

ALLETE INC  
Form 11-K  
June 08, 2012

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

FORM 11-K

(Mark One)

Annual Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2011

or

Transition Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-3548

ALLETE AND AFFILIATED COMPANIES  
RETIREMENT SAVINGS AND STOCK OWNERSHIP PLAN

(Full Title of the Plan)

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ALLETE, Inc.  
30 West Superior Street  
Duluth, Minnesota 55802-2093

(Name of issuer of securities  
held pursuant to the Plan and  
the address of its principal  
executive office)

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Other schedules required by 29 CFR 2520.103.10 of the U.S. Department of Labor's Rules and Regulations for Note: Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of the  
ALLETE and Affiliated Companies  
Retirement Savings and Stock Ownership Plan  
Duluth, MN

We have audited the accompanying statements of net assets available for benefits of the ALLETE and Affiliated Companies Retirement Savings and Stock Ownership Plan ("Plan") as of December 31, 2011 and 2010, and the related statement of changes in net assets available for benefits for the year ended December 31, 2011. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2011 and 2010, and the changes in its net assets available for benefits for the year ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule, Schedule of Assets (Held at End of Year) - December 31, 2011, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. This supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Reilly, Penner & Benton LLP

June 8, 2012  
Milwaukee, Wisconsin

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ALLETE and Affiliated Companies  
Retirement Savings and Stock Ownership Plan

Statement of Net Assets Available for Benefits

	December 31,	
	2011	2010
Thousands		
Assets		
Investments		
Participant Funds	\$323,066	\$323,239
Unallocated Funds	41,295	48,138
Total Investments	364,361	371,377
Notes Receivable from Participants	3,675	3,269
Employer Contributions Receivable	677	875
Total Assets	368,713	375,521
Liabilities		
Accrued Interest	677	875
Long-Term Debt	29,436	36,865
Total Liabilities	30,113	37,740
Net Assets Available for Benefits	\$338,600	\$337,781

The accompanying notes are an integral part of these statements.

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ALLETE and Affiliated Companies  
Retirement Savings and Stock Ownership Plan

## Statement of Changes in Net Assets Available for Benefits

	Year Ended December 31, 2011		Total	
	Participant Funds	Unallocated Funds		
Thousands				
Investment Income				
Dividend Income	\$1,759	\$2,057	\$3,816	
Interest Income	168	1	169	
Net Appreciation in Fair Value of Investments	10,038	4,937	14,975	
Total Investment Income	11,965	6,995	18,960	
Contributions				
Participant	9,201	—	9,201	
Employer	—	3,921	3,921	
Rollover	161	—	161	
Total Contributions	9,362	3,921	13,283	
Deductions				
Benefits Paid to Participants	(18,187)	)—	(18,187)	)
Interest Expense	—	(2,131)	(2,131)	)
Administrative Expenses	(246)	)—	(246)	)
Total Deductions	(18,433)	) (2,131)	(20,564)	)
Transfers and Allocations				
Transfers to Retirement Plans	(10,129)	)—	(10,129)	)
Allocations to Participants	7,468	(8,199)	(731)	)
Total Transfers and Allocations	(2,661)	) (8,199)	(10,860)	)
Net Increase in Assets	233	586	819	
Net Assets Available For Benefits				
Beginning of Year	326,508	11,273	337,781	
End of Year	\$326,741	\$11,859	\$338,600	

The accompanying notes are an integral part of these statements.

ALLETE and Affiliated Companies  
Retirement Savings and Stock Ownership Plan  
Notes to Financial Statements

Note 1 - Description of the Plan

The ALLETE and Affiliated Companies Retirement Savings and Stock Ownership Plan (RSOP or Plan) is a contributory defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, and qualifies as an employee stock ownership plan and profit sharing plan. At December 31, 2011, there were 1,962 participants in the RSOP. Participating affiliated companies (collectively, the Companies) at December 31, 2011, included:

• ALLETE, Inc., including Minnesota Power, a division of ALLETE, Inc. (ALLETE or Company);  
• Superior Water, Light and Power Company;  
• MP Affiliate Resources, Inc.;  
• ALLETE Renewable Resources, Inc. (ARR); and  
• ALLETE Clean Energy, Inc.

