SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 JUNE 30, 2003

or

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

Commission File No. 1-3548

ALLETE, INC.

A Minnesota Corporation
IRS Employer Identification No. 41-0418150
30 West Superior Street
Duluth, Minnesota 55802-2093
Telephone - (218) 279-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

Common Stock, no par value,
86,439,101 shares outstanding
as of July 31, 2003

INDEX

## 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 |
|---|---|
| 2002 Form 10-K | ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2002 |
| ADESA | ADESA Corporation |
| ADESA Impact | Collectively, Automotive Recovery Services, Inc. and Impact Auto Auctions Ltd. |
| AFC | Automotive Finance Corporation |
| ALLETE | ALLETE, Inc. |
| APB | Accounting Principals Board |
| Company | ALLETE, Inc. and its subsidiaries |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortization Expense |
| EPA | Environmental Protection Agency |
| ESOP | Employee Stock Ownership Plan |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| Florida Water | Florida Water Services Corporation |
| FPSC | Florida Public Service Commission |
| GAAP | Generally Accepted Accounting Principles |
| LIBOR | London Interbank Offered Rate |
| Minnesota Power | An operating division of ALLETE, Inc. |
| Minnkota | Minnkota Power Cooperative, Inc. |
| MPUC | Minnesota Public Utilities Commission |
| MW | Megawatt(s) |
| NCUC | North Carolina Utilities Commission |
| NRG Energy | NRG Energy, Inc. |
| PSCW | Public Service Commission of Wisconsin |
| SEC | Securities and Exchange Commission |
| SFAS | Statement of Financial Accounting Standards No. |
| Split Rock Energy | Split Rock Energy LLC |
| Square Butte | Square Butte Electric Cooperative |
| SWL&P | Superior Water, Light and Power Company |
| WDNR | Wisconsin Department of Natural Resources |

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

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, ALLETE is hereby filing cautionary statements identifying important factors that could cause ALLETE's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) made by or on behalf of ALLETE in this Quarterly Report on Form 10-Q, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "will likely result," "will continue" or similar expressions) are not statements of historical facts and may be forward-looking.

Forward-looking statements involve estimates, assumptions, risks and uncertainties and are qualified in their entirety by reference to, and are accompanied by, the following important factors, which are difficult to predict, contain uncertainties, are beyond the control of ALLETE and may cause actual results or outcomes to differ materially from those contained in forward-looking statements:

- war and acts of terrorism;
- prevailing governmental policies and regulatory actions, including those of the United States Congress, state legislatures, the FERC, the MPUC, the FPSC, the NCUC, the PSCW, and various county regulators and city administrators, about allowed rates of return, financings, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power and capital investments, and present or prospective wholesale and retail competition (including but not limited to transmission costs) as well as general vehicle-related laws, including vehicle brokerage and auction laws;
- unanticipated impacts of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- natural disasters;
- market factors affecting supply and demand for used vehicles;
- wholesale power market conditions;
- population growth rates and demographic patterns;
- the effects of competition, including the competition for retail and wholesale customers, as well as suppliers and purchasers of vehicles;
- pricing and transportation of commodities;
- changes in tax rates or policies or in rates of inflation;
- unanticipated project delays or changes in project costs;
- unanticipated changes in operating expenses and capital expenditures;
- capital market conditions;
- competition for economic expansion or development opportunities;
- our ability to manage expansion and integrate acquisitions; and
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

Any forward-looking statement speaks only as of the date on which that statement is made, and ALLETE undertakes 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 those factors, nor can it assess the impact of each of those 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.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions - Unaudited

| | JUNE 30, 2003 | DECEMBER 31, 2002 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | $ 232.8 | $ 193.3 |
| Trading Securities | 0.1 | 1.8 |
| Accounts Receivable (Less Allowance of $31.6 and $30.5) | 469.9 | 383.8 |
| Inventories | 33.4 | 36.6 |
| Prepayments and Other | 15.9 | 14.1 |
| Discontinued Operations | 48.7 | 28.8 |
| Total Current Assets | 800.8 | 658.4 |
| Property, Plant and Equipment - Net | 1,480.6 | 1,364.7 |
| Investments | 166.8 | 170.9 |
| Goodwill | 508.2 | 499.8 |
| Other Intangible Assets | 37.4 | 39.8 |
| Other Assets | 74.0 | 67.5 |
| Discontinued Operations | 341.4 | 346.1 |
| TOTAL ASSETS | $3,409.2 | $3,147.2 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | $ 331.8 | $ 202.6 |
| Accrued Taxes, Interest and Dividends | 50.5 | 36.4 |
| Notes Payable | - | 74.5 |
| Long-Term Debt Due Within One Year | 283.1 | 283.7 |
| Other | 91.5 | 111.3 |
| Discontinued Operations | 29.9 | 29.7 |
| Total Current Liabilities | 786.8 | 738.2 |
| Long-Term Debt | 753.2 | 661.3 |
| Accumulated Deferred Income Taxes | 138.1 | 139.8 |
| Other Liabilities | 156.3 | 137.6 |
| Discontinued Operations | 170.4 | 162.9 |
| Commitments and Contingencies | | |
| Total Liabilities | 2,004.8 | 1,839.8 |
| Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary ALLETE Capital I Which Holds Solely Company Junior Subordinated Debentures | 75.0 | 75.0 |
| SHAREHOLDERS' EQUITY | | |
| Common Stock Without Par Value, 130.0 Shares Authorized 86.4 and 85.6 Shares Outstanding | 832.7 | 814.9 |
| Unearned ESOP Shares | (47.1) | (49.0) |
| Accumulated Other Comprehensive Gain (Loss) | 12.0 | (22.2) |
| Retained Earnings | 531.8 | 488.7 |
| Total Shareholders' Equity | 1,329.4 | 1,232.4 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $3,409.2 | $3,147.2 |

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF INCOME
Millions Except Per Share Amounts - Unaudited

| | QUARTER ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| OPERATING REVENUE | | | | |
| Energy Services | | | | |
| Utility | $ 125.8 | $ 121.9 | $ 263.8 | $ 242.7 |
| Nonregulated/Nonutility | 32.7 | 32.2 | 73.8 | 54.3 |
| Automotive Services | 240.7 | 216.8 | 473.6 | 425.6 |
| Investments | 10.7 | 5.0 | 21.6 | 21.6 |
| Total Operating Revenue | 409.9 | 375.9 | 832.8 | 744.2 |
| OPERATING EXPENSES | | | | |
| Fuel and Purchased Power | | | | |
| Utility | 52.5 | 52.2 | 105.3 | 100.7 |
| Nonregulated/Nonutility | 12.4 | 7.0 | 27.0 | 7.9 |
| Operations | | | | |
| Utility | 52.6 | 50.8 | 110.3 | 101.6 |
| Nonregulated/Nonutility | 24.4 | 22.7 | 52.8 | 45.1 |
| Automotive and Investments | 189.9 | 169.3 | 380.0 | 342.3 |
| Interest | 13.9 | 16.2 | 28.7 | 32.1 |
| Total Operating Expenses | 345.7 | 318.2 | 704.1 | 629.7 |
| OPERATING INCOME FROM CONTINUING OPERATIONS | 64.2 | 57.7 | 128.7 | 114.5 |
| DISTRIBUTIONS ON REDEEMABLE PREFERRED SECURITIES OF ALLETE CAPITAL I | 1.5 | 1.5 | 3.0 | 3.0 |
| INCOME TAX EXPENSE | 25.3 | 22.2 | 49.9 | 43.9 |
| INCOME FROM CONTINUING OPERATIONS | 37.4 | 34.0 | 75.8 | 67.6 |
| INCOME FROM DISCONTINUED OPERATIONS - NET OF TAX | 7.0 | 4.8 | 12.9 | 6.4 |
| NET INCOME | $ 44.4 | $ 38.8 | $ 88.7 | $ 74.0 |
| AVERAGE SHARES OF COMMON STOCK | | | | |
| Basic | 82.6 | 81.0 | 82.4 | 80.7 |
| Diluted | 82.9 | 81.7 | 82.6 | 81.3 |
| EARNINGS PER SHARE OF COMMON STOCK | | | | |
| BASIC | | | | |
| Continuing Operations | $0.45 | $0.42 | $0.92 | $0.84 |
| Discontinued Operations | 0.09 | 0.06 | 0.16 | 0.08 |
| | $0.54 | $0.48 | $1.08 | $0.92 |
| DILUTED | | | | |
| Continuing Operations | $0.45 | $0.41 | $0.92 | $0.83 |
| Discontinued Operations | 0.08 | 0.06 | 0.15 | 0.08 |
| | $0.53 | $0.47 | $1.07 | $0.91 |
| DIVIDENDS PER SHARE OF COMMON STOCK | $0.2825 | $0.275 | $0.565 | $0.55 |

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

| | SIX MONTHS ENDED JUNE 30, 2003 | 2002 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net Income | $ 88.7 | $ 74.0 |
| Depreciation and Amortization | 42.9 | 39.9 |
| Deferred Income Taxes | 12.0 | 9.5 |
| Gain on Sale of Plant | (17.0) | - |
| Changes in Operating Assets and Liabilities | | |
| Trading Securities | 1.7 | (1.6) |
| Accounts Receivable | (84.8) | (42.2) |
| Inventories | 3.2 | 1.8 |
| Prepayments and Other Current Assets | (1.8) | 4.5 |
| Accounts Payable | 125.4 | 130.6 |
| Other Current Liabilities | (3.2) | (26.3) |
| Other - Net | 9.2 | 5.0 |
| Cash from Operating Activities | 176.3 | 195.2 |
| INVESTING ACTIVITIES | | |
| Proceeds from Sale of Investments | 6.4 | 1.9 |
| Additions to Investments | (2.4) | (2.9) |
| Additions to Property, Plant and Equipment | (118.6) | (97.5) |
| Acquisitions - Net of Cash Acquired | (1.8) | (17.2) |
| Other - Net | (13.2) | (9.7) |
| Cash for Investing Activities | (129.6) | (125.4) |
| FINANCING ACTIVITIES | | |
| Issuance of Common Stock | 17.8 | 28.2 |
| Issuance of Long-Term Debt | 65.9 | 8.6 |
| Changes in Notes Payable - Net | (72.9) | (57.1) |
| Reductions of Long-Term Debt | (3.2) | (5.7) |
| Dividends on Common Stock | (45.6) | (43.0) |
| Cash for Financing Activities | (38.0) | (69.0) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 30.8 | 9.9 |
| CHANGE IN CASH AND CASH EQUIVALENTS | 39.5 | 10.7 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 203.0 | 234.2 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 242.5 | $ 244.9 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash Paid During the Period for | | |
| Interest - Net of Capitalized | $33.2 | $36.8 |
| Income Taxes | $22.6 | $33.7 |

Included cash from Discontinued Operations.

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with our 2002 Form 10-K. The financial information for prior periods has been reclassified to include our vehicle import business in discontinued operations. In our opinion, all adjustments necessary for a fair statement of the results for the interim periods have been included. The results of operations for an interim period may not give a true indication of the results for the year.

NOTE 1. BUSINESS SEGMENTS
Millions

| | CONSOLIDATED | ENERGY SERVICES | AUTOMOTIVE SERVICES | INVESTMENTS AND CORPORATE CHARGES |
|---|---|---|---|---|
| FOR THE QUARTER ENDED JUNE 30, 2003 | | | | |
| Operating Revenue | $409.9 | $158.5 | $240.7 | $10.7 |
| Operation and Other Expense | 309.9 | 129.0 | 171.3 | 9.6 |
| Depreciation and Amortization Expense | 21.9 | 12.9 | 8.9 | 0.1 |
| Interest Expense | 13.9 | 5.1 | 3.7 | 5.1 |
| Operating Income (Loss) from Continuing Operations | 64.2 | 11.5 | 56.8 | (4.1) |
| Distributions on Redeemable Preferred Securities of Subsidiary | 1.5 | 0.6 | - | 0.9 |
| Income Tax Expense (Benefit) | 25.3 | 4.1 | 22.7 | (1.5) |
| Income (Loss) from Continuing Operations | 37.4 | $ 6.8 | $ 34.1 | $(3.5) |
| Income from Discontinued Operations - Net of Tax | 7.0 | | | |
| Net Income | $ 44.4 | | | |
| FOR THE QUARTER ENDED JUNE 30, 2002 | | | | |
| Operating Revenue | $375.9 | $154.1 | $216.8 | $ 5.0 |
| Operation and Other Expense | 281.9 | 120.5 | 153.8 | 7.6 |
| Depreciation and Amortization Expense | 20.1 | 12.2 | 7.8 | 0.1 |
| Interest Expense | 16.2 | 4.7 | 5.7 | 5.8 |
| Operating Income (Loss) from Continuing Operations | 57.7 | 16.7 | 49.5 | (8.5) |
| Distributions on Redeemable Preferred Securities of Subsidiary | 1.5 | 0.6 | - | 0.9 |
| Income Tax Expense (Benefit) | 22.2 | 6.4 | 19.5 | (3.7) |
| Income (Loss) from Continuing Operations | 34.0 | $ 9.7 | $ 30.0 | $(5.7) |
| Income from Discontinued Operations - Net of Tax | 4.8 | | | |
| Net Income | $ 38.8 | | | |

Included $47.6 million of Canadian operating revenue in 2003 ($39.4 million in 2002).

NOTE 1. BUSINESS SEGMENTS (CONTINUED)
Millions

| | CONSOLIDATED | ENERGY SERVICES | AUTOMOTIVE SERVICES | INVESTMENTS AND CORPORATE CHARGES |
|---|---|---|---|---|
| FOR THE SIX MONTHS ENDED JUNE 30, 2003 | | | | |
| Operating Revenue | $832.8 | $337.6 | $473.6 | $21.6 |
| Operation and Other Expense | 632.6 | 269.7 | 347.5 | 15.4 |
| Depreciation and Amortization Expense | 42.8 | 25.7 | 17.0 | 0.1 |
| Interest Expense | 28.7 | 10.1 | 8.1 | 10.5 |
| Operating Income (Loss) from Continuing Operations | 128.7 | 32.1 | 101.0 | (4.4) |
| Distributions on Redeemable Preferred Securities of Subsidiary | 3.0 | 1.2 | - | 1.8 |
| Income Tax Expense (Benefit) | 49.9 | 11.9 | 40.2 | (2.2) |
| Income (Loss) from Continuing Operations | 75.8 | $ 19.0 | $ 60.8 | $(4.0) |
| Income from Discontinued Operations - Net of Tax | 12.9 | | | |
| Net Income | $ 88.7 | | | |
| Total Assets | $3,409.2 | $1,137.3 | $1,718.5 | $163.3 |
| Property, Plant and Equipment - Net | $1,480.6 | $904.8 | $571.8 | $4.0 |
| Accumulated Depreciation and Amortization | $887.4 | $726.7 | $158.5 | $2.2 |
| Capital Expenditures | $73.6 | $38.1 | $18.9 | - |
| FOR THE SIX MONTHS ENDED JUNE 30, 2002 | | | | |
| Operating Revenue | $744.2 | $297.0 | $425.6 | $21.6 |
| Operation and Other Expense | 557.8 | 231.2 | 307.6 | 19.0 |
| Depreciation and Amortization Expense | 39.8 | 24.1 | 15.6 | 0.1 |
| Interest Expense | 32.1 | 9.4 | 11.4 | 11.3 |
| Operating Income (Loss) from Continuing Operations | 114.5 | 32.3 | 91.0 | (8.8) |
| Distributions on Redeemable Preferred Securities of Subsidiary | 3.0 | 1.2 | - | 1.8 |
| Income Tax Expense (Benefit) | 43.9 | 12.3 | 36.1 | (4.5) |
| Income (Loss) from Continuing Operations | 67.6 | $ 18.8 | $ 54.9 | $(6.1) |
| Income from Discontinued Operations - Net of Tax | 6.4 | | | |
| Net Income | $ 74.0 | | | |
| Total Assets | $3,401.9 | $971.2 | $1,650.9 | $411.5 |
| Property, Plant and Equipment - Net | $1,368.4 | $892.1 | $472.2 | $4.1 |
| Accumulated Depreciation and Amortization | $854.1 | $715.3 | $136.6 | $2.2 |
| Capital Expenditures | $97.5 | $44.9 | $26.3 | - |

Discontinued Operations represented $390.1 million of total assets in 2003 ($368.3 million in 2002); and $16.6 million of capital expenditures in 2003 ($26.3 million in 2002).
Included $87.7 million of Canadian operating revenue in 2003 ($73.7 million in 2002).
Included $214.6 million of Canadian assets in 2003 ($228.1 million in 2002).

NOTE 2. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTS RECEIVABLE. AFC, through a wholly owned, consolidated subsidiary, sells certain finance receivables through a revolving private securitization structure. The securitization agreement allows for the revolving sale by the subsidiary to third parties of up to $500 million in undivided interests in eligible finance receivables. The securitization agreement expires in 2005.

AFC managed total receivables of $524.9 million at June 30, 2003 ($495.1 million at December 31, 2002); $211.1 million of this amount represent receivables which were included in accounts receivable on our consolidated balance sheet ($191.3 million at December 31, 2002) and $313.8 million of this amount represent receivables sold in undivided interests through the securitization agreement ($303.8 million at December 31, 2002) which are off-balance sheet. AFC's proceeds from the sale of the receivables to third parties were used to repay borrowings from ALLETE and fund new loans to AFC's customers. AFC and the subsidiary must each maintain certain financial covenants such as minimum tangible net worth to comply with the terms of the securitization agreement. AFC has historically performed better than the covenant thresholds set forth in the securitization agreement. We are not currently aware of any changing circumstances that would put AFC in noncompliance with the covenants.

ACCOUNTING FOR STOCK-BASED COMPENSATION. We have elected to account for stock-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no expense is recognized for employee stock options granted. If we had applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," we estimate that stock-based compensation expense would have increased $0.6 million after tax in the first six months of 2003 ($0.7 million after tax in the first six months of 2002), and basic and diluted earnings per share would have decreased $0.01 (a $0.01 per share decrease in the first six months of 2002). These amounts were calculated using the Black-Scholes option pricing model. We estimate the full year impact to be approximately $1.3 million, or $0.02 per share, for 2003. Expense is recognized for performance share awards, and amounted to approximately $1.2 million after tax in the first six months of 2003 ($1.8 million in the first six months of 2002).

NOTE 3. GOODWILL AND OTHER INTANGIBLES

We conduct our annual goodwill impairment testing in the second quarter of each year and the 2003 test resulted in no impairment. No event or change has occurred that would indicate the carrying amount has been impaired since our annual test.

GOODWILL

| Millions | |
|---|---|
| Carrying Value, December 31, 2002 | $499.8 |
| Acquired during Year | 1.8 |
| Change due to Foreign Currency Translation Adjustment | 6.6 |
| Carrying Value, June 30, 2003 | $508.2 |

| OTHER INTANGIBLE ASSETS<br>Millions | JUNE 30,<br>2003 | DECEMBER 31,<br>2002 |
|---|---|---|
| Customer Relationships | $29.6 | $29.6 |
| Computer Software | 26.2 | 32.6 |
| Other | 5.8 | 6.8 |
| Accumulated Amortization | (24.2) | (29.2) |
| Total | $37.4 | $39.8 |

Other Intangible Assets are amortized using the straight-line method over periods of two to forty years. Amortization expense for Other Intangible Assets is expected to be about $10 million per year until fully amortized.

NOTE 4. NEW ACCOUNTING STANDARDS

In January 2003 the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." In general, a variable interest entity is one with equity investors that do not have voting rights or do not provide sufficient financial resources for the entity to support its activities. Under the new rules, variable interest entities will be consolidated by the party that is subject to the majority of the risk of loss or entitled to the majority of the residual returns. The new rules are effective immediately for variable interest entities created after January 31, 2003 and in the third quarter of 2003 for previously existing variable interest entities. In June 2003 ADESA restructured its financial arrangements with respect to four of its wholesale auction facilities previously accounted for as operating leases. The transactions included the assumption of $28 million of long-term debt, the issuance of $45 million of long-term debt and the recognition of $73 million of property, plant and equipment. Interpretation No. 46 would have required ADESA to consolidate the lessor under the lease arrangements in place prior to the restructuring. We are not a party to any variable interest entity required to be consolidated upon the adoption of Interpretation 46.

In May 2003 the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." In general, SFAS 150 establishes standards for classification and measurement of certain financial instruments with the characteristics of both liabilities and equity. Mandatorily redeemable financial instruments must be classified as a liability and the related payments must be reported as interest expense. The new rules are effective immediately for financial instruments entered into after May 31, 2003 and in the third quarter of 2003 for previously existing financial instruments. Beginning with the third quarter of 2003, we will be required to reclassify our Mandatorily Redeemable Preferred Securities of ALLETE Capital I as a long-term liability and reclassify the quarterly distributions as interest expense. This will be a reclassification only and will not impact our results of operations.

NOTE 5. DISCONTINUED OPERATIONS

In 2002 we began to execute plans developed in a strategic review of all of the Company's businesses to unlock shareholder value not reflected in the price of our common stock. Businesses identified as having more value if operated by potential purchasers rather than by us include our Water Services businesses in Florida, North Carolina and Georgia and our auto transport business. We sold our auto transport business and exited our retail stores at the end of first quarter 2002, and exited our vehicle import business in the first quarter of 2003.

The December 2002 asset purchase agreement Florida Water signed with the Florida Water Services Authority, a governmental authority formed under the laws of the state of Florida, was terminated by Florida Water in March 2003 after a Florida court ruling delayed the sale. As a result, earnings from discontinued operations for the six months ended June 30, 2003 included a $12.5 million ($7.9 million after tax) expense associated with selling our Water Services businesses. This is included in Other Expense in the table below.

In March 2003, through a condemnation proceeding, Florida Water sold its Amelia Island water and wastewater assets to Nassau County in Florida for $17.5 million. The transaction resulted in an after-tax gain of $9.8 million which was included in our first quarter and six months ended 2003 earnings from discontinued operations.

In May 2003, through a condemnation proceeding, Florida Water sold its water and wastewater assets in Bradford and Clay counties in Florida to the Clay County Utility Authority for $4.3 million. The transaction resulted in an after-tax gain of $0.6 million which was included in our second quarter and six months ended June 30, 2003 earnings from discontinued operations.

In July 2003, through another condemnation proceeding, Florida Water sold its Martin County water and wastewater assets to Martin County for $2.4 million. The transaction resulted in an after-tax gain of $0.5 million which will be included in our third quarter 2003 earnings from discontinued operations.

NOTE 5. DISCONTINUED OPERATIONS (CONTINUED)

On July 24, 2003 Florida Water signed a purchase agreement to sell seven of its Florida water and wastewater systems to governmental entities in Florida for $296 million payable at closing. The transaction is expected to result in an after-tax gain of approximately $55 million. The water and wastewater systems included in this purchase agreement represent approximately two-thirds of Florida Water's assets and constitute systems serving the counties of Osceola, Hernando, Citrus, Lee and Charlotte, and the communities of Marco Island and Palm Coast. These systems combined serve approximately 152,000 customers. The cash proceeds after transaction costs, retirement of Florida Water debt and payment of income taxes are estimated at $158 million, and will be used to retire debt at ALLETE. The sale is expected to close by the end of 2003 pending satisfaction of certain contingencies and regulatory approvals in Florida. Florida Water will continue to seek buyers for its remaining water and wastewater facilities. Systems for which governmental buyers are not found are expected to be sold to a private buyer.

We are using an investment banking firm to facilitate the sale of our Water Services businesses in North Carolina and Georgia. Discussions with prospective buyers are in process. We expect to enter into agreements to sell these businesses in 2003.

As a result of our actions towards selling our Water Services businesses, we believe it is appropriate to continue to reflect our remaining water assets as discontinued operations as of June 30, 2003.

SUMMARY OF DISCONTINUED OPERATIONS

Millions

| | QUARTER ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| INCOME STATEMENT | 2003 | 2002 | 2003 | 2002 |
| Operating Revenue | $31.2 | $36.1 | $62.1 | $75.0 |
| Pre-Tax Income from Operations (excluding Other Expense) | $11.0 | $10.7 | $18.3 | $17.0 |
| Other Expense | 0.7 | - | 16.0 | - |
| Pre-Tax Income from Operations | 10.3 | 10.7 | 2.3 | 17.0 |
| Income Tax Expense | 3.9 | 4.3 | 1.1 | 6.7 |
| | 6.4 | 6.4 | 1.2 | 10.3 |
| Gain (Loss) on Disposal | 1.0 | (2.2) | 19.0 | (5.8) |
| Income Tax Expense (Benefit) | 0.4 | (0.6) | 7.3 | (1.9) |
| | 0.6 | (1.6) | 11.7 | (3.9) |
| Income from Discontinued Operations | $ 7.0 | $ 4.8 | $12.9 | $ 6.4 |

| BALANCE SHEET INFORMATION | JUNE 30, 2003 | DECEMBER 31, 2002 |
|---|---|---|
| Assets of Discontinued Operations | | |
| Cash and Cash Equivalents | $ 9.7 | $ 9.7 |
| Other Current Assets | 39.0 | 19.1 |
| Property, Plant and Equipment | 314.5 | 311.5 |
| Other Assets | 26.9 | 34.6 |
| | $390.1 | $374.9 |
| Liabilities of Discontinued Operations | | |
| Current Liabilities | $ 29.9 | $ 29.7 |
| Long-Term Debt | 123.5 | 125.8 |
| Other Liabilities | 46.9 | 37.1 |
| | $200.3 | $192.6 |

NOTE 6. LONG-TERM DEBT

In June 2003 ADESA restructured its financial arrangements with respect to its wholesale auction facilities located in Tracy, California; Boston, Massachusetts; Charlotte, North Carolina; and Knoxville, Tennessee. These wholesale auction facilities were previously accounted for as operating leases. The transactions included the assumption of $28 million of long-term debt, the issuance of $45 million of long-term debt and the recognition of $73 million of property, plant and equipment. The $28 million of assumed long-term debt matures April 1, 2020 and has a variable interest rate equal to the seven-day AA Financial Commercial Paper Rate plus approximately 1.2%, while the $45 million of long-term debt issued to finance the wholesale auction facility in Tracy, California, matures July 30, 2006 and has a variable interest rate of prime or LIBOR plus 1%. (See Note 4.)

In July 2003 ALLETE used internally generated funds to retire $25 million in principal amount of the Company's First Mortgage Bonds, Series 6 1/4% due July 1, 2003.

In July 2003 ALLETE entered into a credit agreement to borrow $250 million from a consortium of financial institutions, the proceeds of which were used to redeem $250 million of the Company's Floating Rate First Mortgage Bonds due October 20, 2003. The July 2003 credit agreement expires in July 2004, is subject to interest at LIBOR plus 0.875% and is secured by the lien of the Company's Mortgage and Deed of Trust. The credit agreement also has certain mandatory prepayment provisions, including a requirement to repay an amount equal to 75 percent of the net proceeds from the sale of water assets.

NOTE 7. INCOME TAX EXPENSE

| | QUARTER ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Millions | | | | |
| Current Tax Expense | | | | |
| Federal | $15.6 | $12.8 | $32.3 | $27.7 |
| Foreign | 7.3 | 3.9 | 9.2 | 6.7 |
| State | 2.3 | 1.8 | 6.1 | 3.5 |
| | 25.2 | 18.5 | 47.6 | 37.9 |
| Deferred Tax Expense (Benefit) | | | | |
| Federal | 0.2 | 4.3 | 2.4 | 6.2 |
| Foreign | - | - | - | 0.2 |
| State | 0.1 | (0.3) | 0.5 | 0.2 |
| | 0.3 | 4.0 | 2.9 | 6.6 |
| Deferred Tax Credits | (0.2) | (0.3) | (0.6) | (0.6) |
| Income Taxes on Continuing Operations | 25.3 | 22.2 | 49.9 | 43.9 |
| Income Taxes on Discontinued Operations | 4.3 | 3.7 | 8.4 | 4.8 |
| Total Income Tax Expense | $29.6 | $25.9 | $58.3 | $48.7 |

NOTE 8. COMPREHENSIVE INCOME

For the quarter ended June 30, 2003 total comprehensive income was $66.3 million ($44.8 million for the quarter ended June 30, 2002). For the six months ended June 30, 2003 total comprehensive income was $122.9 million ($78.0 million for the six months ended June 30, 2002). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale, changes in the fair value of an interest rate swap, additional pension liability and foreign currency translation adjustments.

| ACCUMULATED OTHER COMPREHENSIVE GAIN (LOSS) | JUNE 30, 2003 | DECEMBER 31, 2002 |
|---|---|---|
| Millions | | |
| Unrealized Gain (Loss) on Securities | $ 0.3 | $ (2.8) |
| Interest Rate Swap | - | (0.2) |
| Foreign Currency Translation Gain (Loss) | 15.2 | (15.7) |
| Additional Pension Liability | (3.5) | (3.5) |
| | $ 12.0 | $ (22.2) |

NOTE 9. EARNINGS PER SHARE

The difference between basic and diluted earnings per share arises from outstanding stock options and performance share awards granted under our Executive and Director Long-Term Incentive Compensation Plans. There was no difference between basic and diluted earnings per share from continuing operations for the quarter and six months ended periods in 2003.

RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE

Millions Except Per Share Amounts

| | QUARTER ENDED JUNE 30, 2002 | | | SIX MONTHS ENDED JUNE 30, 2002 | | |
|---|---|---|---|---|---|---|
| | BASIC EPS | DILUTIVE SECURITIES | DILUTED EPS | BASIC EPS | DILUTIVE SECURITIES | DILUTED EPS |
| Net Income from Continuing Operations | $34.0 | - | $34.0 | $67.6 | - | $67.6 |
| Common Shares | 81.0 | 0.7 | 81.7 | 80.7 | 0.6 | 81.3 |
| Per Share from Continuing Operations | $0.42 | - | $0.41 | $0.84 | - | $0.83 |

NOTE 10. COMMITMENTS, GUARANTEES AND CONTINGENCIES

SQUARE BUTTE POWER PURCHASE AGREEMENT. Minnesota Power has a power purchase agreement with Square Butte that extends through 2026 (Agreement). It provides a long-term supply of low-cost energy to customers in our electric service territory and enables Minnesota Power to meet power pool reserve requirements. Square Butte, a North Dakota cooperative corporation, owns a 455-MW coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota, a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota serves as the operator of the Unit and also purchases power from Square Butte.

Minnesota Power is entitled to approximately 71 percent of the Unit's output under the Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota has the option to reduce Minnesota Power's entitlement by 5 percent annually, to a minimum of 50 percent. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Minnesota Power's payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At June 30, 2003 Square Butte had total debt outstanding of $282.2 million. Total annual debt service for Square Butte is expected to be approximately $23.6 million in each of the years 2003 through 2007. Variable operating costs include the price of coal purchased from BNI Coal, Ltd., our subsidiary, under a long-term contract. Minnesota Power's payments to Square Butte are approved as purchased power expense for ratemaking purposes by both the MPUC and the FERC.

LEASING AGREEMENTS. In June 2003 ADESA restructured its financial arrangement with respect to its wholesale auction facilities located in Tracy, California; Boston, Massachusetts; Charlotte, North Carolina; and Knoxville, Tennessee. These wholesale auction facilities were previously accounted for as operating leases. The transactions included the assumption of $28 million of long-term debt, the issuance of $45 million of long-term debt and the recognition of $73 million of property, plant and equipment. (See Note 4.)

We lease other properties and equipment under operating lease agreements with terms expiring through 2010. The aggregate amount of future minimum lease payments for all operating leases during 2003 is $7.8 million ($10.6 million in 2004; $7.3 million in 2005; $5.7 million in 2006; $5.2 million in 2007; and $55.5 million thereafter).

SPLIT ROCK ENERGY. We provide up to $50.0 million of credit support, in the form of letters of credit and financial guarantees, to facilitate the power marketing activities of Split Rock Energy. At June 30, 2003 this credit support backed $1.7 million of Split Rock Energy's liabilities ($7.3 million at December 31, 2002). The credit support generally expires within one year from the date of issuance.

KENDALL COUNTY POWER PURCHASE AGREEMENT. We have 275 MW of nonregulated generation (non rate-base generation sold at market-based rates to the wholesale market) through an agreement with NRG Energy that extends through September 2017. Under the agreement we pay a fixed capacity charge for the right, but not the obligation, to capacity and energy from a 275 MW generating unit at NRG Energy's Kendall County facility near Chicago, Illinois. The annual fixed capacity charge is $21.8 million. We are responsible for arranging the natural gas fuel supply. Our strategy is to enter into long-term contracts to sell a significant portion of the 275 MW from the Kendall County facility, with the balance to be sold in the spot market through short-term agreements. We currently have long-term forward capacity and energy sales contracts for 100 MW of Kendall County generation, with 50 MW expiring in April 2012 and the balance in September 2017. In the first quarter of 2003 we entered into an additional 30 MW long-term forward capacity and energy sale contract that begins January 1, 2004 and expires in September 2017. Neither the Kendall County agreement nor the related sales contracts are derivatives under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities."

EMERGING TECHNOLOGY INVESTMENTS. We have investments in emerging technologies through minority investments in venture capital funds and privately-held start-up companies. These investments are accounted for using the cost method and included in Investments on our consolidated balance sheet. The total carrying value of these investments was $39.7 million at June 30, 2003 ($38.7 million at December 31, 2002). We have committed to make additional investments in certain emerging technology holdings. The total future commitment was $5.9 million at June 30, 2003 ($7.7 million at December 31, 2002) and is expected to be invested at various times through 2007.

ENVIRONMENTAL MATTERS. Our businesses are subject to regulation by various federal, state and local authorities concerning environmental matters. We do not currently anticipate that potential expenditures for environmental matters will be material; however, we are unable to predict the outcome of the issues discussed below.

In May 2001 SWL&P received notice from the WDNR that the City of Superior had found soil contamination on property adjoining a former Manufactured Gas Plant (MGP) site owned and operated by SWL&P's predecessors from 1889 to 1904. The WDNR requested an environmental investigation be initiated. The WDNR also issued SWL&P a Responsible Party letter in February 2002 to initiate tracking of the project in the WDNR database so that progress can be monitored. The environmental investigation is underway. The Phase II environmental site investigation report was submitted to the WDNR in February 2003. This report identified some MGP-like chemicals that were found in the soil. Initial test results from sediment samples taken from nearby Superior Bay were inconsistent with MGP-like chemicals. Additional samples were obtained in March 2003 from Superior Bay near the site of the former MGP. The report on this sampling is expected to be completed by the end of August 2003. The Company is unable to predict the outcome of this matter at this time.

In May 2002 Minnesota Power received and subsequently responded to a third request from the EPA, under Section 114 of the federal Clean Air Act Amendments of 1990 (Clean Air Act), seeking additional information regarding capital expenditures at all of its coal-fired generating stations. This action is part of an industry-wide investigation assessing compliance with the New Source Review and the New Source Performance Standards (emissions standards that apply to new and changed units) of the Clean Air Act at electric generating stations. We are unable to predict whether the EPA will take any action on this matter or whether Minnesota Power will be required to incur any costs as a result.

In June 2002 Minnkota Power, the operator of Square Butte, received a Notice of Violation from the EPA regarding alleged New Source Review violations at the M.R. Young Station which includes the Square Butte generating unit. The EPA claims certain capital projects completed by Minnkota Power should have gone through the New Source Review process potentially resulting in new air permit operating conditions. The Company is unable to predict the outcome of this matter or the magnitude of costs should additional pollution controls be required. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to the Square Butte generating unit's output.

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

ALLETE's core operations are focused on two business segments. ENERGY SERVICES includes electric and gas services, coal mining and telecommunications. AUTOMOTIVE SERVICES, with operations across the United States and Canada, includes a network of wholesale and total loss vehicle auctions, a finance company, a vehicle remarketing company, a company that provides vehicle inspection services to the automotive industry and its lenders, and a company that provides Internet-based automotive parts location and nationwide insurance claim audit services. INVESTMENTS AND CORPORATE CHARGES includes our Florida real estate operations, investments in emerging technologies related to the electric utility industry and corporate charges. Corporate charges represent general corporate expenses, including interest, not specifically related to any one business segment. In 2002 Investments and Corporate Charges included our trading securities portfolio which was substantially liquidated during the second half of 2002. DISCONTINUED OPERATIONS includes our Water Services businesses, our auto transport business, our vehicle import business and our retail stores.

CONSOLIDATED OVERVIEW

Net income for the quarter and six months ended June 30, 2003 increased 14 percent and 20 percent, respectively, from the same periods in 2002 and diluted earnings per share for the quarter and six months ended June 30, 2003 increased 13 percent and 18 percent, respectively, from the same periods in 2002.

