institutions seeking to redeem TARP CPP preferred stock must demonstrate an ability to access the long-term debt markets without reliance on the FDIC s TLG, successfully demonstrate access to public equity markets and meet a number of additional requirements and considerations before we can redeem any securities sold to the Treasury. Therefore, it is uncertain if we will be able to redeem such securities even if we have sufficient financial resources to do so.

In addition, the government is contemplating potential new programs under TARP, including programs to promote small business lending, among other initiatives. It is uncertain whether we will qualify for those new programs and whether those new programs may impose additional restrictions on our operation and affect our financial condition in the future.

Our future success is dependent on our ability to compete effectively in highly competitive markets.

We operate in the highly competitive markets of Martin, St. Lucie, Brevard, Indian River and Palm Beach Counties in southeastern Florida, the Orlando, Florida metropolitan statistical area, as well as in more rural competitive counties in the Lake Okeechobee, Florida region. Our future growth and success will depend on our ability to compete effectively in these markets. We compete for loans, deposits and other financial services in geographic markets with other local, regional and national commercial banks, thrifts, credit unions, mortgage lenders, and securities and insurance brokerage firms. Many of our competitors offer products and services different from us, and have substantially greater resources, name recognition and market presence than we do, which benefits them in attracting business. Larger competitors may be able to price loans and deposits more aggressively than we can, and have broader customer and geographic bases to draw upon.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems, losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. We could experience increases in deposits and assets as a result of other banks difficulties or failure, which would increase the capital we need to support such growth.

We operate in a heavily regulated environment.

We and our subsidiaries are regulated by several regulators, including the Federal Reserve, the OCC, the SEC, the FDIC and Financial Industry Regulatory Authority, Inc., and since December 2008, the Treasury. Our success is affected by state and federal regulations affecting banks and bank holding companies, and the securities markets and securities and insurance regulators. Banking regulations are primarily intended to protect depositors, not shareholders. The financial services industry also is subject to frequent legislative and regulatory changes and proposed changes, the effects of which cannot be predicted. Federal bank regulatory agencies and the Treasury, as well as the Congress and the President, are evaluating and have proposed numerous significant changes in the regulation of banks, other financial services providers and the financial markets. These changes, if adopted, could require us to maintain more capital, liquidity and risk controls which could adversely affect our growth, profitability and financial condition.

We are subject to internal control reporting requirements that increase compliance costs and failure to comply timely could adversely affect our reputation and the value of our securities.

We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board and the NASDAQ Stock Market. In particular, we are required to include management and independent registered public accounting firm reports on internal controls as part of our annual report on Form 10-K pursuant to Section 404 of the Sarbanes-Oxley Act. We are also subject to a number of disclosure and reporting requirements as a result of our participation in TARP CPP. The SEC also has proposed a number of new rules or regulations requiring additional disclosure, such as lower-level employee compensation. We expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to track and comply with the various rules may materially adversely affect our reputation, ability to obtain the necessary certifications to financial statements, and the value of our securities.

Technological changes affect our business, and we may have fewer resources than many competitors to invest in technological improvements.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to serving clients better, the effective use of technology may increase efficiency and may enable financial institutions to reduce costs. Our future success will depend, in part, upon our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in operations. We may need to make significant additional capital investments in technology in the future, and we may not be able to effectively implement new technology-driven products and services. Many competitors have substantially greater resources to invest in technological improvements.

The anti-takeover provisions in our Articles of Incorporation and under Florida law may make it more difficult for takeover attempts that have not been approved by our board of directors.

Florida law and our Articles of Incorporation include anti-takeover provisions, such as provisions that encourage persons seeking to acquire control of us to consult with our board, and which enable the board to negotiate and give consideration on behalf of us and our shareholders and other constituencies to the merits of any offer made. Such provisions, as well as supermajority voting and quorum requirements and a staggered board of directors, may make any takeover attempts and other acquisitions of interests in us, by means of a tender offer, open market purchase, a proxy fight or otherwise, that have not been approved by our board of directors more difficult and more expensive. These provisions may discourage possible business combinations that a majority of our shareholders may believe to be desirable and beneficial. As a result, our board of directors may decide not to pursue transactions that would otherwise be in the best interests of holders of our common stock.

Hurricanes or other adverse weather events would negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business or results of operations.

Our market areas in Florida are susceptible to hurricanes and tropical storms and related flooding and wind damage. Such weather events can disrupt operations, result in damage to properties and negatively affect the local economies in the markets where they operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes will affect our operations or the economies in our current or future market areas, but such weather events could result in a decline in loan originations, a decline in the value or destruction of properties securing our loans and an increase in the delinquencies, foreclosures or loan losses. Our business or results of operations may be adversely affected by these and other negative effects of future hurricanes or tropical storms, including flooding and wind damage. Many of our customers have incurred significantly higher property and casualty insurance premiums on their properties located in our markets, which may adversely affect real estate sales and values in our markets.

Future acquisitions and expansion activities may disrupt our business, dilute existing shareholders and adversely affect our operating results.

We regularly evaluate potential acquisitions and expansion opportunities. To the extent that we grow through acquisitions, we cannot assure you that we will be able to adequately or profitably manage this growth. Acquiring other banks, branches or businesses, as well as other geographic and product expansion activities, involve various risks including:

- risks of unknown or contingent liabilities;
- unanticipated costs and delays;
- risks that acquired new businesses do not perform consistent with our growth and profitability expectations;
- risks of entering new markets or product areas where we have limited experience;
- risks that growth will strain our infrastructure, staff, internal controls and management, which may require additional personnel, time and expenditures;
- exposure to potential asset quality issues with acquired institutions;
- difficulties, expenses and delays of integrating the operations and personnel of acquired institutions, and start-up delays and costs of other expansion activities;

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potential disruptions to our business;

possible loss of key employees and customers of acquired institutions;

potential short-term decreases in profitability; and

diversion of our management s time and attention from our existing operations and business.

We may engage in FDIC-assisted transactions, which could present additional risks to our business.

We may have opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions, which present the risks of acquisitions, although generally, as well as some risks specific to these transactions. Although these FDIC-assisted transactions typically provide for FDIC assistance to an acquiror to mitigate certain risks, which may include loss-sharing, where the FDIC absorbs most losses on covered

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

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2019
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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, without par value	ALE	New York Stock Exchange

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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer x Accelerated Filer ¨
Non-Accelerated Filer ¨ Smaller Reporting Company ¨
Emerging Growth Company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Common Stock, without par value,
51,624,422 shares outstanding
as of March 31, 2019

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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 – the cost of both debt and equity funds used to finance regulated utility plant additions during construction periods
ALLETE	ALLETE, Inc.
ALLETE Clean Energy	ALLETE Clean Energy, Inc. and its subsidiaries
ALLETE Properties	ALLETE Properties, LLC and its subsidiaries
ALLETE Transmission Holdings	ALLETE Transmission Holdings, Inc.
ATC	American Transmission Company LLC
Bison	Bison Wind Energy Center
Blanchard	Blanchard Solar Energy Facility
BNI Energy	BNI Energy, Inc. and its subsidiary
Boswell	Boswell Energy Center
Camp Ripley	Camp Ripley Solar Array
CO_2	Carbon Dioxide
Company	ALLETE, Inc. and its subsidiaries
Cliffs	Cleveland-Cliffs Inc.
CSAPR	Cross-State Air Pollution Rule
DC	Direct Current
EIS	Environmental Impact Statement
EITE	Energy-Intensive Trade-Exposed
EPA	United States Environmental Protection Agency
ERP Iron Ore	ERP Iron Ore, LLC
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
GAAP	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gases
GNTL	Great Northern Transmission Line
Hibbard	Hibbard Renewable Energy Center
Husky Energy	Husky Energy Inc.
Invest Direct	ALLETE's Direct Stock Purchase and Dividend Reinvestment Plan
IRP	Integrated Resource Plan
Item ___	Item ___ of this Form 10-Q
kV	Kilovolt(s)
kW / kWh	Kilowatt(s) / Kilowatt-hour(s)
Laskin	Laskin Energy Center
Manitoba Hydro	Manitoba Hydro-Electric Board
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midcontinent Independent System Operator, Inc.
MMTP	Manitoba-Minnesota Transmission Project

ALLETE, Inc. First Quarter 2019 Form 10-Q
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Abbreviation or Acronym	Term
Montana-Dakota Utilities	Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc.
Moody’s	Moody’s Investors Service, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW / MWh	Megawatt(s) / Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards
NDPSC	North Dakota Public Service Commission
Nobles 2	Nobles 2 Power Partners, LLC
NOL	Net Operating Loss
NOX	Nitrogen Oxides
Northern States Power	Northern States Power Company, a subsidiary of Xcel Energy Inc.
Northshore Mining	Northshore Mining Company, a wholly-owned subsidiary of Cleveland-Cliffs Inc.
Note ___	Note ___ to the Consolidated Financial Statements in this Form 10-Q
NPDES	National Pollutant Discharge Elimination System
NTEC	Nemadji Trail Energy Center
Oliver Wind I	Oliver Wind I Energy Center
Oliver Wind II	Oliver Wind II Energy Center
Palm Coast Park District	Palm Coast Park Community Development District in Florida
PolyMet	PolyMet Mining Corp.
PPA / PSA	Power Purchase Agreement / Power Sales Agreement
PPACA	Patient Protection and Affordable Care Act of 2010
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
Silver Bay Power	Silver Bay Power Company, a wholly-owned subsidiary of Cleveland-Cliffs Inc.
SO_2	Sulfur Dioxide
Square Butte	Square Butte Electric Cooperative, a North Dakota cooperative corporation
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
TCJA	Tax Cuts and Job Act of 2017 (Public Law 115-97)
Town Center District	Town Center at Palm Coast Community Development District in Florida
U.S.	United States of America
U.S. Water Services	U.S. Water Services Holding Company and its subsidiaries
WTG	Wind Turbine Generator

Forward-Looking Statements

Statements in this report that are not statements of historical facts are 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 can be 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," "likely," "will continue," "could," "may," "potential," "target," "outlook" or words of similar m
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 providing this cautionary statement to identify important factors that could cause our actual results to differ materially from those indicated in forward-looking statements made by or on behalf of ALLETE in this 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 that could cause our actual results to differ materially from those indicated in the forward-looking statements:

- our ability to successfully implement our strategic objectives;
- global and domestic economic conditions affecting us or our customers;
- changes in and compliance with laws and regulations;
- changes in tax rates or policies or in rates of inflation;
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements;
- weather conditions, natural disasters and pandemic diseases;
- our ability to access capital markets and bank financing;
- changes in interest rates and the performance of the financial markets;
- project delays or changes in project costs;
- changes in operating expenses and capital expenditures and our ability to raise revenues from our customers in regulated rates or contract price increases at our Energy Infrastructure and Related Services and other businesses;
- the impacts of commodity prices on ALLETE and our customers;
- our ability to attract and retain qualified, skilled and experienced personnel;
- effects of emerging technology;
- war, acts of terrorism and cybersecurity attacks;
- our ability to manage expansion and integrate acquisitions;
- population growth rates and demographic patterns;
- wholesale power market conditions;
- federal and state regulatory and legislative actions that impact regulated utility economics, including our allowed rates of return, capital structure, ability to secure financing, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities and utility infrastructure, recovery of purchased power, capital investments and other expenses, including present or prospective environmental matters;
- effects of competition, including competition for retail and wholesale customers;
- effects of restructuring initiatives in the electric industry;
- the impacts on our Regulated Operations segment of climate change and future regulation to restrict the emissions of GHG;
- effects of increased deployment of distributed low-carbon electricity generation resources;

- the impacts of laws and regulations related to renewable and distributed generation;
- pricing, availability and transportation of fuel and other commodities and the ability to recover the costs of such commodities;
- our current and potential industrial and municipal customers' ability to execute announced expansion plans;
- real estate market conditions where our legacy Florida real estate investment is located may not improve;
- the success of efforts to realize value from, invest in, and develop new opportunities in, our Energy Infrastructure and Related Services businesses; and
- factors affecting our Energy Infrastructure and Related Services businesses, including unanticipated cost increases, changes in legislation and regulations impacting the industries in which the customers served operate, the effects of weather, creditworthiness of customers, ability to obtain materials required to perform services, and changing market conditions.

Forward-Looking Statements (Continued)

Additional disclosures regarding factors that could cause our results or performance to differ from those anticipated by this report are discussed in Part I, Item 1A. Risk Factors of ALLETE's 2018 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 ALLETE in this Form 10-Q and in other reports filed with the SEC that attempt to identify the risks and uncertainties that may affect ALLETE's business.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Unaudited

	March 31, 2019	December 31, 2018
Millions		
Assets		
Current Assets		
Cash and Cash Equivalents	$353.3	$69.1
Accounts Receivable (Less Allowance of $1.0 and $1.7)	98.9	144.4
Inventories – Net	73.8	86.7
Prepayments and Other	30.4	34.1
Total Current Assets	556.4	334.3
Property, Plant and Equipment – Net	3,940.5	3,904.4
Regulatory Assets	385.1	389.5
Equity Investments	154.8	161.1
Goodwill and Intangible Assets – Net	1.1	223.3
Other Non-Current Assets	180.9	152.4
Total Assets	$5,218.8	$5,165.0
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$134.4	$149.8
Accrued Taxes	60.3	51.4
Accrued Interest	14.9	17.9
Long-Term Debt Due Within One Year	14.3	57.5
Other	98.5	128.5
Total Current Liabilities	322.4	405.1
Long-Term Debt	1,525.0	1,428.5
Deferred Income Taxes	215.5	223.6
Regulatory Liabilities	504.1	512.1
Defined Benefit Pension and Other Postretirement Benefit Plans	165.2	177.3
Other Non-Current Liabilities	287.9	262.6
Total Liabilities	3,020.1	3,009.2
Commitments, Guarantees and Contingencies (Note 7)		
Shareholders' Equity		
Common Stock Without Par Value, 80.0 Shares Authorized, 51.6 and 51.5 Shares Issued and Outstanding	1,431.1	1,428.5
Accumulated Other Comprehensive Loss	(27.2)	(27.3)
Retained Earnings	794.8	754.6
Total Shareholders' Equity	2,198.7	2,155.8
Total Liabilities and Shareholders' Equity	$5,218.8	$5,165.0

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
Unaudited

	Three Months Ended March 31,	
	2019	**2018**
Millions Except Per Share Amounts		
Operating Revenue		
Contracts with Customers – Utility	$282.2	$270.2
Contracts with Customers – Non-utility	72.1	82.0
Other – Non-utility	2.9	6.0
Total Operating Revenue	357.2	358.2
Operating Expenses		
Fuel, Purchased Power and Gas – Utility	109.8	100.9
Transmission Services – Utility	18.3	18.4
Cost of Sales – Non-utility	30.6	32.9
Operating and Maintenance	76.2	86.5
Depreciation and Amortization	51.9	45.8
Taxes Other than Income Taxes	13.6	16.3
Total Operating Expenses	300.4	300.8
Operating Income	56.8	57.4
Other Income (Expense)		
Interest Expense	(16.5)	(16.9)
Equity Earnings	5.6	4.7
Gain on Sale of U.S. Water Services	20.1	—
Other	7.4	2.1
Total Other Income (Expense)	16.6	(10.1)
Income Before Income Taxes	73.4	47.3
Income Tax Expense (Benefit)	2.9	(3.7)
Net Income	$70.5	$51.0
Average Shares of Common Stock		
Basic	51.6	51.2
Diluted	51.7	51.4
Basic Earnings Per Share of Common Stock	$1.37	$1.00
Diluted Earnings Per Share of Common Stock	$1.37	$0.99