The RSOP provides eligible employees of the Companies an opportunity to save for retirement by electing to make before-tax and after-tax contributions (ARR participants are not allowed to make voluntary after-tax contributions) through payroll deduction, and directing the contributions into various 401(k) investment options. (See Participant Investment Options.) The RSOP also provides eligible employees of the Companies employee stock ownership benefits in ALLETE common stock (Common Stock).

Effective January 1, 2011, the Plan name changed to ALLETE and Affiliated Companies Retirement Savings and Stock Ownership Plan.

Basis of Presentation

Participant funds represent the participants' 401(k) investment funds and shares allocated to participants in the ALLETE RSOP Stock Fund. Unallocated funds represent unallocated shares to be allocated to the participants in the ALLETE RSOP Stock Fund in the future.

Administration

The Employee Benefit Plans Committee (Committee) administers the Plan for the Companies. The mailing address of the Committee is 30 West Superior Street, Duluth, Minnesota 55802-2093. The Committee consists of 11 members who are appointed by the Board of Directors of ALLETE. The Board of Directors has the power to remove members of the Committee from office. Members of the Committee are all employees of the Companies and receive no compensation for their services with respect to the Plan.

Committee responsibilities include the administration and payment of benefits in a manner consistent with the terms of the Plan and applicable law. The Committee has the authority to establish, modify, and repeal policies and procedures, as it deems necessary to carry out the provisions of the Plan. The Committee also has the authority to designate persons to carry out fiduciary responsibilities (other than trustee responsibilities) under the Plan. The Committee has the power to appoint an investment manager or managers (as defined by ERISA), attorneys, accountants, and such other persons as it shall deem necessary or desirable in the administration of the Plan. The Companies or the Plan pays administration fees and expenses of agents, outside experts, consultants, and investment

managers. The Plan charges participants who take participant loans or use the Plan's self-managed brokerage account feature for expenses relating to such loans or accounts.

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## Note 1 - Description of the Plan (Continued)

Wells Fargo Institutional Retirement and Trust (IRT), a service group of Wells Fargo Bank, N.A. (Wells Fargo), is the service provider for the Plan and handles participant recordkeeping, asset custody, trustee and certain other administrative responsibilities. IRT allows the Plan to value accounts daily and provides participants with on-line, call center and voice response capabilities to direct the investment of their account balances. Wells Fargo provides trustee and asset custody services and is located at 420 Montgomery Street, San Francisco, CA 94163. Wells Fargo carries Professional Liability coverage of \$100 million per occurrence and in aggregate as well as Errors and Omissions coverage for the same amount.

## Participant Investment Options

The Plan's 401(k) investment fund options at December 31, 2011, are listed below. Detailed descriptions of the investment options and risk profiles are available in the corresponding fund's prospectus.

- ALLETE Stock Fund
- Artisan International Investors Fund
- Diversified Stable Value Trust (MP)
- Dodge & Cox International Stock Fund
- Dodge & Cox Stock Fund
- Heartland Value Plus Inst Fund
- LifePath Index Retirement Fund K
- LifePath Index 2015 Fund K
- LifePath Index 2020 Fund K
- LifePath Index 2025 Fund K
- LifePath Index 2030 Fund K
- LifePath Index 2035 Fund K
- LifePath Index 2040 Fund K
- LifePath Index 2045 Fund K
- LifePath Index 2050 Fund K
- MainStay Large Cap Growth I Fund
- Oakmark Equity & Income Fund I
- Oppenheimer Developing Markets Y Fund
- SSgA Russell 2000 Index SL Series I
- TCW Small Cap Growth Fund
- Vanguard Institutional Index Fund
- Vanguard Mid-Cap Index Inst Fund
- Vanguard Total Bond Market Index Inst Fund

Participants may also establish a self-managed brokerage account, which allows the participant to make investments in or transfers to a wide range of securities, including publicly traded stocks, bonds and mutual funds. Participants who have a self-managed brokerage account pay an annual fee in addition to any trading fees incurred upon investment changes. Effective September 30, 2011, the self-managed brokerage account was transferred from Ameriprise Financial to Wells Fargo Advisors, LLC.