Net income from continuing operations for the quarter and six months ended June 30, 2003 increased 10 percent and 12 percent, respectively, from the same periods in 2002 and diluted earnings per share from continuing operations for the quarter and six months ended June 30, 2003 increased 10 percent and 11 percent, respectively, from the same periods in 2002.

| | QUARTER ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Millions Except Per Share Amounts | | | | |
| Operating Revenue | | | | |
| Energy Services | $158.5 | $154.1 | $337.6 | $297.0 |
| Automotive Services | 240.7 | 216.8 | 473.6 | 425.6 |
| Investments | 10.7 | 5.0 | 21.6 | 21.6 |
| | $409.9 | $375.9 | $832.8 | $744.2 |
| Operating Expenses | | | | |
| Energy Services | $147.0 | $137.4 | $305.5 | $264.7 |
| Automotive Services | 183.9 | 167.3 | 372.6 | 334.6 |
| Investments and Corporate Charges | 14.8 | 13.5 | 26.0 | 30.4 |
| | $345.7 | $318.2 | $704.1 | $629.7 |
| Net Income | | | | |
| Energy Services | $ 6.8 | $ 9.7 | $19.0 | $18.8 |
| Automotive Services | 34.1 | 30.0 | 60.8 | 54.9 |
| Investments and Corporate Charges | (3.5) | (5.7) | (4.0) | (6.1) |
| Continuing Operations | 37.4 | 34.0 | 75.8 | 67.6 |
| Discontinued Operations | 7.0 | 4.8 | 12.9 | 6.4 |
| Net Income | $44.4 | $38.8 | $88.7 | $74.0 |
| Diluted Average Shares of Common Stock - Millions | 82.9 | 81.7 | 82.6 | 81.3 |
| Diluted Earnings Per Share of Common Stock | | | | |
| Continuing Operations | $0.45 | $0.41 | $0.92 | $0.83 |
| Discontinued Operations | 0.08 | 0.06 | 0.15 | 0.08 |
| | $0.53 | $0.47 | $1.07 | $0.91 |

| STATISTICAL INFORMATION | QUARTER ENDED JUNE 30, 2003 | 2002 | SIX MONTHS ENDED JUNE 30, 2003 | 2002 |
|---|---|---|---|---|
| ENERGY SERVICES | | | | |
| Millions of Kilowatthours Sold | | | | |
| Utility | | | | |
| Retail | | | | |
| Residential | 223.9 | 232.8 | 536.8 | 518.6 |
| Commercial | 289.6 | 295.1 | 616.0 | 609.6 |
| Industrial | 1,655.0 | 1,755.2 | 3,373.6 | 3,405.0 |
| Other | 18.3 | 17.8 | 38.8 | 37.6 |
| Resale | 505.4 | 400.8 | 913.2 | 843.7 |
| | 2,692.2 | 2,701.7 | 5,478.4 | 5,414.5 |
| Nonregulated | 281.1 | 226.7 | 700.2 | 310.3 |
| | 2,973.3 | 2,928.4 | 6,178.6 | 5,724.8 |
| AUTOMOTIVE SERVICES | | | | |
| Vehicles Sold | | | | |
| Wholesale | 471,000 | 454,000 | 933,000 | 915,000 |
| Total Loss | 49,000 | 44,000 | 98,000 | 89,000 |
| | 520,000 | 498,000 | 1,031,000 | 1,004,000 |
| Conversion Rate - Wholesale Vehicles | 61.1% | 59.7% | 61.8% | 62.6% |
| Vehicles Financed | 241,000 | 241,000 | 474,000 | 478,000 |

Conversion rate is the percentage of vehicles sold from those that were offered at auction.

NET INCOME

The following net income discussion summarizes a comparison of the six months ended June 30, 2003 to the six months ended June 30, 2002.

ENERGY SERVICES' net income was slightly higher than last year reflecting increased sales of nonregulated generation, improved wholesale power prices and more sales activity at our telecommunications business. Increased sales of nonregulated generation resulted from facilities being available for a full six months in 2003. Nonregulated generation facilities first came online at various times during the first half of 2002. In 2002 net income included a $2.8 million after-tax mark-to-market accounting gain on the Kendall County power purchase agreement as required by accounting rules. These mark-to-market accounting rules were rescinded in late 2002, and this $2.8 million gain was reversed in the fourth quarter.

AUTOMOTIVE SERVICES reported a $5.9 million, or 11 percent, increase in net income in 2003 in spite of difficult market conditions. The increase in net income was attributable to increased vehicle sales, lower interest expense, modest fee increases and efficiency gains at our auction facilities, and reduced bad debt expense at AFC, our floorplan financing business. Year-to-date vehicles sold were up 2 percent at our wholesale auction facilities and 10 percent at our total loss auction facilities. Interest expense was down due to lower debt balances, and bad debt expense at AFC was down reflecting improved credit quality of the receivable portfolio and strong receivable portfolio management. For the six months ended June 30, 2003 AFC contributed 29 percent of the net income for Automotive Services (30 percent in 2002).

NON-GAAP FINANCIAL MEASURES. We believe EBITDA provides meaningful additional information that helps us monitor and evaluate our ongoing operating results and trends, and facilitates an understanding of our comparative operating performance. EBITDA should not be considered in isolation nor as a substitute for measures of performance prepared in accordance with GAAP. EBITDA is not an alternative to cash flows as a measure of liquidity and may not be comparable with EBITDA as defined by other companies. EBITDA is a common measure of operating performance considered by investors, financial analysts and rating agencies.

| AUTOMOTIVE SERVICES EBITDA | QUARTER ENDED JUNE 30, 2003 | 2002 | SIX MONTHS ENDED JUNE 30, 2003 | 2002 |
|---|---|---|---|---|
| Millions | | | | |
| Net Income | $34.1 | $30.0 | $ 60.8 | $ 54.9 |
| Add Back: | | | | |
| Income Tax Expense | 22.7 | 19.5 | 40.2 | 36.1 |
| Interest Expense | 3.7 | 5.7 | 8.1 | 11.4 |
| Depreciation and Amortization Expense | 8.9 | 7.8 | 17.0 | 15.6 |
| EBITDA | $69.4 | $63.0 | $126.1 | $118.0 |

INVESTMENTS AND CORPORATE CHARGES' financial results in 2003 reflected more real estate sales partially offset by losses on the sale of shares we held directly in publicly-traded emerging technology investments. Financial results for 2002 included gains on the sale of certain emerging technology investments and losses related to our trading securities portfolio which was subsequently liquidated during the third quarter of 2002.

DISCONTINUED OPERATIONS' net income was up $6.5 million in 2003. Net income from our Water Services businesses in 2003 reflected $10.4 million in after-tax gains on the condemnation of Florida Water's utility systems in Nassau (Amelia Island), Clay and Bradford counties. These gains were offset by $7.9 million of after-tax expense associated with the sale of our water assets and a $2.2 million accrual for employee retention and severance incentives. Despite a 2.9 percent increase in total customers, water consumption was down 11 percent because in 2003 above normal precipitation decreased consumption and in 2002 drier weather conditions increased consumption. Net income from other discontinued operations in 2003 included a $1.3 million recovery from the settlement of a lawsuit associated with our auto transport business, while net income in 2002 included $3.9 million of exit charges related to the auto transport business and the retail stores.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2003 AND 2002

ENERGY SERVICES

UTILITY operations include retail and wholesale rate regulated activities under the jurisdiction of state and federal regulatory authorities. NONREGULATED/NONUTILITY operations consist of nonregulated generation (non-rate base generation sold at market-based rates to the wholesale market), coal mining and telecommunication activities. Nonregulated generation consists primarily of the Taconite Harbor Energy Center in northern Minnesota and generation secured through the Kendall County power purchase agreement, a 15-year agreement with NRG Energy at a facility near Chicago, Illinois.

OPERATING REVENUE in total was up $4.4 million, or 3 percent, in 2003 reflecting increases from both utility and nonregulated/nonutility operations. UTILITY operating revenue was up $3.9 million, or 3 percent, mainly due to higher fuel clause recoveries. Improved wholesale power prices and higher gas prices also contributed to the increase in operating revenue. Utility kilowatthour sales were similar to the second quarter of last year. NONREGULATED/NONUTILITY revenue increased $0.5 million, or 2 percent, in 2003 as increased sales of nonregulated generation, improved wholesale power prices and more sales activity at our telecommunications business offset a mark-to-market accounting gain recorded in 2002. Increased sales of nonregulated generation resulted from facilities being available for a full three months in 2003. Nonregulated generation facilities first came online at various times during the first half of 2002. As required by accounting rules, a $4.7 million pre-tax mark-to-market accounting gain on the Kendall County power purchase agreement was recorded in June 2002 and subsequently reversed in the fourth quarter of 2002.

Revenue from electric sales to taconite customers accounted for 10 percent of consolidated operating revenue in both 2003 and 2002. Electric sales to paper and pulp mills accounted for 4 percent of consolidated operating revenue in both 2003 and 2002.

OPERATING EXPENSES in total were up $9.6 million, or 7 percent, in 2003. UTILITY operating expenses were up $2.5 million, or 2 percent, in 2003 reflecting higher purchased power and gas expense and general cost increases. NONREGULATED/NONUTILITY operating expenses increased $7.1 million, or 24 percent, over the prior year mainly due to fuel and purchased power expenses for nonregulated generation that came online during the first half of 2002 and direct costs related to increased sales activity at our telecommunications business.

AUTOMOTIVE SERVICES

OPERATING REVENUE was up $23.9 million, or 11 percent, in 2003. Revenue from our wholesale auction facilities was higher in 2003 primarily due to increased sales, a sales mix shift and modest fee increases implemented at some of our auction facilities. The number of vehicles sold at our wholesale auction facilities increased 4 percent. The increased volume in commercial accounts, which resulted in additional reconditioning services, offset a decline in dealer consignment sales. A commercial account is a non-dealer consignor such as a manufacturer, leasing company, insurance company, bank or finance company, business fleet or rental company.

Revenue from our total loss auction facilities was up in 2003 reflecting an 11 percent increase in vehicles sold and expansion into new markets, including combination sites at some of our wholesale auction facilities.

While the number of vehicles financed by AFC was similar to last year due to the softness of the economy, revenue from AFC was higher in 2003 because lower interest rates in 2003 reduced interest borrowing expense and strong receivable portfolio management lowered bad debt expense.

OPERATING EXPENSES were up $16.6 million, or 10 percent, in 2003 primarily due to additional expenses incurred for reconditioning services provided as a result of a sales mix shift that has added more commercial accounts. Operating expenses were also impacted by lower conversion rates at our Canadian wholesale auction facilities which increased direct costs associated with processing vehicles multiple times.

INVESTMENTS AND CORPORATE CHARGES

OPERATING REVENUE was up $5.7 million in 2003 primarily due to four large real estate sales which contributed $7.9 million to revenue. Revenue from our emerging technology investments was down $6.8 million in 2003 because revenue in 2003 included $3.5 million of losses related to the sale of shares the Company held directly in publicly-traded investments and revenue in 2002 included a $3.3 million gain on the sale of certain investments. Revenue in 2002 also included losses related to our trading securities portfolio which was liquidated during the second half of 2002.

OPERATING EXPENSES were up $1.3 million in 2003 primarily due to higher expenses related to our real estate operations because the cost of property sold in 2003 was higher than in 2002.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

ENERGY SERVICES

OPERATING REVENUE in total was up $40.6 million, or 14 percent, in 2003 reflecting increases from both utility and nonregulated/nonutility operations. UTILITY operating revenue was up $21.1 million, or 9 percent, mainly due to higher fuel clause recoveries, improved wholesale power prices and earnings from Split Rock Energy. Fuel clause recoveries increased due to higher purchased power. Results from Split Rock Energy were up in 2003 due to increased power marketing opportunities and higher wholesale power prices. Revenue from gas sales were also up in 2003 due to higher gas prices. Utility kilowatthour sales were up 1 percent from last year. NONREGULATED/NONUTILITY revenue increased $19.5 million in 2003 primarily due to increased sales of nonregulated generation, improved wholesale power prices and more sales activity at our telecommunications business. Increased sales of nonregulated generation resulted from facilities being available for a full six months in 2003. Nonregulated generation facilities first came online at various times during the first half of 2002. As required by accounting rules, a $4.7 million pre-tax mark-to-market accounting gain on the Kendall County power purchase agreement was recorded in June 2002 and subsequently reversed in the fourth quarter.

Revenue from electric sales to taconite customers accounted for 10 percent of consolidated operating revenue in both 2003 and 2002. Electric sales to paper and pulp mills accounted for 4 percent of consolidated operating revenue in both 2003 and 2002.

OPERATING EXPENSES in total were up $40.8 million, or 15 percent, in 2003. The increase was primarily attributable to increased fuel and purchased power expenses. UTILITY operating expenses were up $14.0 million, or 7 percent, in 2003 primarily due to increased purchased power and gas expense, generating station maintenance expense and employment costs. Higher purchased power costs resulted from both increased wholesale prices and quantities purchased. Gas expense was higher in 2003 due to increased prices. Planned maintenance outages at Company generating stations necessitated higher quantities of purchased power this year. Higher gas prices in 2003 also contributed to the increase in operating expenses. NONREGULATED/NONUTILITY operating expenses increased $26.8 million over the prior year mainly due to fuel and purchased power expenses for nonregulated generation that came online during the first half of 2002. Purchased power expense in 2003 included six months of demand charges related to the Kendall County power purchase agreement while 2002 included only two months. The Kendall County agreement began in May 2002. Operating expenses were also higher in 2003 due to increased sales activity at our telecommunications business.

AUTOMOTIVE SERVICES

OPERATING REVENUE was up $48.0 million, or 11 percent, in 2003. Revenue from our wholesale auction facilities was higher in 2003 primarily due to increased sales, a sales mix shift and modest fee increases implemented at some of our auction facilities. At our wholesale auction facilities 2 percent more vehicles were sold in 2003. The increased volume in commercial accounts, which resulted in additional reconditioning services, offset a decline in dealer consignment sales.

Revenue from our total loss auction facilities was up in 2003 reflecting a 10 percent increase in vehicles sold and expansion into new markets, including combination sites at some of our wholesale auction facilities.

While the number of vehicles financed by AFC was down slightly from last year due to the softness of the economy, revenue from AFC was higher in 2003 primarily because strong receivable portfolio management lowered bad debt expense.

OPERATING EXPENSES were up $38.0 million, or 11 percent, in 2003 primarily due to additional expenses incurred for reconditioning services provided as a result of a sales mix shift that has added more commercial accounts, and additional costs incurred because of inclement weather. Operating expenses were also impacted by lower conversion rates at our Canadian wholesale vehicle auctions which increased direct costs associated with processing vehicles multiple times.

INVESTMENTS AND CORPORATE CHARGES

OPERATING REVENUE remained constant in 2003 as more real estate sales were offset by less revenue from our emerging technology investments. In 2003 eight large real estate sales contributed $14.5 million to revenue compared to 2002 when two large real estate sales contributed $4.9 million to revenue. In 2003 we recognized $3.5 million of losses related to the sale of shares the Company held directly in publicly-traded emerging technology investments, while in 2002 we recognized a $3.3 million gain on the sale of certain emerging technology investments. Revenue in 2002 also included losses on our trading securities portfolio which was liquidated during the second half of 2002.

OPERATING EXPENSES were down $4.4 million, or 14 percent, in 2003 in part due to lower incentive compensation expense and interest expense.

CRITICAL ACCOUNTING POLICIES

Certain accounting measurements under applicable generally accepted accounting principles 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: uncollectible receivables and allowance for doubtful accounts, impairment of goodwill and long-lived assets, pension and postretirement health and life actuarial assumptions, and valuation of investments. These policies are summarized in our 2002 Form 10-K.

OUTLOOK

We remain focused on continuously improving the performance of our two core businesses, Energy and Automotive Services, and monetizing those businesses that are non-strategic or non-core. Our two core businesses remain strong and are poised for earnings growth in their respective markets as economic conditions improve. With solid financial results for the first six months of 2003, our total year expectations have not changed.

We are continuing to pursue the sale of our Water Services businesses in Florida, North Carolina and Georgia. During the first six months of 2003, through condemnation proceedings, Florida Water sold its Amelia Island water and wastewater assets to Nassau County and its water and wastewater assets in Bradford and Clay counties to the Clay County Utility Authority. The combined transactions resulted in a total after-tax gain of $10.4 million which was included in our 2003 earnings from discontinued operations. In July 2003, through another condemnation proceeding, Florida Water sold its Martin County water and wastewater assets to Martin County for $2.4 million. The transaction resulted in an after-tax gain of $0.5 million which will be included in our third quarter 2003 earnings from discontinued operations. Condemnation proceedings have also been initiated in Marion County for Florida Water's assets in that county which serve approximately 15,000 customers.

On July 24, 2003 Florida Water signed a purchase agreement to sell seven of its Florida water and wastewater systems to governmental entities in Florida for $296 million payable at closing. The transaction is expected to result in an after-tax gain of approximately $55 million. The water and wastewater systems included in this purchase agreement represent approximately two-thirds of Florida Water's assets and constitute systems serving the counties of Osceola, Hernando, Citrus, Lee and Charlotte, and the communities of Marco Island and Palm Coast. These systems combined serve approximately 152,000 customers. The cash proceeds after transaction costs, retirement of Florida Water debt and payment of income taxes are estimated at $158 million, and will be used to retire debt at ALLETE. The sale is expected to close by the end of 2003 pending satisfaction of certain contingencies and regulatory approvals in Florida. Florida Water will continue to seek buyers for its remaining water and wastewater facilities. Systems for which governmental buyers are not found are expected to be sold to a private buyer.

We are using an investment banking firm to facilitate the sale of Water Services businesses in North Carolina and Georgia. Discussions with prospective buyers are in process. We expect to enter into agreements to sell these businesses in 2003. The proceeds from selling our Water Services businesses will give us the ability to reduce debt, which will further strengthen our balance sheet.

Our Board of Directors and management remain committed to unlocking the value of ALLETE. We continue to review, both internally and with outside advisors, the benefits and risks of separating our Energy and Automotive Services businesses into independent companies. When we ultimately reach a decision as to whether we will separate our businesses, we will inform the market at that time through a filing with the SEC. We are unable to predict the timing of that decision.

ENERGY SERVICES. While our power marketing activities benefited from higher than expected wholesale power prices during the first six months of 2003, it is uncertain whether higher prices will continue for the remainder of the year. We anticipate 2003 net income from Energy Services to be similar to 2002. Global economic conditions continue to affect our largest industrial retail customers and are likely to continue over the next few years, as consolidation in the steel and taconite industries continues, and while paper and pulp companies search for even more efficiency and cost-cutting measures to compete in the marketplace.

AUTOMOTIVE SERVICES. We continue to anticipate earnings from Automotive Services to increase by about 15 percent in 2003. In 2003 vehicles sold through our wholesale and total loss auction facilities combined are expected to increase by 4 percent to 7 percent, and the number of vehicles financed through AFC is expected to increase by 5 percent. However, it will be difficult to achieve these growth targets if economic conditions do not improve. Automotive Services is focusing on growth in the volume of vehicles sold and financed, increased ancillary services, and operating and technological efficiencies. Selective fee increases have been implemented and more will be considered. The opening of total loss auction facilities in Fremont, California; Medford (Long Island), New York; and Manville, New Jersey, during the first six months of 2003 will also contribute to 2003 earnings as will the new wholesale auction facilities in Yaphank (Long Island), New York; Atlanta, Georgia; and Edmonton, Alberta. The wholesale auction facility in Yaphank, which opened in June 2003, is a greenfield site (a newly constructed facility in a new market). The new wholesale auction facilities in Atlanta and Edmonton are under construction and will replace aging facilities. Both are slated to open later this year.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITIES

A primary goal of our strategic plan is to improve cash flow from operations. Our strategy includes growing the businesses both internally by expanding facilities, services and operations (see Capital Requirements), and externally through acquisitions. During the first six months of 2003 cash flow from operating activities reflected strong operating results and continued focus on working capital management. Cash flow from operations was higher in 2002 due to the timing of the collection of certain finance receivables outstanding at December 31, 2001. Cash flow from operations was also affected by a number of factors representative of normal operations.

WORKING CAPITAL. As of June 30, 2003 our working capital needs included $283.1 million of long-term debt due later in 2003. (See Securities.) Additional working capital, if and when needed, generally is provided by the sale of commercial paper. During the second half of 2002 we liquidated our trading securities portfolio and used the proceeds to reduce our short-term debt. Approximately 4.1 million original issue shares of our common stock are available for issuance through INVEST DIRECT, our direct stock purchase and dividend reinvestment plan.

A substantial amount of ADESA's working capital is generated internally from payments for services provided. ADESA, however, has arrangements to use proceeds from the sale of commercial paper issued by ALLETE to meet short-term working capital requirements arising from the timing of payment obligations to vehicle sellers and the availability of funds from vehicle purchasers. During the sales process, ADESA does not typically take title to vehicles.

AFC offers short-term on-site financing for dealers to purchase vehicles mostly at auctions and takes a security interest in each vehicle financed. The financing is provided through the earlier of the date the dealer sells the vehicle or a general borrowing term of 30 to 45 days. AFC has arrangements to use proceeds from the sale of commercial paper issued by ALLETE to meet its short-term working capital requirements.

Significant changes in accounts receivable and accounts payable balances at June 30, 2003 compared to December 31, 2002 were due to increased sales and financing activity at Automotive Services. Typically auction volumes are down during December because of the holidays. As a result, ADESA and AFC had higher receivables and higher payables at June 30, 2003.

AFC RECEIVABLES. AFC, through a wholly owned, consolidated subsidiary, sells certain finance receivables through a revolving private securitization structure. The securitization agreement allows for the revolving sale by the subsidiary to third parties of up to $500 million in undivided interests in eligible finance receivables. The securitization agreement expires in 2005.

AFC managed total receivables of $524.9 million at June 30, 2003 ($495.1 million at December 31, 2002); $211.1 million of this amount represent receivables which were included in accounts receivable on our consolidated balance sheet ($191.3 million at December 31, 2002) and $313.8 million of this amount represent receivables sold in undivided interests through the securitization agreement ($303.8 million at December 31, 2002) which are off-balance sheet. AFC's proceeds from the sale of the receivables to third parties were used to repay borrowings from ALLETE and fund new loans to AFC's customers. AFC and the subsidiary must each maintain certain financial covenants such as minimum tangible net worth to comply with the terms of the securitization agreement. AFC has historically performed better than the covenant thresholds set forth in the securitization agreement. We are not currently aware of any changing circumstances that would put AFC in noncompliance with the covenants.

SPLIT ROCK ENERGY. We provide up to $50.0 million in credit support, in the form of letters of credit and financial guarantees, to facilitate the power marketing activities of Split Rock Energy. At June 30, 2003 this credit support backed $1.7 million of Split Rock Energy's liabilities ($7.3 million at December 31, 2002). The credit support generally expires within one year from the date of issuance.

SALE OF WATER PLANT ASSETS. In March 2003, through a condemnation proceeding, Florida Water sold its Amelia Island water and wastewater assets to Nassau County in Florida for $17.5 million. The transaction resulted in an after-tax gain of $9.8 million which was included in our 2003 earnings from discontinued operations. The system serves 5,000 customers. For an additional fee, Florida Water will continue to operate the system for Nassau County for a period of 120 days or for such additional period of time as may be agreed to by the parties.

In May 2003, through a condemnation proceeding, Florida Water sold its water and wastewater assets in Bradford and Clay counties in Florida to the Clay County Utility Authority for $4.3 million. The transaction resulted in an after-tax gain of $0.6 million which was included in our 2003 earnings from discontinued operations. The systems serve 1,500 customers. For an additional fee, Florida Water will continue to operate the systems for Clay County for a period of 90 days.

In July 2003, through another condemnation proceeding, Florida Water sold its Martin County water and wastewater assets to Martin County for $2.4 million. The transaction resulted in an after-tax gain of $0.5 million which will be included in our third quarter 2003 earnings from discontinued operations. The systems serve 1,300 customers.

Proceeds from these condemnations will be used to reduce debt and for general corporate purposes.

SECURITIES. In March 2001 ALLETE, ALLETE Capital II and ALLETE Capital III, jointly filed a registration statement with the SEC pursuant to Rule 415 under the Securities Act of 1933. The registration statement, which has been declared effective by the SEC, relates to the possible issuance of a remaining aggregate amount of $387 million of securities which may include ALLETE common stock, first mortgage bonds and other debt securities, and ALLETE Capital II and ALLETE Capital III preferred trust securities. ALLETE also previously filed a registration statement, which has been declared effective by the SEC, relating to the possible issuance of $25 million of first mortgage bonds and other debt securities. We may sell all or a portion of the remaining registered securities if warranted by market conditions and our capital requirements. Any offer and sale of the above mentioned securities will be made only by means of a prospectus meeting the requirements of the Securities Act of 1933 and the rules and regulations thereunder.

In June 2003 ADESA restructured its financial arrangements with respect to its wholesale auction facilities located in Tracy, California; Boston, Massachusetts; Charlotte, North Carolina; and Knoxville, Tennessee. These wholesale auction facilities were previously accounted for as operating leases. The transactions included the assumption of $28 million of long-term debt, the issuance of $45 million of long-term debt and the recognition of $73 million of property, plant and equipment. The $28 million of assumed long-term debt matures April 1, 2020 and has a variable interest rate equal to the seven-day AA Financial Commercial Paper Rate plus approximately 1.2%, while the $45 million of long-term debt issued to finance the wholesale auction facility in Tracy, California, matures July 30, 2006 and has a variable interest rate of prime or LIBOR plus 1%.

In July 2003 ALLETE used internally generated funds to retire $25 million in principal amount of the Company's First Mortgage Bonds, Series 6 1/4% due July 1, 2003.

In July 2003 ALLETE entered into a credit agreement to borrow $250 million from a consortium of financial institutions, the proceeds of which were used to redeem $250 million of the Company's Floating Rate First Mortgage Bonds due October 20, 2003. The July 2003 credit agreement expires in July 2004, is subject to interest at LIBOR plus 0.875% and is secured by the lien of the Company's Mortgage and Deed of Trust. The credit agreement also has certain mandatory prepayment provisions, including a requirement to repay an amount equal to 75 percent of the net proceeds from the sale of water assets.

CAPITAL REQUIREMENTS

As a result of the delay in selling our Water Services business, consolidated capital expenditures for 2003 are now expected to be $172 million. Consolidated capital expenditures for the six months ended June 30, 2003 totaled $73.6 million ($97.5 million in 2002). Expenditures for 2003 included $38.1 million for Energy Services and $18.9 million for Automotive Services. Expenditures for 2003 also included $16.6 million to maintain our Water Services businesses while they are in the process of being sold. An existing long-term line of credit and internally generated funds were the primary sources of funding for these expenditures. The 2003 capital expenditure amounts do not include $73 million of property, plant and equipment recognized upon the restructuring of financial arrangements with respect to four of our wholesale auction facilities previously accounted for as operating leases.

NEW ACCOUNTING STANDARDS

In January 2003 the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." In general, a variable interest entity is one with equity investors that do not have voting rights or do not provide sufficient financial resources for the entity to support its activities. Under the new rules, variable interest entities will be consolidated by the party that is subject to the majority of the risk of loss or entitled to the majority of the residual returns. The new rules are effective immediately for variable interest entities created after January 31, 2003 and in the third quarter of 2003 for previously existing variable interest entities. In June 2003 ADESA restructured its financial arrangements with respect to four of its wholesale auction facilities previously accounted for as operating leases. The transactions included the assumption of $28 million of long-term debt, the issuance of $45 million of long-term debt and the recognition of $73 million in property, plant and equipment. Interpretation No. 46 would have required ADESA to consolidate the lessor under the lease arrangements in place prior to the restructuring. We are not a party to any variable interest entity required to be consolidated upon the adoption of Interpretation 46.

In May 2003 the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." In general, SFAS 150 establishes standards for classification and measurement of certain financial instruments with the characteristics of both liabilities and equity. Mandatorily redeemable financial instruments must be classified as a liability and the related payments must be reported as interest expense. The new rules are effective immediately for financial instruments entered into after May 31, 2003 and in the third quarter of 2003 for previously existing financial instruments. Beginning with the third quarter of 2003, we will be required to reclassify our Mandatorily Redeemable Preferred Securities of ALLETE Capital I as a long-term liability and reclassify the quarterly distributions as interest expense. This will be a reclassification only and will not impact our results of operations.

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READERS ARE CAUTIONED THAT FORWARD-LOOKING STATEMENTS INCLUDING THOSE CONTAINED ABOVE, SHOULD BE READ IN CONJUNCTION WITH OUR DISCLOSURES UNDER THE HEADING: "SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" LOCATED ON PAGE 3 OF THIS FORM 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

Our securities investments include certain securities held for an indefinite period of time which are accounted for as available-for-sale securities. Available-for-sale securities are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income, net of tax. Unrealized losses that are other than temporary are recognized in earnings. At June 30, 2003 our available-for-sale securities portfolio consisted of securities in a grantor trust established to fund certain employee benefits. Our available-for-sale securities portfolio had a fair value of $14.2 million at June 30, 2003 ($20.9 million at December 31, 2002) and a total unrealized after-tax gain of $0.3 million at June 30, 2003 ($2.8 million loss at December 31, 2002). During the second quarter of 2003 we sold the investments we held directly in our publicly-traded Emerging Technology portfolio and recognized a $2.3 million after-tax loss at June 30, 2003. These publicly-traded emerging technology investments were accounted for as available-for-sale securities prior to sale.

As part of our Emerging Technology portfolio, we also have several minority investments in venture capital funds and privately-held start-up companies. These investments are accounted for using the cost method and included in Investments on our consolidated balance sheet. The total carrying value of these investments was $39.7 million at June 30, 2003 ($38.7 million at December 31, 2002). Our policy is to periodically review these investments for impairment by assessing such factors as continued commercial viability of products, cash flow and earnings. Any impairment would reduce the carrying value of the investment.

FOREIGN CURRENCY

Our foreign currency exposure is limited to the conversion of operating results of our Canadian and Mexican subsidiaries. We have not entered into any foreign exchange contracts to hedge the conversion of our Canadian or Mexican operating results into United States dollars.

POWER MARKETING

Minnesota Power purchases power for retail sales in our electric utility service territory and sells excess generation in the wholesale market. We have about 500 MW of nonregulated generation available for sale to the wholesale market. Our nonregulated generation includes about 225 MW from Taconite Harbor in northern Minnesota that was acquired in October 2001. It also includes 275 MW of generation obtained through a 15-year agreement, which commenced in May 2002, with NRG Energy at the Kendall County facility near Chicago, Illinois. Under the Kendall County agreement, we pay a fixed capacity charge for the right, but not the obligation, to capacity and energy from a 275 MW generating unit. We are responsible for arranging the natural gas fuel supply and are entitled to the electricity produced. Our strategy is to sell a significant portion of our nonregulated generation through long-term contracts of various durations. The balance will be sold in the spot market through short-term agreements. We currently have long-term forward capacity and energy sales contracts for 100 MW of Kendall County generation, with 50 MW expiring in April 2012 and the balance in September 2017. In the first quarter of 2003 we entered into an additional 30 MW long-term forward capacity and energy sale contract that begins January 1, 2004 and expires in September 2017. Neither the Kendall County agreement nor the related sales contracts are derivatives under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities."

The services of Split Rock Energy are used to fulfill purchase requirements for retail load and to market excess generation. We own 50 percent of Split Rock Energy which is a joint venture between Minnesota Power and Great River Energy. The joint venture was formed to provide us with least cost supply, to provide generation outage protection, to maximize the value of our generation assets and to maximize power marketing revenue within prescribed limits. Split Rock Energy operates in the wholesale energy markets, and engages in marketing activities by entering into forward and option contracts for the purchase and sale of electricity. These contracts are primarily short-term in nature with maturities of less than one year. Although Split Rock Energy generally attempts to balance its purchase and sale positions, commodity price risk sometimes exists or is created. This risk is actively managed through a risk management program that includes policies, procedures and limits established by the Split Rock Energy Board of Governors. Minnesota Power holds two seats on this four member Board.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of management, including our chief executive officer and chief financial officer, as of the end of the period covered by this Form 10-Q. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings. There has been no significant change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

Material legal and regulatory proceedings are included in the discussion of Other Information in Item 5. and are incorporated by reference herein.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) We held our Annual Meeting of Shareholders on May 13, 2003.

(b) Included in (c) below.

(c) The election of directors, the ratification of the appointment of independent accountants and the reservation of an additional 500,000 shares of ALLETE common stock for issuance under the ALLETE and Affiliated Companies Employee Stock Purchase Plan were voted on at the Annual Meeting of Shareholders.

The results were as follows:

| | VOTES FOR | VOTES WITHHELD OR AGAINST | ABSTENTIONS | BROKER NONVOTES |
|---|---|---|---|---|
| DIRECTORS | | | | |
| Wynn V. Bussmann | 71,127,209 | 3,089,520 | - | - |
| Thomas L. Cunningham | 72,718,971 | 1,497,758 | - | - |
| Dennis E. Evans | 72,603,034 | 1,613,695 | - | - |
| David G. Gartzke | 72,663,315 | 1,553,414 | - | - |
| Peter J. Johnson | 71,197,039 | 3,019,690 | - | - |
| George L. Mayer | 71,203,137 | 3,013,592 | - | - |
| Jack I. Rajala | 72,822,460 | 1,394,269 | - | - |
| Nick Smith | 72,646,224 | 1,570,505 | - | - |
| Bruce W. Stender | 71,223,742 | 2,992,987 | - | - |
| Donald C. Wegmiller | 72,587,728 | 1,629,001 | - | - |
| INDEPENDENT ACCOUNTANTS | | | | |
| PricewaterhouseCoopers LLP | 70,374,655 | 3,386,545 | 455,529 | - |
| ALLETE AND AFFILIATED COMPANIES EMPLOYEE STOCK PURCHASE PLAN | | | | |
| Reservation of additional shares to be issued | 69,410,099 | 3,772,319 | 1,034,311 | - |

Effective June 1, 2003 Dennis O. Green and Deborah L. Weinstein were elected by ALLETE's Board of Directors to serve as directors of ALLETE.

(d) Not applicable.

ITEM 5. OTHER INFORMATION

Reference is made to our 2002 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2002 Form 10-K.

Ref. Page 19. - Last Paragraph
Ref. Page 40. - Third Full Paragraph
Ref. Page 68. - Second Paragraph
Ref. Form 8-K dated March 7, 2003 and filed March 10, 2003
Ref. Form 8-K dated and filed March 14, 2003
Ref. 10-Q for the quarter ended March 31, 2003, Page 21. - Second Paragraph
Ref. Form 8-K dated and filed July 24, 2003

In May 2003, through a condemnation proceeding, Florida Water sold its water and wastewater assets in Bradford and Clay counties in Florida to the Clay County Utility Authority for $4.3 million. The transaction resulted in an after-tax gain of $0.6 million which was included in our 2003 earnings from discontinued operations. The systems serve 1,500 customers. For an additional fee, Florida Water will continue to operate the systems for Clay County for a period of 90 days. The proceeds will be used to reduce debt and for general corporate purposes.

In July 2003, through another condemnation proceeding, Florida Water sold its Martin County water and wastewater assets to Martin County for $2.4 million. The transaction resulted in an after-tax gain of $0.5 million which will be included in our third quarter 2003 earnings from discontinued operations. The systems serve 1,300 customers. The proceeds will be used to reduce debt and for general corporate purposes.

Condemnation proceedings have also been initiated in Marion County for Florida Water's assets in that county which serve approximately 15,000 customers.

Ref. Page 23. - Table - Contract Status for Minnesota Power Large Power Customers
Ref. 10-Q for the quarter ended March 31, 2003, Page 21. - Fifth through Tenth Paragraphs

Due to insufficient taconite pellet orders, Eveleth Mines LLC ceased pellet production in mid-May 2003 and placed the plant on standby status allowing production to resume later in 2003 if orders are received.

In May 2003 International Steel Group, Inc. completed the acquisition of Bethlehem Steel Corp.'s mills and other property, including Bethlehem Steel Corp.'s 62.3 percent share of Hibbing Taconite Co.

On May 20, 2003 U.S. Steel Corp. (USS) completed the acquisition of substantially all of National Steel Corporation's assets. The acquisition included National Steel Pellet Company (National Steel) in Keewatin, Minnesota, which was renamed USS Keewatin Taconite. USS has agreed in principal to assume the terms of an amended electric service contract between Minnesota Power and National Steel. A new large power contract is expected to be executed in August 2003.

With the start-up of Missota Paper at the former Potlatch Corporation-Brainerd site, the 10 MW large power contract with Potlatch for Brainerd and Grand Rapids has been re-negotiated. The new contract provides for Grand Rapids to take service under the large light and power service schedule through December 2008. In addition, Potlatch will guarantee the demand payments at Missota Paper should Missota Paper be unable to make the demand payments guaranteed by the previous contract. In total, Minnesota Power has the same take-or-pay protection through December 2008 as under the previous contract.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

| | |
|---|---|
| 4 | Twenty-second Supplemental Indenture, dated as of July 1, 2003, between ALLETE and The Bank of New York and Douglas J. MacInnes, as Trustees. |
| 10(a) | Credit Agreement, dated as of July 18, 2003, among ALLETE, as Borrower, Wells Fargo Bank, National Association, as Sole Lead Arranger and Administrative Agent, Bank One, N.A., as Syndication Agent, and the Other Financial Institutions Party Thereto. |
| 10(b) | Term Loan Agreement (without Exhibits), dated as of June 30, 2003, among ADESA California, Inc., as Borrower, the Lenders Party Thereto, and SunTrust Bank, as Administrative Agent. |
| 10(c) | Guaranty Agreement, dated as of June 30, 2003, among ADESA and ALLETE, as Guarantors of ADESA California, Inc., the Borrower, and SunTrust Bank, the Administrative Agent. |
| 10(d) | Borrower Promissory Note, dated April 3, 2000, between Assets Holdings III, L.P. as Borrower, and Cornerstone Funding Corporation I, as Issuer. |
| 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 Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(b) Reports on Form 8-K.

Report on Form 8-K filed April 25, 2003 with respect to Item 7. Financial Statements, Pro Forma Financial Information and Exhibits, and Item 9. Regulation FD Disclosure (Item 12. Results of Operations and Financial Condition).

Report on Form 8-K filed May 28, 2003 with respect to Item 5. Other Events and Regulation FD Disclosure.

Report on Form 8-K filed July 24, 2003 with respect to Item 5. Other Events and Regulation FD Disclosure (Item 12. Results of Operations and Financial Condition), and Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

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.

August 8, 2003 James K. Vizanko

James K. Vizanko
Vice President,
Chief Financial Officer and Treasurer

August 8, 2003 Mark A. Schober

Mark A. Schober
Vice President and Controller

EXHIBIT INDEX

| Exhibit Number | |
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ALLETE, INC.
(FORMERLY MINNESOTA POWER & LIGHT COMPANY
AND FORMERLY MINNESOTA POWER, INC.)