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Unaudited

	Three Months Ended March 31,	
	2019	**2018**
Millions		
Net Income	$70.5	$51.0
Other Comprehensive Income (Loss)		
Unrealized Gain (Loss) on Securities		
Net of Income Tax Expense of $– and $–	0.1	(0.1)
Defined Benefit Pension and Other Postretirement Benefit Plans		
Net of Income Tax Expense of $0.1 and $0.1	—	0.4
Total Other Comprehensive Income	0.1	0.3
Total Comprehensive Income	$70.6	$51.3

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

	Three Months Ended March 31,	
	2019	**2018**
Millions		
Operating Activities		
Net Income	$70.5	$51.0
AFUDC – Equity	(0.6)	(0.3)
Income from Equity Investments – Net of Dividends	(1.2)	(0.5)
Gain on Sales of Investments and Property, Plant and Equipment	(1.7)	(0.1)
Depreciation Expense	50.7	44.5
Amortization of PSAs	(2.9)	(6.0)
Amortization of Other Intangible Assets and Other Assets	1.9	2.8
Deferred Income Tax Expense (Benefit)	2.6	(4.4)
Share-Based and ESOP Compensation Expense	1.8	1.7
Defined Benefit Pension and Postretirement Benefit Expense	1.1	2.2
Provision for Interim Rate Refund	0.6	4.4
Payments / Provision for Tax Reform Refund	(10.2)	7.5
Bad Debt Expense	0.4	0.3
Gain on Sale of U.S. Water Services	(20.1)	—
Changes in Operating Assets and Liabilities		
Accounts Receivable	20.9	6.3
Inventories	(5.1)	(0.3)
Prepayments and Other	2.9	(1.2)
Accounts Payable	(5.5)	(0.1)
Other Current Liabilities	(9.9)	17.3
Cash Contributions to Defined Benefit Pension Plans	(10.4)	(15.0)
Changes in Regulatory and Other Non-Current Assets	0.3	3.8
Changes in Regulatory and Other Non-Current Liabilities	(7.0)	7.4
Cash from Operating Activities	79.1	121.3
Investing Activities		
Proceeds from Sale of Available-for-sale Securities	2.7	3.3
Payments for Purchase of Available-for-sale Securities	(2.6)	(5.3)
Payments for Equity Investments	(0.5)	(1.6)
Return of Capital from Equity Investments	8.3	—
Proceeds from Sale of U.S. Water Services – Net of Transaction Costs and Cash Retained	264.7	—
Additions to Property, Plant and Equipment	(89.3)	(88.1)
Other Investing Activities	1.8	2.7
Cash from (for) Investing Activities	185.1	(89.0)
Financing Activities		
Proceeds from Issuance of Common Stock	0.8	4.3
Proceeds from Issuance of Long-Term Debt	100.0	—
Repayments of Long-Term Debt	(43.8)	(1.9)
Acquisition-Related Contingent Consideration Payments	(3.8)	—

Dividends on Common Stock	(30.3)	(28.7)
Other Financing Activities	(0.9)	(0.2)
Cash from (for) Financing Activities	22.0	(26.5)
Change in Cash, Cash Equivalents and Restricted Cash	286.2	5.8
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	79.0	110.1
Cash, Cash Equivalents and Restricted Cash at End of Period	$365.2	$115.9

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Unaudited

	Three Months Ended March 31,	
	2019	**2018**
Millions Except Per Share Amounts		
Common Stock		
Balance, Beginning of Period	$1,428.5	$1,401.4
Common Stock Issued	2.6	6.0
Balance, End of Period	1,431.1	1,407.4
Accumulated Other Comprehensive Loss		
Balance, Beginning of Period	(27.3)	(28.2)
Other Comprehensive Income - Net of Income Taxes		
Unrealized Gain (Loss) on Debt Securities	0.1	(0.1)
Defined Benefit Pension and Other Postretirement Plans	—	0.4
Balance, End of Period	(27.2)	(27.9)
Retained Earnings		
Balance, Beginning of Period	754.6	695.5
Net Income	70.5	51.0
Common Stock Dividends	(30.3)	(28.7)
Balance, End of Period	794.8	717.8
Total Shareholders' Equity	$2,198.7	$2,097.3
Dividends Per Share of Common Stock	$0.5875	$0.56

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

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, 2018, Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. In management's opinion, these unaudited financial statements include all adjustments necessary for a fair statement of financial results. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Operating results for the three months ended March 31, 2019, are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2019. For further information, refer to the Consolidated Financial Statements and notes included in our 2018 Form 10-K.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Cash, Cash Equivalents and Restricted Cash. We consider all investments purchased with original maturities of three months or less to be cash equivalents. As of March 31, 2019, restricted cash amounts included in Prepayments and Other on the Consolidated Balance Sheet include collateral deposits required under an ALLETE Clean Energy loan agreement. In prior periods presented, the amounts also include U.S. Water Service's standby letters of credit. The restricted cash amounts included in Other Non-Current Assets represent collateral deposits required under an ALLETE Clean Energy loan agreement and PSAs, and deposits from a SWL&P customer in aid of future capital expenditures. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheet that aggregate to the amounts presented in the Consolidated Statement of Cash Flows.

Cash, Cash Equivalents and Restricted Cash	**March 31, 2019**	**December 31, 2018**	**March 31, 2018**	**December 31, 2017**
Millions				
Cash and Cash Equivalents	$353.3	$69.1	$98.5	$98.9
Restricted Cash included in Prepayments and Other	7.2	1.3	8.8	2.6
Restricted Cash included in Other Non-Current Assets	4.7	8.6	8.6	8.6
Cash, Cash Equivalents and Restricted Cash on the Consolidated Statement of Cash Flows	$365.2	$79.0	$115.9	$110.1

Inventories – Net. Inventories are stated at the lower of cost or net realizable value. Inventories in our Regulated Operations segment are carried at an average cost or first-in, first-out basis. Inventories in our ALLETE Clean Energy segment and Corporate and Other businesses are carried at an average cost, first-in, first-out or specific identification basis.

Inventories – Net	**March 31, 2019**	**December 31, 2018**
Millions		
Fuel *(a)*	$29.4	$26.0
Materials and Supplies	44.4	44.2
Raw Materials *(b)*	—	2.8
Work in Progress *(b)*	—	6.1
Finished Goods *(b)*	—	8.4
Reserve for Obsolescence *(b)*	—	(0.8)
Total Inventories – Net	$73.8	$86.7

(a) Fuel consists primarily of coal inventory at Minnesota Power.
(b) On March 26, 2019, ALLETE completed the sale of U.S. Water Services which resulted in the removal of the related inventory items from the Consolidated Balance Sheet.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Non-Current Assets	**March 31, 2019**	**December 31, 2018**
Millions		
Contract Assets *(a)*	$29.8	$30.7
Finance Receivable	10.4	10.4
Operating Lease Right-of-use Assets *(b)*	34.0	—
ALLETE Properties	24.0	24.4
Other	82.7	86.9
Total Other Non-Current Assets	$180.9	$152.4

(a) Contract Assets include payments made to customers as an incentive to execute or extend service agreements. The contract payments are being amortized over the term of the respective agreements as a reduction to revenue.
(b) See Leases.

Other Current Liabilities	**March 31, 2019**	**December 31, 2018**
Millions		
Provision for Interim Rate Refund *(a)*	$40.6	$40.0
PSAs	12.4	12.6
Contract Liabilities *(b)*	0.4	7.6
Provision for Tax Reform Refund *(c)*	0.5	10.7
Contingent Consideration *(d)*	—	3.8
Operating Lease Liabilities *(e)*	8.4	—
Other	36.2	53.8
Total Other Current Liabilities	$98.5	$128.5

(a) Provision for Interim Rate Refund is expected to be refunded to Minnesota Power's regulated retail customers in the second quarter of 2019.
(b) Contract Liabilities include deposits received as a result of entering into contracts with our customers prior to completing our performance obligations.
(c) Provision for Tax Reform Refund related to the income tax benefits of the TCJA in 2018 was refunded to Minnesota Power customers in the first quarter of 2019 and will be refunded to SWL&P customers in 2019 and 2020.
(d) Contingent Consideration related to the earnings-based payment resulting from the U.S. Water Services acquisition was paid in the first quarter of 2019.
(e) See Leases.

Other Non-Current Liabilities	**March 31, 2019**	**December 31, 2018**
Millions		
Asset Retirement Obligation	$142.0	$138.6
PSAs	73.9	76.9
Operating Lease Liabilities *(a)*	25.6	—
Other	46.4	47.1
Total Other Non-Current Liabilities	$287.9	$262.6

(a) See Leases.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Supplemental Statement of Cash Flows Information.

Three Months Ended March 31,	**2019**	**2018**
Millions		
Cash Paid for Interest – Net of Amounts Capitalized	$19.7	$19.3
Noncash Investing and Financing Activities		
Decrease in Accounts Payable for Capital Additions to Property, Plant and Equipment	$(1.1)	$(48.1)
Reclassification of Property, Plant and Equipment to Inventory *(a)*	—	$46.9
Recognition of Right-of-use Assets and Lease Liabilities *(b)*	$34.0	—
Capitalized Asset Retirement Costs	$1.6	$0.8
AFUDC–Equity	$0.6	$0.3

(a) *In February 2018, Montana-Dakota Utilities exercised its option to purchase the Thunder Spirit II wind energy facility upon completion, resulting in a reclassification from Property, Plant and Equipment – Net to Inventories – Net for project costs incurred in the prior year.*

(b) *See Leases.*

New Accounting Pronouncements.

Recently Adopted Pronouncements

Disclosure Update and Simplification. In November 2018, the SEC adopted amendments to certain disclosure requirements. The amendments adopted include requirements that interim financial statements should include comparative statements for the same period in the prior financial year, except that the requirement for comparative balance sheet information may be satisfied by presenting the year-end balance sheet. It further includes a requirement analyzing the changes in each caption of shareholders' equity either separately in a note or on the face of the financial statement. These amendments were effective for ALLETE in the first quarter of 2019. We have included the presentation of our Statement of Shareholders' Equity to meet these requirements.

Leases. In 2016, the FASB issued an accounting standard update which revised the existing guidance for leases. Under the revised guidance, lessees will be required to recognize right-of-use assets and lease liabilities on the Consolidated Balance Sheet for leases with terms greater than 12 months. The new standard also requires additional qualitative and quantitative disclosures by lessees and lessors to enable users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The accounting for leases by lessors and the recognition, measurement and presentation of expenses and cash flows from leases is not expected to significantly change as a result of the new guidance. The Company adopted this guidance in the first quarter of 2019 using the optional transition method and the package of practical expedients, which allowed for the adoption of the standard as of January 1, 2019 without restating previously disclosed information. Management elected the optional transition method of adoption due to the overall immateriality of the balance sheet gross up in the period of adoption. The package of practical expedients allowed management to not reassess the lease classification for leases, including those that had expired during the periods presented or that still existed at the time of adoption. We have included additional disclosures in the notes to the consolidated financial statements including additional information about the Company's leases. (See *Leases*.)

Leases. We determine if a contract is or contains a lease at inception and recognize a right-of-use asset and lease liability for all leases with a term greater than 12 months. Our right-of-use assets and lease liabilities for operating leases are included in Other Non-Current Assets, Other Current Liabilities and Other Non-Current Liabilities, respectively, in our Consolidated Balance Sheet. We currently do not have any finance leases.

Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right-of-use assets and lease liabilities are recognized at the commencement date based on the estimated present value of lease payments over the lease term. As our leases do not provide an explicit rate, we determine the present value of future lease payments based on our estimated incremental borrowing rate using information available at the lease commencement date. The operating lease right-of-use asset includes lease payments to be made during the lease term and any lease incentives, as applicable.

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)
Leases (Continued)

Our leases may include options to extend or buy out the lease at certain points throughout the term, and if it is reasonably certain that we will exercise that option at lease commencement, we include those rental payments in our calculation of the right-of-use asset and lease liability. Lease and rent expense is recognized on a straight-line basis over the lease term. Leases with a term of 12 months or less are not recorded on the Consolidated Balance Sheet.

The majority of our operating leases are for heavy equipment, vehicles and land with fixed monthly payments which we group into two categories: Vehicles and Equipment; and Land and Other. Our largest operating lease is for the dragline at BNI Energy which includes a termination payment at the end of the lease term if we do not exercise our purchase option. The amount of this payment is $3 million and is included in our calculation of the right-of-use asset and lease liability recorded. None of our other leases contain residual value guarantees.

The components of lease cost were as follows:

Three Months Ended March 31,	**2019**	
Millions		
Operating Lease Cost	$2.9	
Other Information:		
Operating Cash Flows From Operating Leases	$2.9	
Balance Sheet Information Related to Leases:		
Other Non-Current Assets	$34.0	
Total Operating Lease Right-of-use Assets	$34.0	
Other Current Liabilities	$8.4	
Other Non-Current Liabilities	25.6	
Total Operating Lease Liabilities	$34.0	
Weighted Average Remaining Lease Term (Years):		
Operating Leases - Vehicles and Equipment	4	
Operating Leases - Land and Other	29	
Weighted Average Discount Rate:		
Operating Leases - Vehicles and Equipment	3.6	%
Operating Leases - Land and Other	4.5	%

NOTE 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)
Leases (Continued)

Maturities of lease liabilities were as follows:

	March 31, 2019
Millions	
2019	$9.9
2020	7.9
2021	6.1
2022	4.9
2023	3.1
Thereafter	9.4
Total Lease Payments Due	41.3
Less: Imputed Interest	7.3
Total Lease Obligations	34.0
Less: Current Lease Obligations	8.4
Long-term Lease Obligations	$25.6

Subsequent Events. The Company performed an evaluation of subsequent events for potential recognition and disclosure through the date of the financial statements issuance.

Sale of U.S. Water Services. On February 8, 2019, the Company entered into a stock purchase agreement providing for the sale of U.S. Water Services to a subsidiary of Kurita Water Industries Ltd. for a cash purchase price of $270 million. On March 26, 2019, ALLETE completed the sale and received approximately $265 million in cash at closing, net of transaction costs and cash retained. This amount is subject to adjustment for finalization of such items as estimated working capital. The Company recognized a gain on the sale of U.S. Water Services of approximately $10 million after-tax during the three months ended March 31, 2019.