Participants may change their level of contribution, change their investment elections for future contributions, and make transfers between investment options at any time by contacting IRT.

**Redemption Fees.** Certain mutual funds charge redemption fees that are paid out of the participant's account. A redemption fee is charged when shares are transferred or exchanged out of the fund before the fund's minimum holding period has been met.

Summary of Redemption Fees by Fund As of December 31, 2011	Effective Date	Redemption Fee	Minimum Holding Period
Artisan International Fund	June 1, 2005	2%	90 days

## Note 1 - Description of the Plan (Continued)

ALLETE sponsors a leveraged employee stock ownership plan (ESOP) within the RSOP. Eligible employees of the Companies receive Common Stock ownership benefits in the ALLETE RSOP Stock Fund. These benefits are primarily funded by payments made by the Plan on a loan (see Loan Account). Shares of Common Stock are allocated to eligible employees as provided by the Plan (see Basic Account, Special Account, Partnership Account, Bargaining Unit Account, and Matching Account). The shares of Common Stock allocated to a participant's ALLETE RSOP Stock Fund come from the Loan Account, as determined by ALLETE. Each participant's account value, however, is determined on a unit basis and consists of both Common Stock and cash (see Note 4 - Investments). The unit value is adjusted each business day to reflect investment results, including cash.

Dividends are automatically reinvested in Common Stock held in the ALLETE RSOP Stock Fund. However, participants may make an election, at any time, to receive cash dividends paid on certain eligible shares. Units within a participant's Basic Pre-1989 Account can be withdrawn at any time, while all other units within a participant's ALLETE RSOP Stock Fund can be withdrawn when the participant reaches age 59 1/2, terminates employment, becomes a participant of the Companies Long-Term Disability Plan or dies. Participants may transfer all or any part of their ALLETE RSOP Stock Fund to other 401(k) investment options at any time.

Loan Account. The RSOP was amended in 1990 to establish a leveraged Loan Account and borrow \$75 million (RSOP Loan) to acquire 2,830,188 newly issued shares of Common Stock (1,886,792 shares adjusted for stock splits) from ALLETE for the benefit of eligible participants. Under this amendment, active participants with a Basic Account are allocated shares to their Special Account with a value at least equal to: (a) dividends payable on shares held by those participants in the Plan; and (b) tax savings generated from the deductibility of dividends paid on all shares of Common Stock held in the RSOP as of August 4, 1989. In accordance with this amendment, a promissory note was issued to ALLETE for \$75 million at a 10.25 percent interest rate with a term not to exceed 25 years. In 2006, the RSOP loan was refinanced at a 6 percent interest rate. The Loan Account may also provide for other allocation types as determined by the Company.

Basic Account. Participants' Basic Accounts received shares of Common Stock purchased with incremental investment tax credit contributions and payroll-based tax credit contributions. Contributions to the participants' Basic Accounts ceased after 1986.

Special Account. For the years 1985 through 1989, the Companies received a tax deduction for cash dividends paid to participants on ALLETE RSOP Stock Fund shares in their Basic Account. The Companies contributed, to the ALLETE RSOP Stock Fund, an amount equal to the estimated income tax benefit of the dividend deduction associated with eligible shares in the Basic Account. Shares of Common Stock purchased with these contributions were allocated to the participants' Special Account.

Partnership Account. For the years 1989 through 2005, partnership allocations were made to each nonunion participant's Partnership Account as a fixed percentage of each eligible participant's annual salary, plus, to the extent of any additional value to be allocated in the plan year, an amount based on the ratio of the participant's annual compensation to the annual compensation of all eligible participants. Shares credited to participants' Partnership Accounts as a fixed-percentage partnership allocation for the years 1989 through 2001, had a value equal to 2 percent of annual compensation; the fixed-percentage partnership allocation for the years 2002 through 2005 and prorated for the period from January 1 through September 30, 2006, was 3.5 percent of annual compensation. Since October 1, 2006, the fixed-percentage partnership allocation to each nonunion participant hired before October 1, 2006, has ranged from 6 percent to 12 percent of annual compensation depending on the participant's age (not including ARR participants). The fixed-percentage partnership allocation to each nonunion participant hired on or after October 1, 2006, is 6 percent of annual compensation (not including ARR participants). Effective May 1, 2010, the fixed-percentage partnership allocation to ARR participants is 3 percent. Effective January 1, 2011, the partnership

allocations are made quarterly and are based on periodic pay for the period. Effective February 1, 2011, the fixed-percentage partnership allocation to each Minnesota Power Bargaining Unit union participant hired on or after February 1, 2011, is 6 percent of periodic pay for the period.