TO

THE BANK OF NEW YORK
(FORMERLY IRVING TRUST COMPANY)

AND

DOUGLAS J. MACINNES

(SUCCESSOR TO RICHARD H. WEST, J. A. AUSTIN,
E. J. MCCABE, D. W. MAY, J. A. VAUGHAN AND
W. T. CUNNINGHAM)

AS TRUSTEES UNDER ALLETE, INC.'S
MORTGAGE AND DEED OF TRUST DATED
AS OF SEPTEMBER 1, 1945

- ---

# TWENTY-SECOND SUPPLEMENTAL INDENTURE

PROVIDING AMONG OTHER THINGS FOR

FIRST MORTGAGE BONDS, COLLATERAL SERIES A

(TWENTY-EIGHTH SERIES)

DATED AS OF JULY 1, 2003

- ---

TWENTY-SECOND SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of July 1, 2003, by and between ALLETE, INC. (formerly Minnesota Power & Light Company and formerly Minnesota Power, Inc.), a corporation of the State of Minnesota, whose post office address is 30 West Superior Street, Duluth, Minnesota 55802 (hereinafter sometimes called the "Company"), and THE BANK OF NEW YORK (formerly Irving Trust Company), a corporation of the State of New York, whose post office address is 101 Barclay Street, New York, New York 10286 (hereinafter sometimes called the "Corporate Trustee"), and DOUGLAS J. MACINNES (successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May, J. A. Vaughan and W. T. Cunningham), whose post office address is 1784 W. McGalliard Avenue, Hamilton, New Jersey 08610 (said Douglas J. MacInnes being hereinafter sometimes called the "Co-Trustee" and the Corporate Trustee and the Co-Trustee being hereinafter together sometimes called the "Trustees"), as Trustees under the Mortgage and Deed of Trust, dated as of September 1, 1945, between the Company and Irving Trust Company and Richard H. West, as Trustees, securing bonds issued and to be issued as provided therein (hereinafter sometimes called the "Mortgage"), reference to which mortgage is hereby made, this indenture (hereinafter sometimes called the "Twenty-second Supplemental Indenture") being supplemental thereto:

WHEREAS, the Mortgage was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of October 16, 1957, was executed and delivered under which J. A. Austin succeeded Richard H. West as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of April 4, 1967, was executed and delivered under which E. J. McCabe in turn succeeded J. A. Austin as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, under the Sixth Supplemental Indenture, dated as of August 1, 1975, to which reference is hereinafter made, D. W. May in turn succeeded E. J. McCabe as Co-Trustee under the Mortgage; and

WHEREAS, an instrument, dated as of June 25, 1984, was executed and delivered under which J. A. Vaughan in turn succeeded D. W. May as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of July 27, 1988, was executed and delivered under which W. T. Cunningham in turn succeeded J. A. Vaughan as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, on May 12, 1998, the Company filed Amended and Restated Articles of Incorporation with the Secretary of State of the State of Minnesota changing its name from Minnesota Power & Light Company to Minnesota Power, Inc. effective May 27, 1998; and

WHEREAS, an instrument, dated as of April 15, 1999, was executed and delivered under which Douglas J. MacInnes in turn succeeded W. T. Cunningham as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, on May 8, 2001, the Company filed Amended and Restated Articles of Incorporation with the Secretary of State of the State of Minnesota changing its name from Minnesota Power, Inc. to ALLETE, Inc.; and

WHEREAS, by the Mortgage the Company covenanted, among other things, that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Mortgage and to make subject to the lien of the Mortgage any property thereafter acquired and intended to be subject to the lien thereof; and

WHEREAS, for said purposes, among others, the Company executed and delivered the following indentures supplemental to the Mortgage:

| DESIGNATION | DATED AS OF |
|---|---|
| First Supplemental Indenture | March 1, 1949 |
| Second Supplemental Indenture | July 1, 1951 |
| Third Supplemental Indenture | March 1, 1957 |
| Fourth Supplemental Indenture | January 1, 1968 |
| Fifth Supplemental Indenture | April 1, 1971 |
| Sixth Supplemental Indenture | August 1, 1975 |
| Seventh Supplemental Indenture | September 1, 1976 |
| Eighth Supplemental Indenture | September 1, 1977 |
| Ninth Supplemental Indenture | April 1, 1978 |
| Tenth Supplemental Indenture | August 1, 1978 |
| Eleventh Supplemental Indenture | December 1, 1982 |
| Twelfth Supplemental Indenture | April 1, 1987 |
| Thirteenth Supplemental Indenture | March 1, 1992 |
| Fourteenth Supplemental Indenture | June 1, 1992 |
| Fifteenth Supplemental Indenture | July 1, 1992 |
| Sixteenth Supplemental Indenture | July 1, 1992 |
| Seventeenth Supplemental Indenture | February 1, 1993 |
| Eighteenth Supplemental Indenture | July 1, 1993 |
| Nineteenth Supplemental Indenture | February 1, 1997 |
| Twentieth Supplemental Indenture | November 1, 1997 |
| Twenty-First Supplemental Indenture | October 1, 2000 |

which supplemental indentures were filed and recorded in various official records in the State of Minnesota; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, as heretofore supplemented, the following series of First Mortgage Bonds:

| SERIES | PRINCIPAL AMOUNT ISSUED | PRINCIPAL AMOUNT OUTSTANDING |
|---|---|---|
| 3-1/8% Series due 1975 | $ 26,000,000 | None |
| 3-1/8% Series due 1979 | 4,000,000 | None |
| 3-5/8% Series due 1981 | 10,000,000 | None |
| 4-3/4% Series due 1987 | 12,000,000 | None |
| 6-1/2% Series due 1998 | 18,000,000 | None |
| 8-1/8% Series due 2001 | 23,000,000 | None |
| 10-1/2% Series due 2005 | 35,000,000 | None |
| 8.70% Series due 2006 | 35,000,000 | None |
| 8.35% Series due 2007 | 50,000,000 | None |
| 9-1/4% Series due 2008 | 50,000,000 | None |
| Pollution Control Series A | 111,000,000 | None |
| Industrial Development Series A | 2,500,000 | None |
| Industrial Development Series B | 1,800,000 | None |
| Industrial Development Series C | 1,150,000 | None |
| Pollution Control Series B | 13,500,000 | None |
| Pollution Control Series C | 2,000,000 | None |
| Pollution Control Series D | 3,600,000 | None |
| 7-3/4% Series due 1994 | 55,000,000 | None |
| 7-3/8% Series due March 1, 1997 | 60,000,000 | None |
| 7-3/4% Series due June 1, 2007 | 55,000,000 | $ 50,000,000 |
| 7-1/2% Series due August 1, 2007 | 35,000,000 | 35,000,000 |
| Pollution Control Series E | 111,000,000 | 111,000,000 |
| 7% Series due March 1, 2008 | 50,000,000 | 50,000,000 |
| 6-1/4% Series due July 1, 2003 | 25,000,000 | None |
| 7% Series due February 15, 2007 | 60,000,000 | 60,000,000 |
| 6.68% Series due November 15, 2007 | 20,000,000 | 20,000,000 |
| Floating Rate First Mortgage Bonds due October 20, 2003 | 250,000,000 | 250,000,000 |

which bonds are also hereinafter sometimes called bonds of the First through Twenty-seventh Series, respectively; and

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder and of coupons to be attached to coupon bonds of such series shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion,

cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Mortgage; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Mortgage, whether such power, privilege or right is in any way restricted or is unrestricted, may (to the extent permitted by law) be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may cure any ambiguity contained therein, or in any supplemental indenture, or may establish the terms and provisions of any series of bonds (other than said First Series) by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, the Company now desires to create one new series of bonds and (pursuant to the provisions of Section 120 of the Mortgage) to add to its covenants and agreements contained in the Mortgage, as heretofore supplemented, certain other covenants and agreements to be observed by it and to alter and amend in certain respects the covenants and provisions contained in the Mortgage, as heretofore supplemented; and

WHEREAS, the execution and delivery by the Company of this Twenty-second Supplemental Indenture, and the terms of the bonds of the Twenty-eighth Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors; and

WHEREAS, the Company is entering into a Credit Agreement, dated as of July 18, 2003 (the "Credit Agreement") among the Company, Wells Fargo Bank, N.A., as agent (the "Agent"), and the other lenders party thereto (collectively, the "Lenders") pursuant to which the Company can borrow up to an aggregate of $250,000,000; and

WHEREAS, in order to secure the Company's Obligations under and as defined in the Credit Agreement, the Company desires to provide for the issuance under the Mortgage to the Agent, for the benefit of itself and the other Lenders, of a new series of bonds;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That the Company, in consideration of the premises and of One Dollar to it duly paid by the Trustees at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment of both the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, as heretofore supplemented, according to their tenor and effect and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns,

transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances) unto THE BANK OF NEW YORK and DOUGLAS J. MACINNES, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature acquired by the Company after the date of the execution and delivery of the Mortgage, as heretofore supplemented (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or, subject to the provisions of subsection (I) of Section 87 of the Mortgage, hereafter acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Twenty-second Supplemental Indenture) all lands, power sites, flowage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electricity by steam, water and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric, gas and other machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture and chattels; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

TOGETHER WITH all and singular the tenements, hereditaments, prescriptions, servitudes and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

IT IS HEREBY AGREED by the Company that, subject to the provisions of subsection (I) of Section 87 of the Mortgage, all the property, rights, and franchises acquired by the Company (by

purchase, consolidation, merger, donation, construction, erection or in any other way) after the date hereof, except any herein or in the Mortgage, as heretofore supplemented, expressly excepted, shall be and are as fully granted and conveyed hereby and by the Mortgage and as fully embraced within the lien hereof and the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein or in the Mortgage and conveyed hereby or thereby.

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, hypothecated, affected, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Twenty-second Supplemental Indenture and from the lien and operation of the Mortgage, namely: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, apparatus, materials or supplies held for the purpose of sale or other disposition in the usual course of business; fuel, oil and similar materials and supplies consumable in the operation of any of the properties of the Company; all aircraft, rolling stock, trolley coaches, buses, motor coaches, automobiles and other vehicles and materials and supplies held for the purpose of repairing or replacing (in whole or part) any of the same; all timber, minerals, mineral rights and royalties; (3) bills, notes and accounts receivable, judgments, demands and choses in action, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the Company's contractual rights or other interest in or with respect to tires not owned by the Company; (4) the last day of the term of any lease or leasehold which may hereafter become subject to the lien of the Mortgage; (5) electric energy, gas, steam, ice, and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; and (6) the Company's franchise to be a corporation; provided, however, that the property and rights expressly excepted from the lien and operation of this Twenty-second Supplemental Indenture and from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that either or both of the Trustees or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 thereof.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto the Trustees and their successors and assigns forever.

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as supplemented, this Twenty-second Supplemental Indenture being supplemental thereto.

AND IT IS HEREBY COVENANTED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and Trustees and the beneficiaries of the trust with respect to said property, and to the Trustees and their successors in the trust in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to said Trustees by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustees and their successors in said trust under the Mortgage as follows:

ARTICLE I
TWENTY-EIGHTH SERIES OF BONDS

SECTION 1. (I) There shall be a series of bonds designated "Collateral Series A" (herein sometimes referred to as the "Twenty-eighth Series"), each of which shall bear the descriptive title "First Mortgage Bond", and the form thereof, established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Twenty-eighth Series shall be dated as in Section 10 of the Mortgage provided, mature on July 16, 2004 or upon earlier acceleration or redemption, be limited in aggregate principal amount (except as provided in Section 16 of the Mortgage) to $255,000,000, issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and shall not bear interest; the principal of each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

(II) Subject to the provisions of the Security Agreement, the bonds of the Twenty-eighth Series shall be issued and delivered from time to time to time to, and registered in the name of, the Agent under the Credit Agreement in order to secure the Obligations of the Company under and as defined in the Credit Agreement.

(III) Bonds of the Twenty-eighth Series shall be in substantially the following form, with such insertions, omissions and variations as the officer of the Company executing such bond may determine, such determination to be conclusively evidenced by such officer's execution of such bond:

PURSUANT TO A SECURITY AGREEMENT (THE "SECURITY AGREEMENT") DATED AS OF JULY 18, 2003 BETWEEN THE COMPANY (AS DEFINED BELOW) AND THE AGENT (AS DEFINED BELOW), THIS BOND AND ALL PROCEEDS THEREOF HAVE BEEN PLEDGED TO SECURE CERTAIN OBLIGATIONS OF THE COMPANY. THE SECURITY AGREEMENT SETS FORTH VARIOUS PROVISIONS REGARDING (AMONG OTHER THINGS) THE PAYMENT OF THIS BOND AND VOTING AND TRANSFER RIGHTS WITH RESPECT TO THIS BOND. THE SECURITY AGREEMENT IMPOSES LIMITATIONS ON THE AMOUNTS PAYABLE UNDER THIS BOND. THE SECURITY AGREEMENT PROVIDES THAT THE OBLIGATIONS OF THE COMPANY TO MAKE ANY PAYMENTS ON THIS BOND ARE LIMITED TO THE AGGREGATE OBLIGATIONS OF THE COMPANY UNDER AND AS DEFINED IN THE CREDIT AGREEMENT (AS DEFINED BELOW), WHICH COULD RESULT IN NO AMOUNTS BEING PAYABLE UNDER THIS BOND REGARDLESS OF THE FACE AMOUNT OF THIS BOND SET FORTH BELOW. THE COMPANY AND (BY THEIR ACCEPTANCE HEREOF) EACH HOLDER OF THIS BOND AGREE THAT THE RIGHTS OF THE PARTIES WITH RESPECT TO THIS BOND SHALL IN ALL RESPECTS BE SUBJECT TO SUCH LIMITATIONS AND OTHER PROVISIONS OF THE SECURITY AGREEMENT. A COPY OF THE SECURITY AGREEMENT AND THE CREDIT AGREEMENT ARE ON FILE WITH WELLS FARGO BANK, NATIONAL ASSOCIATION, MAC: N9305-031, SIXTH AND MARQUETTE, MINNEAPOLIS, MN 55479 ATTENTION: MARK HALLDORSON AND WILL BE PROVIDED UPON WRITTEN REQUEST.

THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES OR "BLUE SKY" LAWS OF ANY JURISDICTION AND MAY BE TRANSFERRED ONLY IN COMPLIANCE WITH SUCH REGISTRATION REQUIREMENTS OR UNDER AN EXEMPTION THEREFROM.

[TEMPORARY] REGISTERED BOND

ALLETE, INC.

First Mortgage Bond,
Collateral Series A

No. [T]R - __

ALLETE, INC., a corporation of the State of Minnesota (hereinafter called the "Company"), for value received, hereby promises to pay to _____, as agent (the "Agent"), on behalf of itself and the Lenders (as defined below), or registered assigns, at the office or agency of the Company in the Borough of Manhattan, The City of New York,

Dollars ($_____)

in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts, on July 16, 2004 (the "Maturity Date") or upon earlier declaration of acceleration or redemption.

This bond is [a temporary bond and] one of an issue of bonds of the Company issuable in series and is one of a series known as its First Mortgage Bonds, Collateral Series A,

all bonds of all series issued and to be issued under and equally secured (except in so far as any sinking or other fund, established in accordance with the provisions of the Mortgage hereinafter mentioned, may afford additional security for the bonds of any particular series) by a Mortgage and Deed of Trust (herein, together with any indenture supplemental thereto, including the Twenty-second Supplemental Indenture dated as of July 1, 2003, called the "Mortgage"), dated as of September 1, 1945, executed by the Company (formerly Minnesota Power & Light Company and formerly Minnesota Power, Inc.) to Irving Trust Company (now The Bank of New York) and Richard H. West (Douglas J. MacInnes successor), as Trustees.

The bonds of this series shall not bear interest.

This bond is issued to the Agent by the Company pursuant to the Company's obligations under the Credit Agreement dated as of July 18, 2003 (as amended, supplemented, restated, extended or otherwise modified from time to time, the "Credit Agreement"), among the Company, the Agent and the other lenders party thereto from time to time (collectively, the "Lenders"), including any amendments or extensions thereto that may be subsequent to the date hereof. This bond shall be held by the Agent subject to the terms of the Credit Agreement and the Security Agreement dated as of July 18, 2003 between the Company and Wells Fargo Bank, National Association, as agent (the "Security Agreement").

It shall be an additional term and condition of the bonds of this series that, in the event (i) an Event of Default under and as defined in the Credit Agreement has occurred under Section 7.1(a) of the Credit Agreement by reason of a failure by the Company to make a payment of principal or interest when the same shall be due and payable pursuant to the Credit Agreement or (ii) the Notes (as defined in the Credit Agreement) are declared due and payable pursuant to Section 7.2 of the Credit Agreement, then the occurrence of either such event shall be deemed, upon receipt of written notice from the Agent to the Corporate Trustee of the occurrence thereof, to be a Default for purposes of Section 65 of Article XIII of the Mortgage, and the definition of Default in the Mortgage is modified accordingly for purposes of the bonds of this series.

In the event (i) an Event of Default under and as defined in the Credit Agreement has occurred under Section 7.1(a) of the Credit Agreement by reason of a failure by the Company to make a payment of principal or interest when the same shall be due and payable pursuant to the Credit Agreement or (ii) the Notes (as defined in the Credit Agreement) are declared due and payable pursuant to Section 7.2 of the Credit Agreement and, in the case of either (i) or (ii), the Agent shall give written notice to the Company and the Corporate Trustee of such event, then on such date the Company shall redeem the bonds of this series in whole at a redemption price equal to the principal amount thereof. The provisions in the immediately preceding sentence are subject in all instances to the limitations on the amounts collectible on the bonds of this series provided for in Section 5(d) of the Security Agreement. The Company hereby waives its right to have any notice of redemption pursuant to the foregoing sentence state that such notice is subject to the receipt of the redemption moneys by the Corporate Trustee before the date fixed for redemption.

The Corporate Trustee may conclusively presume that the obligation of the Company to pay the principal of the bonds of this series as the same shall become due and payable, whether at maturity, redemption, acceleration or otherwise, shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Agent under the Credit Agreement, signed by its President or a Vice President, stating that the payment of principal of the bonds of this series has not been fully paid when due and specifying the amount of funds required to make such payment.

This bond has been issued by the Company to the Agent to (i) provide for the payment of the Company's obligations to make payments to any person under the Credit Agreement and (ii) provide to such persons the benefits of the security provided for this bond pursuant to the Mortgage. The obligations of the Company under the bonds of this series may be discharged prior to the Maturity Date under the circumstances set forth in the Security Agreement.

Bonds of this series are not subject to a sinking fund. Bonds of this series are not redeemable at the option of the Company.

Reference is made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders of the bonds and of the Trustees in respect thereof, the duties and immunities of the Trustees and the terms and conditions upon which the bonds are and are to be secured and the circumstances under which additional bonds may be issued. The rights of the holder of this bond to vote or consent under the Mortgage in respect of this bond shall be limited to the extent and in the manner specified in the Security Agreement. With the consent of the Company and to the extent permitted by and as provided in the Mortgage, the rights and obligations of the Company and/or the rights of the holders of the bonds and/or coupons and/or the terms and provisions of the Mortgage may be modified or altered by affirmative vote of the holders of at least 66 2/3% principal amount of the bonds then outstanding under the Mortgage and, if the rights of the holders of one or more, but less than all, series of bonds then outstanding are to be affected, then also by affirmative vote of the holders of at least 66 2/3% in principal amount of the bonds then outstanding of each series of bonds so to be affected (excluding in any case bonds disqualified from voting by reason of the Company's interest therein as provided in the Mortgage); provided that, without the consent of the holder hereof, no such modification or alteration shall, among other things, impair or affect the right of the holder to receive payment of the principal of (and premium, if any) and interest on this bond, on or after the respective due dates expressed herein, or permit the creation of any lien equal or prior to the lien of the Mortgage or deprive the holder of the benefit of a lien on the mortgaged and pledged property.

The principal hereof may be declared or may become due prior to the Maturity Date hereinbefore named on the conditions, in the manner and at the time set forth in the Mortgage, upon the occurrence of a default as in the Mortgage provided.

This bond is subject to restrictions on transferability as set forth in the Security Agreement. This bond is transferable as prescribed in the Mortgage by the registered owner

hereof in person, or by his duly authorized attorney, at the office or agency of the Company in the Borough of Manhattan, The City of New York, upon surrender and cancellation of this bond, and thereupon, a new fully registered bond of the same series for a like principal amount will be issued to the transferee in exchange herefor as provided in the Mortgage. The Company and the Trustees may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment and for all other purposes and neither the Company nor the Trustees shall be affected by any notice to the contrary.

In the manner prescribed in the Mortgage, bonds of this series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, are exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

No recourse shall be had for the payment of the principal of this bond against any incorporator or any past, present or future subscriber to the capital stock, stockholder, officer, or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or any predecessor of successor corporation, under any rule of law, statute or constitution or by the enforcement of any assessment or otherwise, all such liability of incorporators, subscribers, stockholders, officers, and directors being released by the holder or owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Mortgage.

This bond shall not become obligatory until The Bank of New York, the Corporate Trustee under the Mortgage, or its successor thereunder, shall have signed the form of authentication certificate endorsed hereon.

IN WITNESS WHEREOF, ALLETE, Inc. has caused this bond to be signed in its corporate name by its President or one of its Vice Presidents by his signature or a facsimile thereof, and its corporate seal to be impressed or imprinted hereon and attested by its Secretary or one of its Assistant Secretaries by his signature or a facsimile thereof.

Dated:

ALLETE, Inc.

By
---

ATTEST:

- ---

Corporate Trustee's Authentication Certificate

This bond is one of the bonds, of the series herein designated, described or provided for in the within-mentioned Mortgage.

THE BANK OF NEW YORK,
as Corporate Trustee,

By
---
Authorized Signatory

[End of Bond Form]

(V) At the option of the registered owner, any bonds of the Twenty-eighth Series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, together with a written instrument of transfer wherever required by the Company duly executed by the registered owner or by his duly authorized attorney, shall (subject to the provisions of Section 12 of the Mortgage) be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

Bonds of the Twenty-eighth Series shall not be transferable except to a successor Agent under the Credit Agreement or as provided in the Security Agreement, any such transfer to be made (subject to the provisions of Section 12 of the Mortgage) at the office or agency of the Company in the Borough of Manhattan, The City of New York.

Upon any exchange or transfer of bonds of the Twenty-eighth Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Twenty-eighth Series.

Upon the delivery of this Twenty-second Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage, there shall be an initial issue of bonds of the Twenty-eighth Series for the aggregate principal amount of $255,000,000.

(VI) Prior to an event of Foreclosure (as defined in the Security Agreement) and transfer of bonds of the Twenty-eighth Series to a person other than the Agent or to a successor agent appointed in accordance with the Credit Agreement, the Company shall have no obligation as of any date to make any payment of the principal of the bonds of the Twenty-eighth Series, whether at maturity, upon acceleration, redemption or otherwise, in an amount in excess of the aggregate Obligations under and as defined in the Credit Agreement then outstanding.

In the event of a Foreclosure and transfer of bonds of the Twenty-eighth Series to a person other than the Agent or to a successor agent appointed in accordance with the Credit Agreement, the Agent shall promptly provide written notice to the Corporate Trustee of such event of Foreclosure and the aggregate amount of Obligations under and as defined in the Credit Agreement outstanding immediately prior to such Foreclosure. With respect to bonds of the Twenty-eighth Series sold or otherwise disposed of by reason of Foreclosure, the Company shall have no obligation as of any date to pay any amount thereunder in excess of the aggregate amount of Obligations under and as defined in the Credit Agreement outstanding immediately prior to such Foreclosure.

For purposes of Section 29 of the Mortgage, any payments of principal constituting Obligations under and as defined in the Credit Agreement will be deemed to be a retirement of an equal principal amount of the bonds of the Twenty-eighth Series.

ARTICLE II
MISCELLANEOUS PROVISIONS

SECTION 2. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words "and July 16, 2004" after the words "November 15, 2007."

SECTION 3. Subject to the amendments provided for in this Twenty-second Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Twenty-second Supplemental Indenture, have the meanings specified in the Mortgage, as heretofore supplemented.

SECTION 4. The Trustees hereby accept the trusts herein declared, provided, created or supplemented and agree to perform the same upon the terms and conditions herein and in the Mortgage set forth and upon the following terms and conditions:

The Trustees shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Twenty-second Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Twenty-second Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Twenty-second Supplemental Indenture.

SECTION 5. Whenever in this Twenty-second Supplemental Indenture any party hereto is named or referred to, this shall, subject to the provisions of Articles XVI and XVII of the Mortgage, as heretofore supplemented, be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Twenty-second Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustees shall, subject as aforesaid, bind and inure to the benefit of the respective successors and assigns of such party whether so expressed or not.

SECTION 6. Nothing in this Twenty-second Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds and coupons Outstanding under the Mortgage, any right, remedy, or claim under or by reason of this Twenty-second Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Twenty-second Supplemental Indenture contained by and on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

SECTION 7. This Twenty-second Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 8. The Company, the mortgagor named herein, by its execution hereof acknowledges receipt of a full, true and complete copy of this Twenty-second Supplemental Indenture.

IN WITNESS WHEREOF, ALLETE, Inc. has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, and The Bank of New York has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its Vice Presidents or one of its Assistant Vice Presidents and its corporate seal to be attested by one of its Assistant Treasurers, one of its Vice Presidents or one of its Assistant Vice Presidents, and Douglas J. MacInnes has hereunto set his hand and affixed his seal, all in The City of New York, as of the day and year first above written.

ALLETE, INC.

By /s/ James K. Vizanko
---
James K. Vizanko
Vice President, Chief Financial
Officer and Treasurer

Attest:

/s/ Philip R. Halverson
---
Philip R. Halverson
Vice President, General Counsel
and Secretary

Executed, sealed and delivered by ALLETE, Inc.
in the presence of:

/s/ Mary F. Hunter
---

/s/ Mary Kay Warren
---

THE BANK OF NEW YORK,
as Corporate Trustee

By /s/ Paul J. Schmalzel
---
Paul J. Schmalzel
Vice President

Attest:

/s/ Mary LaGumina
---
Mary LaGumina
Vice President

/s/ Douglas J. MacInnes
---
DOUGLAS J. MACINNES

Executed, sealed and delivered by
THE BANK OF NEW YORK and DOUGLAS J.
MACINNES in the presence of:

/s/ Sean A. Johnson
---

/s/ Ada L. Li
---

STATE OF MINNESOTA )
) SS.:
COUNTY OF ST. LOUIS )

On this 15th day of July, 2003, before me, a Notary Public within and for said County, personally appeared JAMES K. VIZANKO and PHILIP R. HALVERSON, to me personally known, who, being each by me duly sworn, did say that they are respectively the Vice President, Chief Financial Officer and Treasurer and the Vice President, General Counsel and Secretary of ALLETE, INC. of the State of Minnesota, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said JAMES K. VIZANKO and PHILIP R. HALVERSON acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 15th day of July 2003, JAMES K. VIZANKO, to me known to be the Vice President, Chief Financial Officer and Treasurer, and PHILIP R. HALVERSON, to me known to be the Vice President, General Counsel and Secretary, of the above named ALLETE, INC., the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are respectively the Vice President, Chief Financial Officer and Treasurer and the Vice President, General Counsel and Secretary of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors and stockholders, and said JAMES K. VIZANKO and PHILIP R. HALVERSON then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 15th day of July, 2003, before me personally came JAMES K. VIZANKO and PHILIP R. HALVERSON, to me known, who, being by me duly sworn, did depose and say that they respectively reside at 1340 Mississippi Avenue, Duluth, Minnesota, and 3364 West Tischer Road, Duluth, Minnesota; that they are respectively the Vice President, Chief Financial Officer and Treasurer and the Vice President, General Counsel and Secretary of ALLETE, INC., one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 15th day of July, 2003.

/s/ Jodi M. Nash
---

[MINNESOTA
STATE SEAL]

JODI M. NASH
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2005

STATE OF NEW YORK )
) SS:
COUNTY OF NEW YORK )

On this 11th day of July, 2003, before me, a Notary Public within and for said County, personally appeared PAUL J. SCHMALZEL and MARY LAGUMINA, to me personally known, who, being each by me duly sworn, did say that they are each a Vice President of THE BANK OF NEW YORK of the State of New York, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said PAUL J. SCHMALZEL and MARY LAGUMINA acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 11th day of July, 2003, PAUL J. SCHMALZEL, to me known to be a Vice President, and MARY LaGUMINA, known to me to be a Vice President, of the above named THE BANK OF NEW YORK, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are each a Vice President of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said PAUL J. SCHMALZEL and MARY LAGUMINA then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 11th day of July, 2003, before me personally came PAUL J. SCHMALZEL and MARY LAGUMINA, to me known, who, being by me duly sworn, did depose and say that they respectively reside at 40 Raleigh Court, Eatontown, New Jersey 07724, and 36-26 213 Street, Apt. 2B, Bayside, New York 11361; that they are each a Vice President of THE BANK OF NEW YORK, one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 11th day of July, 2003.

/s/ William J. Cassels
---
Notary Public, State of New York

William J. Cassels
Notary Public, State of New York
No. 01CA5027729
Qualified in Bronx County
Commission Expires May 18, 2006

STATE OF NEW YORK )
) SS:
COUNTY OF NEW YORK )

On this 11th day of July, 2003, before me personally appeared DOUGLAS J. MACINNES, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

Personally came before me this 11th day of July, 2003, the above named DOUGLAS J. MACINNES, to me known to be the person who executed the foregoing instrument, and acknowledged the same.

On the 11th day of July, 2003, before me personally came DOUGLAS J. MACINNES, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same.

GIVEN under my hand and notarial seal this 11th day of July, 2003.

/s/ William J. Cassels
---
Notary Public, State of New York

William J. Cassels
Notary Public, State of New York
No. 01CA5027729
Qualified in Bronx County
Commission Expires May 18, 2006

This instrument was drafted by Philip R. Halverson, Esq., ALLETE, Inc., 30 West Superior Street, Duluth, Minnesota 55802.

Exhibit 10(a)

CREDIT AGREEMENT

AMONG

ALLETE, INC.,

AS BORROWER;

WELLS FARGO BANK, NATIONAL ASSOCIATION,

AS SOLE LEAD ARRANGER AND ADMINISTRATIVE AGENT;

BANK ONE, N.A.

AS SYNDICATION AGENT,

AND

THE OTHER FINANCIAL INSTITUTIONS PARTY HERETO

DATED AS OF: JULY 18, 2003

==========

$250,000,000 TERM CREDIT FACILITY

==========

ARRANGED BY

WELLS FARGO BANK, NATIONAL ASSOCIATION

[GRAPHIC OMITTED]

TABLE OF CONTENTS

CREDIT AGREEMENT

Dated as of July 18, 2003

ALLETE, Inc., a Minnesota corporation; Wells Fargo Bank, National Association, a national banking association; and the Lenders, as defined below, agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1 DEFINITIONS.

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular.

"ADESA" means ADESA Corporation, an Indiana corporation and a Subsidiary of the Borrower.

"AFC Program" means the accounts receivable securitization program with Automotive Finance Corporation.

"Accounting Practices Change" means any change in the Borrower's accounting practices that is permitted or required under the standards of the Financial Accounting Standards Board.

"Acquisition Target" means any Person becoming a Subsidiary of the Borrower after the date hereof; any Person that is merged into or consolidated with the Borrower or any Subsidiary of the Borrower after the date hereof; or any Person with respect to whom all or a substantial part of that Person's assets are acquired by the Borrower or any Subsidiary of the Borrower after the date hereof.

"Act" means the Securities Act of 1933, as amended.

"Additional Lender" means a financial institution that becomes a Lender pursuant to the procedures set forth in Section 8.10.

"Advance" means an advance by a Lender to the Borrower pursuant to Article II.

"Affiliate" means (a) any director or officer of the Borrower, (b) any Person who, individually or with his immediate family, directly or indirectly beneficially owns or holds 5% or more of the voting interest of the Borrower, or (c) any corporation, partnership or other Person in which any Person or group of Persons described above directly or indirectly owns a 5% or greater equity interest.

"Agent" means Wells Fargo acting in its capacity as administrative agent for itself and the other Lenders hereunder.

"Agreement" means this Credit Agreement.

"Assignment Certificate" has the meaning set forth in Section 8.10.

"Authorizing Order" means any order of the MPUC or any other regulatory body having jurisdiction over the Borrower or any Affiliate of the Borrower authorizing and/or restricting the indebtedness that may be created from time to time hereunder (whether on account of Advances or otherwise).

"Base LIBO Rate" means a rate of interest equal to the per annum rate of interest at which United States dollar deposits in an amount comparable to the principal balance of the LIBO Rate Funding to be made by the Agent in its capacity as a Lender and for a period equal to the relevant Interest Period are offered in the London interbank market at 11:00 a.m. (London time) two Business Days prior to the commencement of each Interest Period, as displayed in the Bloomberg Financial Markets system, or other authoritative source selected by the Agent in its reasonable discretion.

"Bonds" means the First Mortgage Bonds, Collateral Series A, issued under the Indenture.

"Borrower" means ALLETE, Inc., a Minnesota corporation, and a party to this Agreement.

"Business Day" means a day other than a Saturday, Sunday, United States national holiday or other day on which banks in Minnesota are permitted or required by law to close. Whenever the context relates to a LIBO Rate Funding or the fixing of a LIBO Rate, "Business Day" means a day (i) that meets the foregoing definition, and (ii) on which dealings in U.S. dollar deposits are carried on in the London interbank eurodollar market.

"Capitalized Lease" means any lease that in accordance with GAAP should be capitalized on the balance sheet of the lessee thereunder or for which the amount of the asset and liability thereunder as if so capitalized should be disclosed in a note to such balance sheet. All obligations under any lease that is treated as an operating lease under GAAP but pursuant to which the lessee thereunder retains tax ownership of the leased property for federal income tax purposes shall be treated as a Capitalized Lease for purposes of this Agreement.

"Change of Control" means either (i) the acquisition by any "person" or "group" (as those terms are used in Sections 13(d) and 14(d) of the Exchange Act) of beneficial ownership (as defined in Rules 13d-3 and 13d-5 of the SEC, except that a Person shall be deemed to have beneficial ownership of all securities that such Person

has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 25% or more of the then-outstanding voting capital stock of the Borrower; or (ii) a change in the composition of the board of directors of the Borrower such that continuing directors cease to constitute more than 50% of such board of directors. As used in this definition, "continuing directors" means, as of any date, (i) those members of the board of directors of the Borrower who assumed office prior to such date, and (ii) those members of the board of directors of the Borrower who assumed office after such date and whose appointment or nomination for election by the Borrower's shareholders was approved by a vote of at least 50% of the directors of the Borrower in office immediately prior to such appointment or nomination.

"Commitment Amount" means, with respect to each Lender, the amount set forth opposite that Lender's name in Exhibit A or on any Assignment Certificate.

"Compliance Certificate" means a certificate in substantially the form of Exhibit C, or such other form as the Borrower and the Required Lenders may from time to time agree upon in writing, executed by the chief financial officer of the Borrower, stating (i) that any financial statements delivered therewith have been prepared in accordance with GAAP, subject to year-end adjustments, (ii) whether or not such officer has knowledge of the occurrence of any Default or Event of Default hereunder not theretofore reported and remedied and, if so, stating in reasonable detail the facts with respect thereto and (iii) all relevant facts in reasonable detail to evidence, and the computations as to, whether or not the Borrower is in compliance with the Financial Covenants.

"Consolidated Net Income" means, for any period of the Borrower and its Subsidiaries (which for purposes of this definition shall include any Subsidiary consolidated into the financial statements of the Borrower other than ALLETE Water Services, Inc. and any other Subsidiary of the Borrower as to which the Borrower has announced on or prior to June 30, 2003, that it will discontinue the operations of such Subsidiary), the amount for such period of consolidated net income (or net loss) of the Borrower and its subsidiaries, as determined on a consolidated basis in accordance with GAAP.

"Corporate Trustee" means The Bank of New York (formerly Irving Trust Company), as corporate trustee under the Indenture.

"Covenant Compliance Date" means the last day of each fiscal quarter of the Borrower.

"Default" means an event that, with the giving of notice, the passage of time or both, would constitute an Event of Default.

"Distribution" means any payment made by the Borrower on account of any equity interest in the Borrower, including but not limited to any dividend and any

payment in purchase, redemption or other retirement of any stock or membership interest.

"EBITDA" means, for any period, for the Borrower and its Subsidiaries, (which for purposes of this definition shall include any Subsidiary consolidated into the financial statements of the Borrower other than ALLETE Water Services, Inc. and any other Subsidiary of the Borrower as to which the Borrower has announced on or prior to June 30, 2003, that it will discontinue the operations of such Subsidiary) on a consolidated basis, (A) the sum of the amounts for such period of (i) Consolidated Net Income, (ii) to the extent deducted in arriving at Consolidated Net Income, net federal, state and local income taxes in respect of such period, (iii) to the extent deducted in arriving at Consolidated Net Income, Interest Expenses, (iv) to the extent deducted in arriving at Consolidated Net Income, the amount charged for the amortization of intangible assets, (v) to the extent deducted in arriving at Consolidated Net Income, the amount charged for the depreciation of assets, and (vi) to the extent deducted in arriving at Consolidated Net Income, extraordinary losses, less (B) the amount for such period of, to the extent added in arriving at Consolidated Net Income, extraordinary gains, all as determined on a consolidated basis in accordance with GAAP.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is, along with the Borrower, a member of a controlled group of corporations or a controlled group of trades or businesses, as described in sections 414(b) and 414(c), respectively, of the Internal Revenue Code of 1986, as amended.

"ERISA Event" means (i) a "reportable event" described in Section 4043 of ERISA and the regulations issued thereunder other than an event for which the PBGC has waived the advance notice requirement, (ii) a withdrawal from any Plan, as described in Section 4063 of ERISA, (iii) an action to terminate a Plan for which a notice is required to be filed under Section 4041 of ERISA, (iv) commencement by the PBGC of proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums due for the current premium period under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Plan must be terminated, or (v) a complete or partial withdrawal from a Multiemployer Plan as described in Sections 4203 and 4205 of ERISA.