NOTE 2. REGULATORY MATTERS

Regulatory matters are summarized in Note 4. Regulatory Matters to the Consolidated Financial Statements in our 2018 Form 10 K, with additional disclosure provided in the following paragraphs.

Electric Rates. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, PSCW or FERC. As authorized by the MPUC, Minnesota Power also recognizes revenue under cost recovery riders for transmission, renewable, and environmental investments and expenditures. Revenue from cost recovery riders was $7.4 million for the three months ended March 31, 2019 ($24.1 million for three months ended March 31, 2018). With the implementation of final rates in Minnesota Power's general rate case, certain revenue previously recognized under cost recovery riders was incorporated into base rates. (See *2016 Minnesota General Rate Case.*)

2016 Minnesota General Rate Case. The MPUC issued an order dated March 12, 2018, in Minnesota Power's general rate case approving a return on common equity of 9.25 percent and a 53.81 percent equity ratio. Final rates went into effect on December 1, 2018, which is expected to result in additional revenue of approximately $13 million on an annualized basis. Interim rates were collected from January 1, 2017, through November 30, 2018, which were fully offset by the recognition of a corresponding reserve. Minnesota Power has recorded a reserve for an interim rate refund, net of discounts provided to EITE customers, of $40.6 million as of March 31, 2019 ($40.0 million as of December 31, 2018), which is expected to be refunded in the second quarter of 2019.

2018 Wisconsin General Rate Case. In an order dated December 20, 2018, the PSCW approved a rate increase for SWL&P including a return on equity of 10.4 percent and a 55.0 percent equity ratio. Final rates went into effect January 1, 2019, which is expected to result in additional revenue of approximately $1.3 million on an annualized basis.

NOTE 2. REGULATORY MATTERS (Continued)

Integrated Resource Plan. In a 2016 order, the MPUC approved Minnesota Power’s 2015 IRP with modifications. The order accepted Minnesota Power’s plans for the economic idling of Taconite Harbor Units 1 and 2 and the ceasing of coal-fired operations at Taconite Harbor in 2020, directed Minnesota Power to retire Boswell Units 1 and 2 no later than 2022, required an analysis of generation and demand response alternatives to be filed with a natural gas resource proposal, and required Minnesota Power to conduct request for proposals for additional wind, solar and demand response resource additions subject to further MPUC approvals. Minnesota Power retired Boswell Units 1 and 2 in the fourth quarter of 2018. Minnesota Power’s next IRP filing is due October 1, 2020.

In 2017, Minnesota Power submitted a resource package to the MPUC requesting approval of PPAs for the output of a 250 MW wind energy facility and a 10 MW solar energy facility as well as approval of a 250 MW natural gas capacity dedication agreement. These agreements were subject to MPUC approval of the construction of NTEC, a 525 MW to 550 MW combined-cycle natural gas fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE. Minnesota Power would purchase approximately 50 percent of the facility's output starting in 2025. In an order dated January 24, 2019, the MPUC approved Minnesota Power’s request for approval of the NTEC natural gas capacity dedication agreement. Separately, the MPUC required a baseload retirement evaluation in Minnesota Power’s next IRP filing analyzing its existing fleet, including potential early retirement scenarios of Boswell Units 3 and 4, as well as a securitization plan. On January 8, 2019, an application for a certificate of public convenience and necessity for NTEC was submitted to the PSCW. A decision on the application is expected in 2020.

Regulatory Assets and Liabilities. Our regulated utility operations are subject to accounting guidance for the effect of certain types of regulation. Regulatory assets represent incurred costs that have been deferred as they are probable for recovery in customer rates. Regulatory liabilities represent obligations to make refunds to customers and amounts collected in rates for which the related costs have not yet been incurred. The Company assesses quarterly whether regulatory assets and liabilities meet the criteria for probability of future recovery or deferral. With the exception of the regulatory asset for Boswell Units 1 and 2 net plant and equipment, no other regulatory assets are currently earning a return. The recovery, refund or credit to rates for these regulatory assets and liabilities will occur over the periods either specified by the applicable regulatory authority or over the corresponding period related to the asset or liability.

NOTE 2. REGULATORY MATTERS (Continued)

Regulatory Assets and Liabilities	**March 31, 2019**	**December 31, 2018**
Millions		
Non-Current Regulatory Assets		
Defined Benefit Pension and Other Postretirement Benefit Plans	$218.0	$218.5
Income Taxes	103.2	105.5
Asset Retirement Obligations	32.4	32.6
Boswell 1 and 2 Net Plant and Equipment	14.8	16.3
Manufactured Gas Plant	8.1	8.0
PPACA Income Tax Deferral	4.9	5.0
Other	3.7	3.6
Total Non-Current Regulatory Assets	$385.1	$389.5
Current Regulatory Liabilities *(a)*		
Provision for Interim Rate Refund *(b)*	$40.6	$40.0
Transmission Formula Rates Refund	3.3	4.4
Provision for Tax Reform Refund *(c)*	0.5	10.7
Total Current Regulatory Liabilities	44.4	55.1
Non-Current Regulatory Liabilities		
Income Taxes	389.4	396.4
Wholesale and Retail Contra AFUDC	67.3	64.4
Plant Removal Obligations	26.8	25.1
North Dakota Investment Tax Credits	12.3	14.7
Conservation Improvement Program	5.2	1.5
Transmission Formula Rates Refund	1.6	1.6
Cost Recovery Riders	—	6.9
Other	1.5	1.5
Total Non-Current Regulatory Liabilities	504.1	512.1
Total Regulatory Liabilities	$548.5	$567.2

(a) Current regulatory liabilities are presented within Other Current Liabilities on the Consolidated Balance Sheet.
(b) This amount is expected to be refunded to Minnesota Power's regulated retail customers in the second quarter of 2019.
(c) Provision for Tax Reform Refund related to the income tax benefits of the TCJA in 2018 was refunded to Minnesota Power customers in the first quarter of 2019 and will be refunded to SWL&P customers in 2019 and 2020.

NOTE 3. EQUITY INVESTMENTS

Investment in ATC. Our wholly-owned subsidiary, ALLETE Transmission Holdings, owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in portions of Wisconsin, Michigan, Minnesota and Illinois. We account for our investment in ATC under the equity method of accounting. In the three months ended March 31, 2019, we invested $0.4 million in ATC, and on April 30, 2019, we invested an additional $2.3 million. We expect to make $5.8 million in additional investments in 2019.

ALLETE's Investment in ATC	
Millions	
Equity Investment Balance as of December 31, 2018	$128.1

Cash Investments	0.4
Equity in ATC Earnings	5.6
Distributed ATC Earnings	(4.4)
Amortization of the Remeasurement of Deferred Income Taxes	0.3
Equity Investment Balance as of March 31, 2019	$130.0

ATC's authorized return on equity is 10.32 percent, or 10.82 percent including an incentive adder for participation in a regional transmission organization.

NOTE 3. EQUITY INVESTMENTS (Continued)
Investment in ATC (Continued)

In 2016, a federal administrative law judge ruled on a complaint proposing a reduction in the base return on equity to 9.70 percent, or 10.20 percent including an incentive adder for participation in a regional transmission organization, subject to approval or adjustment by the FERC. A final decision from the FERC on the administrative law judge's recommendation is pending.

Investment in Nobles 2. Our wholly-owned subsidiary, ALLETE South Wind, owns 49 percent of Nobles 2, the entity that will own and operate a 250 MW wind energy facility in southwestern Minnesota pursuant to a 20-year PPA with Minnesota Power. We account for our investment in Nobles 2 under the equity method of accounting. As of March 31, 2019, our equity investment in Nobles 2 was $24.8 million ($33.0 million at December 31, 2018). In the first quarter of 2019, Nobles 2 returned capital of $8.3 million based on its cash needs.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

As a result of completing the sale of U.S. Water Services on March 26, 2019, there was no goodwill recorded as of March 31, 2019 ($148.5 million at December 31, 2018).

The balance of intangible assets, net, as of March 31, 2019, is as follows:

	December 31, 2018	**Amortization**	**Other** *(b)*	**March 31, 2019**
Millions				
Intangible Assets				
Definite-Lived Intangible Assets				
Customer Relationships	$50.7	$(1.1)	$(49.6)	—
Developed Technology and Other *(a)*	7.5	(0.3)	(6.1)	$1.1
Total Definite-Lived Intangible Assets	58.2	(1.4)	(55.7)	1.1
Indefinite-Lived Intangible Assets				
Trademarks and Trade Names	16.6	n/a	(16.6)	—
Total Intangible Assets	$74.8	$(1.4)	$(72.3)	$1.1

(a) *Developed Technology and Other includes patents, non-compete agreements, land easements and trade names with finite lives.*
(b) *On March 26, 2019, ALLETE completed the sale of U.S. Water Services which resulted in the removal of the related intangible assets from the Consolidated Balance Sheet.*

Amortization expense for intangible assets was $1.4 million for the three months ended March 31, 2019, and 2018. The remaining definite-lived intangible assets will continue to be amortized ratably through 2028.

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. These inputs, which are used to measure fair value, are prioritized through the fair value hierarchy. 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). Descriptions of the three levels of the fair value hierarchy are discussed in Note 9. Fair Value to the Consolidated Financial Statements in our 2018 Form 10-K.

NOTE 5. FAIR VALUE (Continued)

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 March 31, 2019, and December 31, 2018. 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, which may affect the valuation of these assets and liabilities and their placement within the fair value hierarchy levels. The estimated fair value of Cash and Cash Equivalents listed on the Consolidated Balance Sheet approximates the carrying amount and therefore is excluded from the recurring fair value measures in the following tables.

	Fair Value as of March 31, 2019			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Millions				
Assets				
Investments *(a)*				
Available-for-sale – Equity Securities	$12.3	—	—	$12.3
Available-for-sale – Corporate and Governmental Debt Securities *(b)*	—	$8.3	—	8.3
Cash Equivalents	1.0	—	—	1.0
Total Fair Value of Assets	$13.3	$8.3	—	$21.6
Liabilities				
Deferred Compensation *(c)*	—	$21.6	—	$21.6
Total Fair Value of Liabilities	—	$21.6	—	$21.6
Total Net Fair Value of Assets (Liabilities)	$13.3	$(13.3)	—	—

	Fair Value as of December 31, 2018			
Recurring Fair Value Measures	**Level 1**	**Level 2**	**Level 3**	**Total**
Millions				
Assets				
Investments *(a)*				
Available-for-sale – Equity Securities	$12.2	—	—	$12.2
Available-for-sale – Corporate and Governmental Debt Securities	—	$8.0	—	8.0
Cash Equivalents	1.0	—	—	1.0
Total Fair Value of Assets	$13.2	$8.0	—	$21.2
Liabilities				
Deferred Compensation *(c)*	—	$19.8	—	$19.8
U.S. Water Services Contingent Consideration *(d)*	—	—	$3.8	3.8
Total Fair Value of Liabilities	—	$19.8	$3.8	$23.6
Total Net Fair Value of Assets (Liabilities)	$13.2	$(11.8)	$(3.8)	$(2.4)

(a) Included in Other Investments on the Consolidated Balance Sheet.

(b) As of March 31, 2019, the aggregate amount of available-for-sale corporate and governmental debt securities maturing in one year or less was $1.7 million, in one year to less than three years was $4.0 million, in three years to less than five years was $1.8 million and in five or

more years was $0.8 million.
(c) *Included in Other Non-Current Liabilities on the Consolidated Balance Sheet.*
(d) *Included in Other Current Liabilities on the Consolidated Balance Sheet.*

The Level 3 liability in the preceding table is related to the contingent consideration liability that resulted from the 2015 acquisition of U.S. Water Services. Based on the terms and conditions of the acquisition agreement, a final payout of $3.8 million was made in the first quarter of 2019 for the remaining outstanding shares.

NOTE 5. FAIR VALUE (Continued)

Fair Value of Financial Instruments. With the exception of the item listed in the following table, the estimated fair value of all financial instruments approximates the carrying amount. The fair value for the item listed in the following table was based on quoted market prices for the same or similar instruments (Level 2).

Financial Instruments	**Carrying Amount**	**Fair Value**
Millions		
Long-Term Debt, Including Long-Term Debt Due Within One Year		
March 31, 2019	$1,549.0	$1,639.5
December 31, 2018	$1,495.2	$1,534.6

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. Non-financial assets such as equity method investments, land inventory, and property, plant and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment is recognized. For the three months ended March 31, 2019, and the year ended December 31, 2018, there were no triggering events or indicators of impairment for these non-financial assets.

NOTE 6. SHORT-TERM AND LONG-TERM DEBT

The following tables present the Company's short-term and long-term debt as of March 31, 2019, and December 31, 2018:

March 31, 2019	**Principal**	**Unamortized Debt Issuance Costs**	**Total**
Millions			
Short-Term Debt	$14.7	$(0.4)	$14.3
Long-Term Debt	1,534.3	(9.3)	1,525.0
Total Debt	$1,549.0	$(9.7)	$1,539.3

December 31, 2018	**Principal**	**Unamortized Debt Issuance Costs**	**Total**
Millions			
Short-Term Debt	$57.9	$(0.4)	$57.5
Long-Term Debt	1,437.3	(8.8)	1,428.5
Total Debt	$1,495.2	$(9.2)	$1,486.0

On January 10, 2019, ALLETE entered into an amended and restated $400 million credit agreement (Credit Agreement). The Credit Agreement is unsecured, has a variable interest rate and will expire in January 2024. At ALLETE's request and subject to certain conditions, the Credit Agreement may be increased by up to $150 million and ALLETE may make two requests to extend the maturity date, each for a one-year extension. Advances may be used by ALLETE for general corporate purposes, to provide liquidity in support of ALLETE's commercial paper program and to issue up to $60 million in letters of credit.

On March 1, 2019, ALLETE issued and sold the following First Mortgage Bonds (the Bonds):

Maturity Date	**Principal Amount**	**Interest Rate**
March 1, 2029	$70 Million	4.08%
March 1, 2049	$30 Million	4.47%

ALLETE has the option to prepay all or a portion of the Bonds at its discretion, subject to a make-whole provision. The Bonds are subject to additional terms and conditions which are customary for these types of transactions. ALLETE intends to use the proceeds from the sale of the Bonds to fund utility capital investment and for general corporate purposes. The Bonds were sold in reliance on an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, to institutional accredited investors.

NOTE 6. SHORT-TERM AND LONG-TERM DEBT (Continued)

Financial Covenants. Our long-term debt arrangements contain customary covenants. In addition, our lines of credit and letters of credit supporting certain long-term debt arrangements contain financial covenants. Our compliance with financial covenants is not dependent on debt ratings. The most restrictive financial covenant requires ALLETE to maintain a ratio of indebtedness to total capitalization (as the amounts are calculated in accordance with the respective long-term debt arrangements) of less than or equal to 0.65 to 1.00, measured quarterly. As of March 31, 2019, our ratio was approximately 0.41 to 1.00. Failure to meet this covenant would give rise to an event of default if not cured 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. ALLETE has no significant restrictions on its ability to pay dividends from retained earnings or net income. As of March 31, 2019, ALLETE was in compliance with its financial covenants.