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Note 1 - Description of the Plan (Continued)

**Bargaining Unit Account.** Quarterly non-elective allocations are made to the ALLETE RSOP Stock Fund equal to 1 percent of each union participant's eligible compensation.

**Matching Account.** For nonunion participants hired before October 1, 2006, (not including ARR participants) quarterly matching allocations are made to the ALLETE RSOP Stock Fund equal to 50 percent of each nonunion participant's 401(k) before-tax contributions, disregarding contributions in excess of 4 percent of the participant's periodic pay for the period through October 1, 2006. Thereafter, quarterly matching allocations are equal to 100 percent of each nonunion participant's 401(k) before-tax contributions and Roth 401(k) contributions, disregarding contributions in excess of 4 percent of the participant's periodic pay for the period.

For nonunion participants hired on or after October 1, 2006, (not including ARR participants), quarterly matching allocations are made to the ALLETE RSOP Stock Fund equal to 100 percent of each nonunion participant's 401(k) before-tax contributions and Roth 401(k) contributions, disregarding contributions in excess of 5 percent of the participant's periodic pay for the period.

For Minnesota Power Bargaining Unit union participants hired on or after February 1, 2011, quarterly matching allocations are made to the ALLETE RSOP Stock Fund equal to 100 percent of each union participant's 401(k) before-tax contribution and Roth 401(k) contribution, disregarding contributions in excess of 5 percent of the participant's periodic pay for the period.

For ARR participants, quarterly matching allocations are made to the ALLETE RSOP Stock Fund equal to 50 percent of each nonunion participant's 401(k) before-tax contributions and Roth 401(k) contributions, disregarding contributions in excess of 5 percent of the participant's periodic pay for the period.

**Contributions**

Participant Contributions to the Plan consist of the following:

- **Before-Tax Contributions.** Before-tax contributions are salary reduction contributions equal to an amount the participant has elected to reduce his or her compensation pursuant to a salary reduction agreement.

**Voluntary Contributions (After-Tax Contributions).** Each participant (except ARR participants) is also allowed to make voluntary after-tax contributions to the Plan through payroll deductions. Total voluntary contributions made by a participant may not exceed 25 percent of the participant's compensation in any pay period.

**Rollovers.** Contributions by participants may also be made through rollovers from other qualified plans or individual retirement accounts.

**Roth 401(k) Contributions.** Roth 401(k) contributions are after-tax salary reduction contributions equal to an amount the participant has elected to reduce his or her compensation pursuant to a salary reduction agreement.

**Contribution Limits.** Total combined before-tax and Roth 401(k) contributions in 2011 could not exceed \$16,500 for participants less than age 50 or \$22,000 for participants at least age 50, as permitted under Section 401(k) of the Internal Revenue Code (Code).

**Employer Contributions.** Each year employer contributions are paid to the Trustee either in cash or in Common Stock. Expenses incurred in discretionary activities relating to the design, formation, and modification of the Plan (commonly characterized as "settlor" functions) are paid by the Companies.

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Note 1 - Description of the Plan (Continued)

Vesting and Forfeiture Account

As of July 1, 2001, all contributions to the Plan, plus actual earnings thereon, are fully vested and non-forfeitable. In 2005, the Plan was amended to allow distribution checks issued and outstanding for more than 180 days (unclaimed benefits) to be re-deposited into the Plan and treated as forfeitures. The forfeiture account consists of previously forfeited non-vested accounts and unclaimed benefits, totaling \$2,496 at December 31, 2011 (\$46,396 at December 31, 2010), and is invested in the LifePath Index Retirement Fund K and the Diversified Stable Value Trust (MP). In 2011, dollars from the forfeiture account were used for Plan expenses and may be used to reduce future Plan expenses.