"Eligible Lender" means (a) a financial institution organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least $250,000,000; (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and

Development, or a political subdivision of any such country, and having a combined capital and surplus of at least $250,000,000, provided that such bank is acting through a branch or agency located in the United States; or (c) a person controlled by, controlling, or under common control with any entity identified in clause (a) or (b) above.

"Environmental Law" means the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 ET SEQ., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 ET SEQ., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1802 ET SEQ., the Toxic Substances Control Act, 15 U.S.C. Section 2601 ET SEQ., the Federal Water Pollution Control Act, 33 U.S.C. Section 1252 ET SEQ., the Clean Water Act, 33 U.S.C. Section 1321 ET SEQ., the Clean Air Act, 42 U.S.C. Section 7401 ET SEQ., and any other federal, state, county, municipal, local or other statute, law, ordinance or regulation which may relate to or deal with human health or the environment, all as may be from time to time amended.

"Event of Default" has the meaning specified in Section 7.1.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Federal Funds Rate" means at any time an interest rate per annum equal to the weighted average of the rates for overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day for such transactions received by the Agent from three federal funds brokers of recognized standing selected by it, it being understood that the Federal Funds Rate for any day which is not a Business Day shall be the Federal Funds Rate for the next preceding Business Day.

"Fee Letters" means one or more separate agreements between the Borrower and the Agent, setting forth the terms of certain fees to be paid by the Borrower to the Agent for the Agent's own behalf or for the benefit of the Lenders, as more fully set forth therein.

"Financial Covenant" means any of the Borrower's obligations set forth in Sections 5.8 and 5.9.

"Floating Rate" means, at any time, an annual rate equal to the greater of:

(a) the Prime Rate,

or

(b) the Federal Funds Rate, plus 50 basis points (0.50% per annum).

The Floating Rate shall change when and as the Prime Rate or Federal Funds Rate, as the case may be, changes.

"Floating Rate Funding" means any portion of the principal balance of the Notes bearing interest at the Floating Rate.

"Funded Debt" means, for any Person on a consolidated basis: (without duplication) (i) all indebtedness of such Person for borrowed money; (ii) the deferred and unpaid balance of the purchase price owing by such Person on account of any assets or services purchased (other than trade payables and other accrued liabilities incurred in the ordinary course of business that are not overdue by more than 180 days unless being contested in good faith) if such purchase price is (A) due more than nine months from the date of incurrence of the obligation in respect thereof or (B) evidenced by a note or a similar written instrument; (iii) all Capitalized Lease obligations; (iv) all indebtedness secured by a Lien on any property owned by such Person, whether or not such indebtedness has been assumed by such Person or is nonrecourse to such Person; (v) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money (other than such notes or drafts for the deferred purchase price of assets or services to the extent such purchase price is excluded from clause (ii) above); (vi) indebtedness evidenced by bonds, notes or similar written instrument; (vii) the face amount of all letters of credit and bankers' acceptances issued for the account of such Person, and without duplication, all drafts drawn thereunder (other than such letters of credit, bankers' acceptances and drafts for the deferred purchase price of assets or services to the extent such purchase price is excluded from clause (ii) above); (viii) net obligations of such Person under Swap Contracts which constitute interest rate agreements or currency agreements; and (ix) guaranty obligations of such Person with respect to indebtedness for borrowed money of another Person (including Affiliates) in excess of $25,000,000 in the aggregate; PROVIDED, HOWEVER, that in no event shall any calculation of Funded Debt include (a) deferred taxes, (b) securitized trade receivables, (c) deferred credits including regulatory assets and contributions in aid of construction, (d) the lease obligations for Lake Superior Paper, Inc. relating to paper mill equipment as provided for under an operating lease extending to 2012, (e) 75% of the indebtedness associated with Square Butte Electric Cooperative, or (f) so long as the Bonds are held as security under the Pledge Agreement and have not been sold or otherwise disposed of by foreclosure, any obligation of the Borrower under the Bonds.

"Funding" means a Floating Rate Funding or a LIBO Rate Funding.

"Funding Date" means the date all of the conditions in Article III are satisfied.

"GAAP" means generally accepted accounting principles as in effect from time to time applied on a basis consistent with the accounting practices applied in the financial statements of the Borrower and its Subsidiaries referred to in Section 4.5.

"Hazardous Substance" means any asbestos, urea-formaldehyde, polychlorinated biphenyls ("PCBs"), nuclear fuel or material, chemical waste, radioactive material, explosives, known carcinogens, petroleum products and by-products and other dangerous, toxic or hazardous pollutants, contaminants, chemicals, materials or substances listed or identified in, or regulated by, any Environmental Law.

"Indenture" means the Mortgage and Deed of Trust dated as of September 1, 1945, between the Borrower, the Corporate Trustee, and Douglas J. MacInnes (successor to Richard H. West, J.A. Austin, E.J. McCabe, D.W. May, J.A. Vaughan and W.T. Cunningham), as previously amended and supplemented and as it may be amended and/or supplemented from time to time.

"Interest Coverage Ratio" means, as of any Covenant Compliance Date, the ratio of (i) EBITDA during the 4-quarter period ending on that date, to (ii) Interest Expense during such period.

"Interest Expense" means, with respect to any period of the Borrower and its Subsidiaries (which for purposes of this definition shall include any Subsidiary consolidated into the financial statements of the Borrower other than ALLETE Water Services, Inc. and any other Subsidiary of the Borrower as to which the Borrower has announced on or prior to June 30, 2003, that it will discontinue the operations of such Subsidiary), the sum of (i) all interest charges (including capitalized interest, imputed interest charges with respect to Capitalized Leases and all amortization of debt discount and expense and other deferred financing charges) of the Borrower and its Subsidiaries on a consolidated basis, and (ii) all commitment or other fees payable in respect to the issuance of standby letters of credit or other credit facilities for the account of the Borrower or its Subsidiaries, all as determined on a consolidated basis in accordance with GAAP.

"Interest Period" means, with respect to any LIBO Rate Funding, a period of one, two, three or six months beginning on a Business Day, as elected by the Borrower.

"Invest Direct Program" means the Borrower's Direct Stock Purchase and Dividend Reinvestment Plan.

"Investment Company Act" means the Investment Company Act of 1940, as amended.

"Lenders" means Wells Fargo, acting on its own behalf and not as Agent, each of the undersigned lenders, and any Additional Lender, collectively.

"Leverage Ratio" means, at any Covenant Compliance Date, the ratio of (A) Funded Debt to (B) Total Capital of the Borrower and its Subsidiaries, all determined on a consolidated basis.

"LIBO Rate" means the rate per annum (rounded upward, if necessary, to the nearest whole 1/16 of 1%) and determined pursuant to the following formula:

$$\text{LIBO Rate} = \frac{\text{Base LIBO Rate}}{100\% - \text{LIBOR Reserve Percentage}} + \text{87.5 basis points (0.875\% per annum)}$$

"LIBO Rate Funding" means any portion of the principal balance of the Notes bearing interest at a LIBO Rate.

"LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Board of Governors of the Federal Reserve Board, as amended), adjusted by the Agent for expected changes in such reserve percentage during the applicable Interest Period.

"Lien" means any mortgage, deed of trust, lien, pledge, security interest or other charge or encumbrance, of any kind whatsoever, including but not limited to the interest of the lessor or titleholder under any Capitalized Lease, title retention contract or similar agreement.

"Loan Documents" means this Agreement, the Notes, the Pledge Agreement and the Fee Letters.

"MPUC" means the Minnesota Public Utilities Commission.

"Material Adverse Effect" means a material adverse effect on (i) the condition (financial or otherwise), properties, or operations of the Borrower and its Subsidiaries, taken as a whole, (ii) the ability of the Borrower to perform its obligations under the Loan Documents, or (iii) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or any Lender thereunder.

"Material Subsidiary" means Florida Water Services Corporation and any Subsidiary of the Borrower whose consolidated assets equal or exceed ten percent of the Borrower's consolidated assets or whose consolidated revenues equal or exceed ten percent of the Borrower's consolidated revenues.

"Maturity Date" means July 16, 2004.

"Multiemployer Plan" means at any time a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which Borrower, a Material Subsidiary or an ERISA Affiliate is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"Note" means the Borrower's promissory note in the form of Exhibit B hereto.

"Obligations" means each and every debt, liability and obligation of every type and description arising under or in connection with any of the Loan Documents

which the Borrower may now or at any time hereafter owe to any Lender or the Agent, whether such debt, liability or obligation now exists or is hereafter created or incurred, whether it is direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or sole, joint, several or joint and several, and including but not limited to principal of and interest on the Notes, all fees due under this Agreement, and any Fee Letter or any related agreement.

"PBGC" means the Pension Benefit Guaranty Corporation.

"PUHCA" means the Public Utility Holding Company Act of 1935, as amended.

"Percentage" means, with respect to each Lender, the ratio of (i) the principal balance of that Lender's Note, to (ii) the aggregate principal balance of all of the Lenders' Notes.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Plan" means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either is or has at any time within the preceding five years been maintained, or contributed to, by Borrower, a Material Subsidiary or an ERISA Affiliate for employees of Borrower, a Material Subsidiary or an ERISA Affiliate.

"Pledge Agreement" means the Borrower's Security Agreement of even date herewith, granting the Agent a security interest in the Bonds and all proceeds thereof to secure the payment of the Notes and all other present and future obligations of the Borrower to the Agent and the Lenders arising under or pursuant to this Agreement, together with all amendments, modifications and restatements thereof.

"Prime Rate" means, at any time, the rate of interest most recently announced within the Agent at its principal office as its "prime rate" or, if the Agent ceases to announce a rate so designated, any similar successor rate designated by the Agent. Such rate is one of the Agent's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof in such internal publication or publications as the Agent may designate.

"Refinanced Bonds" means the Borrower's Floating Rate First Mortgage Bonds due October 20, 2003.

"Required Lenders" means two or more Lenders (including, where relevant, Additional Lenders) having an aggregate Percentage in excess of fifty percent (50%).

"SEC" means the United States Securities Exchange Commission.

"Subsidiary" means (i) any corporation of which more than 50% of the outstanding shares of capital stock having general voting power under ordinary circumstances to elect a majority of the board of directors of such corporation, irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency, is at the time directly or indirectly owned by the Borrower, by the Borrower and one or more other Subsidiaries, or by one or more other Subsidiaries, (ii) any partnership of which more than 50% of the partnership interests therein are directly or indirectly owned by the Borrower, by the Borrower and one or more other Subsidiaries, or by one or more other Subsidiaries, and (iii) any limited liability company or other form of business organization the effective control of which is held by the Borrower, the Borrower and one or more other Subsidiaries, or by one or more other Subsidiaries.

"Swap Contracts" means any agreement, whether or not in writing, relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing.

"Total Capital" means the sum of retained earnings, shareholders' equity (including preferred stock and QUIPs), all determined with respect to the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, and Funded Debt.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended.

"Water Assets" means the water and waste water services operated by Florida Water Services Corporation, Heater Utilities, Inc., and Georgia Water Services Corporation, each of which is a Subsidiary of the Borrower.

"Welfare Plan" means a "welfare plan" as defined in Section 3(1) of ERISA.

"Wells Fargo" means Wells Fargo Bank, National Association, a national banking association and a party to this Agreement.

SECTION 1.2 TIMES

All references to times of day in this Agreement shall be references to Minneapolis, Minnesota time unless otherwise specifically provided.

SECTION 1.3 ACCOUNTING TERMS AND DETERMINATIONS

Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP; PROVIDED that in the event of any Accounting Practices Change, then the Borrower's compliance with the Financial Covenants shall be determined on the basis of generally accepted accounting principles in effect immediately before giving effect to the Accounting Practices Change, until such covenants are amended in a manner satisfactory to the Borrower and the Required Lenders in accordance with Section 9.11.

## ARTICLE II
## AMOUNT AND TERMS OF THE CREDIT FACILITY

SECTION 2.1 TERM LOAN FACILITY.

On the Funding Date, each Lender shall make a single Advance to the Borrower in a principal amount equal to that Lender's Commitment Amount. The Borrower's obligation to pay the Advance made by each Lender shall be evidenced by the Note payable to the order of that Lender. The Notes shall bear interest on the unpaid principal amount thereof from the Funding Date until paid as set forth in Section 2.2. At or before 2:00 p.m. on the Funding Date, each Lender shall provide the Agent at the office of the Agent in Minneapolis, Minnesota with immediately available funds equal to such Lender's Commitment Amount. The Agent shall disburse the aggregate amount of the Advances by crediting the same to the Borrower's demand deposit account maintained with the Agent or in such other manner as the Agent and the Borrower may agree; provided, however, that the Agent shall have no obligation to disburse the Advances if any condition set forth in Article III has not been satisfied or if any Lender has failed to fund its Commitment Amount. No portion of any Advance, once repaid, shall be readvanced.

SECTION 2.2 INTEREST ON NOTES.

(a) FLOATING RATE FUNDINGS. Unless the Borrower elects a LIBO Rate pursuant to this Section, the principal balance of the Notes shall bear interest at the Floating Rate. The amount of the Floating Rate Funding shall be equal to at least $5,000,000, and the amount of the Floating Rate Funding over $5,000,000 shall be an integral multiple of $1,000,000.

(b) LIBO RATE FUNDINGS. So long as no Default or Event of Default exists, the Borrower may convert all or any part of any outstanding Floating Rate Funding into a LIBO Rate Funding, or may request that a LIBO Rate Funding be converted at the end of the applicable Interest Period to another LIBO Rate Funding, by giving notice to the Agent of such request or conversion not later than 10:30 a.m. on a Business Day which is at least three Business Days prior to the date of the requested conversion. Each such notice shall be effective upon receipt by the Agent, shall be in writing or by telephone or telecopy transmission, shall specify the date and amount of

such conversion, and the Interest Period therefor. The Interest Period applicable to each LIBO Rate Funding shall begin on a Business Day, and the amount of each LIBO Rate Funding shall be equal to an integral multiple of $5,000,000. Subject to the terms and conditions hereof, the principal amount specified by the Borrower in the applicable request for a LIBO Rate Funding shall bear interest from and including the first day of the Interest Period specified therein to but not including the last day of such Interest Period, at the LIBO Rate applicable thereto, determined as set forth herein. Unless the Borrower requests a new LIBO Rate Funding in accordance with the procedures set forth above, or prepays the principal of an outstanding LIBO Rate Funding at the expiration of an Interest Period, the Lenders shall automatically and without request of the Borrower convert each LIBO Rate Funding to a Floating Rate Funding on the last day of the relevant Interest Period.

(c) SETTING OF LIBO RATES. The applicable LIBO Rate for each Interest Period shall be determined by the Agent between the opening of business and 12:00 noon on the second Business Day prior to the beginning of such Interest Period, whereupon notice thereof (which may be by telephone) shall be given by the Agent to the Borrower. Each such determination of the applicable LIBO Rate shall be conclusive and binding upon the parties hereto, in the absence of demonstrable error. The Agent, upon written request of the Borrower, shall deliver to the Borrower a statement showing the computations used by the Agent in determining the applicable LIBO Rate hereunder.

(d) LIMITATIONS ON LIBO RATE FUNDINGS. In no event shall more than six LIBO Rate Fundings be outstanding at any one time.

(e) INITIAL ADVANCE. Provided the Borrower makes its request to the Agent by not later than 9:00 a.m. on the Funding Date, the initial Advances may be funded as LIBO Rate Fundings. The applicable LIBO Rate for each Interest Period requested by the Borrower shall be determined by the Agent by 11:00 a.m. on the Funding Date, whereupon notice thereof (which may be by telephone) shall be given by the Agent to the Borrower. Such determination of the applicable LIBO Rate shall be conclusive and binding upon the parties hereto, in the absence of demonstrable error.

(f) DEFAULT RATE. From and after ten days after the occurrence of any Default or Event of Default and continuing thereafter until such Default or Event of Default shall be remedied to the written satisfaction of the Required Lenders, the outstanding principal balance of the Notes shall bear interest, until paid in full, at an annual rate equal to the sum of (i) the interest rate otherwise in effect with respect to each Funding and (ii) 200 basis points (2.00%) (the "Default Rate"). Calculation of interest at the Default Rate shall not be deemed a waiver or excuse of any such Default or Event of Default.

SECTION 2.3 PRINCIPAL AND INTEREST.

(a) INTEREST. Interest accruing on the principal balance of the Notes each calendar quarter shall be due and payable on the last day of that quarter, commencing on September 30, 2003 and on the Maturity Date. Notwithstanding any other provision of this Agreement or the Notes, interest on any LIBO Rate Funding shall be due and payable on the last day of the applicable Interest Period or, if such Interest Period is in excess of three months, on the last day of each three-month period during such Interest Period and on the last day of such Interest Period.

(b) PRINCIPAL. The principal balance of the Notes shall be due and payable on the Maturity Date.

SECTION 2.4 COLLATERAL.

Payment of the Notes and all other amounts now or hereafter owing by the Borrower to the Lenders shall be secured by the Liens granted under the Pledge Agreement.

SECTION 2.5 FEES.

The Borrower shall pay to the Agent all fees required to be paid pursuant to any Fee Letters.

SECTION 2.6 PREPAYMENTS.

(a) VOLUNTARY PREPAYMENTS. Subject to the conditions set forth herein, the Borrower from time to time may voluntarily prepay the Notes in whole or in part; provided that:

(i) prepayment of any Lender's Note must be accompanied by pro rata prepayment of each other Lender's Note,

(ii) prepayment of any LIBO Rate Funding shall be made only upon three Business Days' notice to the Agent and shall be accompanied by any payment owed under Section 2.10,

(iii) prepayment of any Floating Rate Funding shall be made only upon one Business Days' notice to the Agent,

(iv) any prepayment of the full amount of any Note shall include accrued interest thereon, and

(v) each partial voluntary prepayment shall be in an aggregate amount equal to an integral multiple of $5,000,000.

(b) MANDATORY PREPAYMENTS.

(i) SALE OF ASSETS. Within 30 calendar days following the receipt thereof, the Borrower shall prepay the Obligations in an amount equal to 75% of the Net Proceeds from each of the sale of the Water Assets and the sale of the Borrower's Taconite Harbor generating facility. Nothing in this clause (i)

shall be deemed to authorize or constitute consent to sales of assets by the Borrower that otherwise would be prohibited or restricted under this Agreement or under any other Loan Document. For purposes of this clause (i), "Net Proceeds" from an asset sale shall mean all proceeds of such sale after payment of the following to the extent related to the sale or the assets sold: debt, transaction costs and income taxes.

(ii) INITIAL PUBLIC OFFERING. In the event of an initial public offering of the common stock of any of the Borrower's Subsidiaries, the Borrower shall prepay the Obligations in an amount equal to 100% of the Net Proceeds thereof within fifteen (15) calendar days following receipt thereof. For purposes of this clause (ii), "Net Proceeds" shall mean all proceeds of such offering after payment of all related transaction costs.

(iii) NEW CAPITAL. Within 15 calendar days following the issuance of any debt by or equity interests in the Borrower or any Subsidiary, the Borrower shall prepay the Obligations in an amount equal to the net cash proceeds of such debt instruments or equity interests. This clause shall not apply to commercial paper, debt issued under the AFC Program, debt issued to refinance existing indebtedness for the same amount or common stock issued pursuant to the Borrower's or its Subsidiaries' stock benefit plans, the Invest Direct Program, any borrowings of less than a year under any credit agreement in existence on the date hereof and any renewals or extensions thereof. Nothing in this clause (iii) shall be deemed to authorize or constitute consent to the issuance of debt instruments or equity interests by the Borrower that otherwise would be prohibited or restricted under this Agreement or under any other Loan Document.

(c) APPLICATION OF PREPAYMENTS. All prepayments hereunder (whether voluntary or mandatory) shall be applied first to accrued but unpaid interest on the Notes, ratably in accordance with the interest outstanding thereunder and then to the principal balance of the Notes. Notwithstanding the foregoing, interest on any LIBO Rate Funding prepaid hereunder and any compensation due under Section 2.10 on account of prepayment of a LIBO Rate Funding shall be paid with the same priority as the related principal prepayment.

SECTION 2.7 PAYMENTS.

(a) MAKING OF PAYMENTS. All payments of principal of and interest due under the Notes shall be made to the Agent at its office in Minneapolis, Minnesota, not later than 12:00 noon on the date due, in immediately available funds, and funds received after that hour shall be deemed to have been received by the Agent on the next following Business Day. The Borrower hereby authorizes the Agent to charge the Borrower's demand deposit account maintained with the Agent for the amount of any such payment on its due date without receipt of any request for such charge, but

the Lender's failure to so charge such account shall in no way affect the obligation of the Borrower to make any such payment.

(b) ASSUMED PAYMENTS. Unless the Agent has been notified by the Borrower prior to the date on which the Borrower is scheduled to make payment to the Agent of a payment to the Agent for the account of one or more of the Lenders hereunder (such payment being herein called a "Required Payment"), which notice shall be effective upon receipt, that it does not intend to make the Required Payment to the Agent, the Agent may assume that the Required Payment has been made and may (but shall not be required to), in reliance upon such assumption, make the amount thereof available to the intended recipient on such date and, if the Borrower has not in fact made the Required Payment to the Agent, the recipient of such payment shall, on demand, repay to the Agent the amount so made available together with interest thereon for each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate equal to the Federal Funds Rate for such day.

(c) SETOFF. The Borrower agrees that each Lender shall have all rights of setoff and bankers' lien provided by applicable law, and in addition thereto, the Borrower agrees that if at any time any amount is due and owing by the Borrower under this Agreement to any Lender at a time when an Event of Default has occurred and is continuing hereunder, any Lender may apply any and all balances, credits, and deposits, accounts or moneys of the Borrower then or thereafter in the possession of that Lender (excluding, however, any trust or escrow accounts held by the Borrower for the benefit of any third party) to the payment thereof.

(d) DUE DATE EXTENSION. If any payment of principal of or interest on any Floating Rate Funding or any fees payable hereunder falls due on a day which is not a Business Day, then such due date shall be extended to the next following Business Day, and (in the case of principal) additional interest shall accrue and be payable for the period of such extension.

(e) APPLICATION OF PAYMENTS. Except as otherwise provided herein, so long as no Default or Event of Default has occurred and is continuing hereunder, each payment received from the Borrower shall be applied to such obligation as the Borrower shall specify by notice received by the Agent on or before the date of such payment, or in the absence of such notice, as the Required Lenders shall determine in their discretion. Except as otherwise provided herein, after the occurrence of a Default or Event of Default, the Lenders shall have the right to apply all payments received by the Lender from the Borrower as the Required Lenders may determine in their discretion. The Borrower agrees that the amount shown on the books and records of the Agent and the Lenders as being the principal balance of and interest on the Notes shall be conclusive absent demonstrable error.

SECTION 2.8 INCREASED COSTS; CAPITAL ADEQUACY; FUNDING EXCEPTIONS.

(a) INCREASED COSTS ON LIBO RATE FUNDINGS. If Regulation D of the Board of Governors of the Federal Reserve System or after the date of this Agreement the adoption of any applicable law, rule or regulation, or any change in any existing law, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency, shall:

(i) subject that Lender to or cause the withdrawal or termination of any exemption previously granted to that Lender with respect to, any tax, duty or other charge with respect to its LIBO Rate Fundings or its obligation to make LIBO Rate Fundings, or shall change the basis of taxation of payments to that Lender of the principal of or interest under this Agreement in respect of its LIBO Rate Fundings or its obligation to make LIBO Rate Fundings (except for changes in the rate of taxes based on or measured by the net income of that Lender (or franchise taxes in lieu thereof) and imposed by the government or other authority of the country, state or political subdivision in which that Lender is incorporated or in which its principal executive office or the office through which that Lender is acting is located); or

(ii) impose, modify or deem applicable any reserve (including, without limitation, any reserve imposed by the Board of Governors of the Federal Reserve System, but excluding any reserve included in the determination of interest rates pursuant to Section 2.2), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, that Lender; or

(iii) impose on that Lender any other condition affecting its making, maintaining or funding of its LIBO Rate Fundings or its obligation to make LIBO Rate Fundings;

and the result of any of the foregoing is to increase the cost to that Lender of making or maintaining any LIBO Rate Funding, or to reduce the amount of any sum received or receivable by that Lender under this Agreement or under its Notes with respect to a LIBO Rate Funding, then that Lender will notify the Borrower of such increased cost and within fifteen (15) days after demand by that Lender (which demand shall be accompanied by a statement setting forth the basis of such demand and representing that that Lender has made similar demand on one or more other commercial borrowers with revolving or term loans in excess of $500,000) the Borrower shall pay to that Lender such additional amount or amounts as will compensate that Lender for such increased cost or such reduction; provided, however, that no such increased cost or such reduction shall be payable by the Borrower for any period longer than ninety (90) days prior to the date on which notice thereof is delivered to the Borrower. Each Lender will promptly notify the Borrower of any event of which it has knowledge,

occurring after the date hereof, which will entitle that Lender to compensation pursuant to this Section 2.8. If the Borrower receives notice from any Lender of any event which will entitle that Lender to compensation pursuant to this Section 2.8, the Borrower may prepay any then outstanding LIBO Rate Fundings or notify that Lender that any pending request for a LIBO Rate Funding shall be deemed to be a request for a Floating Rate Funding, in each case subject to the provisions of Section 2.10.

(b) CAPITAL ADEQUACY. If any Lender determines at any time that its Return has been reduced as a result of any Capital Adequacy Rule Change, that Lender may require the Borrower to pay it the amount necessary to restore that Lender's Return to what it would have been had there been no Capital Adequacy Rule Change. For purposes of this Section 2.8, the following definitions shall apply:

(i) "Return", for any calendar quarter or shorter period, means the percentage determined by dividing (A) the sum of interest and ongoing fees earned by any Lender under this Agreement during such period by (B) the average capital that Lender is required to maintain during such period as a result of its being a party to this Agreement, as determined by that Lender based upon its total capital requirements and a reasonable attribution formula that takes account of the Capital Adequacy Rules then in effect. Return may be calculated for each calendar quarter and for the shorter period between the end of a calendar quarter and the date of termination in whole of this Agreement.

(ii) "Capital Adequacy Rule" means any law, rule, regulation or guideline regarding capital adequacy that applies to any Lender, or the interpretation thereof by any governmental or regulatory authority. Capital Adequacy Rules include rules requiring financial institutions to maintain total capital in amounts based upon percentages of outstanding loans and binding loan commitments.

(iii) "Capital Adequacy Rule Change" means any change in any Capital Adequacy Rule occurring after the date of this Agreement, but does not include any changes in applicable requirements that at the date hereof are scheduled to take place under the existing Capital Adequacy Rules or any increases in the capital that any Lender is required to maintain to the extent that the increases are required due to a regulatory authority's assessment of that Lender's financial condition.

(iv) "Lender" includes (but is not limited to) the Agent, the Lenders, as defined elsewhere in this Agreement, and any assignee of any interest of any Lender hereunder and any participant in the loans made hereunder.

The initial notice sent by a Lender shall be sent as promptly as practicable after that Lender learns that its Return has been reduced, shall include a demand for payment of the amount necessary to restore that Lender's Return for the quarter in which the notice is sent, shall state in reasonable detail the cause for the reduction in that Lender's Return and that Lender's calculation of the amount of such reduction, and

shall include that Lender's representation that it has made similar demand on one or more other commercial borrowers with revolving or term loans in excess of $500,000. Thereafter, that Lender may send a new notice during each calendar quarter setting forth the calculation of the reduced Return for that quarter and including a demand for payment of the amount necessary to restore that Lender's Return for that quarter. A Lender's calculation in any such notice shall be conclusive and binding absent demonstrable error.

(c) BASIS FOR DETERMINING INTEREST RATE INADEQUATE OR UNFAIR. If with respect to any Interest Period:

(i) any Lender determines that deposits in U.S. dollars (in the applicable amounts) are not being offered in the London interbank eurodollar market for such Interest Period; or

(ii) any Lender otherwise determines that by reason of circumstances affecting the London interbank eurodollar market adequate and reasonable means do not exist for ascertaining the applicable LIBO Rate; or

(iii) any Lender determines that the LIBO Rate as determined by the Agent will not adequately and fairly reflect the cost to that Lender of maintaining or funding a LIBO Rate Funding for such Interest Period, or that the making or funding of LIBO Rate Fundings has become impracticable as a result of an event occurring after the date of this Agreement which in the opinion of that Lender materially affects such LIBO Rate Fundings;

then that Lender shall promptly notify the Borrower and (A) upon the occurrence of any event described in the foregoing clause (i) the Borrower shall enter into good faith negotiations with that Lender in order to determine an alternate method to determine the LIBO Rate for that Lender, and during the pendency of such negotiations with that Lender, the Lenders shall be under no obligation to make any new LIBO Rate Fundings, and (B) upon the occurrence of any event described in the foregoing clauses (ii) or (iii), for so long as such circumstances shall continue, the Lenders shall be under no obligation to make any new LIBO Rate Fundings.

(d) ILLEGALITY. If any change in (including the adoption of any new) applicable laws or regulations, or any change in the interpretation of applicable laws or regulations by any governmental authority, central bank, comparable agency or any other regulatory body charged with the interpretation, implementation or administration thereof, or compliance by any Lender with any request or directive (whether or not having the force of law) of any such authority, central bank, comparable agency or other regulatory body, should make it or, in the good faith judgment of that Lender, shall raise a substantial question as to whether it is unlawful for that Lender to make, maintain or fund LIBO Rate Fundings, then (i) that Lender shall promptly notify the Borrower and the Agent, (ii) the obligation of the Lenders to make, maintain or convert into LIBO Rate Fundings shall, upon the effectiveness of such event, be suspended for the duration of such unlawfulness, and (iii) for the

duration of such unlawfulness, any notice by the Borrower requesting the Lenders to make or convert into LIBO Rate Fundings shall be construed as a request to make or to continue making Floating Rate Fundings.

SECTION 2.9 TAXES.

(a) All payments made by the Borrower to the Agent or any Lender (herein any "Payee") under or in connection with this Agreement or the Notes shall be made without any setoff or other counterclaim, and free and clear of and without deduction for or on account of any present or future Taxes now or hereafter imposed by any governmental or other authority, except to the extent that such deduction or withholding is compelled by law. As used herein, the term "Taxes" shall include all income, excise and other taxes of whatever nature (other than taxes based on or measured by the net income of the Payee (or franchise taxes in lieu thereof) and imposed by the government or other authority of the country, state or political subdivision in which such Payee is incorporated or in which its principal executive office or the office through which the Payee is acting is located ("Excluded Taxes")) as well as all levies, imposts, duties, charges, or fees of whatever nature. If the Borrower is compelled by law to make any such deductions or withholdings it will:

(i) pay to the relevant authorities the full amount required to be so withheld or deducted;

(ii) except to the extent that such deduction or withholding results from a breach by any Payee of the representations and covenants contained in Section 2.9(b) or the relevant Assignment Certificate, pay such additional amounts (including, without limitation, any penalties, interest or expenses) as may be necessary in order that the net amount received by each Payee after such deductions or withholdings (including any required deduction or withholding on such additional amounts) shall equal the amount such Payee would have received had no such deductions or withholdings been made; and

(iii) promptly forward to the Agent (for delivery to such Payee) an official receipt or other documentation reasonably satisfactory to the Agent evidencing such payment to such authorities.

(b) If any Taxes otherwise payable by the Borrower pursuant to Section 2.9(a) are directly asserted against any Payee, such Payee may pay such Taxes and the Borrower promptly shall reimburse such Payee to the full extent otherwise required by such Section. The obligations of the Borrower under this Section 2.9 shall survive any termination of this Agreement. Each Lender by its execution of this Agreement represents (and each Additional Lender by its execution of any Assignment Certificate pursuant to Section 8.10 shall be deemed to represent) to each other Lender, the Agent and the Borrower that if such Lender or Additional Lender is organized under the laws of any jurisdiction other than the United States or any state thereof, such Lender or Additional Lender has furnished to the Agent and the Borrower either U.S. Internal Revenue Service Form W-8BEN, or U.S. Internal

Revenue Service Form W-8ECI, as applicable (wherein such Lender claims entitlement to complete exemption from U.S. Federal withholding tax on all interest payments hereunder).

(c) The amount that the Borrower shall be required to pay to any Lender pursuant to Section 2.9(a) or 2.9(b) shall be reduced by the amount of any offsetting tax benefit which such Lender receives as a result of the Borrower's payment to the relevant authorities as reasonably determined by such Lender; provided, however, that (i) such Lender shall be the sole judge of the amount of such tax benefit and the date on which it is received, (ii) no Lender shall be obliged to disclose information regarding its tax affairs or tax computations, (iii) nothing herein shall interfere with a Lender's right to manage its tax affairs in whatever manner it sees fit, and (iv) if such Lender shall subsequently determine that it has lost the benefit of all or a portion of such tax benefit, the Borrower shall promptly remit to such Lender the amount certified by such Lender to be the amount necessary to restore such Lender to the position it would have been in if no payment had been made pursuant to this Section 2.9(c).

(d) If the U.S. Internal Revenue Service or any other governmental authority of the United States or any other country or any political subdivision thereof asserts a claim that the Agent or the Borrower did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or properly completed, because such Lender failed to notify the Agent or the Borrower of a change in circumstances which rendered its exemption from withholding ineffective, or for any other reason), such Lender shall indemnify the Agent or the Borrower, as applicable, fully for all amounts paid, directly or indirectly, by the Agent or the Borrower, as applicable, as tax, withholding therefor, or otherwise, including penalties and interest, and including taxes imposed by any jurisdiction on amounts payable to the Agent or the Borrower, as applicable, under this subsection, together with all costs and expenses related thereto (including attorneys fees and time charges of attorneys for the Agent or the Borrower, as applicable, which attorneys may be employees of the Agent or the Borrower, as applicable). The obligations of each Lender under this Section 2.9(d) shall survive the payment of the Obligations and termination of this Agreement.

SECTION 2.10 FUNDING LOSSES.

Upon demand by any Lender (which demand shall be accompanied by a statement setting forth the basis for the calculations of the amount being claimed), the Borrower shall indemnify that Lender against any loss or expense which that Lender may have sustained or incurred (including, without limitation, any net loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by that Lender to fund or maintain LIBO Rate Fundings) or which that Lender may be deemed to have sustained or incurred, as reasonably determined by that Lender, (i) as a consequence of any failure by the Borrower to make any payment when due of any amount due hereunder in connection with

any LIBO Rate Fundings, (ii) due to any failure of the Borrower to borrow or convert any LIBO Rate Fundings on a date specified therefor in a notice thereof or (iii) due to any payment or prepayment of any LIBO Rate Funding on a date other than the last day of the applicable Interest Period for such LIBO Rate Funding. For this purpose, all notices under Section 2.2(b) shall be deemed to be irrevocable.

SECTION 2.11 DISCRETION OF LENDERS AS TO MANNER OF FUNDING.

Notwithstanding any provision of this Agreement to the contrary, each Lender shall be entitled to fund and maintain all or any part of its LIBO Rate Fundings in any manner it deems fit, it being understood, however, that for the purposes of this Agreement (specifically including, without limitation, Section 2.10 hereof) all determinations hereunder shall be made as if that Lender had actually funded and maintained each LIBO Rate Funding during each Interest Period for such LIBO Rate Funding through the purchase of deposits having a maturity corresponding to such Interest Period and bearing an interest rate equal to the appropriate LIBO Rate for such Interest Period.

SECTION 2.12 CONCLUSIVENESS OF STATEMENTS; SURVIVAL OF PROVISIONS.

Determinations and statements of any Lender pursuant to Section 2.8 and 2.10 shall be conclusive absent demonstrable error. Without limiting the generality of the foregoing, the Borrower shall have no right to review any records of any Lender or its other customers to determine the accuracy of any statement by that Lender under Section 2.8(a) or 2.8(b) regarding that Lender's demands upon other customers of that Lender. Each Lender may use reasonable averaging and attribution methods in determining compensation pursuant to such Sections 2.8 and 2.10 and the provisions of Sections 2.8 and 2.10 shall survive termination of this Agreement.

SECTION 2.13 USE OF PROCEEDS.

The Borrower shall use the proceeds of the Advances to satisfy its obligations with respect to the Refinanced Bonds.

SECTION 2.14 COMPUTATION OF INTEREST AND FEES.

All interest determined at the Floating Rate will be calculated based on the actual days elapsed in a year of 365 or 366 days, as the case may be. All interest determined at the LIBO Rate and all fees hereunder shall be computed on the basis of actual number of days elapsed in a year of 360 days.

ARTICLE III
CONDITIONS PRECEDENT

SECTION 3.1 DOCUMENTARY CONDITIONS PRECEDENT.

The obligation of each Lender to make its Advance is subject to the condition precedent that each Lender shall have received on or before the day of the Advance, and in any event on or before July 18, 2003, all of the following, each dated (unless otherwise indicated) as of the date hereof, in form and substance satisfactory to each Lender:

(a) The Notes, properly executed on behalf of the Borrower.

(b) The Pledge Agreement, properly executed on behalf of the Borrower.

(c) The Bonds, properly issued by the Borrower.

(d) A certificate of the secretary or assistant secretary of the Borrower (i) certifying that the execution, delivery and performance of the Loan Documents and other documents contemplated hereunder to which the Borrower is a party have been duly approved by all necessary action of the board of directors of the Borrower, and attaching true and correct copies of the applicable resolutions granting such approval, (ii) certifying that attached to such certificate are true and correct copies of the articles of incorporation and bylaws of the Borrower, together with such copies, and (iii) certifying the names of the officers of the Borrower that are authorized to sign the Loan Documents and other documents contemplated hereunder, together with the true signatures of such officers. The Lenders may conclusively rely on such certificate until they shall receive a further certificate of the secretary or assistant secretary of the Borrower canceling or amending the prior certificate and submitting the signatures of the officers named in such further certificate.