NOTE 7. COMMITMENTS, GUARANTEES AND CONTINGENCIES

Power Purchase Agreements. Our long-term PPAs have been evaluated under the accounting guidance for variable interest entities. We have determined that either we have no variable interest in the PPAs or, where we do have variable interests, we are not the primary beneficiary; therefore, consolidation is not required. These conclusions are based on the fact that we do not have both control over activities that are most significant to the entity and an obligation to absorb losses or receive benefits from the entity's performance. Our financial exposure relating to these PPAs is limited to our capacity and energy payments.

Our PPAs are summarized in Note 11. Commitments, Guarantees and Contingencies to the Consolidated Financial Statements in our 2018 Form 10-K, with additional disclosure provided in the following paragraphs.

Square Butte PPA. As of March 31, 2019, Square Butte had total debt outstanding of $302.6 million. Fuel expenses are recoverable through Minnesota Power's fuel adjustment clause and include the cost of coal purchased from BNI Energy under a long-term contract. Minnesota Power's cost of power purchased from Square Butte during the three months ended March 31, 2019, was $20.5 million ($17.3 million for the three months ended March 31, 2018). This reflects Minnesota Power's pro rata share of total Square Butte costs based on the 50 percent output entitlement. Included in this amount was Minnesota Power's pro rata share of interest expense of $2.1 million ($2.3 million for the same period in 2018). Minnesota Power's payments to Square Butte are approved as a purchased power expense for ratemaking purposes by both the MPUC and the FERC.

Minnkota Power PSA. Minnesota Power has a PSA with Minnkota Power, which commenced in 2014. Under the PSA, Minnesota Power is selling a portion of its entitlement from Square Butte to Minnkota Power, resulting in Minnkota Power's net entitlement increasing and Minnesota Power's net entitlement decreasing until Minnesota Power's share is eliminated at the end of 2025. Of Minnesota Power's 50 percent output entitlement, it sold to Minnkota Power approximately 28 percent in 2019 and in 2018.

Coal, Rail and Shipping Contracts. Minnesota Power has coal supply agreements providing for the purchase of a significant portion of its coal requirements through December 2019 and a portion of its coal requirements through December 2021. Minnesota Power also has coal transportation agreements in place for the delivery of a significant portion of its coal requirements through December 2021. The estimated minimum payments under these supply and transportation agreements is $5.7 million for the remainder of 2019, $9.0 million in 2020, $7.5 million in 2021 and none thereafter. The costs of fuel and related transportation costs for Minnesota Power’s generation are recoverable from Minnesota Power’s utility customers through the fuel adjustment clause.

Transmission. We continue to make investments in transmission opportunities that strengthen or enhance the transmission grid or take advantage of our geographical location between sources of renewable energy and end users. These include the GNTL, investments to enhance our own transmission facilities, investments in other transmission assets (individually or in combination with others) and our investment in ATC.

Great Northern Transmission Line. As a condition of the 250-MW long-term PPA entered into with Manitoba Hydro, construction of additional transmission capacity is required. As a result, Minnesota Power is constructing the GNTL, an approximately 220 mile 500-kV transmission line between Manitoba and Minnesota’s Iron Range that was proposed by Minnesota Power and Manitoba Hydro in order to strengthen the electric grid, enhance regional reliability and promote a greater exchange of sustainable energy.

NOTE 7. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Transmission (Continued)

In a 2016 order, the MPUC approved the route permit for the GNTL, and in 2016, the U.S. Department of Energy issued a presidential permit to cross the U.S. Canadian border, which was the final major regulatory approval needed before construction in the U.S. could begin. Site clearing and pre construction activities commenced in the first quarter of 2017 with construction expected to be completed in 2020. To date, most of the right-of-way has been cleared while foundation installation and transmission tower construction have commenced. The total project cost in the U.S., including substation work, is estimated to be between $560 million and $710 million, of which Minnesota Power's portion is expected to be between $300 million and $350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as non-shareholder contributions to capital. Total project costs of $458.2 million have been incurred through March 31, 2019, of which $245.0 million has been recovered from a subsidiary of Manitoba Hydro.

Manitoba Hydro must obtain regulatory and governmental approvals related to the MMTP, a new transmission line in Canada that will connect with the GNTL. In 2015, Manitoba Hydro submitted the final preferred route and EIS for the MMTP to the Manitoba Conservation and Water Stewardship for siting and environmental approval, which was received on April 4, 2019. In 2016, Manitoba Hydro filed an application with the Canadian National Energy Board (NEB) requesting authorization to construct and operate the MMTP, which was recommended for approval on November 15, 2018. Approval of the Canadian federal cabinet is also required.

The MMTP is subject to legal and regulatory challenges which Minnesota Power is actively monitoring. Manitoba Hydro has informed Minnesota Power that it continues to work towards completing the MMTP on schedule. In order to meet the transmission in service requirements in PPAs with Minnesota Power, Manitoba Hydro has indicated that it would need to start construction of the MMTP by September 2019. We are unable to predict the outcome of the Canadian regulatory review process, including the timing thereof or whether any onerous conditions may be imposed, or the timing of the completion of the MMTP, including the impact of any delays that may result in construction schedule adjustments. Any significant delays in the MMTP construction schedule may result in Minnesota Power adjusting the GNTL construction schedule and impact the timing of capital expenditures and associated cost recovery under our transmission cost recovery rider.

Construction of Manitoba Hydro's Keeyask hydroelectric generation facility, which will provide the power to be sold under PPAs with Minnesota Power and transmitted on the MMTP and the GNTL, commenced in 2014 and is anticipated to be in service by early 2021.

Environmental Matters.

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. A number of regulatory changes to the Clean Air Act, the Clean Water Act and various waste management requirements have been promulgated by both the EPA and state authorities over the past several years. Minnesota Power's facilities are subject to additional requirements under many of these regulations. Minnesota Power is reshaping its generation portfolio, over time, to reduce its reliance on coal, has installed cost-effective emission control technology, and advocates for sound science and policy during rulemaking implementation.

We consider our businesses to be in substantial compliance with currently applicable environmental regulations and believe all necessary permits have been obtained. We anticipate that with many state and federal environmental regulations and requirements finalized, or to be finalized in the near future, potential expenditures for future environmental matters may be material and require significant capital investments. Minnesota Power has evaluated various environmental compliance scenarios using possible outcomes of environmental regulations to project power supply trends and impacts on customers.

We review environmental matters 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. Accruals are adjusted as assessment and remediation efforts progress, or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in the 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 expensed unless recoverable in rates from customers.

NOTE 7. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

Air. The electric utility industry is regulated both at the federal and state level to address air emissions. Minnesota Power's generating facilities mainly burn low-sulfur western sub-bituminous coal. All of Minnesota Power's coal-fired generating facilities are equipped with pollution control equipment such as scrubbers, baghouses and low NO_X technologies. Under currently applicable environmental regulations, these facilities are substantially compliant with emission requirements.

Cross-State Air Pollution Rule (CSAPR). The CSAPR requires certain states in the eastern half of the U.S., including Minnesota, to reduce power plant emissions that contribute to ozone or fine particulate pollution in other states. The CSAPR does not require installation of controls but does require facilities have sufficient allowances to cover their emissions on an annual basis. These allowances are allocated to facilities from each state's annual budget, and can be bought and sold. Based on our review of the NO_x and SO_2 allowances issued and pending issuance, we currently expect generation levels and emission rates will result in continued compliance with the CSAPR.

National Ambient Air Quality Standards (NAAQS). The EPA is required to review the NAAQS every five years. If the EPA determines that a state's air quality is not in compliance with the NAAQS, the state is required to adopt plans describing how it will reduce emissions to attain the NAAQS. None of the compliance costs for proposed or current NAAQS revisions are expected to be material.

Climate Change. The scientific community generally accepts that emissions of GHG are linked to global climate change which creates physical and financial risks. Physical risks could include, but are not limited to: increased or decreased precipitation and water levels in lakes and rivers; increased temperatures; and changes in the intensity and frequency of extreme weather events. These all have the potential to affect the Company's business and operations. We are addressing climate change by taking the following steps that also ensure reliable and environmentally compliant generation resources to meet our customers' requirements:

- Expanding renewable power supply for both our operations and the operations of others;
- Providing energy conservation initiatives for our customers and engaging in other demand side management efforts;
- Improving efficiency of our generating facilities;
- Supporting research of technologies to reduce carbon emissions from generating facilities and carbon sequestration efforts;
- Evaluating and developing less carbon intensive future generating assets such as efficient and flexible natural gas-fired generating facilities;
- Managing vegetation on right-of-way corridors to reduce potential wildfire or storm damage risks; and
- Practicing sound forestry management in our service territories to create landscapes more resilient to disruption from climate-related changes, including planting and managing long-lived conifer species.

EPA Regulation of GHG Emissions. In 2014, the EPA announced a proposed rule under Section 111(d) of the Clean Air Act for existing power plants entitled "Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Generating Units", also referred to as the Clean Power Plan (CPP). The EPA issued the final CPP in 2015, together with a proposed federal implementation plan and a model rule for emissions trading. In 2016, the U.S. Supreme Court issued an order staying the effectiveness of the rule until after the appellate court process is complete. In 2016, the U.S. Court of Appeals for the District of Columbia Circuit heard oral arguments and is currently deliberating. If the CPP is upheld at the completion of the appellate process, all of the CPP regulatory deadlines are expected to be reset based on the length of time that the appeals process takes. The EPA is precluded from enforcing the CPP while the U.S. Supreme Court stay is in force.

If upheld, the CPP would establish uniform CO_2 emission performance rates for existing fossil fuel-fired and natural gas-fired combined cycle generating units, setting state-specific goals for CO_2 emissions from the power sector. State goals were determined based on CPP source-specific performance emission rates and each state's mix of power plants. The EPA filed a motion with the U.S. Court of Appeals for the District of Columbia Circuit to hold CPP-related litigation in suspension while the EPA is reviewing the rule. In 2017, an Advanced Notice of Proposed Rulemaking for a CPP replacement rule was published in the Federal Register.

In August 2018, the EPA published the proposed Affordable Clean Energy Rule in the Federal Register, which is intended to replace the CPP with revised emission guidelines that inform the development, submittal, and implementation of State Implementation Plans (SIP) to reduce GHG emissions for existing steam generating units. If a state does not submit a SIP or submits a plan that is unacceptable to the EPA, the EPA would develop a Federal Implementation Plan (FIP). Minnesota Power generating facilities affected by this proposal include Boswell, Laskin, Taconite Harbor and Hibbard.

NOTE 7. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

The proposed Affordable Clean Energy Rule seeks to reduce carbon intensity at existing steam generation units by prescribing Best System of Emission Reduction (BSER), primarily through Heat Rate Improvement (HRI) technologies. Under the proposal, states will have up to three years to develop a SIP, which is subject to EPA approval. While many of the HRIs proposed by the EPA in the proposed rule have already been installed in Minnesota Power's largest coal-fired generating units, compliance specifics would be detailed in either Minnesota's SIP or a FIP.

Minnesota has already initiated several measures consistent with those called for under the CPP and proposed Affordable Clean Energy Rule. Minnesota Power is implementing its *EnergyForward* strategic plan that provides for significant emission reductions and diversifying its electricity generation mix to include more renewable and natural gas energy. (See Note 2. Regulatory Matters.) We are unable to predict the GHG emission compliance costs we might incur; however, the costs could be material. Minnesota Power would seek recovery of additional costs through a rate proceeding.

Water. The Clean Water Act requires NPDES permits be obtained from the EPA (or, when delegated, from individual state pollution control agencies) for any wastewater discharged into navigable waters. We have obtained all necessary NPDES permits, including NPDES storm water permits for applicable facilities, to conduct our operations.

Steam Electric Power Generating Effluent Limitations Guidelines. In 2015, the EPA issued revised federal effluent limitation guidelines (ELG) for steam electric power generating stations under the Clean Water Act. It set effluent limits and prescribed BACT for several wastewater streams, including flue gas desulphurization (FGD) water, bottom ash transport water and coal combustion landfill leachate. In 2017, the EPA announced a two-year postponement of the ELG compliance date of November 1, 2018, to November 1, 2020, while the agency reconsiders the bottom ash transport water and FGD wastewater provisions.

The final ELG rule's potential impact on Minnesota Power operations is primarily at Boswell. Boswell currently discharges bottom ash contact water through its NPDES permit, and also has a closed-loop FGD system that does not discharge to surface waters, but may do so in the future. Under the existing ELG rule, bottom ash transport water discharge to surface waters must cease no later than December 31, 2023. Bottom ash contact water will either need to be re-used in a closed-loop process, routed to a FGD scrubber, or the bottom ash handling system will need to be converted to a dry process. If FGD wastewater is discharged in the future, it will require additional wastewater treatment. The ELG rule provision regarding these two waste-streams are being reconsidered and may change prior to November 1, 2020. Efforts have been underway at Boswell to reduce the amount of water discharged and evaluate potential re use options in its plant processes.

At this time, we cannot estimate what compliance costs we might incur related to these or other potential future water discharge regulations; however, the costs could be material, including costs associated with retrofits for bottom ash handling, pond dewatering, pond closure, and wastewater treatment and re-use. Minnesota Power would seek recovery of additional costs through a rate proceeding.

Solid and Hazardous Waste. The Resource Conservation and Recovery Act of 1976 regulates the management and disposal of solid and hazardous wastes. We are required to notify the EPA of hazardous waste activity and, consequently, routinely submit reports to the EPA.

Coal Ash Management Facilities. Minnesota Power stores or disposes coal ash at four of its electric generating facilities by the following methods: storing ash in lined onsite impoundments (ash ponds), disposing of dry ash in a lined dry ash landfill, applying ash to land as an approved beneficial use and trucking ash to state permitted landfills.

Coal Combustion Residuals from Electric Utilities (CCR). In 2015, the EPA published the final rule regulating CCR as nonhazardous waste under Subtitle D of the Resource Conservation and Recovery Act (RCRA) in the Federal Register. The rule includes additional requirements for new landfill and impoundment construction as well as closure activities related to certain existing impoundments. Costs of compliance for Boswell and Laskin are expected to occur primarily over the next 15 years and be between approximately $65 million and $120 million. The EPA has indicated to Minnesota Power that the landfill at Taconite Harbor, which has been idled and has a temporary landfill cover in place, is a CCR unit based on the EPA's interpretation of the CCR rule language. Minnesota Power has agreed to post the required CCR information for the Taconite Harbor landfill on Minnesota Power's website while the CCR issue is resolved. Compliance costs for CCR at Taconite Harbor are not expected to be material. Minnesota Power would seek recovery of additional costs through a rate proceeding.