Distributions and Withdrawals

A participant may elect, at any time, to receive in cash, future dividends paid on Common Stock shares in their eligible ALLETE RSOP Stock Fund accounts and ALLETE Stock Fund.

Prior to termination, participants may withdraw, at any time, all or any part of their:

- Plan accounts, if the participant has attained age 59 1/2;
- After-tax account, regardless of the participant's age; or
- Pre-1989 Basic Account, regardless of the participant's age.

When participants terminate employment, become disabled or die, they or their beneficiaries may elect to receive all or any part of their Plan accounts.

Transfers to Retirement Plans. Upon retirement, eligible participants may elect to transfer their Plan account balances to the ALLETE and Affiliated Companies Retirement Plan A or Plan B if the participant has elected to receive a benefit from one of these retirement plans. The amount of transfers to these retirement plans totaled \$10,129,618 for 2011 (\$8,086,165 for 2010).

Loan Program. The Plan allows participants to borrow money from their Plan accounts. The maximum amount a participant may borrow is equal to the lesser of: (a) the participant's aggregate before-tax account, after-tax account, Roth 401(k) and rollover account balances (excluding Roth 401(k) rollover balances); (b) 50 percent of their total Plan balance; or (c) \$50,000, less the largest outstanding loan balance owed in the prior 12-month period. The loans may not be less than \$1,000. The loans are for terms up to five years for a general-purpose loan and ten years for the acquisition of a primary residence. A fixed interest rate of the prime rate plus 1 percent on the first day of the month that the loan is originated is charged until the loan is repaid. As loans are repaid, generally through payroll deductions, principal and interest amounts are re-deposited into the participant's Plan accounts. Participants are required to pay a \$50 loan application fee to cover the cost of processing the loan.

Plan Termination

The Companies reserve the right to reduce, suspend, or discontinue their contributions to the Plan at any time, or to terminate the Plan in its entirety subject to the provisions of ERISA and the Code. If the Plan is terminated, all of the account balances of the participants will be distributed in accordance with the terms of the Plan. The Companies have no intention of terminating the Plan.



Note 2 - Summary of Accounting Policies

The Plan uses the accrual basis of accounting and, accordingly, reflects income in the year earned and expenses when incurred. Common stock and mutual fund investments are reported at fair value based on quoted market prices. Collective fund investments are reported at net asset value, which approximates fair value. Participant loans are classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

The Plan presents, in the statement of changes in net assets available for benefits, the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains or losses on disposed investments and the unrealized appreciation (depreciation) on those investments owned at year end.

The Plan invests in various funds that are a combination of stocks, bonds and other investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of net assets available for benefits.

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

Note 3 - Income Tax Status

We are required to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that “more-likely-than-not” would not be sustained upon audit. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded as of December 31, 2011, there were no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset), or disclosure in the financial statements. The Plan is subject to routine audits by taxing authorities; however, there are currently no audits for any tax periods in process. The Plan is no longer subject to income tax examinations for years prior to 2006.

A favorable determination letter dated May 8, 2009, was obtained from the Internal Revenue Service (IRS) stating that the RSOP, as amended and restated effective October 1, 2006, qualified as an employee stock ownership plan and a profit sharing plan under Section 401(a) of the Code. As per the five year requirement, a favorable determination letter request was filed with the IRS on January 30, 2012.

Note 4 - Investments

Fair Value of Investments

Representing 5% or More of Assets

At December 31,

Thousands

ALLETE RSOP Stock Fund

2011

2010

\$131,951

\$129,360



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ALLETE Stock Fund	\$26,887	\$25,123
Diversified Stable Value Trust (MP)	\$59,341	\$51,175
Oakmark Equity & Income Fund I	\$21,487	\$24,221
Vanguard Institutional Index Fund	\$19,155	\$20,943

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## Note 4 - Investments (Continued)

The ALLETE RSOP Stock Fund represents shares of Common Stock allocated to participants, unallocated shares to be allocated to the participants in the ALLETE RSOP Stock Fund in the future, and cash invested in a money market fund.