(e) A certificate of good standing of the Borrower from the Secretary of State of the State of Minnesota dated not more than ten days before such date.

(f) A signed copy of an opinion of counsel for the Borrower, addressed to the Lenders substantially in the form of Exhibit E.

(g) All fees required to be paid as of the date hereof pursuant to this Agreement or any Fee Letter.

(h) Such other documents as the Agent or the Required Lenders may deem necessary or advisable in connection with the issuance of the Bonds.

SECTION 3.2 ADDITIONAL CONDITIONS PRECEDENT TO ADVANCES.

The obligation of each Lender to make its Advance shall be subject to the further conditions precedent that on the date of the Advance:

(a) the representations and warranties contained in Article IV are correct on and as of the date of the Advance as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date; and

(b) no event has occurred and is continuing, or would result from the Advance, which constitutes a Default or an Event of Default.

## ARTICLE IV
## REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders as follows:

SECTION 4.1 EXISTENCE AND POWER.

The Borrower and its Material Subsidiaries are each corporations duly incorporated, validly existing and in good standing under the laws of their respective jurisdictions, and are each duly licensed or qualified to transact business in all jurisdictions where the character of the property owned or leased or the nature of the business transacted by it makes such licensing or qualification necessary, except where failure to be so licensed or qualified would not have a Material Adverse Effect. The Borrower has all requisite power and authority, corporate or otherwise, to conduct its business, to own its properties and to execute and deliver, and to perform all of its obligations under, the Loan Documents, the Bonds and the Indenture.

SECTION 4.2 AUTHORIZATION OF BORROWING; NO CONFLICT AS TO LAW OR AGREEMENTS.

(a) The execution, delivery and performance by the Borrower of the Loan Documents, the Indenture and the Bonds, the borrowings hereunder, the issuance of the Bonds, and the consummation of the transactions herein and therein contemplated, have been duly authorized by all necessary corporate action and do not and will not (i) require any consent or approval of the shareholders of the Borrower, or any authorization, consent, approval, order, filing, registration or qualification by or with any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, other than those consents described in Schedule 4.2, each of which has been obtained and is in full force and effect, and such consents, approvals, authorizations, registrations or qualifications as may be required and have been made or obtained under state securities or Blue Sky laws in connection with the offer and sale of the Bonds to the Agent, (ii) violate any provision of any law, rule or regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System and Section 7 of the Exchange Act or any regulation promulgated thereunder) or of any order, writ, injunction or decree presently in effect having applicability to the Borrower or of the Articles of Incorporation or Bylaws of the Borrower, (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Borrower or any Material Subsidiary is a party or by which it or its properties may be bound or affected, or (iv) result in, or require, the creation or imposition of any Lien or other charge or encumbrance of any nature (other than the Lien created under the

Pledge Agreement and the Lien of the Bonds under the Indenture) upon or with respect to any of the properties now owned or hereafter acquired by the Borrower or any Material Subsidiary.

(b) The MPUC has issued its Authorizing Order authorizing the issuance of securities of the Borrower and the incurrence by the Borrower of debt so long as (1) the Borrower's total capitalization does not exceed $3,560,000,000 (or any higher amount so long as total capitalization does not exceed $3,560,000,000 for more than 60 days without prior MPUC approval) and (2) the Borrower's equity ratio falls in the range between 46.78 and 63.29 percent (or any higher or lower percentages so long as the equity ratio does not deviate from this range for more than 60 days without prior MPUC approval). All Obligations incurred hereunder will constitute debt for purposes of such Authorizing Order. As of the date hereof, the Borrower's total capitalization (including Advances hereunder in an aggregate amount equal to the aggregate Commitment Amounts) does not exceed $3,560,000,000 and Borrower's equity ratio is within the range of 46.78 to 63.29 percent.

SECTION 4.3 LEGAL AGREEMENTS.

This Agreement, the other Loan Documents, the Bonds and the Indenture constitute the legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms. Without limiting the generality of the foregoing, the Bonds, when issued, will be duly executed, issued and delivered by the Borrower and duly authenticated by the Corporate Trustee, and will be entitled to the benefits provided by the Indenture.

SECTION 4.4 SUBSIDIARIES.

Schedule 4.4 hereto is a complete and correct list of all Material Subsidiaries as of March 31, 2003, and of the percentage of the ownership of the Borrower or any other Subsidiary in each as of the date of this Agreement. Except as otherwise indicated in that Schedule, all shares of each Material Subsidiary owned by the Borrower or by any such other Subsidiary are validly issued and fully paid and nonassessable.

SECTION 4.5 FINANCIAL CONDITION.

The Borrower has heretofore furnished to the Lenders its audited financial statement as of December 31, 2002, and its unaudited interim financial statement as of March 31, 2003. Those financial statements fairly present the financial condition of the Borrower and its Subsidiaries on the dates thereof and the consolidated results of their operations and cash flows for the periods then ended, and were prepared in accordance with GAAP.

SECTION 4.6 ADVERSE CHANGE.

There has been no material adverse change in the business, properties or condition (financial or otherwise) of the Borrower since the date of the latest financial statement referred to in Section 4.5.

SECTION 4.7 LITIGATION.

Except as set forth in the financial statements or other reports of the type referred to in Section 5.1 hereof and that have been delivered to the Lenders on or prior to the date hereof, there are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or the properties of the Borrower or any Subsidiary before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, in which, there is a reasonable possibilities of an adverse decision to the Borrower or that Subsidiary, that could result in a Material Adverse Effect.

SECTION 4.8 HAZARDOUS SUBSTANCES.

Except as set forth in the financial statements or other reports of the type referred to in Section 5.1 hereof that have been delivered to Lenders on or prior to the date hereof, (i) the Borrower and it subsidiaries (1) are in substantial compliance with any and all applicable Environmental Laws, (2) have received all material permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (3) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a Material Adverse Effect, and (ii) the Borrower has concluded that the costs and expenses associated with the effect of Environmental Laws on the business, operations and properties of the Borrower and its subsidiaries, and their compliance with such laws, would not, singly or in the aggregate, have a Material Adverse Effect.

SECTION 4.9 REGULATION U.

The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of the Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

SECTION 4.10 TAXES.

The Borrower and its Subsidiaries have each paid or caused to be paid to the proper authorities when due all material federal, state and local taxes required to be withheld by them. The Borrower and its Subsidiaries have each filed all material federal, state and local

tax returns which to the knowledge of the officers of the Borrower are required to be filed, and the Borrower and its Subsidiaries have each paid or caused to be paid to the respective taxing authorities all material taxes as shown on said returns or on any assessment received by them to the extent such taxes have become due, other than taxes whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which the Borrower or Subsidiary has provided adequate reserves in accordance with GAAP.

SECTION 4.11 TITLES AND LIENS.

The Borrower or one of its Subsidiaries has good title to each of the properties and assets reflected in the latest balance sheet referred to in Section 4.5 (other than any sold, as permitted by Section 6.2), free and clear of all Liens and encumbrances, except for the Lien of the Indenture or Liens permitted by the Indenture and Liens granted by Subsidiaries.

SECTION 4.12 ERISA.

No Plan had an accumulated funding deficiency (as such term is defined in Section 302 of ERISA) in excess of $1,000,000 as of the last day of the most recent fiscal year of such Plan ended prior to the date hereof, and no liability to the PBGC (other than for premiums due for the current premium period under Section 4007 of ERISA) or the Internal Revenue Service in excess of such amount has been, or is expected by the Borrower, any Subsidiary or any ERISA Affiliate to be, incurred with respect to any Plan. Except as otherwise disclosed in public filings by the Borrower, neither the Borrower nor any Material Subsidiary has any contingent liability with respect to any post-retirement benefit under a Welfare Plan, other than liability for continuation coverage described in Part 6 of Subtitle B of Title I of ERISA.

SECTION 4.13 INVESTMENT COMPANY ACT.

The Borrower is not, and after giving effect to the offer and sale of the Bonds, will not be an "investment company," as such term is defined in the Investment Company Act.

SECTION 4.14 PUBLIC UTILITY HOLDING COMPANY ACT.

The Borrower is exempt from all provisions of PUHCA and the rules and regulations thereunder, except for Section 9(a)(2) and the rules and regulations thereunder, and the execution and delivery by the Borrower of the Agreement and the transactions contemplated thereby do not violate any provision of PUHCA or any rule or regulation thereunder.

SECTION 4.15 SECURITIES LAW MATTERS.

(a) When the Bonds are issued and delivered pursuant to this Agreement and the Indenture, the Bonds will not be of the same class (within the meaning of Rule 144A under the Act) as securities which are listed on a national securities exchange registered under Section 6 of the Exchange Act or quoted in a U.S. automated inter-dealer quotation system.

(b) The Borrower is subject to Section 13 or 15(d) of the Exchange Act.

(c) Neither the Borrower, nor any person acting on its behalf, has offered or sold (nor will offer or sell prior to the delivery of the Bonds to the Agent) the Bonds by means of any general solicitation or general advertising within the meaning of Rule 502(c) under the Act.

(d) Within the preceding six months, neither the Borrower nor any other person acting on behalf of the Borrower has offered or sold to any person any Bonds, or any securities of the same or a similar class as the Bonds, other than Bonds delivered to the Agent hereunder. The Borrower will take reasonable precautions designed to insure that any offer or sale, direct or indirect, in the United States or to any U.S. person (as defined in Rule 902 under the Act) of any Bonds or any substantially similar security issued by the Borrower, within six months subsequent to the delivery of the Bonds to the Agent, is made under restrictions and other circumstances reasonably designed not to affect the status of the offer and sale of the Bonds contemplated by this Agreement as a transaction exempt from the registration provisions of the Act.

(e) No registration of the Bonds under the Act is required for the offer and sale of the Bonds to the Agent in the manner contemplated by this Agreement.

SECTION 4.16 INDENTURE.

(a) The aggregate principal amount of bonds outstanding under the Indenture (excluding the Bonds but including the Refinanced Bonds) is $576,000,000.

(b) There has been no discharge of the Indenture with respect to the Borrower.

(c) Substantially all of the electric utility assets, whether real, personal or mixed, of the Borrower is subject to the Lien of the Indenture.

(d) True and complete copies of the Indenture and all amendments and supplements to and restatements of the Indenture have been delivered to counsel for the Agent.

(e) It is not necessary in connection with the offer, sale, and delivery of the Bonds to the Agent on behalf of the Lenders to qualify the Indenture under the Trust Indenture Act.

SECTION 4.17 AUTHENTICATION OF BONDS.

All covenants and conditions precedent to the authentication and delivery of the Bonds will be complied with upon payment in full of the Refinanced Bonds with the proceeds of the Advances.

SECTION 4.18 INSURANCE.

The properties of the Borrower and its Material Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Borrower, to the extent and in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower and such Material Subsidiaries operate.

SECTION 4.19 COMPLIANCE WITH LAWS.

The Borrower and its Material Subsidiaries have complied in all material respects with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof having jurisdiction over the conduct of their respective businesses or the ownership of their respective properties, assets and rights.

## ARTICLE V
## AFFIRMATIVE COVENANTS

So long as any Note shall remain unpaid or the Facility shall be outstanding, the Borrower will comply with the following requirements, unless the Required Lenders shall otherwise consent in writing:

SECTION 5.1 REPORTING.

The Borrower will deliver to each Lender:

(a) As soon as available, and in any event within 120 days after the end of each fiscal year of the Borrower, a copy of the annual audit report of the Borrower prepared on a consolidated basis with the unqualified opinion of independent certified public accountants reasonably selected by the Borrower, which annual report shall include the consolidated and consolidating balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of income, shareholders' equity and cash flows of the Borrower and its Subsidiaries for the fiscal year then ended, all in reasonable detail and all prepared in accordance with GAAP, together with, if requested by any Lender, a copy of such accountants' management letter issued to the Borrower for such year.

(b) As soon as available and in any event within 60 days after the end of each of the first three fiscal quarters of each fiscal year, consolidated and consolidating balance sheets of the Borrower and its Subsidiaries as at the end of such quarter and related consolidated and consolidating statements of earnings and cash flows of the Borrower and its Subsidiaries for such quarter and for the year to date, in reasonable detail and stating in comparative form the figures for the corresponding date and period in the previous year to the extent required in Form 10-Q, all prepared in accordance with GAAP, subject to year-end audit adjustments.

(c) Concurrent with the delivery of any financial statements under subsection (a) or (b), a Compliance Certificate, duly executed by the chief financial officer of the Borrower.

(d) Promptly upon their distribution, copies of all financial statements, reports and proxy statements which the Borrower shall have sent to its shareholders.

(e) Promptly after the sending or filing thereof, copies of all regular and periodic financial reports which the Borrower shall file with the SEC or any national securities exchange.

(f) Immediately after the commencement thereof, notice in writing of all litigation and of all proceedings before any governmental or regulatory agency affecting the Borrower of the type described in Section 4.7 or which seek a monetary recovery against the Borrower in excess of $5,000,000.

(g) As promptly as practicable (but in any event not later than five business days) after an officer of the Borrower obtains knowledge of the occurrence of any Default or Event of Default, notice of such occurrence, together with a detailed statement by a responsible officer of the Borrower or the appropriate Subsidiary of the steps being taken by the Borrower or the appropriate Subsidiary to cure the effect of such event.

(h) Promptly upon becoming aware of any ERISA Event or any prohibited transaction (as defined in Section 4975 of the Internal Revenue Code or Section 406 of ERISA) in connection with any Plan or any trust created thereunder, a written notice specifying the nature thereof, what action the Borrower has taken, is taking or proposes to take with respect thereto, and, when known, any action taken or threatened by the Internal Revenue Service, the PBGC or the Department of Labor with respect thereto.

(i) Promptly upon their receipt or filing, copies of (i) all notices received by the Borrower, any Subsidiary or any ERISA Affiliate of the PBGC's intent to terminate any Plan or to have a trustee appointed to administer any Plan, and (ii) all notices received by the Borrower, any Subsidiary or any ERISA Affiliate from a Multiemployer Plan concerning the imposition of withdrawal liability on Borrower, any Subsidiary or an ERISA Affiliate pursuant to Section 4202 of ERISA or the amount of any such withdrawal liability.

(j) Upon request of any Lender, copies of the most recent annual report (Form 5500 Series), including any supporting schedules, filed by the Borrower, any Material Subsidiary or any ERISA Affiliate with the Employee Benefit Security Administration with respect to any Plan.

(k) Such information (in addition to that specified elsewhere in this Section) respecting the financial condition and results of operations of the Borrower as any Lender may from time to time reasonably request.

SECTION 5.2 BOOKS AND RECORDS; INSPECTION AND EXAMINATION.

The Borrower will keep, and will cause each Material Subsidiary to keep, accurate books of record and account for itself in which true and complete entries will be made in accordance with GAAP and, upon request of any Lender, will give any representative of any Lender access to, and permit such representative to examine, copy or make extracts from, any and all books, records and documents in its possession, to inspect any of its properties and to discuss its affairs, finances and accounts with any of its principal officers, all at such times during normal business hours and as often as any Lender may reasonably request.

SECTION 5.3 COMPLIANCE WITH LAWS.

The Borrower will, and will cause each Subsidiary to, comply with the requirements of applicable laws and regulations, the noncompliance with which would have a Material Adverse Effect.

SECTION 5.4 PAYMENT OF TAXES AND OTHER CLAIMS.

The Borrower will pay or discharge, and will cause each Subsidiary to pay or discharge, when due, (a) all material taxes, assessments and governmental charges levied or imposed upon it or upon its income or profits, or upon any properties belonging to it, prior to the date on which penalties attach thereto, (b) all material federal, state and local taxes required to be withheld by it, and (c) all material lawful claims for labor, materials and supplies which, if unpaid, might by law become a Lien or charge upon any properties of the Borrower; provided, that neither the Borrower nor any Subsidiary shall be required to pay any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary has provided adequate reserves in accordance with GAAP.

SECTION 5.5 MAINTENANCE OF PROPERTIES.

The Borrower will keep and maintain, and will cause each Material Subsidiary to keep and maintain, all of its properties necessary or useful in its business in good condition, repair and working order; provided, however, that nothing in this Section shall prevent the Borrower from discontinuing the operation and maintenance of any of its properties if such discontinuance is, in the judgment of the Borrower or the appropriate Subsidiary, desirable in the conduct of its business and not disadvantageous in any material respect to any Lender as holder of the Notes.

SECTION 5.6 INSURANCE.

The Borrower will, and will cause each Material Subsidiary to, obtain and maintain insurance with insurers believed by the Borrower to be responsible and reputable, to the extent and in such amounts and against such risks as is usually carried by companies engaged in similar business and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates.

SECTION 5.7 PRESERVATION OF EXISTENCE.

The Borrower will, and will cause each Material Subsidiary to, preserve and maintain its existence as a separate legal entity and all of its rights, privileges and franchises; provided, however, that nothing in this Section 5.7 shall prohibit any transaction expressly permitted under Section 6.4.

SECTION 5.8 LEVERAGE RATIO.

The Borrower will at all times maintain its Leverage Ratio, determined as of each Covenant Compliance Date, at not more than sixty percent (60%).

SECTION 5.9 INTEREST COVERAGE RATIO.

The Borrower will at all times maintain its Interest Coverage Ratio, determined as of the end of each fiscal quarter of the Borrower, at not less than 3.0 to 1.

SECTION 5.10 DELIVERY OF INFORMATION.

At any time when the Borrower is not subject to Section 13 or 15(d) of the Exchange Act, for the benefit of holders from time to time of Bonds, the Borrower agrees to furnish at its expense, upon request, to holders of Bonds and prospective purchasers of securities information satisfying the requirements of subsection (d)(4)(i) of Rule 144A under the Act.

## ARTICLE VI

## NEGATIVE COVENANTS

So long as any Note shall remain unpaid, the Borrower agrees that, without the prior written consent of the Required Lenders:

SECTION 6.1 DIVIDENDS.

The Borrower will not declare or pay any dividend (other than dividends payable solely in stock of the Borrower) on any class of its stock or make any payment on account of the purchase, redemption or other retirement of any shares of such stock or make any distribution in respect thereof, either directly or indirectly, at any time following and during the continuance of any Event of Default arising under Section 7.1(a) or (b).

SECTION 6.2 SALE OF ASSETS.

The Borrower will not, and will not permit any Material Subsidiary to, sell, lease, assign, transfer or otherwise dispose of its assets (whether in one transaction or in a series of transactions) to any other Person other than (i) in the ordinary course of business, (ii) dispositions of property no longer used or useful in the business of the Borrower or any Subsidiary, (iii) dispositions of assets the net proceeds of which are invested or re-invested, or held in cash or cash-equivalents for reinvestment, in the Borrower's or its Material Subsidiaries' existing businesses, (iv) the sale of the Water Assets or the assets of any other Subsidiary of the Borrower as to which the Borrower has announced on or prior to June 30, 2003, that it will discontinue the operations of such Subsidiary, (v) assets sold under the AFC Program, (vi) the offering of shares of any Subsidiary, (vii) the disposition of all or part of the Borrower's Taconite Harbor Energy Center, or (viii) the disposition of unimproved real property not necessary for the operation of the Borrower's or its Subsidiaries' business, as determined by the Borrower in its reasonable discretion; provided, however, that a wholly-owned Subsidiary of the Borrower may sell, lease, or transfer all or a substantial part of its assets to the Borrower or another wholly-owned Subsidiary of the Borrower, and the Borrower or such other wholly-owned Subsidiary, as the case may be, may acquire all or substantially all of the assets of the Subsidiary so to be sold, leased or transferred to it, and any such sale, lease or transfer shall not be included in determining if the Borrower and/or its Subsidiaries disposed of its Assets.

SECTION 6.3 TRANSACTIONS WITH AFFILIATES.

The Borrower will not make any loan or capital contribution to, or any other investment in, any Affiliate, or pay any dividend to any Affiliate of the Borrower, or make any other cash transfer to any Affiliate of the Borrower; provided, however, that the foregoing shall not prohibit any of the following:

(a) Transactions made upon fair and reasonable terms no less favorable to the Borrower than would obtain, taking into account all facts and circumstances, in a comparable arm's-length transaction with a Person not an Affiliate of the Borrower.

(b) Distributions to the extent not prohibited by Section 6.1.

(c) Transactions with Affiliates which are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"), the SEC or the MPUC.

(d) Contributions of capital to Subsidiaries.

(e) Assumption of any debt of ADESA by the Borrower in connection with an initial public offering of ADESA.

SECTION 6.4 CONSOLIDATION AND MERGER.

The Borrower will not consolidate with or merge into any Person, or permit any other Person to merge into it, or acquire (in a transaction analogous in purpose or effect to a consolidation or merger) all or substantially all of the assets of any other Person; provided, however, that the restrictions contained in this Section shall not apply to or prevent the consolidation or merger of any Person with, or a conveyance or transfer of its assets to, the Borrower so long as (i) no Default or Event of Default exists at the time of, or will be caused by, such consolidation, merger, conveyance or transfer, and (ii) the Borrower shall be the continuing or surviving corporation.

SECTION 6.5 HAZARDOUS SUBSTANCES.

The Borrower will not, and will not permit any Material Subsidiary to, cause or permit any Hazardous Substance to be disposed of on, under or at any real property which is operated by the Borrower or in which the Borrower has any interest, in any manner which might result in a Material Adverse Effect.

SECTION 6.6 RESTRICTIONS ON NATURE OF BUSINESS.

The Borrower will not, and will not permit any Subsidiary to, engage in any line of business materially different from that presently engaged in by the Borrower or such Subsidiary.

SECTION 6.7 SECURITIES LAWS.

The Borrower agrees with the Agent:

(a) Not to be or become, at any time prior to the expiration of three years after the delivery of the Bonds, an open-end investment company, unit investment trust, closed-end investment company or face-amount certificate company that is or is required to be registered under Section 8 of the Investment Company Act;

(b) During the period of two years after the delivery of the Bonds, the Borrower will not, and will not permit any of its "affiliates" (as defined in Rule 144 under the Act) to, resell any of the Bonds which constitute "restricted securities" under Rule 144 that have been reacquired by any of them; and

(c) Until at least six months after the offer of the Bonds hereunder has been terminated, neither the Borrower nor any person will on the Borrower's behalf offer the Bonds, or any substantially similar security of the Borrower for sale to, or solicit offers to buy any such security from, any person, it being understood that such agreement is made with a view to bringing the offer and sale of the Bonds hereunder within the exception provided by Section 4(2) of the Act and Rule 506 thereunder.

ARTICLE VII

EVENTS OF DEFAULT, RIGHTS AND REMEDIES

SECTION 7.1 EVENTS OF DEFAULT.

"Event of Default", wherever used herein, means any one of the following events:

(a) Default in the payment of any principal of or interest on any Note when it becomes due and payable.

(b) The Borrower or any Affiliate of the Borrower shall assert that the Pledge Agreement or the Bonds are unenforceable in accordance with their terms; or the principal amount outstanding under the Bonds shall at any time be less than the aggregate Obligations.

(c) Default in the performance, or breach, of any covenant or agreement on the part of the Borrower contained in any Financial Covenant.

(d) Default in any material respect in the performance, or breach, of any covenant or agreement of the Borrower in this Agreement (other than a covenant or agreement a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and the continuance of such default or breach for a period of 30 days after the Lenders have given notice to the Borrower specifying such default or breach and requiring it to be remedied.

(e) Any representation or warranty made by the Borrower in this Agreement or by the Borrower (or any of its officers) in any certificate, instrument, or statement contemplated by or made or delivered pursuant to or in connection with this Agreement, shall prove to have been incorrect or misleading in any material respect when made.

(f) A default under any bond, debenture, note or other evidence of indebtedness of the Borrower (other than to the Lenders) or under any indenture or other instrument under which any such evidence of indebtedness has been issued or by which it is governed and the expiration of the applicable period of grace, if any, specified in such evidence of indebtedness, indenture or other instrument; provided, however, that no Event of Default shall be deemed to have occurred under this subsection if the aggregate amount owing as to all such indebtedness as to which such defaults have occurred and are continuing is less than $10,000,000; provided, however, that if such default shall be cured by the Borrower, or waived by the holders of such indebtedness, in each case prior to the commencement of any action under Section 7.2 and as may be permitted by such evidence of indebtedness, indenture or other instrument, then the Event of Default hereunder by reason of such default shall be deemed likewise to have been thereupon cured or waived.

(g) An event of default shall occur under the Pledge Agreement or any other security agreement, mortgage, deed of trust, assignment or other instrument or agreement directly or indirectly securing the Obligations.

(h) The Borrower or any Material Subsidiary shall be adjudicated a bankrupt or insolvent, or admit in writing its inability to pay its debts as they mature, or make an assignment for the benefit of creditors; or the Borrower or any Material Subsidiary shall apply for or consent to the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property; or such receiver, trustee or similar officer shall be appointed without the application or consent of the Borrower or such Material Subsidiary, and such appointment shall continue undischarged for a period of 60 days; or the Borrower or any Material Subsidiary shall institute (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application or otherwise) against the Borrower or any Material Subsidiary and shall continue undischarged for 60 days; or any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against a substantial part of the property of the Borrower or any Material Subsidiary and such judgment, writ, or similar process shall not be released, vacated, stayed or fully bonded within 60 days after its issue or levy.

(i) A petition shall be filed by the Borrower or any Material Subsidiary under the United States Bankruptcy Code naming the Borrower or that Material Subsidiary as debtor; or an involuntary petition shall be filed against the Borrower or any Material Subsidiary under the United States Bankruptcy Code, and such petition shall not have been dismissed within 30 days after such filing; or an order for relief shall be entered in any case under the United States Bankruptcy Code naming the Borrower or any Material Subsidiary as debtor.

(j) A Change of Control shall occur without the prior written consent of the Required Lenders.

(k) The rendering against the Borrower of a final judgment, decree or order for the payment of money in excess of $5,000,000 and the continuance of such judgment, decree or order unsatisfied and in effect for any period of 30 consecutive days without a stay of execution.

(l) A writ of attachment, garnishment, levy or similar process shall be issued against or served upon the Agent with respect to (i) any property of the Borrower in the possession of the Agent, or (ii) any indebtedness of any Lender to the Borrower.

(m) Any Plan shall have been terminated, or a trustee shall have been appointed by an appropriate United States District Court to administer any Plan, or the PBGC shall have instituted proceedings to terminate any Plan or to appoint a

trustee to administer any Plan, or withdrawal liability shall have been asserted against the Borrower, any Material Subsidiary or any ERISA Affiliate by a Multiemployer Plan; or the Borrower, any Material Subsidiary or any ERISA Affiliate shall have incurred liability to PBGC (other than for premiums due for the current premium period under Section 4007 of ERISA), the Internal Revenue Service, the Department of Labor or Plan participants (other than for benefit claims in the normal course) with respect to any Plan; or any ERISA Event that the Required Lenders may determine in good faith could reasonably be expected to constitute grounds for the termination of any Plan, for the appointment by the appropriate United States District Court of a trustee to administer any Plan or for the imposition of withdrawal liability with respect to a Multiemployer Plan, shall have occurred and be continuing 30 days after written notice to such effect shall have been given to the Borrower by the Lenders, but only if in each case, the event could reasonably be expected to result in a Material Adverse Effect on the Borrower, any Material Subsidiary or an ERISA Affiliate.

SECTION 7.2 RIGHTS AND REMEDIES.

Upon the occurrence of an Event of Default or at any time thereafter until such Event of Default is cured to the written satisfaction of the Required Lenders, the Agent may, with the consent of the Required Lenders, and shall, at the request of the Required Lenders, exercise any or all of the following rights and remedies:

(a) The Agent may, by notice to the Borrower, declare the Obligations to be forthwith due and payable, whereupon the Obligations shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower.

(b) The Lenders may, without notice to the Borrower and without further action, apply any and all money owing by any Lender to the Borrower to the payment of the Obligations. For purposes of this subsection (b), "Lender" means the Lenders, as defined elsewhere in this Agreement, and any participant in the Advances; provided, however, that each such participant, by exercising its rights under this subsection (b), agrees that it shall be obligated under Section 8.4 with respect to such payment as if it were a Lender for purposes of that Section.

(c) The Agent may exercise and enforce its rights and remedies under the Pledge Agreement.

(d) The Lenders may exercise any other rights and remedies available to them by law or agreement.

Notwithstanding the foregoing, upon the occurrence of an Event of Default described in Section 7.1(h) or (i) hereof, the Obligations shall be immediately due and payable without presentment, demand, protest or notice of any kind.

ARTICLE VIII
THE AGENT

SECTION 8.1 AUTHORIZATION.

Each Lender and the holder of each Note irrevocably appoints and authorizes the Agent to act on behalf of such Lender or holder to the extent provided herein or in any document or instrument delivered hereunder or in connection herewith, and to take such other action as may be reasonably incidental thereto.

SECTION 8.2 DISTRIBUTION OF PAYMENTS AND PROCEEDS.

(a) After deduction of any costs of collection as hereinafter provided, the Agent shall remit to each Lender that Lender's Percentage of all payments of principal, interest and fees that are received by the Agent under the Loan Documents. Each Lender's interest in the Loan Documents shall be payable solely from payments, collections and proceeds actually received by the Agent under the Loan Documents; and the Agent's only liability to the Lenders hereunder shall be to account for each Lender's Percentage of such payments, collections and proceeds in accordance with this Agreement. If the Agent is ever required for any reason to refund any such payments, collections or proceeds, each Lender will refund to the Agent, upon demand, its Percentage of such payments, collections or proceeds, together with its Percentage of interest or penalties, if any, payable by the Agent in connection with such refund. The Agent may, in its sole discretion, make payment to the Lenders in anticipation of receipt of payment from the Borrower. If the Agent fails to receive any such anticipated payment from the Borrower, each Lender shall promptly refund to the Agent, upon demand, any such payment made to it in anticipation of payment from the Borrower, together with interest for each day on such amount until so refunded at a rate equal to the Federal Funds Rate for each such date.

(b) Notwithstanding the foregoing, if any Lender has wrongfully refused to fund its Percentage of any Advance as required hereunder, or if the principal balance of any Lender's Note is for any other reason less than its Percentage of the aggregate principal balances of the Notes then outstanding, the Agent may remit all payments received by it to the other Lenders until such payments have reduced the aggregate amounts owed by the Borrower to the extent that the aggregate amount owing to such Lender hereunder is equal to its Percentage of the aggregate amount owing to all of the Lenders hereunder. The provisions of this subsection are intended only to set forth certain rules for the application of payments, proceeds and collections in the event that a Lender has breached its obligations hereunder and shall not be deemed to excuse any Lender from such obligations.

SECTION 8.3 EXPENSES.

All payments, collections and proceeds received or effected by the Agent may be applied, first, to pay or reimburse the Agent for all costs, expenses, damages and liabilities at any

time incurred by or imposed upon the Agent in connection with this Agreement or any other Loan Document (including but not limited to all reasonable attorney's fees, foreclosure expenses and advances made to protect the security of collateral, if any, but excluding any costs, expenses, damages or liabilities arising from the gross negligence or willful misconduct of the Agent). If the Agent does not receive payments, collections or proceeds from the Borrower or its properties sufficient to cover any such costs, expenses, damages or liabilities within 30 days after their incurrence or imposition, each Lender shall, upon demand, remit to the Agent its Percentage of the difference between (i) such costs, expenses, damages and liabilities, and (ii) such payments, collections and proceeds.

SECTION 8.4 PAYMENTS RECEIVED DIRECTLY BY LENDERS.

If any Lender or other holder of a Note shall obtain any payment or other recovery (whether voluntary, involuntary, by application of offset or otherwise) on account of principal of or interest on any Note other than through distributions made in accordance with Section 8.2, such Lender or holder shall promptly give notice of such fact to the Agent and shall purchase from the other Lenders or holders such participations in the Notes held by them as shall be necessary to cause the purchasing Lender or holder to share the excess payment or other recovery ratably with each of them; provided, however, that if all or any portion of the excess payment or other recovery is thereafter recovered from such purchasing Lender or holder, the purchase shall be rescinded and the purchasing Lender restored to the extent of such recovery (but without interest thereon).

SECTION 8.5 INDEMNIFICATION.

The Agent shall not be required to do any act hereunder or under any other document or instrument delivered hereunder or in connection herewith, or to prosecute or defend any suit in respect of this Agreement or the Notes or any documents or instrument delivered hereunder or in connection herewith unless indemnified to its satisfaction by the holders of the Notes against loss, cost, liability and expense (other than any such loss, cost, liability or expense attributable to the Agent's own gross negligence or willful misconduct). If any indemnity furnished to the Agent for any purpose shall, in the opinion of the Agent, be insufficient or become impaired, the Agent may call for additional indemnity and not commence or cease to do the acts indemnified against until such additional indemnity is furnished.

SECTION 8.6 EXCULPATION.

(a) The Agent shall be entitled to rely upon advice of counsel concerning legal matters, and upon this Agreement, any Loan Document and any schedule, certificate, statement, report, notice or other writing which it in good faith believes to be genuine or to have been presented by a proper person. Neither the Agent nor any of its directors, officers, employees or agents shall (i) be responsible for any recitals, representations or warranties contained in, or for the execution, validity, genuineness, effectiveness or enforceability of this Agreement, any Loan Document, or any other instrument or document delivered hereunder or in connection herewith, (ii) be

responsible for the validity, genuineness, perfection, effectiveness, enforceability, existence, value or enforcement of any collateral security, (iii) be under any duty to inquire into or pass upon any of the foregoing matters, or to make any inquiry concerning the performance by the Borrower or any other obligor of its obligations, or (iv) in any event, be liable as such for any action taken or omitted by it or them, except for its or their own gross negligence or willful misconduct. The appointment of Wells Fargo as Agent hereunder shall in no way impair or affect any of the rights and powers of, or impose any duties or obligations upon, Wells Fargo in its individual capacity.

(b) The term, "agent", is used herein in reference to the Agent merely as a matter of custom. It is intended to reflect only an administrative relationship between the Agent and the Lenders, in each case as independent contracting parties. However, the obligations of the Agent shall be limited to those expressly set forth herein. In no event shall the use of such term create or imply any fiduciary relationship or any other obligation arising under the general law of agency, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Agent.

SECTION 8.7 AGENT AND AFFILIATES.

The Agent shall have the same rights and powers hereunder in its individual capacity as any other Lender, and may exercise or refrain from exercising the same as though it were not the Agent, and the Agent and its Affiliates may accept deposits from and generally engage in any kind of business with the Borrower as fully as if the Agent were not the Agent hereunder.

SECTION 8.8 CREDIT INVESTIGATION.

Each Lender acknowledges that it has made its own independent credit decision and investigation and taken such care on its own behalf as would have been the case had the Advances been made directly by such Lender to the Borrower without the intervention of the Agent or any other Lender. Each Lender agrees and acknowledges that the Agent makes no representations or warranties about the creditworthiness of the Borrower or any other party to this Agreement or with respect to the legality, validity, sufficiency or enforceability of this Agreement, any Loan Document, or any other instrument or document delivered hereunder or in connection herewith.

SECTION 8.9 RESIGNATION.

The Agent may resign as such at any time upon at least 30 days' prior notice to the Borrower and the Lenders. In the event of any resignation of the Agent, the Required Lenders shall as promptly as practicable appoint a Lender as a successor Agent; provided, however, that so long as no Default or Event of Default has occurred and is continuing at such time, no such successor Agent may be appointed without the prior written consent of the Borrower. If no such successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the resigning Agent's giving of notice of

resignation, then the resigning Agent may, on behalf of the Lenders, appoint a Lender as a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon be entitled to receive from the prior Agent such documents of transfer and assignment as such successor Agent may reasonably request and the resigning Agent shall be discharged from its duties and obligations under this Agreement. After any resignation pursuant to this Section, the provisions of this Section shall inure to the benefit of the retiring Agent as to any actions taken or omitted to be taken by it while it was an Agent hereunder.

SECTION 8.10 ASSIGNMENTS.

(a) Any Lender may, at any time, assign a portion of its Notes to an Eligible Lender (an "Applicant") on any date (the "Adjustment Date") selected by such Lender, subject to the terms and provisions of this Section 8.10. The aggregate principal amount of the Note so assigned in any assignment shall be not less than $5,000,000, and the assigning Lender shall retain at least $5,000,000 of such Note for its own account; provided, however, that the foregoing restriction shall not apply to a Lender assigning its entire Note to the Applicant. Any Lender proposing an assignment hereunder shall give notice of such assignment to the Agent and the Borrower at least ten Business Days prior to such assignment (unless the Agent consents to a shorter period of time). Such notice shall specify the identity of such Applicant and the Percentage which it proposes that such Applicant acquire. Any assignment hereunder may be made only with the prior written consent of the Agent and the Borrower; provided, however, that (i) in no event shall such consent be unreasonably withheld, and (ii) the consent of the Borrower shall not be required if a Default or Event of Default has occurred and is continuing at the time of such assignment.

(b) Subject to the prior written consent of the Agent and the Borrower (if applicable), to confirm the status of an Applicant as a party to this Agreement and to evidence the assignment of the applicable portion of the assigning Lender's Note in accordance herewith:

(i) the Borrower, such Lender, such Applicant, and the Agent shall, on or before the Adjustment Date, execute and deliver to the Agent an Assignment Certificate (provided that, if a Default or Event of Default has occurred and is continuing on the applicable Adjustment Date, the assignment will be effective whether the Borrower signs it or not), in substantially the form of Exhibit D (an "Assignment Certificate"); and

(ii) the Borrower will, at its own expense and in exchange for the assigning Lender's Note, execute and deliver to the assigning Lender a new Note, payable to the order of the Applicant in an amount corresponding to the applicable interest in the assigning Lender's rights and obligations acquired by such Applicant pursuant to such assignment, and, if the assigning Lender has

retained interests in such rights and obligations, a new Note, payable to the order of that Lender in an amount corresponding to such retained interests. Such new Notes shall be in an aggregate principal amount equal to the principal amount of the Note to be replaced by such new Notes, shall be dated the effective date of such assignment and shall otherwise be in the form of the Note to be replaced thereby. Such new Notes shall be issued in substitution for, but not in satisfaction or payment of, the Note being replaced thereby.