NOTE 7. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)
Environmental Matters (Continued)

Minnesota Power continues to work on minimizing costs through evaluation of beneficial re-use and recycling of CCR and CCR related waters. In 2017, the EPA announced its intention to formally reconsider the CCR rule under Subtitle D of the RCRA and in March 2018, published the first phase of the proposed rule revisions in the Federal Register. In July 2018, the EPA finalized revisions to elements of the CCR rule, including extending certain deadlines by two years, the establishment of alternative groundwater protection standards for certain constituents and the potential for risk based management options at facilities based on site characteristics. In August 2018, a U.S. District Court for the District of Columbia decision vacated specific provisions of the CCR rule. The court decision changes the status of three existing impoundments at Boswell that must now be considered unlined. Compliance costs at Boswell due to the court decision are unknown at this time. Minnesota Power would seek recovery of additional costs through a rate proceeding.

Other Environmental Matters

Manufactured Gas Plant Site. We are reviewing and addressing environmental conditions at a former manufactured gas plant site located in Superior, Wisconsin, and formerly operated by SWL&P. SWL&P has been working with the Wisconsin Department of Natural Resources (WDNR) in determining the extent and location of contamination at the site and surrounding properties. In December 2017, the WDNR authorized SWL&P to transition from site investigation into the remedial design process. As of March 31, 2019, we have recorded a liability of approximately $7 million for remediation costs at this site (approximately $7 million as of December 31, 2018), and an associated regulatory asset as we expect recovery of these remediation costs to be allowed by the PSCW. We expect to incur some or all of these costs over the next four years.

Other Matters.

ALLETE Clean Energy. ALLETE Clean Energy’s wind energy facilities have PSAs in place for their entire output and expire in various years between 2019 and 2032. As of March 31, 2019, ALLETE Clean Energy has $21.6 million outstanding in standby letters of credit.

BNI Energy. As of March 31, 2019, BNI Energy had surety bonds outstanding of $49.9 million and a letter of credit for an additional $0.6 million related to the reclamation liability for closing costs associated with its mine and mine facilities. Although its coal supply agreements obligate the customers to provide for the closing costs, additional assurance is required by federal and state regulations. BNI Energy’s total reclamation liability is currently estimated at $47.5 million. BNI Energy does not believe it is likely that any of these outstanding surety bonds or the letter of credit will be drawn upon.

ALLETE Properties. As of March 31, 2019, ALLETE Properties had surety bonds outstanding and letters of credit to governmental entities totaling $8.6 million primarily related to development and maintenance obligations for various projects. The estimated cost of the remaining development work is $6.1 million. ALLETE Properties does not believe it is likely that any of these outstanding surety bonds or letters of credit will be drawn upon.

Community Development District Obligations. As of March 31, 2019, we owned 68 percent of the assessable land in the Town Center District (68 percent as of December 31, 2018) and 12 percent of the assessable land in the Palm Coast Park District (19 percent as of December 31, 2018). As of March 31, 2019, ownership levels, our annual assessments related to capital improvement and special assessment bonds for the ALLETE Properties projects within these districts are approximately $1.4 million for Town Center at Palm Coast and $0.6 million for Palm Coast Park. As we sell property at these projects, the obligation to pay special assessments will pass to the new landowners. In accordance with accounting guidance, these bonds are not reflected as debt on our Consolidated Balance Sheet.

Legal Proceedings.

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, and compliance with regulations, rate base and cost of service issues, among other things. We do not expect the outcome of these matters to have a material effect on our financial position, results of operations or cash flows.

NOTE 8. EARNINGS PER SHARE AND COMMON STOCK

We compute basic earnings per share using the weighted average number of shares of common stock outstanding during each period. The difference between basic and diluted earnings per share, if any, arises from non-vested restricted stock units and performance share awards granted under our Executive Long-Term Incentive Compensation Plan.

Reconciliation of Basic and Diluted Earnings Per Share	**Basic**	**2019 Dilutive Securities**	**Diluted**	**Basic**	**2018 Dilutive Securities**	**Diluted**
Millions Except Per Share Amounts						
Three Months Ended March 31,						
Net Income	$70.5		$70.5	$51.0		$51.0
Average Common Shares	51.6	0.1	51.7	51.2	0.2	51.4
Earnings Per Share	$1.37		$1.37	$1.00		$0.99

NOTE 9. INCOME TAX EXPENSE

	Three Months Ended March 31, 2019	**2018**
Millions		
Current Income Tax Expense *(a)*		
Federal	—	—
State	$0.3	$0.7
Total Current Income Tax Expense	$0.3	$0.7
Deferred Income Tax Expense (Benefit)		
Federal *(b)*	$(9.7)	$(6.8)
State *(c)*	12.5	2.6
Investment Tax Credit Amortization	(0.2)	(0.2)
Total Deferred Income Tax Expense (Benefit)	$2.6	$(4.4)
Total Income Tax Expense (Benefit)	$2.9	$(3.7)

(a) *For each of the three months ended March 31, 2019, and 2018, the federal and state current tax expense was minimal due to NOLs which resulted from the bonus depreciation provisions of the Protecting Americans from Tax Hikes Act of 2015, the Tax Increase Prevention Act of 2014 and the American Taxpayer Relief Act of 2012. Federal and state NOLs are being carried forward to offset current and future taxable income.*

(b) *For each of the three months ended March 31, 2019, and 2018, the federal income tax benefit is primarily due to production tax credits.*

(c) *For the three months ended March 31, 2019, the state income tax expense is primarily due to the sale of U.S. Water Services.*

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, the Company updates its estimate of the annual effective tax rate and if the estimated annual effective tax rate changes, the Company would make a cumulative adjustment in that quarter.

NOTE 9. INCOME TAX EXPENSE (Continued)

Reconciliation of Taxes from Federal Statutory Rate to Total Income Tax Expense	Three Months Ended March 31, 2019	2018
Millions		
Income Before Income Taxes	$73.4	$47.3
Statutory Federal Income Tax Rate	21 %	21 %
Income Taxes Computed at Statutory Federal Rate	$15.4	$9.9
Increase (Decrease) in Income Tax Due to:		
State Income Taxes – Net of Federal Income Tax Benefit	10.1	2.6
Production Tax Credits	(16.3)	(14.4)
Regulatory Differences – Excess Deferred Tax	(3.2)	(2.2)
U.S. Water Services Sale of Stock Basis Difference	2.4	—
Share-Based Compensation	(0.9)	(0.5)
Other	(4.6)	0.9
Total Income Tax Expense (Benefit)	$2.9	$(3.7)

For the three months ended March 31, 2019, the effective tax rate was an expense of 4.0 percent (benefit of 7.8 percent for the three months ended March 31, 2018). The effective tax rate included income tax expense of $10.2 million on the sale of U.S. Water Services.

Uncertain Tax Positions. As of March 31, 2019, we had gross unrecognized tax benefits of $1.3 million ($1.6 million as of December 31, 2018). Of the total gross unrecognized tax benefits, $0.6 million represents the amount of unrecognized tax benefits included on the Consolidated Balance Sheet that, if recognized, would favorably impact the effective income tax rate. The unrecognized tax benefit amounts have been presented as reductions to the tax benefits associated with NOL and tax credit carryforwards on the Consolidated Balance Sheet.

ALLETE and its subsidiaries file a consolidated federal income tax return as well as combined and separate state income tax returns in various jurisdictions. ALLETE has no open federal or state audits, and is no longer subject to federal examination for years before 2015, or state examination for years before 2014.

NOTE 10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

	Pension		Other Postretirement	
Components of Net Periodic Benefit Cost	**2019**	**2018**	**2019**	**2018**
Millions				
Three Months Ended March 31,				
Service Cost	$2.3	$2.7	$1.0	$1.2
Non-Service Cost Components *(a)*				
Interest Cost	8.0	7.4	1.9	1.8
Expected Return on Plan Assets	(11.0)	(11.0)	(2.6)	(2.7)
Amortization of Prior Service Credits	—	—	(0.4)	(0.4)
Amortization of Net Loss	1.8	3.0	0.1	0.2
Net Periodic Benefit Cost	$1.1	$2.1	—	$0.1

(a) *These components of net periodic benefit cost are included in the line item "Other" under Other Income (Expense) on the Consolidated Statement of Income.*

Employer Contributions. For the three months ended March 31, 2019, we contributed $10.4 million in cash to the defined benefit pension plans ($15.0 million for the three months ended March 31, 2018); we do not expect to make additional contributions to our defined benefit pension plans in 2019. For the three months ended March 31, 2019, and 2018, we made no contributions to our other postretirement benefit plans; we do not expect to make any contributions to our other postretirement benefit plans in 2019.

NOTE 11. BUSINESS SEGMENTS

We present three reportable segments: Regulated Operations, ALLETE Clean Energy and U.S. Water Services. We measure performance of our operations through budgeting and monitoring of contributions to consolidated net income by each business segment.

Regulated Operations includes three operating segments which consist of our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC. ALLETE Clean Energy is our business focused on developing, acquiring and operating clean and renewable energy projects. U.S. Water Services was our integrated water management company, which reflects operating results until the closing date of its sale on March 26, 2019. The ALLETE Clean Energy and U.S. Water Services reportable segments comprise our Energy Infrastructure and Related Services businesses. We also present Corporate and Other which includes two operating segments, BNI Energy, our coal mining operations in North Dakota, and ALLETE Properties, our legacy Florida real estate investment, along with our investment in Nobles 2, other business development and corporate expenditures, unallocated interest expense, a small amount of non-rate base generation, approximately 4,000 acres of land in Minnesota, and earnings on cash and investments.

	Three Months Ended March 31,	
	2019	**2018**
Millions		
Operating Revenue		
Regulated Operations		
Residential	$45.2	$40.7
Commercial	38.9	36.6
Municipal	15.4	14.0
Industrial	121.6	114.9
Other Power Suppliers	39.4	43.7
Other	21.7	20.3
Total Regulated Operations	282.2	270.2
Energy Infrastructure and Related Services		
ALLETE Clean Energy		
Long-term PSA	14.6	18.6
Other	2.9	6.0
Total ALLETE Clean Energy	17.5	24.6
U.S. Water Services *(a)*		
Point-in-Time	19.0	22.3
Contract	9.2	9.5
Capital Project	5.2	6.4
Total U.S. Water Services	33.4	38.2
Corporate and Other		
Long-term Contract	20.2	20.0
Other	3.9	5.2

Total Corporate and Other	24.1	25.2
Total Operating Revenue	$357.2	$358.2
Net Income (Loss)		
Regulated Operations	$51.5	$43.9
Energy Infrastructure and Related Services		
ALLETE Clean Energy	5.8	8.1
U.S. Water Services *(a)*	(1.1)	(1.4)
Corporate and Other *(a)*	14.3	0.4
Total Net Income	$70.5	$51.0

(a) *On March 26, 2019, ALLETE completed the sale of U.S. Water Services. The Company recognized a gain on the sale of approximately $10 million after-tax reflected in Corporate and Other in 2019. (See Note 1. Operations and Significant Accounting Policies.)*

NOTE 11. BUSINESS SEGMENTS (Continued)

Millions	March 31, 2019	December 31, 2018
Assets		
Regulated Operations	$3,962.7	$3,952.5
Energy Infrastructure and Related Services		
ALLETE Clean Energy	643.8	606.6
U.S. Water Services *(a)*	—	295.8
Corporate and Other	612.3	310.1
Total Assets	$5,218.8	$5,165.0

(a) On March 26, 2019, ALLETE completed the sale of U.S. Water Services. (See Note 1. Operations and Significant Accounting Policies.)

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

OVERVIEW

The following discussion should be read in conjunction with our Consolidated Financial Statements and notes to those statements, Management's Discussion and Analysis of Financial Condition and Results of Operations from our 2018 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 and our 2018 Form 10-K under the headings: "Forward-Looking Statements" located on page 6 and "Risk Factors" located in Part I, Item 1A, beginning on page 23 of our 2018 Form 10-K. The risks and uncertainties described in this Form 10-Q and our 2018 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 risks are realized.

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 portions of Wisconsin, Michigan, Minnesota and Illinois. Minnesota Power provides regulated utility electric service in northeastern Minnesota to approximately 145,000 retail customers. Minnesota Power also has 16 non-affiliated municipal customers in Minnesota. SWL&P is a Wisconsin utility and a wholesale customer of Minnesota Power. SWL&P provides regulated utility electric, natural gas and water service in northwestern Wisconsin to approximately 15,000 electric customers, 13,000 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. (See Note 2. Regulatory Matters.)

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in four states, approximately 555 MW of nameplate capacity wind energy generation that is contracted under PSAs of various durations. ALLETE Clean Energy also engages in the development of wind energy facilities to operate under long-term PSAs or for sale to others upon completion.

U.S. Water Services provided integrated water management for industry by combining chemical, equipment, engineering and service for customized solutions to reduce water and energy usage, and improve efficiency. On February 8, 2019, the Company entered into a stock purchase agreement providing for the sale of U.S. Water Services to a subsidiary of Kurita Water Industries Ltd. for a cash purchase price of $270 million. On March 26, 2019, ALLETE completed the sale and received approximately $265 million in cash at closing, net of transaction costs and cash retained. This amount is subject to adjustment for finalization of such items as estimated working capital.

Corporate and Other is comprised of BNI Energy, our coal mining operations in North Dakota, ALLETE Properties, our legacy Florida real estate investment, our investment in Nobles 2, other business development and corporate expenditures, unallocated interest expense, a small amount of non-rate base generation, approximately 4,000 acres of land in Minnesota, and earnings on cash and investments.

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

ALLETE is incorporated under the laws of Minnesota. Our corporate headquarters are in Duluth, Minnesota. Statistical information is presented as of March 31, 2019, 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

The following net income discussion summarizes a comparison of the three months ended March 31, 2019, to the three months ended March 31, 2018.

Net income for the three months ended March 31, 2019, was $70.5 million, or $1.37 per diluted share, compared to $51.0 million, or $0.99 per diluted share, for the same period in 2018. Net income in 2019 included the gain on sale of U.S. Water Services of approximately $10 million after-tax, or $0.19 per share.

Regulated Operations net income was $51.5 million for the three months ended March 31, 2019, compared to $43.9 million for the same period in 2018. Net income at Minnesota Power was higher than in 2018 primarily due to lower operating and maintenance expenses, increased cost recovery rider revenue, lower property tax expense, and higher sales to residential customers resulting from cooler weather conditions in 2019. These increases were partially offset by lower industrial sales and the timing of fuel adjustment clause recoveries. Net income at SWL&P was higher than 2018 primarily due to higher rates effective January 1, 2019, and lower operating and maintenance expenses. Our after-tax equity earnings in ATC were higher than in 2018 primarily due to additional investments in ATC.

ALLETE Clean Energy net income was $5.8 million for the three months ended March 31, 2019, compared to $8.1 million for the same period in 2018. Net income in 2019 included lower revenue resulting from lower wind resources and availability due to weather as well as the renewal of PSAs at lower prices. These decreases were partially offset by $1.8 million of additional production tax credits generated as ALLETE Clean Energy continues to execute its refurbishment strategy.