ALLETE RSOP Stock Fund			Number	Cost	Fair
Thousands			of Shares		Value
December 31, 2011	Allocated	— Common Stock Money Market	2,101	\$55,255 338 55,593	\$90,318 338 90,656
	Unallocated	— Common Stock Money Market	1,034	13,749 7 13,756 \$69,349	41,288 7 41,295 \$131,951
December 31, 2010	Allocated	— Common Stock Money Market	2,245	\$58,146 379 58,525	\$80,843 379 81,222
	Unallocated	— Common Stock Money Market	1,280	20,855 692 21,547 \$80,072	47,446 692 48,138 \$129,360

For the ALLETE Stock Fund and the ALLETE RSOP Stock Fund, each participant's account value is determined on a unit basis and consists of both Common Stock and cash invested in a money market fund. The unit value is adjusted each business day to reflect investment results including cash.

At December 31, Thousands	ALLETE Stock Fund		ALLETE RSOP Stock Fund	
	2011	2010	2011	2010
Number of Units	5,078	5,333	16,136	16,288
Common Stock	\$26,887	\$24,637	\$90,318	\$80,843
Money Market	—	486	338	379
Net Value	\$26,887	\$25,123	\$90,656	\$81,222

## Note 5 - Fair Value Measurements

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. 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) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reported date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reported date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities. Collective trust funds are valued at the net asset value (NAV) of shares of a bank collective trust held by the Plan on a daily basis. The NAV is based on the fair value of the underlying investments held by the fund. Participant transactions (issuances and redemptions) may occur daily. If the Plan were to initiate a full redemption of the collective trust, the investment advisor reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

Level 3 - Significant inputs that are generally less observable from objective sources. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value.

The following tables present, for each of these hierarchy levels, the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2011.

Recurring Fair Value Measures Thousands	At Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Common Stock	\$158,493	—	—	\$158,493
Mutual Funds	115,983	—	—	115,983
Collective Funds	—	\$82,533	—	82,533
Money Market Funds	—	345	—	345
Self-Managed Brokerage Accounts (a)	7,007	—	—	7,007
<b>Total Assets</b>	<b>\$281,483</b>	<b>\$82,878</b>	<b>—</b>	<b>\$364,361</b>
<b>Liabilities:</b>				
ESOP Loan	—	\$29,436	—	\$29,436
<b>Total Liabilities</b>	<b>—</b>	<b>\$29,436</b>	<b>—</b>	<b>\$29,436</b>
<b>Total Net Assets</b>	<b>\$281,483</b>	<b>\$53,442</b>	<b>—</b>	<b>\$334,925</b>

(a) All investments held in the Self-Managed Brokerage Accounts are classified as Level 1 due to the observable market data for these securities.



## Note 5 - Fair Value Measurements (Continued)

The following tables present, for each of these hierarchy levels, the Company's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010.

Recurring Fair Value Measures Thousands	At Fair Value as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Common Stock	\$152,926	—	—	\$152,926
Mutual Funds	135,215	—	—	135,215
Collective Funds	—	\$71,889	—	71,889
Money Market Funds	—	1,557	—	1,557
Self-Managed Brokerage Accounts (a)	9,790	—	—	9,790
Total Assets	\$297,931	\$73,446	—	\$371,377
Liabilities:				
ESOP Loan	—	\$36,865	—	\$36,865
Total Liabilities	—	\$36,865	—	\$36,865
Total Net Assets	\$297,931	\$36,581	—	\$334,512

(a) All investments held in the Self-Managed Brokerage Accounts are classified as Level 1 due to the observable market data for these securities.

The Company's policy is to recognize transfers in and transfers out of a given hierarchy level as of the actual date of the event or of the change in circumstances that caused the transfer. For the year ended December 31, 2011, there were no transfers in or out of Levels 1, 2 or 3. For the year ended December 31, 2010, all investments held in self-managed brokerage accounts were transferred from Level 3 to Level 1 due to the observable market data for these securities.