Upon the execution and delivery of such Assignment Certificate and such Notes, (A) this Agreement shall deemed to be amended to the extent, and only to the extent, necessary to reflect the addition of such Additional Lender and the resulting adjustment of Percentages arising therefrom, (B) the assigning Lender shall be relieved of all obligations hereunder to the extent of the reduction of all obligations hereunder and to the extent of the reduction of such Lender's Percentage, and (C) the Additional Lender shall become a party hereto and shall be entitled to all rights, benefits and privileges accorded to a Lender herein and in each other document or instrument executed pursuant hereto and subject to all obligations of a Lender hereunder, including the right to approve or disapprove actions which, in accordance with the terms hereof, require the approval of the Required Lenders or all Lenders, and the obligations to make Advances hereunder.

(c) In order to facilitate the addition of Additional Lenders hereto, the Borrower shall (subject to the written agreement of any prospective Additional Lender to be subject to the confidentiality provisions of Section 8.13) provide all reasonable assistance requested by each Lender and the Agent relating thereto, which shall not require undue effort or expense on the part of the Borrower, including, without limitation, the furnishing of such written materials and financial information regarding the Borrower as any Lender or the Agent may reasonably request, and the participation by officers of the Borrower in a meeting or teleconference call with any Applicant upon the reasonable request upon reasonable notice of any Lender or the Agent.

(d) Without limiting any other provision hereof:

(i) each Lender shall have the right at any time upon written notice to the Borrower and the Agent (but without requiring the consent of the Borrower or the Agent) to sell, assign, transfer, or negotiate all or any part of its Notes, and other rights and obligations under this Agreement and the Loan Documents to one or more Affiliates of such Lender, provided that, unless consented to by the Borrower and the Agent (which consent shall not be unreasonably withheld), no such sale, assignment, transfer or negotiation shall relieve the transferring Lender from its obligations (to the extent such Affiliate does not fulfill its obligations) hereunder; and

(ii) each Lender shall have the right at any time upon written notice to the Borrower and the Agent (but without requiring the consent of the

Borrower or the Agent) to sell, assign, transfer, or negotiate all or any part of its Notes, and other rights and obligations under this Agreement and the Loan Documents to one or more Lenders, and any such sale, assignment, transfer or negotiation shall relieve the transferring Lender from its obligations hereunder to the extent of the obligations so transferred (except, in any event, to the extent that the Borrower, any other Lender or the Agent has rights against such transferring Lender as a result of any default by such transferring Lender under this Agreement).

(e) Simultaneous with any assignment under this Section, the Lender making such assignment shall pay the Agent a transfer fee in the amount of $3,500.

(f) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPC") of such Granting Lender, identified as such in writing from time to time by the Granting Lender to the Agent and the Borrower, the option to provide to the Borrower all or any part of any Advance that such Granting Lender would otherwise be obligated to make to the Borrower pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to make any Advance, (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Advance, the Granting Lender shall be obligated to make such Advance pursuant to the terms hereof, (iii) such Granting Lender's other obligations under this Agreement shall remain unchanged, (iv) such Granting Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, and (v) the Borrower, the Agent and the other Lenders shall continue to deal solely and directly with such Granting Lender in connection with such Granting Lender's rights and obligations under this Agreement (including any rights and obligations assigned to such SPC). Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the applicable Granting Lender). All notices hereunder to any Granting Lender or the related SPC, and all payments in respect of the Obligations due to such Granting Lender or the related SPC, shall be made to such Granting Lender. In addition, each Granting Lender shall vote as a Lender hereunder without giving effect to any assignment under this subsection (f), and no SPC shall have any vote as a Lender under this Agreement for any purpose. In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section 8.10, any SPC may (i) with notice to, but without the prior written consent of, the Borrower or the Agent and without paying any transfer fee therefor, assign all or a portion of its interests in its right to repayment of any Advances to its Granting Lender or to any financial institutions providing liquidity

and/or credit support to or for the account of such SPC to fund the Advances made by such SPC or to support the securities (if any) issued by such SPC to fund such Advances and (ii) disclose on a confidential basis, to the extent such disclosure would be permitted under Section 8.13 as if such SPC were a Lender, any non-public information relating to its Advances to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC. No amendment to this subsection (f) that affects the rights of an SPC that has made an advance hereunder shall be effective without the consent of such SPC.

(g) Notwithstanding any other provision of this Agreement, any Lender may at any time create a security interest in all or any portion of its rights under this Agreement and that Lender's Note in favor of any Federal Reserve Lender in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 8.11 PARTICIPATIONS

Each Lender may grant participations in a portion of its Notes to any Eligible Lender, upon prior written notice to the Agent but without the consent of the Agent or the Borrower, but only so long as the principal amount of the participation so granted is no less than $5,000,000 (or, if the participant is a Participating Affiliate, no less than $1,000,000). No holder of any such participation, other than an Affiliate of such Lender, shall be entitled to require such Lender to take or omit to take any action hereunder, except that such Lender may agree with such participant that such Lender will not, without such participant's consent, agree to any action described in Section 9.2(a). No Lender shall, as between the Borrower and such Lender, be relieved of any of its obligations hereunder as a result of any such granting of a participation. The Borrower hereby acknowledges and agrees that any participant described in this Section will, for purposes of Sections 2.8 and 2.9 only, be considered to be a Lender hereunder (provided that such participant shall not be entitled to receive any more than the Lender selling such participation would have received had such sale not taken place).

SECTION 8.12 LIMITATION ON ASSIGNMENTS AND PARTICIPATIONS.

Except as set forth in Sections 8.10 and 8.11, no Lender may assign any of its rights or obligations under, or grant any participation in, any Loan Document.

SECTION 8.13 DISCLOSURE OF INFORMATION.

(a) The Agent and the Lenders shall keep confidential (and cause their respective officers, directors, employees, agents and representatives to keep confidential) all information, materials and documents furnished by the Borrower and its Subsidiaries to the Agent or the Lenders (the "Disclosed Information"). Notwithstanding the foregoing, the Agent and each Lender may disclose Disclosed Information (i) to the Agent or any other Lender; (ii) to any Affiliate of any Lender in connection with the transactions contemplated hereby, provided that such Affiliate has been informed of the confidential nature of such information; (iii) to legal

counsel, accountants and other professional advisors to the Agent or such Lender; (iv) to any regulatory body having jurisdiction over any Lender or the Agent; (v) to the extent required by applicable laws and regulations or by any subpoena or similar legal process, or requested by any governmental agency or authority, provided that Agent or Lender provides Borrower with prompt written notice of such proceeding so that Borrower may seek a protective order or other appropriate remedy; (vi) to the extent such Disclosed Information (A) becomes publicly available other than as a result of a breach of this Agreement, (B) becomes available to the Agent or such Lender on a non-confidential basis from a source other than the Borrower or a Subsidiary, or (C) can be shown by Agent or Lender to have been available to the Agent or such Lender on a non-confidential basis prior to its disclosure to the Agent or such Lender by the Borrower or a Subsidiary; (vii) to the extent the Borrower or such Subsidiary shall have consented to such disclosure in writing; (viii) to the extent reasonably deemed necessary by the Agent or any Lender in the enforcement of the remedies of the Agent and the Lenders provided under the Loan Documents; or (ix) in connection with any potential assignment or participation in the interest granted hereunder, provided that any such potential assignee or participant shall have executed a confidentiality agreement imposing on such potential assignee or participant substantially the same obligations as are imposed on the Agent and the Lenders under this Section 8.13.

(b) Notwithstanding anything herein to the contrary, information subject to this Section 8.13 shall not include, and the Agent and each Lender may disclose without limitation of any kind, any information with respect to the "tax treatment" and "tax structure" (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Agent or such Lender relating to such tax treatment and tax structure; provided that with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the tax treatment or tax structure of the Notes and transactions contemplated hereby. The Borrower and its Subsidiaries may also disclose without limitation the "tax treatment" and "tax structure" of the transactions contemplated hereby.

SECTION 8.14 AGENT NOT OFFERING BONDS.

Each Lender acknowledges that neither the Agent's taking possession of the Bonds, nor its exercise of remedies with respect to the Bonds and subsequent distribution of proceeds thereunder, constitutes or will constitute an offer of any security, a solicitation of an offer to buy any security, or a placement of any security.

ARTICLE IX
MISCELLANEOUS

SECTION 9.1 NO WAIVER; CUMULATIVE REMEDIES.

No failure or delay on the part of the Lenders in exercising any right, power or remedy under the Loan Documents shall operate as a waiver thereof; nor shall any Lender's acceptance of payments while any Default or Event of Default is outstanding operate as a waiver of such Default or Event of Default, or any right, power or remedy under the Loan Documents; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy under the Loan Documents. The remedies provided in the Loan Documents are cumulative and not exclusive of any remedies provided by law.

SECTION 9.2 AMENDMENTS, ETC.

No amendment or waiver of any provision of any Loan Document or consent to any departure by the Borrower therefrom shall be effective unless the same shall be in writing and signed by the Required Lenders (or by the Agent with the consent or at the request of the Required Lenders), and any such waiver shall be effective only in the specific instance and for the specific purpose for which given. Notwithstanding the foregoing:

(a) No such amendment or waiver shall be effective to do any of the following unless signed by each of the Lenders (or by the Agent with the consent or at the request of each of the Lenders):

(i) Increase the Commitment Amount of any Lender or extend the Maturity Date.

(ii) Permit the Borrower to assign its rights under this Agreement.

(iii) Amend this Section, the definition of "Required Lenders" in Section 1.1, or any provision herein providing for consent or other action by all Lenders.

(iv) Forgive any indebtedness of the Borrower arising under this Agreement or the Notes, or reduce the rate of interest or any fees charged under this Agreement or the Notes.

(v) Postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, facility fees or other material amounts due to the Lenders (or any of them) hereunder or under any other Loan Document.

(vi) Release the Agent's security interest in any Bonds or other collateral granted under the Pledge Agreement (other than in accordance with the Pledge Agreement) or amend any terms of any Bonds.

(b) No amendment, waiver or consent shall affect the rights or duties of the Agent under this Agreement or any other Loan Document unless in writing and signed by the Agent.

(c) No amendment, modification or (except as provided elsewhere herein) termination of this Agreement or waiver of any rights of the Borrower or obligations of any Lender or the Agent hereunder shall be effective unless the Borrower shall have consented thereto in writing.

No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

SECTION 9.3 NOTICE.

Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing and shall be (i) personally delivered, (ii) transmitted by registered mail, postage prepaid, (iii) sent by reputable overnight courier service, or (iv) transmitted by telecopy, in each case addressed or transmitted by telecopy to the party to whom notice is being given at its address or telecopier number (as the case may be) as set forth in Exhibit A or in any applicable Assignment Certificate; or, as to each party, at such other address or telecopier number as may hereafter be designated in a notice by that party to the other party complying with the terms of this Section. All such notices or other communications shall be deemed to have been given on (i) the date received if delivered personally, (ii) five business days after the date of posting, if delivered by mail, (iii) the date of receipt, if delivered by overnight courier, or (iv) the date of transmission if delivered by telecopy.

SECTION 9.4 COSTS AND EXPENSES.

The Borrower agrees to pay on demand (i) all costs and expenses incurred by the Agent in connection with the negotiation, preparation, execution, administration or amendment of the Loan Documents and the other instruments and documents to be delivered hereunder and thereunder, and (ii) all costs and expenses incurred by the Agent or any Lender in connection with the workout or enforcement of the Loan Documents and the other instruments and documents to be delivered hereunder and thereunder; including, in each case, reasonable fees and out-of-pocket expenses of outside counsel with respect thereto.

SECTION 9.5 INDEMNIFICATION BY BORROWER.

The Borrower hereby agrees to indemnify the Agent and the Lenders and each officer, director, employee and agent thereof (herein individually each called an "Indemnitee" and collectively called the "Indemnitees") from and against any and all losses, claims, damages, reasonable expenses (including, without limitation, reasonable attorneys' fees) and liabilities (all of the foregoing being herein called the "Indemnified Liabilities") incurred by an Indemnitee in connection with or arising out of the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto

of their respective obligations hereunder or the use of the proceeds of any Advance hereunder (including but not limited to any such loss, claim, damage, expense or liability arising out of any claim that any Environmental Law has been breached with respect to any activity or property of the Borrower), except for any portion of such losses, claims, damages, expenses or liabilities incurred solely as a result of the gross negligence or willful misconduct of the applicable Indemnitee. If and to the extent that the foregoing indemnity may be unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. All obligations provided for in this Section shall survive any termination of this Agreement.

SECTION 9.6 EXECUTION IN COUNTERPARTS.

This Agreement and the other Loan Documents may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts of this Agreement or such other Loan Document, as the case may be, taken together, shall constitute but one and the same instrument.

SECTION 9.7 BINDING EFFECT, ASSIGNMENT.

The Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights thereunder or any interest therein without the prior written consent of each of the Lenders.

SECTION 9.8 GOVERNING LAW.

The Loan Documents shall be governed by, and construed in accordance with, the laws of the State of Minnesota.

SECTION 9.9 SEVERABILITY OF PROVISIONS.

Any provision of this Agreement which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

SECTION 9.10 CONSENT TO JURISDICTION.

Each party irrevocably (i) agrees that any suit, action or other legal proceeding arising out of or relating to this Agreement or any other Loan Document may be brought in a court of record in Hennepin County in the State of Minnesota or in the courts of the United States located in such State, (ii) consents to the jurisdiction of each such court in any suit, action or proceeding, (iii) waives any objection which it may have to the laying of venue of any such suit, action or proceeding in any such courts and any claim that any such suit, action or proceeding has been brought in an inconvenient forum, and (iv) agrees that a final judgment

in any such suit, action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

SECTION 9.11 RECALCULATION OF COVENANTS FOLLOWING ACCOUNTING PRACTICES CHANGE.

The Borrower shall notify the Agent of any Accounting Practices Change promptly upon becoming aware of the same. Promptly following such notice, the Borrower and the Lenders shall negotiate in good faith in order to effect any adjustments to the Financial Covenants necessary to reflect the effects of such Accounting Practices Change.

SECTION 9.12 HEADINGS.

Article and Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

SECTION 9.13 TITLES.

The Person identified on the title page as "Syndication Agent" shall have no right, power, obligation or liability under this Agreement or any other Loan Document on account of such identification other than those applicable to such Person in its capacity (if any) as a Lender. Each Lender acknowledges that it has not relied, and will not rely, on any Person so identified in deciding to enter into this Agreement or in taking or omitting any action hereunder.

SECTION 9.14 NONLIABILITY OF LENDERS.

The relationship between the Borrower on the one hand and the Lenders and the Agent on the other hand shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations. The Borrower agrees that neither the Agent nor any Lender shall have liability to the Borrower (whether sounding in tort, contract or otherwise) for losses suffered by the Borrower in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent jurisdiction that such losses resulted from the gross negligence or willful misconduct of the party from which recovery is sought. Neither the Agent nor any Lender shall have any liability with respect to, and the Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

SECTION 9.15 WAIVER OF JURY TRIAL.

THE BORROWER, THE AGENT AND THE BANKS HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT AND THE NOTES OR THE RELATIONSHIPS ESTABLISHED HEREUNDER.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first written above.

ALLETE, INC.

By /s/ James Vizanko
---

Its Vice President, Chief Financial Officer & Treasurer
---

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Agent and Lender

By /s/ Mark H. Halldorson
---
Mark H. Halldorson
Its Vice President
---

By /s/ Douglas A. Lindstrom
---

Its
---
Douglas A. Lindstrom
Vice President
Wells Fargo Bank, National
Association

BANK ONE, N.A.
(Main Branch, Chicago)

By /s/ Sharon K. Webb
---

Its Sharon K. Webb
---
Associate Director

LASALLE BANK NATIONAL
ASSOCIATION

By /s/ Meghan C. Payne
---

Its First Vice President
---

SUNTRUST BANK

By /s/ Karen Copeland
---

Its Vice President
---

U.S. BANK NATIONAL ASSOCIATION

By /s/ Andrew Gaspard
---

Its Assistant V.P.
---

EXHIBITS AND SCHEDULES

| | |
|---|---|
| Exhibit A | Commitment Amounts and Addresses |
| Exhibit B | Form of Note |
| Exhibit C | Form of Compliance Certificate |
| Exhibit D | Assignment Certificate |
| Exhibit E | Opinion of Borrower's Counsel |

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|---|---|
| Schedule 4.4 | Material Subsidiaries |

Exhibit A

COMMITMENT AMOUNTS AND ADDRESSES

| NAME | COMMITMENT AMOUNT | NOTICE ADDRESS |
|---|---|---|
| ALLETE, Inc. | N/A | 30 West Superior Street<br>Duluth, MN 55802<br>Attention: James K. Vizanko<br>Telecopier: (218) 723-3912 |
| Wells Fargo Bank, National Association, as Agent and Lender | $90,000,000 | Address:<br>MAC: N9305-031<br>Sixth and Marquette<br>Minneapolis, MN 55479<br>Attention: Mark Halldorson<br>Telecopier: (612) 667-2276 |
| Bank One, N.A. (Main Branch, Chicago) | $60,000,000 | 21 South Clark, STE IL1-0363<br>Chicago, IL 60670<br>Attention: Sharon K. Webb<br>Telecopier: (312) 732-5435 |
| LaSalle Bank National Association | $37,500,000 | 135 South LaSalle Street, Suite 241<br>Chicago, IL 60603<br>Attention: Dennis Campbell<br>Telecopier: (312) 904-0409 |
| SunTrust Bank | $37,500,000 | 200 South Orange Avenue<br>Orlando, FL 32801<br>Attention: Caleb Keenan<br>Telecopier: (407) 237-4076 |
| U.S. Bank National Association | $25,000,000 | BC-MN-H03P<br>800 Nicollet Mall<br>Minneapolis, MN 55402-7020<br>Attention: Andrew Gaspard<br>Telecopier: 612-303-2264 |

Exhibit B

PROMISSORY NOTE

$ _____ Minneapolis, Minnesota
July 18, 2003

For value received, ALLETE, Inc., a Minnesota corporation (the "Borrower"), promises to pay to the order of _____ (the "Lender"), at the main office of Wells Fargo Bank, National Association in Minneapolis, Minnesota, or at such other place as the holder hereof may hereafter from time to time designate in writing, in lawful money of the United States of America and in immediately available funds, the principal sum of ($ _____), or so much thereof as is advanced by the Lender to the Borrower pursuant to the Credit Agreement dated as of July ___, 2003 among the Borrower, Wells Fargo Bank, National Association, as Agent, and the other financial institutions party thereto, including the Lender (together with all amendments, modifications and restatements thereof, the "Credit Agreement"), and to pay interest on the principal balance of this Note outstanding from time to time at the rate or rates determined pursuant to the Credit Agreement.

This Note is issued pursuant to, and is subject to, the Credit Agreement, which provides (among other things) for the amount and date of payments of principal and interest required hereunder, for the acceleration of the maturity hereof upon the occurrence of an Event of Default (as defined therein) and for the voluntary and mandatory prepayment hereof. This Note is the Facility A Note, as defined in the Credit Agreement.

The Borrower shall pay all costs of collection, including reasonable attorneys' fees and legal expenses, if this Note is not paid when due, whether or not legal proceedings are commenced.

Presentment or other demand for payment, notice of dishonor and protest are expressly waived.

ALLETE, INC.

By _____

Its _____

Exhibit C

COMPLIANCE CERTIFICATE

----------, ------

Wells Fargo Bank, National Association
MAC: N9305-031
Sixth and Marquette
Minneapolis, MN 55479
Attention: Mark Halldorson
Telecopier: (612) 667-2276

Ladies and Gentlemen:

Reference is made to the Credit Agreement (the "Credit Agreement") dated as of July 18, 2003 entered into between ALLETE, Inc. (the "Borrower"), Wells Fargo Bank, National Association, and the other financial institutions party thereto.

All terms defined in the Credit Agreement and not otherwise defined herein shall have the meanings given them in the Credit Agreement.

This is a Compliance Certificate submitted in connection with the Borrower's financial statements (the "Statements") as of (the "Effective Date").
- ----------, -------

I hereby certify to you as follows:

1. I am the ---------- of the Borrower, and I am familiar with the financial statements and financial affairs of the Borrower.

2. The Statements, and the computations attached hereto, have been prepared in accordance with GAAP.

3. If the Effective Date is a Covenant Compliance Date, the computations attached hereto set forth the Borrower's compliance or non-compliance with the requirements set forth in the Financial Covenants as of the Effective Date. Such computations have been prepared from, and on a basis consistent with, the Statements.

4. I have no knowledge of the occurrence of any Default or Event of Default under the Credit Agreement, except as set forth in the attachments, if any, hereto.

Very truly yours,

ANNEX 1 TO COMPLIANCE CERTIFICATE

($000s)

| | Consolidated as of |
|---|---|
| FUNDED DEBT TO TOTAL CAPITAL | |
| FUNDED DEBT | |
| Long-Term Debt | $ |
| Long-Term Debt payable within one year | |
| Notes Payable | |
| Letters of Credit | |
| Guaranty Obligations | |
| TOTAL FUNDED DEBT | $ |
| CAPITAL | |
| Retained Earnings | $ |
| Stockholder's Equity | |
| Common Stock | |
| Preferred Stock | |
| QUIPS | |
| Funded Debt | |
| TOTAL CAPITAL | $ |
| EBITDA EXCLUDING DISCONTINUED OPERATIONS | |
| Net Income | $ |
| Income Taxes | |
| Interest Expense | |
| Depreciation and Amortization | |
| EBITDA | $ |
| INTEREST EXPENSE EXCLUDING DISCONTINUED OPERATIONS | $ |

EXHIBIT D

ASSIGNMENT CERTIFICATE

Assigning Lender:
---

Applicant:
---

This Certificate (the "Certificate") is delivered pursuant to Section 8.10 of the Credit Agreement dated as of July 18, 2003 (together with all amendments, supplements, restatements and other modifications, if any, from time to time made thereto, the "Credit Agreement"), among ALLETE, Inc., a Minnesota corporation (the "Borrower"), Wells Fargo Bank, National Association, as administrative agent (the "Agent"), and the various lenders now or hereafter parties thereto.

The Assigning Lender named above wishes to assign a portion of its interest arising under the Credit Agreement to the Applicant named above pursuant to Section 8.10 of the Credit Agreement, and the Applicant wishes to become an Additional Lender pursuant thereto. This Certificate is an Assignment Certificate, as defined in the Credit Agreement, and is executed for purposes of informing the Agent and the Borrower of the transactions contemplated hereby and obtaining the consent of the Agent and the Borrower to the extent required under the Credit Agreement.

Accordingly, the undersigned hereby agree as follows:

1. DEFINITIONS. Unless otherwise defined herein, terms used herein have the meanings provided in the Credit Agreement.

2. ALLOCATION OF PAYMENTS. Any interest, fees and other payments accrued to the Effective Date with respect to the Assigning Lender's interest under the Loan Documents shall be for the account of the Assigning Lender. Any interest, fees and other payments accruing on and after the Effective Date with respect to the interests assigned hereunder shall be for the account of the Applicant. Each of the Assigning Lender and the Applicant agrees that it will hold in trust for the other party any interest, fees and other amounts which it may receive to which the other party is entitled pursuant to the preceding sentence and pay to the other party any such amounts which it may receive promptly upon receipt.

3. EFFECTIVE DATE; CONDITIONS. The date on which the Applicant shall become an Additional Lender (the "Effective Date") is , 200 ; provided, however, that the assignment and
- ----------- --
assumption described in this Certificate shall not be effective unless, on or before the Effective Date, (i) the Agent has received counterparts of this Certificate duly executed and delivered by the Borrower (unless the Borrower's consent to the assignment hereunder is not required under Section 8.10 of the Credit Agreement), the Assigning Lender, the Agent and the Applicant, (ii) the Agent has received

the transfer fee for the account of the Agent in the amount of $3,500 (or, if the Applicant is an Affiliate of the Assigning Lender, $1,250), and (iii) all other terms and conditions of this Certificate and the Credit Agreement relating to the assignment hereunder have been satisfied.

4. APPLICANT'S INTEREST. Effective as of the Effective Date, (i) the principal amount of Advances owing to the Applicant shall be the amount designated as the "Assigned Advances" opposite the Applicant's signature below, and (ii) the Applicant's Percentage shall be the percentage designated as the "Assigned Percentage" opposite the Applicant's signature below.

5. RETAINED INTEREST. Effective as of the Effective Date, (i) the principal amount of Advances owing to the Assigning Lender shall be the amount designated as the "Retained Advances" opposite the Assigning Lender's signature below, and (ii) the Assigning Lender's Percentage shall be the percentage designated as the "Retained Percentage" opposite the Assigning Lender's signature below.

6. NEW NOTES. On the Effective Date, the Borrower shall issue and deliver to the Agent in exchange for the Assigning Lender's Note (i) a Note payable to the order of the Applicant in a face principal amount equal to the Applicant's "Assigned Advances", in substantially the form of Exhibit B to the Credit Agreement, and (ii) a Note payable to the order of the Assigning Lender in the amount of the Assigning Lender's "Retained Advances", in substantially the form of Exhibit B to the Credit Agreement. The Agent shall deliver the foregoing Notes to the Applicant and the Assigning Lender promptly after the Effective Date, or (if later) the receipt by the Agent thereof.

7. NOTICE ADDRESS. The address shown below the Applicant's signature hereto shall be its notice address for purposes of Section 9.3 of the Credit Agreement, unless and until it shall designate, in accordance with such Section 9.3, another address for such purposes.

8. ASSUMPTION. Upon the Effective Date, the Applicant shall become a party to the Credit Agreement and a Lender thereunder and (i) shall be entitled to all rights, benefits and privileges accorded to a Lender in the Credit Agreement, (ii) shall be subject to all obligations of a Lender thereunder, and (iii) shall be deemed to have specifically ratified and confirmed (and by executing this Certificate the Applicant hereby specifically ratifies and confirms) all of the provisions of the Credit Agreement and the Loan Documents.

9. INDEPENDENT CREDIT DECISION. The Applicant (a) acknowledges that it has received a copy of the Credit Agreement and the Schedules and Exhibits thereto, together with copies of the most recent financial statements referred to in Section 4.5 or 5.1 of the Credit Agreement, and such other documents and information as it has deemed appropriate to make its own credit and legal analysis and decision to enter into this Assignment Certificate; (b) acknowledges and agrees that in becoming an Additional Lender and in making any Advance under the Credit Agreement, such actions have been and will be made without recourse to, or representation or warranty by, the Assigning Lender or the Agent; and (c)

agrees that it will, independently and without reliance upon the Assigning Lender, the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit and legal decisions in taking or not taking action under the Credit Agreement.

10. WITHHOLDING TAX. The Applicant (a) represents and warrants to the Agent and the Borrower that under applicable law and treaties no tax will be required to be withheld by the Agent or the Borrower with respect to any payments to be made to the Applicant hereunder, (b) agrees to furnish (if it is organized under the laws of any jurisdiction other than the United States or any State thereof) to the Agent and the Borrower prior to the time that the Agent or Borrower is required to make any payment of principal, interest or fees hereunder, duplicate executed originals of U.S. Internal Revenue Service Form W-8ECI or W-8BEN (or appropriate replacement forms) and agrees to provide new Forms W-8ECI or W-8BEN (or appropriate replacement forms) upon the expiration of any previously delivered form or comparable statements in accordance with applicable U.S. law and regulations and amendments thereto, duly executed and completed by the Applicant, and (c) agrees to comply with all applicable U.S. laws and regulations with regard to such withholding tax exemption.

11. FURTHER ASSURANCES. The Borrower, the Assigning Lender and the Applicant shall, at any time and from time to time upon the written request of the Agent, execute and deliver such further documents and do such further acts and things as the Agent may reasonably request in order to effect the purpose of this Certificate.

12. MISCELLANEOUS. This Certificate may be executed in any number of counterparts by the parties hereto, each of which counterparts shall be deemed to be an original and all of which shall together constitute one and the same certificate. Matters relating to this Certificate shall be governed by, and construed in accordance with, the internal laws of the State of Minnesota.

IN WITNESS WHEREOF, the undersigned have executed this Certificate as of the Effective Date set forth above.

Retained Advances:
$ _____

Retained Percentage: _____%

_____
[Assigning Lender]

By _____
Its _____

Assigned Advances:
$ _____

Assigned Percentage: _____%

_____
[Applicant]

By _____
Its _____

Notice Address:

_____
_____
_____
Telecopier: _____

CONSENT OF AGENT

The Agent hereby consents to the foregoing Assignment.

WELLS FARGO BANK, NATIONAL ASSOCIATION

By _____
Its _____

CONSENT OF BORROWER

The Borrower hereby consents to the foregoing Assignment.

ALLETE, INC.

By _____
Its _____

EXHIBIT E

OPINION LETTER

SCHEDULE 4.4

MATERIAL SUBSIDIARIES

FLORIDA WATER SERVICES CORPORATION

ALLETE Water Services, Inc.

ALLETE Automotive Services, Inc.

ADESA Corporation

Exhibit 10(b)

# TERM LOAN AGREEMENT

dated as of June 30, 2003

among

ADESA CALIFORNIA, INC.
as Borrower

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

SUNTRUST BANK
as Administrative Agent

TABLE OF CONTENTS

Exhibits
- --------

| | | |
|---|---|---|
| Exhibit A | - | Term Note |
| Exhibit B | - | Form of Assignment and Acceptance |
| Exhibit C | - | Form of Deed of Trust and Security Agreement, Fixture Filing and Assignment of Leases and Rents |
| Exhibit D | - | Form of Guaranty Agreement |
| Exhibit E | - | Form of Indemnity, Subrogation and Contribution Agreement |
| Exhibit 2.4 | - | Form of Continuation/Conversion |
| Exhibit 3.1(b)(viii) | - | Form of Secretary's Certificate |
| Exhibit 3.1(b)(xi) | - | Form of Officer's Certificate |

# TERM LOAN AGREEMENT

THIS TERM LOAN AGREEMENT (this "AGREEMENT") is made and entered into as of June 30, 2003, by and among ADESA CALIFORNIA, INC., a California corporation (the "BORROWER"), the several banks and other financial institutions from time to time party hereto (the "LENDERS"), and SUNTRUST BANK, in its capacity as Administrative Agent for the Lenders (the "ADMINISTRATIVE AGENT").

## W I T N E S S E T H:

WHEREAS, the Borrower has requested that the Lenders make term loans in an aggregate principal amount equal to $45,000,000 to the Borrower for the purpose of refinancing certain existing liabilities and obligations of the Borrower;

WHEREAS, subject to the terms and conditions of this Agreement, the Lenders severally, to the extent of their respective Commitments, are willing severally to make the term loans to the Borrower.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Borrower, the Lenders and the Administrative Agent agree as follows:

## ARTICLE I

## DEFINITIONS; CONSTRUCTION

SECTION 1.1. DEFINITIONS. In addition to the other terms defined herein, the following terms used herein shall have the meanings herein specified (to be equally applicable to both the singular and plural forms of the terms defined):

"ADESA" shall mean ADESA Corporation, an Indiana corporation, its legal representatives and permitted successors and assigns.

"ADJUSTED LIBO RATE" shall mean, with respect to each Interest Period for a LIBOR Loan, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined pursuant to the following formula:

$$\text{Adjusted LIBO Rate} = \frac{\text{LIBOR (for such Interest Period)}}{1.00 - \text{LIBOR Reserve Percentage}}$$

As used herein, LIBOR Reserve Percentage shall mean the aggregate of the maximum reserve percentages (including, without limitation, any emergency, supplemental, special or other marginal reserves) expressed as a decimal (rounded upwards to the next 1/100th of 1%) in effect on any day to which the Administrative Agent is subject with respect to the Adjusted LIBO Rate pursuant to regulations issued by the Board of Governors of the Federal Reserve System (or any Governmental Authority succeeding to any of its principal functions) with respect to eurocurrency funding (currently referred to as "eurocurrency liabilities" under Regulation D). The LIBOR Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"ADMINISTRATIVE AGENT" shall have the meaning assigned to such term in the opening paragraph hereof, and shall include its legal representatives, successors and assigns.

"ADMINISTRATIVE QUESTIONNAIRE" shall mean, with respect to each Lender, an administrative questionnaire in the form prepared by the Administrative Agent and submitted to the Administrative Agent duly completed by such Lender.

"AFFILIATE" shall mean, as to any Person, any other Person that directly, or indirectly through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such Person.

"AFTER-TAX BASIS" shall mean (a) with respect to any payment to be received by an Indemnitee, the amount of such payment supplemented by a further payment or payments so that, after deducting from such payments the amount of all Taxes (net of any current credits, deductions or other Tax benefits arising from the payment by the Indemnitee of any amount, including Taxes, for which the payment to be received is made) imposed currently on the Indemnitee by any Governmental Authority or taxing authority with respect to such payments, the balance of such payments shall be equal to the original payment to be received and (b) with respect to any payment to be made by any Indemnitee, the amount of such payment supplemented by a further payment or payments so that, after increasing such payment by the amount of any current credits or other Tax benefits realized by the Indemnitee under the laws of any Governmental Authority or taxing authority resulting from the making of such payments, the sum of such payments (net of such credits or benefits) shall be equal to the original payment to be made; provided, however, for the purposes of this definition, and for purposes of any payment to be made to an Indemnitee or by an Indemnitee on an after-tax basis, it shall be assumed that (i) federal, state and local taxes are payable at the highest combined marginal federal and state statutory income tax rate (taking into account the deductibility of state income taxes for federal income tax purposes) applicable to corporations from time to time and (ii) such Indemnitee or the recipient of such payment from an Indemnitee has sufficient income to utilize any deductions, credits (other than foreign tax credits, the use of which shall be determined on an actual basis) and other Tax benefits arising from any payments described in clause (b) of this definition.

"ALLETE" shall mean ALLETE, Inc., a Minnesota corporation, its legal representatives and permitted successors and assigns.

"ALTERATIONS" shall mean fixtures, alterations, improvements, modifications and additions to the Real Property.

"APPLICABLE LAW" means, each as and to the extent applicable: all laws (including Environmental Laws), rules, regulations (including proposed, temporary and final income tax regulations), statutes, treaties, codes, ordinances, permits, certificates, orders and licenses of any Governmental Authority, judgments, decrees, injunctions, writs, and orders or like action of any court, arbitrator or other administrative, judicial or quasi-judicial tribunal or agency of competent jurisdiction (including those pertaining to health, safety or the environment (including wetlands) and those pertaining to the construction, use or occupancy of any Mortgaged Property).

"APPLICABLE LENDING OFFICE" shall mean, for each Lender and for each Type of Loan, the "LENDING OFFICE" of such Lender (or an Affiliate of such Lender) designated for such Type of Loan in the Administrative Questionnaire submitted by such Lender or such other office of such Lender (or an Affiliate of such Lender) as such Lender may from time to time specify to the Administrative Agent and the Borrower as the office by which its Loans of such Type are to be made and maintained.

"APPLICABLE MARGIN" shall mean, for any day, (a) with respect to Base Rate Loans, the applicable rate per annum set forth below under the heading "Base Rate Loans," and (b) with respect to LIBOR Loans, the applicable rate per annum set forth below under the heading "LIBOR Loans," as the case may be, based upon the ratings by Moody's and S&P, respectively, applicable on such date to the Index Debt:

| INDEX DEBT | BASE RATE LOANS (PER ANNUM) | LIBOR LOANS (PER ANNUM) |
|---|---|---|
| Category 1 | 0.00% | 0.875% |
| Category 2 | 0.00% | 1.00% |
| Category 3 | 0.25% | 1.375% |
| Category 4 | 0.75% | 1.875% |
| Category 5 | 1.25% | 2.25% |

For purposes of the foregoing, (a) if either Moody's or S&P shall not have in effect a rating for the Index Debt (other than by reason of the circumstances referred to in the last sentence of this definition), then such rating agency shall be deemed to have established a rating in Category 5; (b) if the ratings established or deemed to have been established by Moody's and S&P for the Index Debt shall fall within different Categories, the Applicable Margin shall be based on the higher of the two ratings; PROVIDED, that if the difference in such ratings is more than two Categories, then the Category that is one Category below the highest rating shall apply; and (c) if the ratings established or deemed to have been established by Moody's and S&P for the Index Debt shall be changed (other than as a result of a change in the rating system of Moody's or S&P), such change shall be effective as of the earlier of (i) the date on which it is first announced by the applicable rating agency and (ii) the date on which ADESA gives notice of such change to the Administrative Agent. For the purposes hereof, ADESA and ALLETE shall be required to notify the Administrative Agent of such change immediately upon gaining knowledge of such change. Each change in the Applicable Margin shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, ADESA, ALLETE, the Lenders and the Administrative Agent shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such rating agency and, pending the effectiveness of any such amendment, the Applicable Margin shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"ASSIGNMENT AND ACCEPTANCE" shall mean an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by SECTION 10.4(b)) and accepted by the Administrative Agent, in the form of EXHIBIT B attached hereto or any other form approved by the Administrative Agent.

"BASE RATE" shall mean (with any change in the Base Rate to be effective as of the date of change of either of the following rates) the higher of (a) the per annum rate which the Administrative Agent publicly announces from time to time as its prime lending rate, as in effect from time to time, and (b) the Federal Funds Rate, as in effect from time to time, plus one-half of one percent (0.50%) per annum. The Administrative Agent's prime lending rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to customers. The Administrative Agent may make commercial loans or other loans at rates of interest at, above or below the Administrative Agent's prime lending rate. Each change in the Administrative Agent's prime lending rate shall be effective from and including the date such change is publicly announced as being effective.

"BASE RATE LOAN" shall mean the Term Loan of a Lender bearing interest at the Base Rate.

"BORROWER" shall have the meaning in the introductory paragraph hereof, and shall include its legal representatives and permitted successors and assigns.