U.S. Water Services net loss was $1.1 million for the three months ended March 31, 2019, compared to a net loss of $1.4 million for the same period in 2018.

Corporate and Other net income was $14.3 million for the three months ended March 31, 2019, compared to net income of $0.4 million for the same period in 2018. Net income in 2019 included the gain on sale of U.S. Water Services of approximately $10 million after-tax. Net income in 2019 included additional income tax benefit as GAAP requires the recognition of income tax expense at the estimated annual effective tax rate.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(See Note 11. Business Segments for financial results by segment.)

Regulated Operations

Three Months Ended March 31,	**2019**	**2018**
Millions		
Operating Revenue – Utility	$282.2	$270.2
Fuel, Purchased Power and Gas – Utility	109.8	100.9
Transmission Services – Utility	18.3	18.4
Operating and Maintenance	47.7	55.5
Depreciation and Amortization	39.8	34.3
Taxes Other than Income Taxes	12.3	15.1
Operating Income	54.3	46.0
Interest Expense	(15.5)	(14.9)
Equity Earnings in ATC	5.6	4.7
Other Income	4.3	1.6
Income Before Income Taxes	48.7	37.4
Income Tax Benefit	(2.8)	(6.5)
Net Income	$51.5	$43.9

Operating Revenue – Utility increased $12.0 million, or 4 percent, from 2018 reflecting increased cost recovery rider revenue, higher fuel adjustment clause recoveries, and the timing of the provision for tax reform refund in 2018 related to income tax changes resulting from the TCJA, partially offset by lower revenue from kWh sales.

Cost recovery rider revenue contributed an incremental $7.3 million over current base rates compared to 2018 primarily due to higher expenditures related to the construction of the GNTL and fewer production tax credits recognized by Minnesota Power. (See Note 2. Regulatory Matters.) If production tax credits are recognized at a level below those assumed in Minnesota Power's base rates, an increase in cost recovery rider revenue is recognized to offset the impact of lower production tax credits on income tax expense.

Fuel adjustment clause recoveries increased $6.8 million due to higher fuel and purchased power costs attributable to retail and municipal customers.

Revenue was $4.7 million higher than 2018 reflecting the timing of Minnesota Power's provision for tax reform refund in 2018. In the first quarter of 2018, Minnesota Power reserved for income tax benefits resulting from the reduction of the federal income tax rate enacted as part of the TCJA. In the second quarter of 2018, the MPUC allowed Minnesota Power to retain these income tax benefits to mostly offset an increase in depreciation expense resulting from the reconsideration of its decision in Minnesota Power's general rate case to reduce the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035. (See *Operating Expenses - Depreciation and Amortization*.)

Revenue from kWh sales decreased $7.3 million from 2018 reflecting lower sales to Other Power Suppliers, Industrial customers and Municipal customers. These decreases were partially offset by higher sales to Residential customers. Sales to Residential customers increased in 2019 primarily due to cooler weather conditions in 2019 compared to 2018. Sales to Industrial customers decreased from 2018 reflecting in part lower sales to Husky Energy due to an April 2018 fire at its refinery in Superior, Wisconsin. Sales to Municipal customers decreased in 2019 as a result of additional customer self-generation in 2019. Sales to Other Power Suppliers decreased from 2018 primarily due to fewer market sales, partially offset by the commencement of Minnesota Power's PSA with Oconto Electric Cooperative in January 2019. Sales to Other Power Suppliers are sold at market-based prices into the MISO market on a daily basis or through PSAs of various durations.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018 (Continued)
Regulated Operations (Continued)

Kilowatt-hours Sold			**Quantity**	**%**
Three Months Ended March 31,	**2019**	**2018**	**Variance**	**Variance**
Millions				
Regulated Utility				
Retail and Municipal				
Residential	349	342	7	2.0 %
Commercial	366	367	(1)	(0.3)%
Industrial	1,814	1,843	(29)	(1.6)%
Municipal	203	219	(16)	(7.3)%
Total Retail and Municipal	2,732	2,771	(39)	(1.4)%
Other Power Suppliers	822	1,003	(181)	(18.0)%
Total Regulated Utility Kilowatt-hours Sold	3,554	3,774	(220)	(5.8)%

Revenue from electric sales to taconite and iron concentrate customers accounted for 22 percent of consolidated operating revenue in 2019 (21 percent in 2018). Revenue from electric sales to paper, pulp and secondary wood product customers accounted for 5 percent of consolidated operating revenue in 2019 (4 percent in 2018). Revenue from electric sales to pipelines and other industrial customers accounted for 7 percent of consolidated operating revenue in 2019 (7 percent in 2018).

Operating Expenses increased $3.7 million, or 2 percent, from 2018.

Fuel, Purchased Power and Gas – Utility expense increased $8.9 million, or 9 percent, from 2018 primarily due to less generation and more purchased power, partially offset by lower kWh sales. Fuel and purchased power expense related to our retail and municipal customers is recovered through the fuel adjustment clause.

Operating and Maintenance expense decreased $7.8 million, or 14 percent, from 2018 primarily due to lower salary and benefit expenses, and lower materials purchased for generation facilities.

Depreciation and Amortization expense increased $5.5 million, or 16 percent, from 2018 primarily due to the timing of modifications of the depreciable lives for Boswell as part of Minnesota Power's general rate case. As part of its decision in Minnesota Power's general rate case in 2018, the MPUC extended the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2050, and shortened the depreciable lives of Boswell Unit 1 and Unit 2 to 2022, resulting in a net decrease to depreciation expense in the first quarter of 2018. In the second quarter of 2018, as part of the reconsideration of its decision in Minnesota Power's general rate case, the MPUC reduced the depreciable lives of Boswell Unit 3, Unit 4 and common facilities to 2035, resulting in higher depreciation expense beginning in the second quarter of 2018. (See *Operating Revenue*.)

Taxes Other than Income Taxes decreased $2.8 million, or 19 percent, from 2018 primarily due to lower property tax expenses resulting from lower estimated taxable market values.

Equity Earnings in ATC increased $0.9 million, or 19 percent, from 2018 primarily due to additional investments in ATC.

Other Income increased $2.7 million from 2018 due to various individually immaterial items.

Income Tax Benefit decreased $3.7 million from 2018 primarily due to higher pre-tax income. We expect our annual effective tax rate in 2019 to be a lower income tax benefit than in 2018 primarily due to higher pre-tax income.

ALLETE Clean Energy

Three Months Ended March 31,	2019	2018
Millions		
Operating Revenue	$17.5	$24.6
Net Income	$5.8	$8.1

Operating Revenue decreased $7.1 million, or 29 percent, from 2018 primarily due to lower kWh sales resulting from lower wind resources and availability due to weather, and the renewal of PSAs at lower prices.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018 (Continued)
ALLETE Clean Energy (Continued)

	Three Months Ended March 31,			
	2019		2018	
Production and Operating Revenue	**kWh**	**Revenue**	**kWh**	**Revenue**
Millions				
Wind Energy Facilities				
Armenia Mountain	80.4	$7.4	91.5	$8.3
Chanarambie/Viking	65.2	3.2	78.7	3.9
Condon	13.4	1.1	34.3	2.8
Lake Benton	52.6	2.9	70.4	3.4
Storm Lake I	53.4	1.1	62.5	3.3
Storm Lake II	34.8	1.6	47.9	2.9
Other	6.9	0.2	—	—
Total Production and Operating Revenue	306.7	$17.5	385.3	$24.6

Net Income decreased $2.3 million, or 28 percent, from 2018. Net income in 2019 included lower revenue resulting from lower wind resources and availability due to weather as well as the renewal of PSAs at lower prices. These decreases were partially offset by $1.8 million of additional production tax credits generated as ALLETE Clean Energy continues to execute on its refurbishment strategy.

U.S. Water Services

Three Months Ended March 31,	**2019**	**2018**
Millions		
Operating Revenue	$33.4	$38.2
Net Loss	$(1.1)	$(1.4)

Operating Revenue decreased $4.8 million, or 13 percent, from 2018. Revenue from chemical sales and related services was $28.2 million in 2019 compared to $31.8 million in 2018. Revenue from capital projects was $5.2 million for 2019 compared to $6.4 million in 2018.

Net Loss decreased $0.3 million from 2018. The net loss in 2019 was similar to 2018.

Corporate and Other

Operating Revenue decreased $1.1 million, or 4 percent, from 2018 due to various individually insignificant items.

Net Income was $14.3 million in 2018 compared to net income of $0.4 million in 2018. Net income in 2019 included the gain on sale of U.S. Water Services of approximately $10 million after-tax. Net income in 2019 also included additional income tax benefit as GAAP requires the recognition of income tax expense at the estimated annual effective tax rate. Net income at BNI Energy was $1.9 million in 2019 compared to net income of $1.8 million in 2018. The net loss at ALLETE Properties was $0.6 million in 2019 compared to a net loss of $0.5 million in 2018.

Income Taxes – Consolidated

For the three months ended March 31, 2019, the effective tax rate was an expense of 4.0 percent (benefit of 7.8 percent for the three months ended March 31, 2018). The effective tax rate for 2019 included income tax expense of $10.2 million on the sale of U.S. Water Services.

We expect our annual effective tax rate in 2019 to be similar to 2018 reflecting the sale of U.S. Water Services and higher production tax credits generated by ALLETE Clean Energy. The effective rate deviated from the combined statutory rate of approximately 28 percent primarily due to production tax credits. (See Note 9. Income Tax Expense.)

CRITICAL ACCOUNTING POLICIES

Certain accounting measurements under 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, pension and postretirement health and life actuarial assumptions, impairment of long-lived assets, 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 2018 Form 10-K.

OUTLOOK

For additional information see our 2018 Form 10-K.

ALLETE is an energy company committed to earning a financial return that rewards our shareholders, allows for reinvestment in our businesses and sustains growth. The Company has long-term objectives of achieving average annual earnings per share growth of 5 percent to 7 percent, and providing a dividend payout competitive with our industry. Regulated Operations is projected to have average annual earnings growth of 4 percent to 5 percent and our Energy Infrastructure and Related Services businesses are projected to have average annual earnings growth of at least 15 percent over the long-term.

ALLETE is predominately a regulated utility through Minnesota Power, SWL&P and an investment in ATC. ALLETE's strategy is to remain predominately a regulated utility while investing in its Energy Infrastructure and Related Services and other businesses to complement its regulated businesses, balance exposure to the utility's industrial customers and provide potential long-term earnings growth. ALLETE expects net income from Regulated Operations to be approximately 80 percent of total consolidated net income in 2019. Over the next several years, the contribution of the Energy Infrastructure and Related Services and other businesses to net income is expected to increase as ALLETE grows these operations. ALLETE expects its businesses to provide regulated, contracted or recurring revenues, and to support sustained growth in net income and cash flow.

Regulated Operations. Minnesota Power's long-term strategy is to be the leading electric energy provider in northeastern Minnesota by providing safe, reliable and cost-competitive electric energy, while complying with environmental permit conditions and renewable energy requirements. Keeping the cost of energy production competitive enables Minnesota Power to effectively compete in the wholesale power markets and minimizes retail rate increases to help maintain customer viability. As part of maintaining cost competitiveness, Minnesota Power intends to reduce its exposure to possible future carbon and GHG legislation by reshaping its generation portfolio, over time, to reduce its reliance on coal. (See *EnergyForward.*) We will monitor and review proposed environmental regulations and may challenge those that add considerable cost with limited environmental benefit. Minnesota Power will continue to pursue customer growth opportunities and cost recovery rider approvals for transmission, renewable and environmental investments, as well as work with regulators to earn a fair rate of return. Minnesota Power anticipates filing a rate case in the fourth quarter of 2019 with a 2020 test year.

Regulatory Matters. Entities within our Regulated Operations segment are under the jurisdiction of the MPUC, FERC, PSCW and NDPSC. See Note 2. Regulatory Matters for discussion of regulatory matters within these jurisdictions.

2016 Minnesota General Rate Case. The MPUC issued an order dated March 12, 2018, in Minnesota Power's general rate case approving a return on common equity of 9.25 percent and a 53.81 percent equity ratio. Final rates went into effect on December 1, 2018, which is expected to result in additional revenue of approximately $13 million on an annualized basis. Interim rates were collected from January 1, 2017, through November 30, 2018, which were fully offset by the recognition of a corresponding reserve. Minnesota Power has recorded a reserve for an interim rate refund, net of discounts provided to EITE customers, of $40.6 million as of March 31, 2019 ($40.0 million as of December 31, 2018), which is expected to be refunded in the second quarter of 2019.

2018 Wisconsin General Rate Case. In an order dated December 20, 2018, the PSCW approved a rate increase for SWL&P including a return on equity of 10.4 percent and a 55.0 percent equity ratio. Final rates went into effect January 1, 2019, which is expected to result in additional revenue of approximately $1.3 million on an annualized basis.

OUTLOOK (Continued)

Industrial Customers and Prospective Additional Load.

Industrial Customers. Electric power is one of several key inputs in the taconite mining, iron concentrate, paper, pulp and secondary wood products, pipeline and other industries. Approximately 51 percent of our regulated utility kWh sales in the three months ended March 31, 2019, were made to our industrial customers (49 percent in the three months ended March 31, 2018).

Taconite and Iron Concentrate. Minnesota Power's taconite customers are capable of producing up to approximately 41 million tons of taconite pellets annually. Taconite pellets produced in Minnesota are primarily shipped to North American steel making facilities that are part of the integrated steel industry. Steel produced from these North American facilities is used primarily in the manufacture of automobiles, appliances, pipe and tube products for the gas and oil industry, and in the construction industry. Historically, less than 10 percent of Minnesota taconite production has been exported outside of North America. Minnesota Power also has provided electric service to three iron concentrate facilities capable of producing up to approximately 4 million tons of iron concentrate per year. Iron concentrate is used in the production of taconite pellets. These facilities have been idled since at least 2016. In July 2018, ERP Iron Ore announced it would no longer seek to restart its operations.

There has been a general historical correlation between U.S. steel production and Minnesota taconite production. The American Iron and Steel Institute, an association of North American steel producers, reported that U.S. raw steel production operated at approximately 82 percent of capacity during the first three months of 2019 compared to 75 percent in the first three months of 2018. The World Steel Association, an association of over 160 steel producers, national and regional steel industry associations, and steel research institutes representing approximately 85 percent of world steel production, projected U.S. steel consumption in 2019 will increase by approximately one percent compared to 2018.

Minnesota Power's taconite customers may experience annual variations in production levels due to such factors as economic conditions, short-term demand changes or maintenance outages. We estimate that a one million ton change in Minnesota Power's taconite customers' production would impact our annual earnings per share by approximately $0.04, net of expected power marketing sales at current prices. Changes in wholesale electric prices or customer contractual demand nominations could impact this estimate. Minnesota Power proactively sells power in the wholesale power markets that is temporarily not required by industrial customers to optimize the value of its generating facilities. Long-term reductions in taconite production or a permanent shut down of a taconite customer may lead Minnesota Power to file a general rate case to recover lost revenue.