## Note 6 - Repayment of Loan

The Trustee repays principal and interest on the RSOP Loan with dividends paid on the shares of Common Stock in the Loan Account and with certain employer contributions to the Plan. The shares of Common Stock acquired by the Trustee are held in the Loan Account, and allocated to the accounts of Plan participants as the RSOP Loan is repaid.

The RSOP Loan was obtained from ALLETE. There were 1,034,055 unallocated shares of Common Stock in the Plan pledged as collateral at December 31, 2011. Prepayments of principal can be made without penalty. The lender has no rights to shares that are allocated under the Plan.

## Principal Payments

## \$75 Million 6% Loan

## Thousands

2012	\$141
2013	—
2014	4,295
2015	12,500
2016	12,500
	\$29,436



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Schedule 1

ALLETE and Affiliated Companies  
 Retirement Savings and Stock Ownership Plan  
 Plan Number 002 / Employer Identification Number 41-0418150  
 Schedule of Assets (Held at End of Year)  
 Form 5500 Schedule H Line 4i  
 At December 31, 2011  
 Thousands

Identity of Issuer	Description of Investment	Cost (a)	Current Value
ALLETE RSOP Stock Fund			
* ALLETE, Inc.	Common Stock - 3,135 Shares	\$69,004	\$131,606
* Wells Fargo Advantage Heritage Money Market Fund Institutional	Money Market	345	345
Total ALLETE RSOP Stock Fund		\$69,349	131,951
ALLETE Stock Fund			
* ALLETE, Inc.	Common Stock - 5,078 Shares		26,887
Collective Fund Securities			
* Diversified Stable Value Trust (MP)	Collective Fund - 5,285 Shares		59,341
LifePath Index Retirement Fund K	Collective Fund - 123 Shares		1,450
LifePath Index 2015 Fund K	Collective Fund - 404 Shares		4,439
LifePath Index 2020 Fund K	Collective Fund - 134 Shares		1,858
LifePath Index 2025 Fund K	Collective Fund - 108 Shares		1,101
LifePath Index 2030 Fund K	Collective Fund - 66 Shares		930
LifePath Index 2035 Fund K	Collective Fund - 63 Shares		602
LifePath Index 2040 Fund K	Collective Fund - 67 Shares		941
LifePath Index 2045 Fund K	Collective Fund - 68 Shares		613
LifePath Index 2050 Fund K	Collective Fund - 32 Shares		454
SSgA Russell 2000 Index SL Series I	Collective Fund - 291 Shares		2,807
TCW Small Cap Growth Fund	Collective Fund - 467 Shares		7,997
Total Collective Fund Securities			82,533
Mutual Fund Securities			
Artisan International Investors Fund	Mutual Fund - 291 Shares		5,765
Dodge & Cox International Stock Fund	Mutual Fund - 180 Shares		5,262
Dodge & Cox Stock Fund	Mutual Fund - 108 Shares		10,992
Heartland Value Plus Institutional	Mutual Fund - 315 Shares		8,717
Mainstay Large Cap Growth I Fund	Mutual Fund - 792 Shares		5,601
Oakmark Equity & Income Fund I	Mutual Fund - 794 Shares		21,487
Oppenheimer Developing Markets Y Fund	Mutual Fund - 603 Shares		17,460
Vanguard Institutional Index Fund	Mutual Fund - 167 Shares		19,155
Vanguard Mid-Cap Index Ins Fund	Mutual Fund - 556 Shares		10,945
Vanguard Total Bond Market Index Inst Fund	Mutual Fund - 805 Shares		10,599
Total Mutual Fund Securities			115,983
Self-Managed Brokerage Accounts			7,007

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* Participant Loans	Loans Receivable from Participants - 4.25% to 13.65%	3,675
Total Investments		\$368,036
(a) Not required for participant directed transactions.		
* Party in Interest		

See Independent Auditors' Report

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, ALLETE, Inc., as plan administrator, has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

ALLETE and Affiliated Companies  
Retirement Savings and Stock Ownership Plan

By: ALLETE, Inc., its Plan Administrator

June 8, 2012

/s/ Alan R. Hodnik  
Alan R. Hodnik  
Chairman, President and Chief Executive Officer

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