"BUSINESS DAY" shall mean (a) any day other than a Saturday, Sunday or other day on which commercial banks in Atlanta, Georgia are authorized or required by law to close and (b) if such day relates to a payment or prepayment of principal or interest on, a conversion of or into, or an Interest Period for, a LIBOR Loan or a notice with respect to any of the foregoing, any day on which dealings in Dollars are carried on in the London interbank market.

"CAPITAL LEASE OBLIGATIONS" of any Person shall mean all obligations of such Person to pay rent or other amounts under any lease (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"CATEGORY 1" means A- or higher by S&P or A3 or higher by Moody's.

"CATEGORY 2" means BBB+ or higher by S&P or Baa1 or higher by Moody's (but not Category 1).

"CATEGORY 3" means BBB or higher by S&P or Baa2 or higher by Moody's (but not Category 1 or Category 2).

"CATEGORY 4" means BBB- or higher by S&P or Baa3 or higher by Moody's (but not Category 1, Category 2 or Category 3).

"CATEGORY 5" means lower than BBB- by S&P and lower than Baa3 by Moody's.

"CHANGE IN LAW" shall mean (a) the adoption of any applicable law, rule or regulation after the date of this Agreement, (b) any change in any applicable law, rule or regulation, or any change in the interpretation or application thereof, by any Governmental Authority after the date of this Agreement, or (c) compliance by any Lender (or its Applicable Lending Office) (or for purposes of Section 2.19(b), by such Lender's holding company, if applicable) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"CHANGE IN CONTROL" shall mean the occurrence of one or more of the following events: (a)any sale, lease, exchange or other transfer (in a single transaction or a series of related transactions) of all or substantially all of the assets of any Loan Party to any Person or "group" (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder in effect on the date hereof), (b)the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or "group" (within the meaning of the Securities Exchange Act and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof) of 20% or more of the outstanding shares of the voting stock of any Loan Party; or (c)occupation of a majority of the seats (other than vacant seats) on the board of directors of any Loan Party who were neither (i)nominated by the current board of directors or (ii)appointed by directors so nominated.

"CLAIM" shall mean (a) an assertion by a Governmental Authority or any other Person as to which, in each case, the Administrative Agent has made a good faith determination that the assertion may properly be made by the party asserting the same, that the assertion, on its face, is not without foundation and that the interests of the Administrative Agent or any Lender require that the assertion be treated as presenting a bona fide risk of a Material Adverse Event, and (b) all other liabilities, obligations, damages, losses, demands, penalties, fines, claims, actions, suits, judgments, proceedings, settlements, utility charges, costs, expenses and disbursements (including, without limitation, reasonable legal fees and expenses) of any kind and nature whatsoever.

"CLOSING DATE" shall mean the date on which the conditions precedent set forth in SECTION 3.1 have been satisfied or waived in accordance with SECTION 10.2.

"CODE" shall mean the Internal Revenue Code of 1986, as amended and in effect from time to time, and any successor statute.

"COMMITMENT" shall mean, with respect to each Lender, the obligation of such Lender to make a Term Loan hereunder on the Closing Date, in a principal amount not exceeding the amount set forth with respect to such Lender on the signature pages to this Agreement. The aggregate principal amount of all Lenders' Commitments is $45,000,000.

"CONDEMNATION" shall mean any condemnation, requisition, confiscation, seizure, permanent use or other taking or sale of the use, occupancy or title to the Real Property or any part thereof in, by or on account of any actual eminent domain proceeding or other action by any Governmental Authority or other Person under the power of eminent domain or any transfer in lieu of or in anticipation thereof, which in any case does not constitute an Event of Taking. A Condemnation shall be deemed to have "occurred" on the earliest of the dates that use is prevented or occupancy or title is taken.

"CONSOLIDATED AMORTIZATION" shall mean, for any period, amortization expense of the Consolidated Companies determined on a consolidated basis in accordance with GAAP.

"CONSOLIDATED COMPANIES" shall mean, collectively, ADESA and all of its Subsidiaries, if any, and "CONSOLIDATED COMPANY" shall mean, individually, ADESA or any of its Subsidiaries, if any.

"CONSOLIDATED DEPRECIATION" shall mean, for the Consolidated Companies for any period, depreciation expense of the Consolidated Companies determined on a consolidated basis in accordance with GAAP.

"CONSOLIDATED EBITDA" shall mean, for the Consolidated Companies for any period, an amount equal to the sum of (a) Consolidated Net Income for such period plus (b) to the extent deducted in determining Consolidated Net Income for such period, (i) Consolidated Interest Expense, (ii) Consolidated Income Taxes, (iii) Consolidated Depreciation, (iv) Consolidated Amortization and (v) all other non-cash charges, determined on a consolidated basis in accordance with GAAP in each case for such period; PROVIDED, HOWEVER, that with respect to any Person, or substantially all of the assets of a Person, that becomes a Subsidiary of, or was merged with or consolidated into, or acquired by, a Consolidated Company in accordance with the terms of this Agreement during such period, "EBITDA" shall also include the EBITDA of such Person or the EBITDA attributable to such assets during such period as if such Person or assets were acquired as of the first day of such period.

"CONSOLIDATED FIXED CHARGES" shall mean, for the Consolidated Companies for any period, the sum (without duplication) of (a) the current maturities of all Consolidated Long Term Indebtedness scheduled during the four consecutive Fiscal Quarters immediately following the Fiscal Quarter in which such date occurs, PLUS (b) Consolidated Lease Expense, PLUS (c) Interest Expense measured for the four consecutive Fiscal Quarters ending on such date, or if such date of determination is not the last day of any Fiscal Quarter, then ending immediately prior to such date of determination, determined on a consolidated basis in accordance with GAAP for such period.

"CONSOLIDATED INCOME TAXES" shall mean, for the Consolidated Companies for any period, any provision made by any of the Consolidated Companies in respect of such period for income taxes or other taxes payable by any Consolidated Company in respect of its income or profits.

"CONSOLIDATED INTEREST EXPENSE" shall mean, for the Consolidated Companies for any period, the sum of (a) total cash interest expense, including without limitation the interest component of any payments in respect of Capital Lease Obligations capitalized or expensed during such period (whether or not actually paid during such period) PLUS (b) the net amount payable (or minus the net amount receivable) under Hedging Agreements during such period (whether or not actually paid or received during such period), determined on a consolidated basis in accordance with GAAP for such period.

"CONSOLIDATED LEASE EXPENSE" shall mean, for the Consolidated Companies for any period, the aggregate amount of fixed and contingent rentals payable by the Consolidated Companies with respect to leases of real and personal property (excluding Capital Lease Obligations) determined on a consolidated basis in accordance with GAAP for such period.

"CONSOLIDATED LONG TERM INDEBTEDNESS" shall mean, for the Consolidated Companies for any period, (a) all Indebtedness which at the time of incurrence or issuance, has a final maturity or term greater than one year or which is renewable at the option of the obligor thereof for a term of greater than one year from the date of original incurrence or issuance or (b) Indebtedness which at the time of incurrence or issuance has a final maturity or term of less than one year and which is intended to be repaid out of proceeds of other Consolidated Long Term Indebtedness.

"CONSOLIDATED NET INCOME (LOSS)" shall mean, for any period, the net income (or loss), after deducting all operating expenses, provisions for taxes and reserves (including reserves for deferred income tax) and all other proper deductions, of the Consolidated Companies for such period (taken as a single accounting period) determined on a consolidated basis in accordance with GAAP, including any income or loss of any Person accrued prior to the date such Person becomes a Subsidiary of any Consolidated Company or is merged into or consolidated with any Consolidated Company or all or substantially all of such Person's assets are acquired by any Consolidated Company, but excluding therefrom (to the extent otherwise included therein) (a) any extraordinary items, (b) any gains attributable to write-ups of assets and (c) any equity interest of the Consolidated Companies in the unremitted earnings of any Person that is not a Subsidiary.

"CONSOLIDATED NET WORTH" shall mean, as of any date, the total stockholders' equity of the Consolidated Companies determined on a consolidated basis in accordance with GAAP.

"CONSOLIDATED TOTAL FUNDED DEBT" shall mean, as of any date of determination, all outstanding Indebtedness of the Consolidated Companies measured on a consolidated basis in accordance with GAAP as of such date.

"CONTRACTUAL OBLIGATION," as applied to any Person, means any provision of any Securities issued by that Person or any indenture, mortgage, deed of trust, contract, undertaking, agreement, instrument or other document to which that Person is a party or by which it or any of its properties is bound or to which it or any of its properties is subject (including, without limitation, any restrictive covenant affecting any of the properties of such Person).

"CONTROL" shall mean the power, directly or indirectly, either to (i) vote 5% or more of securities having ordinary voting power for the election of directors (or persons performing similar functions) of a Person or (ii) direct or cause the direction of the management and policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. The terms "CONTROLLING", "CONTROLLED BY", and "UNDER COMMON CONTROL WITH" have meanings correlative thereto.

"DEED OF TRUST" shall mean the Deed of Trust and Security Agreement, Fixture Filing and Assignment of Leases and Rents substantially in the form of EXHIBIT C, made by the Borrower in favor of Chicago Title Insurance Company, as Trustee, for the benefit of the Administrative Agent on behalf of the Lenders, and any modifications, amendments, supplements or restatements thereof.

"DEFAULT" shall mean any condition or event that, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"DEFAULT INTEREST" shall have the meaning set forth in SECTION 2.8(b).

"DEFAULT RATE" means the LESSER of (a) the highest interest rate permitted by Applicable Law and (b) an interest rate per annum (calculated on the basis of a 365-day (or 366-day, if appropriate) year equal to [2.0]% above the Base Rate in effect from time to time.

"DOLLAR(S)" and the sign "$" shall mean lawful money of the United States of America.

"ENVIRONMENTAL LAWS" shall mean all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by or with any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, Release or threatened Release of any Hazardous Material or to health and safety matters.

"ENVIRONMENTAL LIABILITY" shall mean any liability, contingent or otherwise (including any liability for damages, costs of environmental investigation and remediation, costs of administrative oversight, fines, natural resource damages, penalties or indemnities), of ADESA or any Subsidiary directly or indirectly resulting from or based upon (a) any actual or alleged violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) any actual or alleged exposure to any Hazardous Materials, (d) the Release or threatened Release of any Hazardous Materials or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statute.

"ERISA AFFILIATE" shall mean any trade or business (whether or not incorporated), which, together with ADESA, is treated as a single employer under SECTION 414(b) or (c) of the Code or, solely for the purposes of SECTION 302 of ERISA and SECTION 412 of the Code, is treated as a single employer under SECTION 414 of the Code.

"ERISA EVENT" shall mean (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in

Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by ADESA or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by ADESA or any ERISA Affiliate from the PBGC or a plan administrator appointed by the PBGC of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by ADESA or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by ADESA or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from ADESA or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"EVENT OF DEFAULT" shall have the meaning provided in Article VIII.

"EVENT OF LOSS" shall have the meaning provided in Section 2.13 of the Deed of Trust.

"EVENT OF TAKING" shall have the meaning provided in Section 2.14 of the Deed of Trust.

"EXCLUDED TAXES" shall mean with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with SECTION 2.15(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to SECTION 2.15(a).

"FEDERAL FUNDS RATE" shall mean, for any day, the rate per annum (rounded upwards, if necessary, to the next 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with member banks of the Federal Reserve System arranged by Federal funds brokers, as published by the Federal Reserve Bank of New York on the next succeeding Business Day or if such rate is not so published for any Business Day, the Federal Funds Rate for such day shall be the average rounded upwards, if necessary, to the next 1/100th of 1% of the quotations for such day on such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by the Administrative Agent.

"FINANCIAL OFFICER" shall mean the chief financial officer, principal accounting officer, treasurer or controller of ADESA whose signature and incumbency shall have been certified to the Administrative Agent and the Lenders from time to time. Unless otherwise specified, all references to a Financial Officer herein shall mean a Financial Officer of ADESA.

"FISCAL QUARTER" shall mean a fiscal quarter of ADESA.

"FISCAL YEAR" shall mean the fiscal year of ADESA.

"FIXED CHARGE COVERAGE RATIO" shall mean, as of any date of determination, the ratio of (a) the sum of (i) Consolidated EBITDA measured for the four consecutive Fiscal Quarters ending on such date, or if such date of determination is not the last day of any Fiscal Quarter, then ending immediately prior to such date of determination, PLUS (ii) Consolidated Lease Expense, to Consolidated Fixed Charges.

"FOREIGN LENDER" shall mean any Lender that is organized under the laws of a jurisdiction other than that of the Borrower. For purposes of this definition, the United States of America or any State thereof or the District of Columbia shall constitute one jurisdiction.

"GAAP" shall mean generally accepted accounting principles in the United States applied on a consistent basis and subject to the terms of SECTION 1.2.

"GOVERNMENTAL AUTHORITY" shall include the country, the state, county, city and political subdivisions in which any Person or such Person's Property is located or which exercises valid jurisdiction over any such Person or such Person's Property, and any court, agency, authority, department, commission, board, bureau or instrumentality of any of them or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government, including monetary authorities which exercises valid jurisdiction over any such Person or such Person's Property. Unless otherwise specified, all references to Governmental Authority herein shall mean a Governmental Authority having jurisdiction over, where applicable, ADESA, the Subsidiaries or any of their Property or the Administrative Agent or any Lender.

"GUARANTEE" of or by any Person (the "GUARANTOR") shall mean any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "PRIMARY OBLIGOR") in any manner, whether directly or indirectly and including any obligation, direct or indirect, of the guarantor (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued in support of such Indebtedness or obligation; PROVIDED, that the term "GUARANTEE" shall not include endorsements for collection or deposits in the ordinary course of business. The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which Guarantee is made or, if not so stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith. The term "GUARANTEE" used as a verb has a corresponding meaning.

"GUARANTORS" shall mean, collectively and individually, ADESA and ALLETE.

"GUARANTY AGREEMENT" shall mean the Guaranty Agreement substantially in the form of EXHIBIT D, made by the Guarantors, jointly and severally, in favor of the Administrative Agent for the benefit of the Lenders, and any modifications, amendments, supplements or restatements thereof.

"HAZARDOUS MATERIALS" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"HEDGING AGREEMENTS" shall mean interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts, commodity agreements and other similar agreements or arrangements designed to protect against fluctuations in interest rates, currency values or commodity values.

"IMPROVEMENTS" shall mean all buildings, structures and improvements now or hereafter located on the Real Property, all water and water rights (whether riparian, appropriative, or otherwise, and whether or not appurtenant), pumps and pumping stations used in connection therewith and all shares of stock evidencing the same, all machinery, equipment, appliances, furnishings, inventory, fixtures and other property used or usable in connection with the Real Property and/or the buildings, structures and improvements now or hereafter located thereon, including, but not limited to, all storage tanks and pipelines, gas, electric, heating, cooling, air conditioning, refrigeration, and plumbing fixtures and equipment, which have been or may hereafter be attached or affixed in any manner to any such buildings, structures or improvements or used or useful in connection therewith, and any and all additions thereto and substitutions and replacements thereof, and any and all Alterations (including all restorations, repairs, replacements and rebuilding of such buildings, structures and improvements) thereto.

"INDEBTEDNESS" of any Person shall mean, without duplication (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person in respect of the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business that are nor overdue by more than 90 days), (d) all obligations of such Person under any conditional sale or other title retention agreement(s) relating to property acquired by such Person, (e) all Capital Lease Obligations of such Person, (f) all obligations, contingent or otherwise, of such Person in respect of letters of credit, acceptances or similar extensions of credit, (g) all Guarantees of such Person of the type of Indebtedness described in clauses (a) through (f) above, (h) all Indebtedness of a third party secured by any Lien on property owned by such Person, whether or not such Indebtedness has been assumed by such Person, (i) all obligations of such Person, contingent or otherwise, to purchase, redeem, retire or otherwise acquire for value any common stock of such Person, (j) all other obligations and liabilities of such Person that are required by GAAP to be shown as liabilities on the balance sheet of such Person (other than reserves required under GAAP), and (k) Off-Balance Sheet Liabilities. The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which such Person is a general partner or a joint venturer, except to the extent that the terms of such Indebtedness provide that such Person is not liable therefor.

"INDEMNIFIED TAXES" shall mean Taxes other than Excluded Taxes.

"INDEMNITY AND CONTRIBUTION AGREEMENT" shall mean the Indemnity, Subrogation and Contribution Agreement, substantially in the form of EXHIBIT E, among the Loan Parties and the Administrative Agent, and any modifications, amendments, supplements or restatements thereof.

"INDEMNITEE" shall have the meaning set forth in SECTION 10.3(b).

"INDEX DEBT" shall mean ALLETE'S corporate credit rating.

"INTEREST PERIOD" shall mean, with respect to any LIBOR Loan, a period of one, two, three or six months; PROVIDED, that:

(a) the initial Interest Period for each LIBOR Loan shall commence on the date of this Agreement and each Interest Period occurring thereafter in respect of such LIBOR Loan shall commence on the day on which the next preceding Interest Period expires;

(b) if any Interest Period would otherwise end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day, unless such Business Day falls in another calendar month, in which case such Interest Period would end on the next preceding Business Day;

(c) any Interest Period which begins on the last Business Day of a calendar month or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period shall end on the last Business Day of such calendar month; and

(d) no Interest Period may extend beyond the Maturity Date.

"KNOWLEDGE" shall mean, in the case of the Borrower, the actual knowledge of any executive officer of the Borrower that is primarily responsible for the Transaction and/or for the operation or management of the Real Property or, in the case of any other Loan Party, the actual knowledge of any executive officer of such Loan Party that is primarily responsible for the Transaction.

"LENDERS" shall have the meaning assigned to such term in the opening paragraph of this Agreement, and shall include their respective legal representatives and permitted successors and assigns.

"LIBOR" shall mean, for any applicable Interest Period, the rate per annum for deposits in Dollars for a period equal to such Interest Period appearing on the display designated as Page 3750 on the Dow Jones Markets Service (or such other page on that service or such other service designated by the British Banker's Association for the display of such Association's Interest Settlement Rates for Dollar deposits) as of 11:00 a.m. (London, England time) on the day that is two Business Days prior to the first day of the Interest Period or if such

Page 3750 is unavailable for any reason at such time, the rate which appears on the Reuters Screen ISDA Page as of such date and such time; PROVIDED, that if the Administrative Agent determines that the relevant foregoing sources are unavailable for the relevant Interest Period, LIBOR shall mean the rate of interest determined by the Administrative Agent to be the average (rounded upward, if necessary, to the nearest 1/100th of 1%) of the rates per annum at which deposits in Dollars are offered to the Administrative Agent two (2) Business Days preceding the first day of such Interest Period by leading banks in the London interbank market as of 10:00 a.m. for delivery on the first day of such Interest Period, for the number of days comprised therein and in an amount comparable to the amount of the LIBOR Loans.

"LIBOR LOAN" shall mean the Term Loan of a Lender bearing interest at the Adjusted LIBO Rate.

"LIEN" shall mean any mortgage, pledge, security interest, lien (statutory or otherwise), charge, encumbrance, hypothecation, assignment, deposit arrangement, or other arrangement having the practical effect of the foregoing or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement and any capital lease having the same economic effect as any of the foregoing).

"LOANS" shall mean the Term Loans which, at any time and from time to time, shall consist solely of Base Rate Loans or LIBOR Loans, except as otherwise set forth in SECTION 2.12.

"LOAN DOCUMENTS" shall mean, collectively, this Agreement, the Notes, the Security Documents, the Guaranty Agreement, the Indemnity and Contribution Agreement, and any and all other instruments, agreements, documents and writings executed in connection with any of the foregoing.

"LOAN PARTIES" shall mean the Borrower and/or the Guarantors.

"MATERIAL ADVERSE EFFECT" shall mean, with respect to any event, act, condition or occurrence of whatever nature (including any adverse determination in any litigation, arbitration, or governmental investigation or proceeding), whether singly or in conjunction with any other event or events, act or acts, condition or conditions, occurrence or occurrences whether or not related, a material adverse change in, or a material adverse effect on, (a) the business, results of operations, financial condition, assets, liabilities or prospects of the Consolidated Companies taken as a whole or of ALLETE, (b) the ability of the Loan Parties to perform any of their respective obligations under the Loan Documents, (c) the rights, benefits and remedies of the Administrative Agent and the Lenders under any of the Loan Documents, (d) the legality, validity or enforceability of any of the Loan Documents, (e) the value, utility or useful life of the Mortgaged Property, or (f) the priority, perfection or status of the Administrative Agent's or any Lender's interest in the Mortgaged Property.

"MATERIAL CONTRACTS" shall mean any contract or other agreement, written or oral, of any Loan Party or any of its Subsidiaries that are required to be disclosed as "material" in such Loan Party's filings with the SEC and any other contract or agreement, written or oral, of any Loan Party or any of its Subsidiaries the failure to comply with which could reasonably be expected to have a Material Adverse Effect.

"MATERIAL INDEBTEDNESS" shall mean Indebtedness (other than the Term Loans) or obligations in respect of one or more Hedging Agreements, of any one or more of the Consolidated Companies in an aggregate principal amount exceeding $1,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of any Consolidated Company in respect to any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that such Consolidated Company would be required to pay if such Hedging Agreement were terminated at such time.

"MATURITY DATE" shall mean the earlier of (i) July 30, 2006, or (ii) the date on which the principal amount of all outstanding Term Loans have been declared or automatically have become due and payable (whether by acceleration or otherwise).

"MOODY'S" shall mean Moody's Investors Service, Inc.

"MULTIEMPLOYER PLAN" shall have the meaning set forth in Section 4001(a)(3) of ERISA.

"NOTES" shall mean, collectively, the promissory notes of the Borrower payable to the order of the applicable Lender in the principal amount of such Lender's Commitment, in substantially the form of EXHIBIT A, and any and all allonges thereto, and any modifications, amendments, renewals, extensions or replacements thereof.

"NOTICE OF CONVERSION/CONTINUATION" shall mean the notice given by the Borrower to the Administrative Agent in respect of the conversion or continuation of an outstanding Borrowing as provided in SECTION 2.4(b) hereof.

"OBLIGATIONS" shall mean (a) all amounts owing by the Loan Parties to the Administrative Agent or any Lender pursuant to or in connection with this Agreement or any other Loan Document, including without limitation, all principal (including any future or further advances), interest (including any interest accruing after the filing of any petition in bankruptcy or the commencement of any insolvency, reorganization or like proceeding relating to any Loan Party, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), all reimbursement obligations, fees, expenses, indemnification and reimbursement payments, costs and expenses (including all fees and expenses of counsel to the Administrative Agent and any Lender incurred pursuant to this Agreement or any other Loan Document), whether direct or indirect, absolute or contingent, liquidated or unliquidated, now existing or hereafter arising hereunder or thereunder, together with all renewals, extensions, modifications or refinancings thereof, and (b) all obligations of the Loan Parties, monetary or otherwise, under each interest rate Hedging Agreement relating to Obligations referred to in the preceding clause (a) entered into with any counterparty that was a Lender (or an Affiliate thereof) at the time such Hedging Agreement was entered into.

"OFF-BALANCE SHEET LIABILITIES" of any Person shall mean (i) any repurchase obligation or liability of such Person with respect to accounts or notes receivable sold by such Person, (ii) any liability of such Person under any sale and leaseback transactions which do not create a liability on the balance sheet of such Person, (iii) any liability of such Person under any so-called "synthetic" lease transaction or (iv) any obligation arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the balance sheet of such Person.

"OFFICER'S CERTIFICATE" of a Person shall mean a certificate signed by the Chairman of the Board, the President, any Vice President, any Senior Vice President, any Administrative Vice President, the Treasurer, any Assistant Treasurer, the Controller or the Secretary of such Person, signing alone.

"OTHER TAXES" shall mean any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"PARTICIPANT" shall have the meaning set forth in SECTION 10.4(c).

"PAYMENT OFFICE" shall mean the office of the Administrative Agent located at 25 Park Place, N.E., Atlanta, Georgia 30303, or such other location as to which the Administrative Agent shall have given written notice to the Borrower and the other Lenders.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA, and any successor entity performing similar functions.

"PERMITTED ENCUMBRANCES" shall mean:

(a) Liens imposed by law for taxes not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained in accordance with GAAP;

(b) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law created in the ordinary course of business for amounts not yet

due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained in accordance with GAAP;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment and attachment liens not giving rise to an Event of Default or Liens created by or existing from any litigation or legal proceeding that are currently being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained in accordance with GAAP;

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or materially interfere with the ordinary conduct of business of the Consolidated Companies taken as a whole, including without limitation, easements, zoning restrictions, rights-of-way and other encumbrances on title to the Real Property to the extent permitted by the Deed of Trust; and

(g) Liens described in the Title Policy;

PROVIDED, that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness (other than the Obligations).

"PERSON" shall mean any individual, partnership, firm, corporation, association, joint venture, limited liability company, trust or other entity, or any Governmental Authority.

"PLAN" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the ADESA or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PRO RATA SHARE" shall mean, with respect to any Lender at any time, a percentage, the numerator of which shall be such Lender's Commitment and the denominator of which shall be the sum of all Lenders' Commitments; or if the Loans have been declared to be due and payable, a percentage, the numerator of which shall be such Lender's Term Loan and the denominator of which shall be the sum of the aggregate outstanding Term Loans of all Lenders.

"PROPERTY" shall mean any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"REAL PROPERTY" shall mean the land described in Exhibit A to the Deed of Trust.

"REGULATION D" shall mean Regulation D of the Board of Governors of the Federal Reserve System, as the same may be in effect from time to time, and any successor regulations.

"RELATED PARTIES" shall mean, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"RELEASE" means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

"REQUIRED LENDERS" shall mean, at any time, Lenders holding sixty-six and two-thirds percent (66 2/3%) or more of the aggregate outstanding Term Loans at such time.

"REQUIREMENT OF LAW" means, as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"RESPONSIBLE OFFICER" shall mean the Chairman or Vice Chairman of the Board of Directors, the Chairman or Vice Chairman of the Executive Committee of the Board of Directors, the President, any Senior Vice President or Executive Vice President, any Vice President, any Administrative Vice President, the Secretary, any Assistant Secretary, the Treasurer, or any Assistant Treasurer of the applicable Loan Party or such other representative of such Loan Party as may be designated in writing by any one of the foregoing with the consent of the Administrative Agent; and, with respect to the financial covenants only, the Financial Officer.

"S&P" shall mean Standard & Poor's Ratings Service, a division of The McGraw-Hill Corporation.

"SEC" shall mean the United States Securities and Exchange Commission, or any successor Governmental Authority.

"SECURITIES" shall mean any stock, shares, voting trust certificates, bonds, debentures, notes or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "securities", or any certificates of interest, shares, or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire any of the foregoing.

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

"SECURITIES EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

"SECURITY DOCUMENTS" shall mean the Deed of Trust, financing statements and any other documents or agreements, however described, securing the Obligations, or any of them, or perfecting the Administrative Agent's or any Lender's lien on or security interest in the collateral described therein.

"SUBSIDIARY" shall mean, with respect to any Person (the "PARENT"), any corporation, partnership, joint venture, limited liability company, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, partnership, joint venture, limited liability company, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power, or in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, Controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent. Unless otherwise indicated, all references to "SUBSIDIARY" hereunder shall mean a Subsidiary of ADESA.

"TAXES" shall mean any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"TERM LOAN" shall have the meaning set forth in SECTION 2.1.

"TITLE INSURANCE COMPANY" shall mean Chicago Title Insurance Company or other title company reasonably acceptable to the Administrative Agent.

"TITLE POLICY" shall have the meaning set forth in Section 3.1(b)(vi) of this Agreement.

"TOTAL FUNDED DEBT TO EBITDA RATIO" shall mean, as of any date of determination, the ratio of (a) Consolidated Total Funded Debt as of such date to (ii) Consolidated EBITDA measured for the four Fiscal Quarter period ending on such date, or if such date is not the last day of any Fiscal Quarter, then ending immediately prior to such date.

"TRANSACTION" shall mean any and all the transactions and activities referred to in or contemplated by the Loan Documents.

"TYPE," when used in reference to a Term Loan, refers to whether the rate of interest on such Term Loan, or any portion thereof, is determined by reference to the Adjusted LIBO Rate or the Base Rate.

"WITHDRAWAL LIABILITY" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.2. ACCOUNTING TERMS AND DETERMINATION. Unless otherwise defined or specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for such changes approved by ADESA's independent public accountants) with the most recent audited consolidated financial statement of the Consolidated Companies delivered pursuant to SECTION 5.1(a); PROVIDED, that if ADESA notifies the Administrative Agent that ADESA wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies ADESA that the Required Lenders wish to amend Article VI for such purpose), then ADESA's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to ADESA and the Required Lenders.

SECTION 1.3. TERMS GENERALLY. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the word "to" means "to but excluding". Unless the context requires otherwise (i) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as it was originally executed or as it may from time to time be amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (ii) any reference herein to any Person shall be construed to include such Person's successors and permitted assigns, (iii) the words "hereof", "herein" and "hereunder" and words of similar import shall be construed to refer to this Agreement as a whole and not to any particular provision hereof, (iv) all references to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles, Sections, Exhibits and Schedules to this Agreement and (v) all references to a specific time shall be construed to refer to the time in the city and state of the Administrative Agent's principal office, unless otherwise indicated.

## ARTICLE II

## AMOUNT AND TERMS OF THE COMMITMENTS; SECURITY FOR TERM LOANS

SECTION 2.1. GENERAL DESCRIPTION OF FACILITY. Subject to and upon the terms and conditions herein set forth, each Lender severally agrees to make a Term Loan to the Borrower in a principal amount not exceeding such Lender's Commitment on the Closing Date.

SECTION 2.2. TERM LOAN COMMITMENTS. Subject to the terms and conditions set forth herein, each Lender severally agrees to make a single loan (each, a "TERM LOAN") to the Borrower on the Closing Date in a principal amount not to exceed the Commitment of such Lender; PROVIDED, that if for any reason the full amount of such Lender's Commitment is not fully drawn on the Closing Date, the undrawn portion thereof shall automatically be cancelled. The Term Loan Commitments shall terminate on the Closing Date upon the making of the Term Loans as provided herein. The Term Loans shall be, from time to time, either all Base Rate Loans or all LIBOR

Loans, except as otherwise set forth in SECTION 2.12; PROVIDED, that on the Closing Date all Term Loans shall be Base Rate Loans. The execution and delivery of this Agreement by the Borrower and the satisfaction of all conditions precedent pursuant to SECTION 3.1 shall be deemed to constitute the Borrower's request to borrow the Term Loans on the Closing Date.

SECTION 2.3. FUNDING OF TERM LOANS. Each Lender will make available the Term Loan to be made by it hereunder on the Closing Date by wire transfer in immediately available funds by 11:00 a.m. to the Administrative Agent at the Payment Office. The Administrative Agent will make such Term Loans available to the Borrower by promptly crediting the amounts that it receives, in like funds by the close of business on such proposed date, to an account maintained by the Borrower with the Administrative Agent or at the Borrower's option, by effecting a wire transfer of such amounts to an account designated by the Borrower to the Administrative Agent.

SECTION 2.4. INTEREST ELECTIONS.

(a) On the Closing Date, the Term Loans shall be Base Rate Loans. Thereafter, the Borrower may elect to convert the Term Loans into a different Type or to continue such Loans, and in the case of LIBOR Loans, may elect Interest Periods therefor, all as provided in this Section. The Borrower may NOT elect different options with respect to different portions of the Term Loans, i.e., the Term Loans shall be either all Base Rate Loans or all LIBOR Loans.

(b) To make an election pursuant to this Section, the Borrower shall give the Administrative Agent prior written notice (or telephonic notice promptly confirmed in writing) of the Term Loans (a "NOTICE OF CONVERSION/CONTINUATION") that are to be converted or continued, as the case may be, (x) prior to 10:00 a.m. one (1) Business Day prior to the requested date of a conversion into Base Rate Loans and (y) prior to 11:00 a.m. three (3) Business Days prior to a continuation of or conversion into LIBOR Loans. Each such Notice of Conversion/Continuation shall be irrevocable and shall specify (i) the effective date of the election made pursuant to such Notice of Continuation/Conversion, which shall be a Business Day, (ii) whether the resulting Term Loans are to be Base Rate Loans or LIBOR Loans; and (iii) if the resulting Term Loans are to be LIBOR Loans, the Interest Period applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of "INTEREST PERIOD". If any such Notice of Continuation/Conversion requests LIBOR Loans but does not specify an Interest Period, the Borrower shall be deemed to have selected an Interest Period of one (1) month.

(c) If, on the expiration of any Interest Period in respect of LIBOR Loans, the Borrower shall have failed to deliver a Notice of Conversion/Continuation, then, unless such LIBOR Loans are repaid as provided herein, the Borrower shall be deemed to have elected to convert such LIBOR Loans to Base Rate Loans. The Term Loans may not be converted into, or continued as, LIBOR Loans if a Default or an Event of Default exists, unless the Administrative Agent and each of the Lenders shall have otherwise consented in writing. No conversion of LIBOR Loans shall be permitted except on the last day of the Interest Period in respect thereof.

(d) Upon receipt of any Notice of Conversion/Continuation, the Administrative Agent shall promptly notify each Lender of the details thereof.

SECTION 2.5. REPAYMENT OF LOANS. The Borrower unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of the Term Loan of such Lender on the Maturity Date.

SECTION 2.6. NOTES. The Term Loan made by each Lender to the Borrower on the Closing Date shall be evidenced by a Note of the Borrower, payable to the order of such Lender, in the amount of such Lender's Commitment (or, if less, the principal amount of the Term Loan made by such Lender to the Borrower on the Closing Date). Each Lender shall maintain in accordance with its usual practice appropriate records evidencing the indebtedness of the Borrower to such Lender resulting from the Term Loan made by such Lender to the Borrower, including the amounts of principal and interest payable thereon and paid to such Lender from time to time under this Agreement. The Administrative Agent shall maintain appropriate records in which shall be recorded (i) the Term Loan Commitment of each Lender, (ii) the amount of the Term Loan made hereunder by each Lender, the Type thereof and the Interest Period applicable thereto, (iii) the date of each continuation thereof pursuant to SECTION 2.4, (iv) the date of each conversion thereof to another Type pursuant to SECTION 2.4, (v) the date and amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder in

respect of the Term Loan of such Lender and (vi) both the date and amount of any sum received by the Administrative Agent hereunder from the Borrower in respect of the Term Loans and each Lender's Pro Rata Share thereof. The entries made in such records shall be prima facie evidence of the existence and amounts of the obligations of the Borrower therein recorded; PROVIDED, that the failure or delay of any Lender or the Administrative Agent in maintaining or making entries into any such record or any error therein shall not in any manner affect the obligation of the Borrower to repay the Term Loan (both principal and unpaid accrued interest) of such Lender in accordance with the terms of this Agreement.

SECTION 2.7. OPTIONAL PREPAYMENTS. The Borrower shall have the right at any time and from time to time to prepay the Term Loans, in whole or in part, without premium or penalty, by giving irrevocable written notice (or telephonic notice promptly confirmed in writing) to the Administrative Agent no later than (i) in the case of prepayment of LIBOR Loans, 11:00 a.m. not less than three (3) Business Days prior to any such prepayment, and (ii) in the case of any prepayment of Base Rate Loans, not less than one Business Day prior to the date of such prepayment. Each such notice shall be irrevocable and shall specify the proposed date of such prepayment and the principal amount of the Term Loans, or portion thereof, to be prepaid. Upon receipt of any such notice, the Administrative Agent shall promptly notify each affected Lender of the contents thereof and of such Lender's Pro Rata Share of any such prepayment. If such notice is given, the aggregate amount specified in such notice shall be due and payable on the date designated in such notice, together with accrued interest to such date on the amount so prepaid in accordance with SECTION 2.8(e); PROVIDED, that if LIBOR Loans are prepaid on a date other than the last day of an Interest Period applicable thereto, the Borrower shall also pay all amounts required pursuant to SECTION 2.14. Each partial prepayment of the Term Loans shall be in an amount not less than $1,000,000 or a larger multiple of $1,000,000. Each prepayment of the Term Loans shall be applied ratably.

SECTION 2.8. INTEREST ON TERM LOANS.

(a) The Borrower shall pay interest on Base Rate Loans at the Base Rate in effect from time to time and on LIBOR Loans at the Adjusted LIBO Rate for the applicable Interest Period in effect for such Loans, PLUS, in each case, the Applicable Margin in effect from time to time.

(b) While an Event of Default exists or after acceleration, at the option of the Required Lenders, the Borrower shall pay interest ("DEFAULT INTEREST") with respect to the Term Loans and all other outstanding Obligations at the Default Rate.

(c) Interest on the principal amount of the Term Loans shall accrue from and including the date such Term Loans are made to but excluding the date of any repayment thereof. Interest on all outstanding Base Rate Loans shall be payable monthly in arrears on the last day of each calendar month and on the Maturity Date. Interest on all outstanding LIBOR Loans shall be payable on the last day of each Interest Period applicable thereto, and, in the case of any LIBOR Loans having an Interest Period in excess of three months, on each day which occurs every three months after the initial date of such Interest Period, and on the Maturity Date. Interest on Term Loans which are converted into Loans of another Type or which are repaid or prepaid shall be payable on the date of such conversion or on the date of any such repayment or prepayment (on the amount repaid or prepaid) thereof. All Default Interest shall be payable on demand.

(d) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder and shall promptly notify the Borrower and the Lenders of such rate in writing (or by telephone, promptly confirmed in writing). Any such determination shall be conclusive and binding for all purposes, absent manifest error.

SECTION 2.9. FEES.

(a) AGENCY FEES. The Borrower shall pay to the Administrative Agent for its own account fees in the amounts and at the times previously agreed upon the Borrower and the Administrative Agent.

(b) CLOSING FEE. The Borrower shall pay to the Administrative Agent, for the ratable benefit of each Lender, a closing fee equal to 0.25% multiplied by the aggregate Term Loan Commitments. The closing fee shall be due and payable on the Closing Date.