Northshore Mining. Cliffs has announced that it is investing further in its Minnesota ore operations, specifically it plans to invest approximately $90 million through 2020 to expand capacity for producing direct reduced-grade pellets at Northshore Mining. The additional direct reduced-grade pellets could be sold commercially or used to supply Cliff's planned hot briquetted iron production plant in Toledo, Ohio. Cliffs has announced plans to begin shipping direct reduced-grade pellets to the Toledo plant later in 2019 in anticipation of the planned start of operations in 2020. Minnesota Power has a PSA through 2031 with Silver Bay Power, which provides the majority of the electric service requirements for Northshore Mining. (See *Silver Bay Power*.)

Silver Bay Power. In 2016, Minnesota Power and Silver Bay Power entered into a PSA through 2031. Silver Bay Power supplies approximately 90 MW of load to Northshore Mining, an affiliate of Silver Bay Power, which has been served predominately through self-generation by Silver Bay Power. Through 2019, Minnesota Power will supply

Silver Bay Power with at least 50 MW of energy and Silver Bay Power has the option to purchase additional energy from Minnesota Power as it transitions away from self-generation. By December 31, 2019, Silver Bay Power is expected to cease self-generation and Minnesota Power is expected to supply the energy requirements for Silver Bay Power.

Paper, Pulp and Secondary Wood Products. We expect operating levels in 2019 at the four major paper and pulp mills we serve to be similar to 2018.

Pipeline and Other Industries.

Husky Energy.

Prospective Additional Load. Minnesota Power is pursuing new wholesale and retail loads in and around its service territory. Currently, several companies in northeastern Minnesota continue to progress in the development of natural resource-based projects that represent long-term growth potential and load diversity for Minnesota Power. We cannot predict the outcome of these projects.

OUTLOOK (Continued)
Industrial Customers and Prospective Additional Load (Continued)

PolyMet. PolyMet is planning to start a new copper-nickel and precious metal (non-ferrous) mining operation in northeastern Minnesota. In 2015, PolyMet announced the completion of the final EIS by state and federal agencies, which was subsequently published in the Federal Register and Minnesota Environmental Quality Board Monitor. The Minnesota Department of Natural Resources (DNR) and the U.S. Army Corps of Engineers have both issued final Records of Decision, finding the final EIS adequate.

In 2016, PolyMet submitted applications for water-related permits with the DNR and MPCA, an air quality permit with the MPCA, and a state permit to mine application with the DNR detailing its operational plans for the mine. In November 2018, the DNR issued PolyMet's permit to mine and certain water-related permits. In December 2018, the MPCA issued PolyMet's final state water and air quality permits. On March 21, 2019, the U.S. Army Corps of Engineers issued PolyMet's final federal permit. PolyMet now holds all necessary permits to construct and operate its mining operation. In June 2018, the U.S. Forest Service and PolyMet closed on a land exchange, which resulted in PolyMet obtaining surface rights to land needed to develop its mining operation. Minnesota Power could supply between 45 MW and 50 MW of load under a 10 year power supply contract with PolyMet that would begin upon start-up of operations.

EnergyForward. Minnesota Power is executing *EnergyForward*, a strategic plan for assuring reliability, protecting affordability and further improving environmental performance. The plan includes completed and planned investments in wind, solar, natural gas and hydroelectric power, construction of additional transmission capacity, the installation of emissions control technology and the idling of certain coal-fired generating facilities.

In 2017, Minnesota Power submitted a resource package to the MPUC requesting approval of PPAs for the output of a 250 MW wind energy facility (see *Nobles 2 PPA*) and a 10 MW solar energy facility (see *Solar Energy*) as well as approval of a 250 MW natural gas capacity dedication agreement. These agreements were subject to MPUC approval of the construction of NTEC, a 525 MW to 550 MW combined-cycle natural gas fired generating facility which will be jointly owned by Dairyland Power Cooperative and a subsidiary of ALLETE. Minnesota Power would purchase approximately 50 percent of the facility's output starting in 2025. In an order dated January 24, 2019, the MPUC approved Minnesota Power's request for approval of the NTEC natural gas capacity dedication agreement. Separately, the MPUC required a baseload retirement evaluation in Minnesota Power's next IRP filing analyzing its existing fleet including potential early retirement scenarios of Boswell Units 3 and 4, as well as a securitization plan. On January 8, 2019, an application for a certificate of public convenience and necessity for NTEC was submitted to the PSCW. A decision on the application is expected in 2020.

Integrated Resource Plan. In a 2016 order, the MPUC approved Minnesota Power's 2015 IRP with modifications. The order accepted Minnesota Power's plans for the economic idling of Taconite Harbor Units 1 and 2 and the ceasing of coal-fired operations at Taconite Harbor in 2020, directed Minnesota Power to retire Boswell Units 1 and 2 no later than 2022, required an analysis of generation and demand response alternatives to be filed with a natural gas resource proposal, and required Minnesota Power to conduct request for proposals for additional wind, solar and demand response resource additions subject to further MPUC approvals. Minnesota Power retired Boswell Units 1 and 2 in the fourth quarter of 2018. Minnesota Power's next IRP filing is due October 1, 2020. (See Note 2. Regulatory Matters.)

Renewable Energy. Minnesota Power's 2015 IRP includes an update on its plans and progress in meeting the Minnesota renewable energy milestones through 2025. Minnesota Power continues to execute its renewable energy strategy through renewable projects that will ensure it meets the identified state mandate at the lowest cost for customers. Minnesota Power has exceeded the interim milestone requirements to date and expects between 25 percent and 30 percent of its applicable retail and municipal energy sales will be supplied by renewable energy sources in 2019.

Solar Energy. Minnesota Power's solar energy supply consists of Camp Ripley, a 10 MW solar energy facility at the Camp Ripley Minnesota Army National Guard base and training facility near Little Falls, Minnesota, and a community solar garden project in northeastern Minnesota, which is comprised of a 1 MW solar array owned and operated by a third party with the output purchased by Minnesota Power and a 40 kW solar array that is owned and operated by Minnesota Power. In an October 2018 order, the MPUC approved a PPA for the output of the 10 MW Blanchard solar energy facility to be located in central Minnesota.

Minnesota Power has approval for current cost recovery of investments and expenditures related to compliance with the Minnesota Solar Energy Standard. Currently, there is no approved customer billing rate for solar costs.

OUTLOOK (Continued)
EnergyForward (Continued)

Wind Energy. Minnesota Power's wind energy facilities consist of Bison (497 MW) located in North Dakota, and Taconite Ridge (25 MW) located in northeastern Minnesota. Minnesota Power also has two long-term wind energy PPAs with an affiliate of NextEra Energy, Inc. to purchase the output from Oliver Wind I (50 MW) and Oliver Wind II (48 MW) located in North Dakota.

Minnesota Power uses the 465-mile, 250-kV DC transmission line that runs from Center, North Dakota, to Duluth, Minnesota, to transport increasing amounts of wind energy from North Dakota while gradually phasing out coal-based electricity delivered to its system over this transmission line from Square Butte's lignite coal-fired generating unit. The DC transmission line capacity can be increased if renewable energy or transmission needs justify investments to upgrade the line.

Minnesota Power has an approved cost recovery rider for certain renewable investments and expenditures. The cost recovery rider allows Minnesota Power to charge retail customers on a current basis for the costs of certain renewable investments plus a return on the capital invested. Updated customer billing rates for the renewable cost recovery rider were provisionally approved by the MPUC in a November 2018 order.

Nobles 2 PPA. In the third quarter of 2018, Minnesota Power and Nobles 2 signed an amended long-term PPA that provides for Minnesota Power to purchase the energy and associated capacity from a 250 MW wind energy facility in southwestern Minnesota for a 20-year period beginning in 2020. The agreement provides for the purchase of output from the facility at fixed energy prices. There are no fixed capacity charges, and Minnesota Power will only pay for energy as it is delivered. This agreement is subject to construction of the wind energy facility. (See Note 3. Equity Investments.)

Manitoba Hydro. Minnesota Power has five long-term PPAs with Manitoba Hydro. The first PPA expires in May 2020. Under this agreement, Minnesota Power is purchasing 50 MW of capacity and the energy associated with that capacity. Both the capacity price and the energy price are adjusted annually by the change in a governmental inflationary index. Under the second PPA, Minnesota Power is purchasing surplus energy through April 2022. This energy-only agreement primarily consists of surplus hydro energy on Manitoba Hydro's system that is delivered to Minnesota Power on a non-firm basis. The pricing is based on forward market prices. Under this agreement, Minnesota Power will purchase at least one million MWh of energy over the contract term.

The third PPA provides for Minnesota Power to purchase 250 MW of capacity and energy from Manitoba Hydro for 15 years beginning in 2020. The PPA is subject to the construction of the GNTL and MMTP. (See Note 7. Commitments, Guarantees and Contingencies.) The capacity price is adjusted annually until 2020 by the change in a governmental inflationary index. The energy price is based on a formula that includes an annual fixed price component adjusted for the change in a governmental inflationary index and a natural gas index, as well as market prices.

The fourth PPA provides for Minnesota Power to purchase up to 133 MW of energy from Manitoba Hydro for 20 years beginning in 2020. The pricing under this PPA is based on forward market prices. The PPA is subject to the construction of the GNTL and MMTP. (See Note 7. Commitments, Guarantees and Contingencies.)

The fifth PPA provides for Minnesota Power to purchase 50 MW of capacity from Manitoba Hydro at fixed prices. The PPA began in June 2017 and expires in May 2020.

Transmission. We continue to make investments in transmission opportunities that strengthen or enhance the transmission grid or take advantage of our geographical location between sources of renewable energy and end users. These include the GNTL, investments to enhance our own transmission facilities, investments in other transmission assets (individually or in combination with others) and our investment in ATC.

Great Northern Transmission Line. As a condition of the 250-MW long-term PPA entered into with Manitoba Hydro, construction of additional transmission capacity is required. As a result, Minnesota Power is constructing the GNTL, an approximately 220 mile 500-kV transmission line between Manitoba and Minnesota's Iron Range that was proposed by Minnesota Power and Manitoba Hydro in order to strengthen the electric grid, enhance regional reliability and promote a greater exchange of sustainable energy.

OUTLOOK (Continued)
Transmission (Continued)

In a 2016 order, the MPUC approved the route permit for the GNTL, and in 2016, the U.S. Department of Energy issued a presidential permit to cross the U.S. Canadian border, which was the final major regulatory approval needed before construction in the U.S. could begin. Site clearing and pre construction activities commenced in the first quarter of 2017 with construction expected to be completed in 2020. To date, most of the right-of-way has been cleared while foundation installation and transmission tower construction have commenced. The total project cost in the U.S., including substation work, is estimated to be between $560 million and $710 million, of which Minnesota Power's portion is expected to be between $300 million and $350 million; the difference will be recovered from a subsidiary of Manitoba Hydro as non-shareholder contributions to capital. Total project costs of $458.2 million have been incurred through March 31, 2019, of which $245.0 million has been recovered from a subsidiary of Manitoba Hydro.

Manitoba Hydro must obtain regulatory and governmental approvals related to the MMTP, a new transmission line in Canada that will connect with the GNTL. (See Note 7. Commitments, Guarantees and Contingencies.)

Investment in ATC. Our wholly-owned subsidiary, ALLETE Transmission Holdings, owns approximately 8 percent of ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in portions of Wisconsin, Michigan, Minnesota and Illinois. As of March 31, 2019, our equity investment in ATC was $130.0 million ($128.1 million as of December 31, 2018). In the first three months of 2019, we invested $0.4 million in ATC, and on April 30, 2019, we invested an additional $2.3 million. We expect to make $5.8 million of additional investments in 2019. (See Note 3. Equity Investments.)

ATC's authorized return on equity is 10.32 percent, or 10.82 percent including an incentive adder for participation in a regional transmission organization. In 2016, a federal administrative law judge ruled on a complaint proposing a reduction in the base return on equity to 9.70 percent, or 10.20 percent including an incentive adder for participation in a regional transmission organization, subject to approval or adjustment by the FERC. A final decision from the FERC on the administrative law judge's recommendation is pending.

ATC's 10-year transmission assessment, which covers the years 2018 through 2027, identifies a need for between $2.8 billion and $3.4 billion in transmission system investments. These investments by ATC, if undertaken, are expected to be funded through a combination of internally generated cash, debt and investor contributions. As opportunities arise, we plan to make additional investments in ATC through general capital calls based upon our pro rata ownership interest in ATC.

Energy Infrastructure and Related Services.

ALLETE Clean Energy.

ALLETE Clean Energy focuses on developing, acquiring, and operating clean and renewable energy projects. ALLETE Clean Energy currently owns and operates, in four states, approximately 555 MW of nameplate capacity wind energy generation that is contracted under PSAs of various durations. ALLETE Clean Energy also engages in the development of wind energy facilities to operate under long-term PSAs or for sale to others upon completion.

ALLETE Clean Energy believes the market for renewable energy in North America is robust, driven by several factors including environmental regulation, tax incentives, societal expectations and continual technology advances. State renewable portfolio standards and state or federal regulations to limit GHG emissions are examples of environmental regulation or public policy that we believe will drive renewable energy development.

ALLETE Clean Energy's strategy includes the safe, reliable, optimal and profitable operation of its existing facilities. This includes a strong safety culture, the continuous pursuit of operational efficiencies at existing facilities and cost controls. ALLETE Clean Energy generally acquires facilities in liquid power markets and its strategy includes the exploration of PSA extensions upon expiration of existing contracts and production tax credit requalification of existing facilities.

ALLETE Clean Energy will pursue growth through acquisitions or project development. ALLETE Clean Energy is targeting acquisitions of existing facilities up to 200 MW each, which have long-term PSAs in place for the facilities' output. At this time, ALLETE Clean Energy expects acquisitions or development of new facilities will be primarily wind or solar facilities in North America. ALLETE Clean Energy is also targeting the development of new facilities up to 200 MW each, which will have long term PSAs in place for the output or may be sold upon completion.

OUTLOOK (Continued)
ALLETE Clean Energy (Continued)

Federal production tax credit qualification is important to the economics of project development, and in 2016, 2017 and 2018 ALLETE Clean Energy invested in equipment to meet production tax credit safe harbor provisions which provides an opportunity to seek development of up to approximately 1,500 MW of production tax credit qualified wind projects through 2022. ALLETE Clean Energy will also invest approximately $80 million through 2020 for production tax credit requalification of up to 468 WTGs at its Storm Lake I, Storm Lake II, Lake Benton and Condon wind energy facilities. We anticipate annual production tax credits relating to these projects of approximately $14 million in 2019, $17 million to $22 million annually in 2020 through 2027 and decreasing thereafter through 2030.

In March 2017, ALLETE Clean Energy announced it will build, own and operate a 100 MW wind energy facility pursuant to a 20-year PSA with Northern States Power; construction is expected to be completed in late 2019. In March 2018, ALLETE Clean Energy announced that it will build, own and operate an 80 MW wind energy facility pursuant to a 15-year PSA with NorthWestern Corporation; construction is expected to be completed in 2019.

ALLETE Clean Energy manages risk by having a diverse portfolio of assets, which includes PSA expiration, technology and geographic diversity. The current portfolio of approximately 555 MW is subject to typical variations in seasonal wind with higher wind resources typically available in the winter months. The majority of its planned maintenance leverages this seasonality and is performed during lower wind periods. The current mix of PSA expiration and geographic location for existing facilities is as follows:

Wind Energy Facility	**Location**	**Capacity MW**	**PSA MW %**	**PSA Expiration**
Armenia Mountain	Pennsylvania	101	100%	2024
Chanarambie/Viking	Minnesota	98		
PSA 1 *(a)*			12%	2023
PSA 2			88%	2023
Condon	Oregon	50	100%	2022
Lake Benton	Minnesota	104	100%	2028
Storm Lake I	Iowa	108	100%	2019
Storm Lake II	Iowa	77		
PSA 1			90%	2020
PSA 2			10%	2032
Other	Minnesota	17	100%	2028

(a) The PSA expiration assumes the exercise of four one-year renewal options that ALLETE Clean Energy has the sole right to exercise.

U.S. Water Services.

On February 8, 2019, the Company entered into a stock purchase agreement providing for the sale of U.S. Water Services to a subsidiary of Kurita Water Industries Ltd. for a cash purchase price of $270 million. On March 26, 2019, ALLETE completed the sale and received approximately $265 million in cash at closing, net of transaction costs and cash retained. This amount is subject to adjustment for finalization of such items as estimated working capital. ALLETE plans to use the proceeds from the sale primarily to reinvest in growth initiatives at our Regulated Operations and ALLETE Clean Energy.

Corporate and Other.

BNI Energy. BNI Energy anticipates selling 4.4 million tons of lignite coal in 2019 (4.3 million tons were sold in 2018) and has sold 1.1 million tons for the three months ended March 31, 2019 (1.2 million tons were sold for the three months ended March 31, 2018). BNI Energy operates under cost-plus fixed fee agreements extending through December 31, 2037.

Investment in Nobles 2. Our wholly-owned subsidiary, ALLETE South Wind, owns 49 percent of Nobles 2, the entity that will own and operate a 250 MW wind energy facility in southwestern Minnesota pursuant to a 20-year PPA with Minnesota Power. The wind energy facility will be built in Nobles County, Minnesota and is expected to be completed in late 2020, with an estimated total project cost of approximately $350 million to $400 million, of which our portion is expected to be approximately $170 million to $200 million. We expect to utilize tax equity to finance a portion of our project costs. We account for our investment in Nobles 2 under the equity method of accounting. As of March 31, 2019, our equity investment in Nobles 2 was $24.8 million ($33.0 million at December 31, 2018). In the first quarter of 2019, Nobles 2 returned capital of $8.3 million based on its cash needs.

OUTLOOK (Continued)
Corporate and Other (Continued)

ALLETE Properties. ALLETE Properties represents our legacy Florida real estate investment. ALLETE Properties' major projects in Florida are Town Center at Palm Coast and Palm Coast Park, with approximately 1,500 acres combined of land available for sale. In addition to these two projects, ALLETE Properties has approximately 600 acres of other land available for sale. Market conditions can impact land sales and could result in our inability to cover our cost basis and operating expenses including fixed carrying costs such as community development district assessments and property taxes.

Our strategy incorporates the possibility of a bulk sale of the entire ALLETE Properties portfolio. Proceeds from a bulk sale would be strategically deployed to support growth initiatives at our Regulated Operations and ALLETE Clean Energy. ALLETE Properties also continues to pursue sales of individual parcels over time and will continue to maintain key entitlements and infrastructure.

Income Taxes.

ALLETE's aggregate federal and multi-state statutory tax rate is approximately 28 percent for 2019. ALLETE also has tax credits and other tax adjustments that reduce the combined statutory rate to the effective tax rate. These tax credits and adjustments historically have included items such as investment tax credits, production tax credits, AFUDC Equity, depletion, as well as other items. The annual effective rate can also be impacted by such items as changes in income before income taxes, state and federal tax law changes that become effective during the year, business combinations, tax planning initiatives and resolution of prior years' tax matters. We expect our effective tax rate to be a benefit of approximately 10 percent for 2019 primarily due to federal production tax credits as a result of wind energy generation. We also expect that our effective tax rate will be lower than the combined statutory rate over the next 10 years due to production tax credits attributable to our wind energy generation.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Position. ALLETE is well-positioned to meet the Company's liquidity needs. As of March 31, 2019, we had cash and cash equivalents of $353.3 million, $387.0 million in available consolidated lines of credit and a debt-to-capital ratio of 41 percent.

Capital Structure. ALLETE's capital structure is as follows:

	March 31, 2019	**%**	**December 31, 2018**	**%**
Millions				
Shareholders' Equity	$2,198.7	59	$2,155.8	59
Long-Term Debt (Including Long-Term Debt Due Within One Year)	1,549.0	41	1,495.2	41
	$3,747.7	100	$3,651.0	100

Cash Flows. Selected information from the Consolidated Statement of Cash Flows is as follows:

For the Three Months Ended March 31,	**2019**	**2018**
Millions		
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	$79.0	$110.1
Cash Flows from (used for)		

Operating Activities	79.1	121.3
Investing Activities	185.1	(89.0)
Financing Activities	22.0	(26.5)
Change in Cash, Cash Equivalents and Restricted Cash	286.2	5.8
Cash, Cash Equivalents and Restricted Cash at End of Period	$365.2	$115.9

LIQUIDITY AND CAPITAL RESOURCES (Continued)

Operating Activities. Cash from operating activities was lower in 2019 compared to 2018 primarily due to the refund of Minnesota Power's provision for tax reform to customers, fewer customer deposits received and lower recoveries from customers under cost recovery riders in 2019. These decreases were partially offset by the timing of collections of accounts receivable.

Investing Activities. Cash from investing activities was higher in 2019 compared to 2018 primarily due to proceeds received from the sale of U.S. Water Services.

Financing Activities. Cash from financing activities was higher in 2019 primarily due to proceeds from the issuance of long-term debt. This increase was partially offset by higher repayments of long-term debt.

Working Capital. Additional working capital, if and when needed, generally is provided by consolidated bank lines of credit and the issuance of securities, including long-term debt, common stock and commercial paper. As of March 31, 2019, we had consolidated bank lines of credit aggregating $407.0 million ($407.0 million as of December 31, 2018), the majority of which expire in January 2024. We had $20.0 million outstanding in standby letters of credit and no outstanding draws under our lines of credit as of March 31, 2019 ($18.4 million in standby letters of credit and no outstanding draws as of December 31, 2018). In addition, as of March 31, 2019, we had 2.8 million original issue shares of our common stock available for issuance through Invest Direct, our direct stock purchase and dividend reinvestment plan, and 2.9 million original issue shares of common stock available for issuance through a distribution agreement with Lampert Capital Markets, Inc. (See *Securities.*) The amount and timing of future sales of our securities will depend upon market conditions and our specific needs.

Securities. During the three months ended March 31, 2019, we issued 0.1 million shares of common stock through Invest Direct, the Employee Stock Purchase Plan, and the Retirement Savings and Stock Ownership Plan, resulting in net proceeds of $0.8 million (0.2 million shares were issued for the three months ended March 31, 2018, resulting in net proceeds of $4.3 million). These shares of common stock were registered under Registration Statement Nos. 333-211075, 333-183051 and 333-162890.

On January 10, 2019, ALLETE entered into an amended and restated $400 million credit agreement (Credit Agreement). The Credit Agreement is unsecured, has a variable interest rate and will expire in January 2024. At ALLETE's request and subject to certain conditions, the Credit Agreement may be increased by up to $150 million and ALLETE may make two requests to extend the maturity date, each for a one-year extension. Advances may be used by ALLETE for general corporate purposes, to provide liquidity in support of ALLETE's commercial paper program and to issue up to $60 million in letters of credit. (See Note 6. Short-Term and Long-Term Debt.)

Financial Covenants. See Note 6. Short-Term and Long-Term Debt for information regarding our financial covenants.

Pension and Other Postretirement Benefit Plans. Management considers various factors when making funding decisions, such as regulatory requirements, actuarially determined minimum contribution requirements and contributions required to avoid benefit restrictions for the defined benefit pension plans. (See Note 10. Pension and Other Postretirement Benefit Plans.)

Off-Balance Sheet Arrangements. Off-balance sheet arrangements are summarized in our 2018 Form 10-K, with additional disclosure in Note 7. Commitments, Guarantees and Contingencies.

Credit Ratings. Access to reasonably priced capital markets is dependent in part on credit and ratings. Our securities have been rated by S&P Global Ratings and by Moody's. Rating agencies use both quantitative and qualitative measures in determining a company's credit rating. These measures include business risk, liquidity risk, competitive position, capital mix, financial condition, predictability of cash flows, management strength and future direction. Some of the quantitative measures can be analyzed through a few key financial ratios, while the qualitative ones are more subjective. Our current credit ratings are listed in the following table:

Credit Ratings	**S&P Global Ratings**	**Moody's**
Issuer Credit Rating	BBB+	Baa1
Commercial Paper	A-2	P-2
First Mortgage Bonds	*(a)*	A2

(a) Not rated by S&P Global Ratings.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

On March 26, 2019, Moody's downgraded the long-term ratings of ALLETE, including its issuer rating to Baa1 from A3, and changed its credit rating outlook to stable from negative. Moody's noted the combined impact of the 2018 adverse general rate case outcome at Minnesota Power as well as its debt coverage ratios going forward as its rationale for the downgrade.

The disclosure of these credit ratings is not a recommendation to buy, sell or hold our securities. Ratings are subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Capital Requirements. Our capital expenditures for 2019 are expected to be approximately $530 million. For the three months ended March 31, 2019, capital expenditures totaled $85.1 million ($52.6 million for the three months ended March 31, 2018). The expenditures were primarily made in the Regulated Operations and ALLETE Clean Energy segments.

OTHER

Environmental Matters.

Our businesses are subject to regulation of environmental matters by various federal, state and local authorities. A number of regulatory changes to the Clean Air Act, the Clean Water Act and various waste management requirements have been promulgated by both the EPA and state authorities over the past several years. Minnesota Power's facilities are subject to additional requirements under many of these regulations. Minnesota Power is reshaping its generation portfolio, over time, to reduce its reliance on coal, has installed cost-effective emission control technology, and advocates for sound science and policy during rulemaking implementation. (See Note 7. Commitments, Guarantees and Contingencies.)

Employees.

As of March 31, 2019, ALLETE had 1,354 employees, of which 1,336 were full-time.

Minnesota Power and SWL&P have an aggregate of 449 employees who are members of International Brotherhood of Electrical Workers (IBEW) Local 31. The current labor agreements with IBEW Local 31 expire on April 30, 2020, for Minnesota Power and February 1, 2021, for SWL&P.

BNI Energy has 182 employees, of which 136 are subject to a labor agreement with IBEW Local 1593. The labor agreement with IBEW Local 1593 expired on March 31, 2019. Negotiations are proceeding and we believe a ratified agreement will be agreed upon with no disruption to operations.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements are discussed in Note 1. Operations and Significant Accounting Policies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

Available-for-Sale Securities. As of March 31, 2019, our available-for-sale securities portfolio consisted primarily of securities held in other postretirement plans to fund employee benefits.

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

COMMODITY PRICE RISK

Our regulated utility operations incur costs for power and fuel (primarily coal and related transportation) in Minnesota, and power and natural gas purchased for resale in our regulated service territory in Wisconsin. Minnesota Power's exposure to price risk for these commodities is significantly mitigated by the current ratemaking process and regulatory framework, which allows recovery of fuel costs in excess of those included in base rates or distribution of savings in fuel costs to ratepayers. SWL&P's exposure to price risk for natural gas is significantly mitigated by the current ratemaking process and regulatory framework, which allows the commodity cost to be passed through to customers. We seek to prudently manage our customers' exposure to price risk by entering into contracts of various durations and terms for the purchase of power and coal and related transportation costs (Minnesota Power), and natural gas (SWL&P).

POWER MARKETING

Minnesota Power's power marketing activities consist of: (1) purchasing energy in the wholesale market to serve its regulated service territory when energy requirements exceed generation output; and (2) selling excess available energy and purchased power. From time to time, Minnesota Power may have excess energy that is temporarily not required by retail and municipal customers in our regulated service territory. Minnesota Power actively sells any excess energy to the wholesale market to optimize the value of its generating facilities.

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 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. We may also enter into derivative financial instruments, such as interest rate swaps, to mitigate interest rate exposure. Interest rates on variable rate long-term debt are reset on a periodic basis reflecting prevailing market conditions. Based on the variable rate debt outstanding as of March 31, 2019, an increase of 100 basis points in interest rates would impact the amount of pre-tax interest expense by $0.5 million. This amount was determined by considering the impact of a hypothetical 100 basis point increase to the average variable interest rate on the variable rate debt outstanding as of March 31, 2019.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. As of March 31, 2019, evaluations were performed, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, on 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. 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

For information regarding material legal and regulatory proceedings, see Note 4. Regulatory Matters and Note 11. Commitments, Guarantees and Contingencies to the Consolidated Financial Statements in our 2018 Form 10-K and Note 2. Regulatory Matters and Note 7. Commitments, Guarantees and Contingencies herein. Such information is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part I, Item 1A. Risk Factors of our 2018 Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires issuers to include in periodic reports filed with the SEC certain information relating to citations or orders for violations of standards under the Federal Mine Safety and Health Act of 1977 (Mine Safety Act). Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Act and this Item are included in Exhibit 95 to this Form 10-Q.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	
2	Stock Purchase Agreement dated as of February 8, 2019, by and among Global Water Services Holding Company, Inc., ALLETE Enterprises, Inc. and Kurita America Holdings Inc.*
4(a)	Fortieth Supplemental Indenture, dated as of March 1, 2019, between ALLETE, Inc. and The Bank of New York Mellon, as corporate trustee, and Andres Serrano, as co-trustee.
4(b)	Amended and Restated Credit Agreement dated as of January 10, 2019, among ALLETE, as Borrower, the lenders party hereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Chase Bank, N.A., Sole Lead Arranger and Sole Book Runner (Filed as Exhibit 10(b)(2) to 2018 Form 10-K, File No. 1-3548).
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 the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
95	Mine Safety.
99	**ALLETE News Release dated May 2, 2019, announcing 2019 first 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.)**
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Schema
101.CAL	XBRL Calculation
101.DEF	XBRL Definition
101.LAB	XBRL Label
101.PRE	XBRL Presentation

* *Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. ALLETE will furnish the omitted schedules to the SEC upon request.*

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.

May 2, 2019	/s/ Robert J. Adams Robert J. Adams Senior Vice President and Chief Financial Officer (Principal Financial Officer)
May 2, 2019	/s/ Steven W. Morris Steven W. Morris Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)