SECTION 2.10. COMPUTATION OF INTEREST AND FEES. All computations of interest (other than Default Interest) and fees hereunder shall be made on the basis of a year of 360 days for the actual number of days elapsed (including the first day but excluding the last day) occurring in the period for which such interest or fees are payable (to the extent computed on the basis of the days elapsed). Each determination by the Administrative Agent of an interest amount or fee hereunder shall be made in good faith and, except for manifest error, shall be final, conclusive and binding for all purposes.

SECTION 2.11. INABILITY TO DETERMINE INTEREST RATES. If prior to the commencement of any Interest Period for LIBOR Loans,

(a) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the relevant interbank market, adequate means do not exist for ascertaining LIBOR for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Required Lenders that the Adjusted LIBO Rate does not adequately and fairly reflect the cost to such Lenders (or Lender, as the case may be) of making, funding or maintaining their (or its, as the case may be) LIBOR Loans for such Interest Period,

the Administrative Agent shall give written notice (or telephonic notice, promptly confirmed in writing) to the Borrower and to the Lenders as soon as practicable thereafter. In the case of LIBOR Loans, until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) the obligations of the Lenders to continue or convert outstanding Term Loans as or into LIBOR Loans shall be suspended and (ii) all LIBOR Loans shall be converted into Base Rate Loans on the last day of the then current Interest Period applicable thereto unless the Borrower prepays such LIBOR Loans in accordance with this Agreement.

SECTION 2.12. ILLEGALITY. If any Change in Law shall make in unlawful or impossible for any Lender to maintain or fund LIBOR Loans and such Lender shall so notify the Administrative Agent, the Administrative Agent shall promptly give notice thereof to the Borrower and the other Lenders, whereupon until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to continue or convert an outstanding Base Rate Loan as or into a LIBOR Loan, shall be suspended and such outstanding LIBOR Loan shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such LIBOR Loan if such Lender may lawfully continue to maintain such LIBOR Loan to such date or (b) immediately if such Lender shall determine that it may not lawfully continue to maintain such LIBOR Loan to such date. Notwithstanding the foregoing, the affected Lender shall, prior to giving such notice to the Administrative Agent, designate a different Applicable Lending Office if such designation would avoid the need for giving such notice and if such designation would not otherwise be disadvantageous to such Lender in the good faith exercise of its discretion.

SECTION 2.13. INCREASED COSTS.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement that is not otherwise included in the determination of the Adjusted LIBO Rate hereunder against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate); or

(ii) impose on any Lender or the eurodollar interbank market any other condition affecting this Agreement or a LIBOR Loan made by such Lender;

and the result of the foregoing is to increase the cost to such Lender of converting into, continuing or maintaining a LIBOR Loan or to increase the cost to such Lender or to reduce the amount received or receivable by such Lender hereunder (whether of principal, interest or any other amount), then the Borrower shall promptly pay, upon written notice from and demand by such Lender on the Borrower (with a copy of such notice and demand to the Administrative Agent), to the Administrative Agent for the account of such Lender, within five (5) Business Days

after the date of such notice and demand, additional amount or amounts sufficient to compensate such Lender for such additional costs incurred or reduction suffered.

(b) If any Lender shall have determined that on or after the date of this Agreement any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital (or on the capital of such Lender's parent corporation) as a consequence of its obligations hereunder to a level below that which such Lender or such Lender's parent corporation could have achieved but for such Change in Law (taking into consideration such Lender's policies or the policies of such Lender's parent corporation with respect to capital adequacy) then, from time to time, within five (5) Business Days after receipt by the Borrower of written demand by such Lender (with a copy thereof to the Administrative Agent), the Borrower shall pay to such Lender such additional amounts as will compensate such Lender or such Lender's parent corporation for any such reduction suffered.

(c) A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or such Lender's parent corporation, as the case may be, specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower (with a copy to the Administrative Agent) and shall be conclusive, absent manifest error. The Borrower shall pay any such Lender such amount or amounts within ten (10) days after receipt thereof.

(d) Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation.

SECTION 2.14. FUNDING INDEMNITY. In the event of (a) the payment of any principal of a LIBOR Loan other than on the last day of the Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion or continuation of a LIBOR Loan other than on the last day of the Interest Period applicable thereto, or (c) the failure by the Borrower to prepay, convert or continue any LIBOR Loan on the date specified in any applicable notice (regardless of whether such notice is withdrawn or revoked), then, in any such event, the Borrower shall compensate each Lender, within five (5) Business Days after written demand from such Lender, for any loss, cost or expense attributable to such event. In the case of a LIBOR Loan, such loss, cost or expense shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such LIBOR Loan if such event had not occurred at the Adjusted LIBO Rate applicable to such LIBOR Loan for the period from the date of such event to the last day of the then current Interest Period therefor (or in the case of a failure to convert or continue, for the period that would have been the Interest Period for such LIBOR Loan) over (ii) the amount of interest that would accrue on the principal amount of such LIBOR Loan for the same period if the Adjusted LIBO Rate were set on the date such LIBOR Loan was prepaid or converted or the date on which the Borrower failed to convert or continue such LIBOR Loan. A certificate as to any additional amount payable under this SECTION 2.14 submitted to the Borrower by any Lender shall be conclusive, absent manifest error.

SECTION 2.15. TAXES.

(a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; PROVIDED, that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent or any Lender, as the case may be, shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with Applicable Law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with Applicable Law.

(c) The Borrower shall indemnify the Administrative Agent and each Lender, on an After-Tax Basis, within five (5) Business Days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent or such Lender, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other

Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender, or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate. Without limiting the generality of the foregoing, each Foreign Lender agrees that it will deliver to the Administrative Agent and the Borrower (or in the case of a Participant, to the Lender from which the related participation shall have been purchased) (i) two (2) duly completed copies of Internal Revenue Service Form W8-BEN or W8-ECT, or any successor form thereto, as the case may be, certifying in each case that such Foreign Lender is entitled to receive payments made by the Borrower hereunder and under the Notes payable to it, without deduction or withholding of any United States federal income taxes and (ii) a duly completed Internal Revenue Service Form W-8 or W-9, or any successor form thereto, as the case may be, to establish an exemption from United State backup withholding tax. Each such Foreign Lender shall deliver to the Borrower and the Administrative Agent such forms on or before the date that it becomes a party to this Agreement (or in the case of a Participant, on or before the date such Participant purchases the related participation). In addition, each such Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Lender. Each such Lender shall promptly notify the Borrower and the Administrative Agent at any time that it determines that it is no longer in a position to provide any previously delivered certificate to the Borrower (or any other form of certification adopted by the U.S. taxing authorities for such purpose).

SECTION 2.16. PAYMENTS GENERALLY; PRO RATA TREATMENT; SHARING OF SET-OFFS.

(a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest or fees, or of amounts payable under SECTION 2.13, 2.14 OR 2.15, or otherwise) prior to 12:00 noon, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at the Payment Office, except that payments pursuant to SECTIONS 2.13, 2.14 and 2.15 and 10.3 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be made payable for the period of such extension. All payments hereunder shall be made in Dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal then due to such parties.

(c) If any Lender shall, by exercising any right of set-of or counterclaim or otherwise, obtain payment in respect of any principal of or interest on its Term Loan that would result in such Lender receiving payment of a greater proportion of the aggregate amount of its Term Loan and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Term Loans of the other Lenders to the extent necessary so that the benefit of all

such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Term Loans; PROVIDED, that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in its Term Loan to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders the amount or amounts due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to SECTION 2.16(d) or 10.3(d), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.17. MITIGATION OF OBLIGATIONS. If any Lender requests compensation under SECTION 2.13, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to SECTION 2.15, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the sole judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable under SECTION 2.13 or SECTION 2.15, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all costs and expenses incurred by any Lender in connection with such designation or assignment.

SECTION 2.18. SECURITY FOR OBLIGATIONS. The Term Loans and all of the other Obligations shall be secured by the collateral described and set forth in the Security Documents and shall be unconditionally and irrevocably guaranteed by the Guarantors.

## ARTICLE III

## CONDITIONS PRECEDENT TO TERM LOANS

SECTION 3.1. CONDITIONS TO EFFECTIVENESS. The obligations of the Lenders to make the Term Loans hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with SECTION 10.2).

(a) PAYMENT OF FEES. The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Closing Date, including reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent) required to be reimbursed or paid by the Borrower hereunder, under any other Loan Document and under any agreement with the Administrative Agent.

(b) DOCUMENTS. The Administrative Agent (or its counsel) shall have received the following:

(i) a counterpart of this Agreement signed by or on behalf of each party thereto or written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement;

(ii) the duly executed Notes payable to the applicable Lender;

(iii) the duly executed Deed of Trust in form for recording in the appropriate public records, together with separate UCC-1 financing statements and, if required by applicable law, UCC-2 financing statements, to be filed with the Secretary of State of the State of organization of the Borrower (or other appropriate filing office) and the county where the Real Property is located, respectively, and such other Uniform Commercial Code financing statements as the Administrative Agent or any Lender deems necessary or desirable in order to perfect the liens and security interests created or purported to be created by the Security Documents and, further, together with evidence of the payment of all recording and filing fees and taxes with respect to any recordings or filings made;

(iv) the duly executed Guaranty Agreement and Indemnity and Contribution Agreement;

(v) a current California Land Title Survey of the Real Property certified to the Administrative Agent in a form and substance reasonably satisfactory to the Administrative Agent and prepared within six (6) months of such Closing Date (or such other time period agreed to by the Administrative Agent) by a Person reasonably satisfactory to the Administrative Agent;

(vi) an ALTA Mortgagee's Policy of Title Insurance, including such affirmative endorsements as the Administrative Agent shall reasonably request, issued by a title insurance company reasonably acceptable to the Administrative Agent in the aggregate amount of the Term Loans, insuring the Deed of Trust to be a valid first lien on the Real Property, free and clear of all defects and encumbrances except such as the Administrative Agent and its counsel shall approve, and otherwise in form and substance reasonably satisfactory to the Administrative Agent (the "TITLE POLICY");

(vii) certificates of insurance evidencing compliance with the insurance provisions of the Security Documents (including the naming of the Administrative Agent and the Lenders as mortgagee, additional insured and/or loss payee, as applicable, with respect to such insurance, as their interests may appear), in form and substance reasonably satisfactory to the Administrative Agent;

(viii) a certificate of the Secretary or Assistant Secretary of each Loan Party, attaching and certifying as to (1) the Board of Directors' (or appropriate committee's) resolution duly authorizing the execution, delivery and performance by it of each of the Loan Documents to which it is or will be a party, (2) the incumbency and signatures of persons authorized to execute and deliver such documents on its behalf, (3) its articles or certificate of incorporation, certified as of a recent date by the Secretary of State of the state of its incorporation and (4) its by-laws;

(ix) good standing or active status certificates for each Loan Party from the appropriate offices of the states of such Loan Party's incorporation and principal place of business;

(x) a favorable written opinion of Ice Miller and/or local counsel in the jurisdiction where the Real Property is located, as counsel to the Loan Parties, addressed to the Administrative Agent and each of the Lenders, and covering such matters relating to the Loan Parties, the Loan Documents and the Transaction as the Administrative Agent or the Required Lenders shall reasonably request;

(xi) a certificate, dated the Closing Date and signed by a Responsible Officer, confirming compliance with the conditions set forth in paragraphs (c), (d), (e) and (f) of this Section 3.1;

(xii) certified copies of all consents, approvals, authorizations, registrations or filings required to be made or obtained by each Loan Party in connection with the Term Loans and any Indebtedness being refinanced with the proceeds of the Term Loans;

(xiii) duly executed payoff letters, in form and substance satisfactory to the Administrative Agent, executed by each creditor holding Indebtedness to be refinanced at closing;

(xiv) copies of all documents and instruments, including all consents, authorizations and filings, required or advisable under any Requirement of Law or by any material contractual obligation of the Loan Parties, in connection with the execution, delivery, performance, validity and enforceability of the Loan Documents and the other documents to be executed and delivered under this Agreement, and such consents, authorizations, filings and orders shall be in full force and effect and all applicable waiting periods shall have expired;

(xv) a duly executed loan closing statement; and

(xvi) such other executed documents, instruments, opinions and other items as may have been reasonably requested by the Administrative Agent or its counsel in connection with the Term Loans.

(c) LITIGATION. No action or proceeding shall have been instituted or, to the knowledge of any Loan Party, threatened nor shall any governmental action, suit, proceeding or investigation be instituted or threatened before any Governmental Authority, nor shall any order, judgment or decree have been issued or proposed to be issued by any Governmental Authority, to set aside, restrain, enjoin or prevent the performance of this Agreement or the Transaction or which is reasonably likely to materially adversely affect the Real Property or the Transaction or which would reasonably be expected to result in a Material Adverse Effect.

(d) LEGALITY. In the opinion of the Administrative Agent or its counsel, the Transaction shall not violate any Applicable Law, and no change shall have occurred or been proposed in Applicable Law that would make it illegal for the Administrative Agent or any Lender to participate in the Transaction.

(e) NO EVENTS. (i) No Default, Event of Default, Event of Loss or Event of Taking relating to the Real Property shall have occurred and be continuing, (ii) no action shall be pending or threatened by a Governmental Authority to initiate a Condemnation or an Event of Taking, and (iii) there shall not have occurred any event that would reasonably be expected to have a Material Adverse Effect since December 31, 2002.

(f) REPRESENTATIONS. Each representation and warranty of the parties hereto or to any other Loan Document contained herein or in any other Loan Document shall be true and correct in all material respects as though made on and as of such Closing Date, except to the extent such representations or warranties relate solely to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects on and as of such earlier date.

SECTION 3.2. DELIVERY OF DOCUMENTS. All of the Loan Documents, certificates, legal opinions and other documents and papers referred to in this Article III, unless otherwise specified, shall be delivered to the Administrative Agent for the account of each of the Lenders and, except for the Notes, in sufficient counterparts or copies for each of the Lenders and shall be in form and substance satisfactory in all respects to the Administrative Agent.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Effective as of the date of execution of this Agreement, each of the Borrower and ADESA represents and warrants to the Administrative Agent and each Lender as follows:

SECTION 4.1. ORGANIZATION; CORPORATE POWER. It (i) is a corporation duly organized, validly existing under the laws of the jurisdiction of its organization, and it has not filed, and does not have pending, articles of dissolution in such jurisdiction, (ii) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where the failure to be duly qualified and in good standing would have a Material Adverse Effect and (iii) has all requisite corporate power and authority to own, operate and encumber its property and assets and to conduct its business as presently conducted and as proposed to be conducted in connection with and following the consummation of the Transaction.

SECTION 4.2. AUTHORITY. It has the requisite corporate power and authority to execute, deliver and perform the Loan Documents executed or to be executed by it; and the execution, delivery and performance (or recording or filing, as the case may be) of the Loan Documents, and the consummation of the Transaction contemplated on its part thereby, have been duly approved by its Board of Directors and no other corporate proceedings on its part are necessary to consummate the Transaction.

SECTION 4.3. DUE EXECUTION AND DELIVERY OF LOAN DOCUMENTS. The Loan Documents executed by it have been duly executed and delivered (or recorded or filed, as the case may be) by it, and, in each case, constitute its legal, valid and binding obligation, enforceable against it in accordance with the respective terms of each such Loan Document, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or limiting creditors' rights generally or by equitable principles generally.

SECTION 4.4. NO CONFLICTS. The execution, delivery and performance by it of each Loan Document to which it is a party and of each Transaction do not and will not (i) violate any Applicable Law or Contractual Obligation binding on it the consequences of which violation, singly or in the aggregate, would have a Material Adverse Effect, (ii) result in or require the creation or imposition of any Lien whatsoever on the Real Property (other than Permitted Liens) or (iii) require any approval of stockholders which has not been obtained.

SECTION 4.5. GOVERNMENTAL CONSENTS. Except as have been made, obtained or given, no filing or registration with, consent or approval of, notice to, with or by any Governmental Authority is required to authorize, or is required in connection with, the execution, delivery and performance by it of the Loan Documents to which it is a party, the use of the proceeds of the Term Loans made to effect the refinancing of certain existing liabilities and obligations of the Borrower related to the Real Property, or the legality, validity, binding effect or enforceability of any Loan Document.

SECTION 4.6. GOVERNMENTAL REGULATION. It is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

SECTION 4.7. REQUIREMENTS OF LAW. It is in compliance with all Requirements of Law applicable to it and its business, in each case where the failure to so comply would have a Material Adverse Effect, either individually or together with other such cases.

SECTION 4.8. RIGHTS IN RESPECT OF THE REAL PROPERTY. It is not a party to any contract or agreement to sell any interest in the Real Property or any part thereof.

SECTION 4.9. TAXES. It and its Affiliates have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (a) the failure of which to timely pay would not have a Material Adverse Effect or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings, and as to

which there is no imminent threat of forfeiture, and with respect to which it or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP; it knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect; and the charges, accruals and reserves on its books in respect of Federal, state or other taxes for all fiscal periods are adequate.

SECTION 4.10. USE OF PROCEEDS; MARGIN REGULATIONS. The Borrower will apply the proceeds of the Term Loans as set forth in SECTION 5.10 hereof; no part of the proceeds from the Term Loans will be used, directly or indirectly by it, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 207), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve it in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220).

SECTION 4.11. ERISA EVENT. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than $1,000,000 the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than $1,000,000 the fair market value of the assets of all such underfunded Plans.

SECTION 4.12. SOLVENCY. The Transaction has not been entered into by it in contemplation of its insolvency nor has such Transaction been entered into with the intent to hinder, delay or defraud its equity holders or its creditors.

SECTION 4.13. DISCLOSURE. Neither this Agreement nor any of the other Loan Documents, nor any certificate or other document furnished to any other party hereto by it or on its behalf pursuant to any Loan Document contains, or will contain, as of its date, any untrue statement of a material fact or omits to state or will omit to state, as of its date, a material fact necessary in order to make the statements contained herein and therein not misleading. There are no facts known to it which, individually or in the aggregate, materially adversely affect, or could reasonably be expected to materially adversely affect, its condition, business or affairs or its respective properties and assets, taken as a whole, which have not been disclosed herein or in written materials delivered to any other party hereto in connection with the negotiation of the Loan Documents.

SECTION 4.14. TITLE TO COLLATERAL. The Borrower owns good and marketable title to the Real Property and the other collateral pledged as security for its obligations in connection with the Transaction free and clear of all liens and encumbrances, except as ser forth in the Title Policy or otherwise disclosed in writing to the Administrative Agent and the Lenders.

SECTION 4.15. OTHER OBLIGATIONS. It is not a party to or bound by any agreement, contract, instrument or understanding or commitment of any kind or subject to any corporate or other restriction, the performance or observance of which by it now or, as far it can reasonably foresee, will have a Material Adverse Effect, financial or otherwise, upon the assets or business of the Consolidated Companies taken as a whole; and neither it nor any other Person to a contract or agreement material to its financial condition or operations, taken as a whole, is in default under any such contract or agreement, and no event has occurred which, but for the giving of notice or the passage of time, or both, would constitute a default thereunder.

SECTION 4.16. FINANCIAL STATEMENTS. The consolidated balance sheets of the Consolidated Companies as of the quarterly period most recently ended before the Closing Date and the statements of income for the period then ended, heretofore furnished to the Administrative Agent and each Lender, are true and complete, have been prepared in accordance with GAAP (except for the absence of footnotes and the lack of year end adjustments) and fairly present in all material respects the consolidated financial condition of the Consolidated Companies as of the date thereof and the results of their operations for the period then ended. Since the date thereof, there has been no material adverse change in the financial condition, properties or businesses of the Consolidated Companies which has not been disclosed in writing by ADESA to the Administrative Agent and each Lender.

SECTION 4.17. LITIGATION AND ENVIRONMENTAL MATTERS.

(a) No litigation, investigation or proceeding of or before any arbitrators or Governmental Authorities is pending against or, to its knowledge, threatened against or affecting it or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination that could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect or (ii) which in any manner draws into question the validity or enforceability of this Agreement or any other Loan Document.

(b) To its knowledge, except for the matters set forth on SCHEDULE 4.17, neither it nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability which, in any such case under clauses (i), (ii), (iii) or (iv) above, could reasonably be expected to have a Material Adverse Effect.

SECTION 4.18. REAL PROPERTY. The present condition of the Real Property conforms in all material respects with all conditions or requirements of all existing permits and approvals issued with respect to such Real Property, and the Borrower's use of such Real Property does not violate any Applicable Law, except for any such violations that have not had, and would not have, a Material Adverse Effect. To the Knowledge of the Borrower, no material notices, complaints or orders of violation or non-compliance have been issued or threatened or contemplated by any Governmental Authority with respect to the Real Property or any present or intended future use thereof. All material agreements, easements and other rights, public or private, which are necessary to permit the lawful use and operation of the Real Property and which are necessary to permit the lawful use and operation of all utilities, driveways, roads and other means of egress and ingress to and from the same have been obtained and are in full force and effect, and the Borrower has no Knowledge of any pending material modification or cancellation of any of the same.

All representations and warranties made in this Article IV shall survive making of the Term Loans and delivery of the Loan Documents, and shall remain in effect until all of the Obligations are fully and irrevocably paid.

## ARTICLE V

## AFFIRMATIVE COVENANTS

Each of ADESA and the Borrower covenants and agrees that so long as any of the Obligations remain outstanding and unpaid:

SECTION 5.1. FINANCIAL STATEMENTS AND OTHER INFORMATION. ADESA shall deliver or cause to be delivered to the Administrative Agent and each Lender:

(a) As soon as practicable, and in any event within forty-five (45) days after the close of each of the first three quarterly accounting periods in each Fiscal Year, the consolidated balance sheet of the Consolidated Companies as at the end of such quarterly period and the related consolidated statements of operations for such quarterly period and for the elapsed portion of the current Fiscal Year ended with the last day of such quarterly period, and setting forth comparative consolidated figures for the related periods in the prior Fiscal Year, which financial statements shall be certified by a duly authorized officer of ADESA that they fairly present in all material respects the consolidated financial condition of the Consolidated Companies as at the dates indicated, subject to changes resulting from audit and normal year-end adjustments, provided that so long as ADESA is subject to informational requirements of the Securities Exchange Act and in accordance therewith files reports and other information with the SEC, the Administrative Agent and the Lenders shall be deemed to have been furnished with the foregoing reports and forms so long as such reports and forms are available for electronic access at the SEC's homepage on the internet;

(b) As soon as practicable, and in any event within one hundred twenty (120) days after the end of each Fiscal Year, consolidated balance sheets of the Consolidated Companies as at the end of such Fiscal Year and the related consolidated statements of earnings, shareholders' equity and changes in cash flows of the Consolidated Companies for such Fiscal Year, setting forth in comparative form the consolidated figures for the

Consolidated Companies for the previous Fiscal Year, all in reasonable detail and accompanied by a report thereon of PricewaterhouseCoopers or other independent public accountants of recognized national standing selected by ADESA which report shall be unqualified as to the scope of audit and as to the status of the Consolidated Companies as a going concern and shall state that such consolidated financial statements present fairly in all material respects the financial position of the Consolidated Companies as at the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with GAAP (or, in the event of a change in accounting principles, such accountants' concurrence with such change) and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards, provided that so long as ADESA is subject to informational requirements of the Securities Exchange Act and in accordance therewith files reports and other information with the SEC, the Administrative Agent and the Lenders shall be deemed to have been furnished with the foregoing reports and forms so long as such reports and forms are available for electronic access at the SEC's homepage on the internet;

(c) Together with each delivery of any financial statements pursuant to clauses (a) and (b) of this subsection, an officer's certificate of ADESA, executed by a duly authorized officer of ADESA, stating (i) that the signer has instituted procedures for the review of the terms of this Agreement and the principal Loan Documents and the review in reasonable detail of the transactions and conditions of the Consolidated Companies taken as a whole during the accounting period covered by such financial statements, and that such review has not disclosed the existence, during or at the end of such accounting period, nor does the signer have knowledge of the existence as of the date of such officer's certificate, of any condition or event which constitutes a Default or an Event of Default, or, if any such condition or event existed or exists, specifying the nature and period of existence thereof and what action ADESA has taken, is taking and proposes to take with respect thereto, (ii) that, to the best of such officer's knowledge, the financial statements delivered pursuant to clause (a) of this subsection present fairly in all material respects the financial position of the Consolidated Companies as at the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with GAAP, (iii) that ADESA is in compliance with each of the covenants contained in Article VI hereof, and setting out in reasonable detail the data and calculations upon which the officer bases such statement and (iv) whether any change in GAAP or the application thereof has occurred since the date of ADESA's audited financial statements referred to in SECTION 4.16 and, if any change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) Promptly, and in any event within five (5) Business Days after an executive officer of ADESA or the Borrower obtains knowledge thereof, notice of (A) the occurrence of any event which constitutes an Event of Default which notice shall specify the nature thereof, the period of existence thereof and what action ADESA or the Borrower proposes to take with respect thereto and (B) any litigation or governmental proceedings pending against ADESA or the Borrower which, if determined adversely to ADESA or the Borrower, would have a Material Adverse Effect on the ability of ADESA or the Borrower to perform under the Loan Documents;

(e) With reasonable promptness, such information with respect to the financial condition of ADESA, the Borrower or the Real Property as from time to time may be reasonably requested by the Administrative Agent or any Lender; PROVIDED, HOWEVER, that the Administrative Agent and each Lender shall keep such information confidential, except in connection with enforcement or exercise of the Administrative Agent's or such Lender's rights under this Agreement or the other Loan Documents, or otherwise available at law or in equity; and PROVIDED FURTHER, HOWEVER, that the Administrative Agent and each Lender may disclose such information to the extent necessary to respond to inquiries of bank regulatory authorities or to comply with legal process or any other legal disclosure obligations, or to the extent such information has been made publicly available by parties other than the Administrative Agent or any Lender;

(f) Promptly after the same are available to it, during any period in which ADESA shall be or become a reporting company under the Securities Exchange Act, ADESA shall deliver to the Administrative Agent and each Lender copies of the annual report of ADESA and each filing made by ADESA or any Affiliate thereof with the SEC; and

(g) promptly following any request therefor, such other information regarding the results of operations, business affairs and financial condition of ADESA or any Subsidiary as the Administrative Agent or any Lender may reasonably request.

SECTION 5.2. NOTICES OF MATERIAL EVENTS. It will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default or Event of Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or, to its knowledge, affecting it or any of its Subsidiaries which, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any event or any other development by which it or any of its Subsidiaries (i) fails to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) becomes subject to any Environmental Liability, (iii) receives notice of any claim with respect to any Environmental Liability, or (iv) becomes aware of any basis for any Environmental Liability and in each of the preceding clauses, which individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect;

(d) the occurrence of any ERISA Event that alone, or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability to it or any of its Subsidiaries in an aggregate amount exceeding $1,000,000; and

(e) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a written statement of a Responsible Officer setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.3. CORPORATE EXISTENCE. It will at all times preserve and keep in full force and effect its corporate existence. ADESA will at all times preserve and keep in full force and effect the corporate, partnership or limited liability company existence of each of its Subsidiaries (unless merged into ADESA or a Subsidiary) and all rights and franchises of ADESA and its Subsidiaries unless, in the good faith judgment of ADESA, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 5.4. COMPLIANCE WITH LAWS, ETC. It will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 5.5. PAYMENT OF TAXES AND CLAIMS. It will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on the properties or assets of ADESA or any Subsidiary; PROVIDED, that neither ADESA nor any Subsidiary need pay any such tax or assessment or claims if (a) the amount, applicability or validity thereof is contested by ADESA or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and ADESA or such Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of ADESA or such Subsidiary, as applicable, or (b) the nonpayment of all such taxes and assessments in the aggregate could not reasonably be expected to have a Material Adverse Effect.

SECTION 5.6. BOOKS AND RECORDS. It will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in

relation to its business and activities to the extent necessary to prepare the consolidated financial statements of the Consolidated Companies in conformity with GAAP.

SECTION 5.7. VISITATION, INSPECTION, ETC. It will, and will cause each of its Subsidiaries to, permit any representative of the Administrative Agent or any Lender, to visit and inspect its properties, to examine its books and records and to make copies and take extracts therefrom, and to discuss its affairs, finances and accounts with any of its officers and with its independent certified public accountants, all at such reasonable times and as often as the Administrative Agent or any Lender may reasonably request after reasonable prior notice to ADESA.

SECTION 5.8. MAINTENANCE OF PROPERTIES; INSURANCE. It will, and will cause each of its Subsidiaries (a) to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times; PROVIDED, that this SECTION 5.8 shall not prevent ADESA or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and ADESA has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, and (b) maintain with financially sound and reputable insurance companies, insurance with respect to its properties and business, and the properties and business of its Subsidiaries, against loss or damage of the kinds customarily insured against by companies in the same or similar businesses operating in the same or similar locations.

SECTION 5.9. FURTHER ASSURANCES. Upon the written request of the Administrative Agent or any Lender, the Borrower, at its own cost and expense, will cause all financing statements (including precautionary financing statements), fixture filings and other similar documents to be signed by it and recorded or filed at such places and times in such manner as may be necessary or requested by the Administrative Agent or such Lender to preserve, protect and perfect the interest of the Administrative Agent and the Lenders in the Real Property as contemplated by the Security Documents.

SECTION 5.10. USE OF PROCEEDS. The Borrower will use the proceeds of the Term Loans to refinance certain of its existing liabilities and obligations relating to the Real Property. No part of the proceeds of the Term Loans will be used, whether directly or indirectly, for any purpose that would violate any rule or regulation of the Board of Governors of the Federal Reserve System, including Regulations T, U or X.

## ARTICLE VI

## FINANCIAL COVENANTS

ADESA covenants and agrees that so long as any of the Obligations remain outstanding and unpaid:

SECTION 6.1. MAXIMUM TOTAL FUNDED DEBT TO EBITDA RATIO. It will maintain, as of the last day of each Fiscal Quarter, commencing with the Fiscal Quarter ending June 30, 2003, a Total Funded Debt to EBITDA Ratio of not greater than 3.50:1.00.

SECTION 6.2. FIXED CHARGE COVERAGE RATIO. It will maintain, as of the last day of each Fiscal Quarter, commencing with the Fiscal Quarter ending June 30, 2003, a Fixed Charge Coverage Ratio of not less than 1.30:1.00.

SECTION 6.3. CONSOLIDATED MINIMUM NET WORTH. It will maintain at all times a Consolidated Net Worth of not less than $747,400,000 with such minimum amount to be permanently increased at the end of each Fiscal Quarter, commencing with the Fiscal Quarter ending on June 30, 2003, by an amount equal to twenty-five percent (25%) of Consolidated Net Income for such Fiscal Quarter; PROVIDED, HOWEVER, in the event that the Consolidated Companies suffer a net loss for any Fiscal Quarter, Consolidated Net Income shall be deemed to be $0 for such Fiscal Quarter, so that in no event shall Consolidated Net Worth at the end of any Fiscal Quarter be less than that required at the end of the preceding Fiscal Quarter.

ARTICLE VII

NEGATIVE COVENANTS

Each of ADESA and the Borrower covenants and agrees that so long as any of the Obligations remain outstanding and unpaid:

SECTION 7.1. NEGATIVE PLEDGE. It will not, and will not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien on any of its assets or property now owned or hereafter acquired or, except:

(a) Liens created in favor of the Administrative Agent for the benefit of the Lenders pursuant to the Loan Documents;

(b) Permitted Encumbrances;

(c) any Liens on any property or asset of ADESA or any Subsidiary existing on the Closing Date set forth on SCHEDULE 7.1; PROVIDED, that such Lien shall not apply to any other property or asset of ADESA or such Subsidiary;

(d) purchase money Liens upon or in any fixed or capital assets to secure the purchase price or the cost of construction or improvement of such fixed or capital assets or to secure Indebtedness incurred solely for the purpose of financing the acquisition, construction or improvement of such fixed or capital assets (including Liens securing any Capital Lease Obligations); PROVIDED, that (i) such Lien attaches to such asset concurrently or within 90 days after the acquisition, improvement or completion of the construction thereof; (ii) such Lien does not extend to any other asset; and (iii) the Indebtedness secured thereby does not exceed the cost of acquiring, constructing or improving such fixed or capital assets and does not cause a violation of any of the financial covenants contained in Article VI;

(e) any Lien (i) existing on any asset of any Person at the time such Person becomes a Subsidiary of ADESA or any Subsidiary, (ii) existing on any asset of any Person at the time such Person is merged with or into ADESA or any Subsidiary or (iii) existing on any asset prior to the acquisition thereof by ADESA or any Subsidiary; PROVIDED, that any such Lien was not created in the contemplation of any of the foregoing and any such Lien secures only those obligations which it secures on the date that such Person becomes a Subsidiary or the date of such merger or the date of such acquisition; and

(f) extensions, renewals, or replacements of any Lien referred to in paragraphs (a) through (d) of this Section; PROVIDED, that the principal amount of the Indebtedness secured thereby is not increased and that any such extension, renewal or replacement is limited to the assets originally encumbered thereby.

SECTION 7.2. FUNDAMENTAL CHANGES.

(a) It will not, and will not permit any Subsidiary to, merge into or consolidate into any other Person, or permit any other Person to merge into or consolidate with it, or sell, lease, transfer or otherwise dispose of (in a single transaction or a series of transactions) all or substantially all of its assets (in each case, whether now owned or hereafter acquired) or all or substantially all of the stock of any of its Subsidiaries (in each case, whether now owned or hereafter acquired) or liquidate or dissolve; PROVIDED, that if at the time thereof and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing (i) ADESA or any Subsidiary may merge with a Person if ADESA (or such Subsidiary if ADESA is not a party to such merger) is the surviving Person, (ii) any Subsidiary may merge into another Subsidiary; PROVIDED, that if any party to such merger is the Borrower, the Borrower shall be the surviving Person, (iii) any Subsidiary may sell, transfer, lease or otherwise dispose of all or substantially all of its assets to ADESA or the Borrower and (iv) any Subsidiary (other than the Borrower) may liquidate or dissolve if ADESA determines in good faith that such liquidation or dissolution is in the best interests of ADESA or such Subsidiary and is not materially disadvantageous to the Lenders; PROVIDED, that any such merger involving a Person that is not a wholly-owned Subsidiary immediately prior to such merger shall not be permitted. Notwithstanding the foregoing and upon notice to the Administrative Agent, ADESA shall be allowed to restructure Automotive Finance Company from a Subsidiary to a company wholly-owned by ALLETE Automotive Services, Inc., a wholly-owned Subsidiary of ALLETE.

(b) It will not, and will not permit any of its Subsidiaries to, engage to any material extent in any business other than businesses of the type conducted by ADESA and its Subsidiaries on the date hereof and businesses reasonably related thereto.

SECTION 7.3. TRANSACTIONS WITH AFFILIATES. It will not, and will not permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) in the ordinary course of business at prices and on terms and conditions not less favorable to it or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, and (b) transactions between or among ADESA and its wholly-owned Subsidiaries not involving any other Affiliates.

SECTION 7.4. RESTRICTIVE AGREEMENTS. It will not, and will not permit any Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement that prohibits, restricts or imposes any condition upon (a) the ability of ADESA or any Subsidiary to create, incur or permit any Lien upon any of its assets or properties, whether now owned or hereafter acquired, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to its common stock, to make or repay loans or advances to ADESA or any other Subsidiary, to Guarantee Indebtedness of ADESA or any other Subsidiary or to transfer any of its property or assets to ADESA or the Borrower; PROVIDED, that (i) the foregoing shall not apply to restrictions or conditions imposed by law or by this Agreement or any other Loan Document, (ii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is sold and such sale is permitted hereunder, and (iii) clause (a) shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

SECTION 7.5. [INTENTIONALLY LEFT BLANK].

SECTION 7.6. HEDGING AGREEMENTS. It will not, and will not permit any of the Subsidiaries to, enter into any Hedging Agreement, other than Hedging Agreements entered into in the ordinary course of business to hedge or mitigate risks to which ADESA or any Subsidiary is exposed in the conduct of its business or the management of its liabilities. Solely for the avoidance of doubt, ADESA acknowledges that a Hedging Agreement entered into for speculative purposes or of a speculative nature (which shall be deemed to include any Hedging Agreement under which ADESA or any of the Subsidiaries is or may become obliged to make any payment (i) in connection with the purchase by any third party of any common stock or any Indebtedness or (ii) as a result of changes in the market value of any common stock or any Indebtedness) is not a Hedging Agreement entered into in the ordinary course of business to hedge or mitigate risks.

SECTION 7.7. AMENDMENT TO MATERIAL DOCUMENTS. It will not, and will not permit any Subsidiary to, amend, modify or waive any of its rights in a manner materially adverse to the Lenders under (a) its certificate of incorporation, bylaws or other organizational documents or (b) any material contracts.

SECTION 7.8. ACCOUNTING CHANGES. It will not, and will not permit any Subsidiary to, make any significant change in accounting treatment or reporting practices, except as required by GAAP, or change the fiscal year of ADESA or of any Subsidiary, except to change the fiscal year of a Subsidiary to conform its fiscal year to that of ADESA.

## ARTICLE VIII

## EVENTS OF DEFAULT

SECTION 8.1. EVENTS OF DEFAULT. If any of the following events (each an "EVENT OF DEFAULT") shall occur:

(a) the Borrower shall fail to pay any principal of any Term Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment or otherwise; or

(b) the Borrower shall fail to pay any interest on any Term Loan or any fee or any other amount (other than an amount payable under clause (a) of this Article) payable under this Agreement or any other

Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of three (3) Business Days; or

(c) any representation or warranty made or deemed made by or on behalf of ADESA or the Borrower in or in connection with this Agreement or any other Loan Document (including the Schedules attached thereto) and any amendments or modifications hereof or waivers hereunder, or in any certificate, report, financial statement or other document submitted to the Administrative Agent or the Lenders by ADESA or the Borrower or any representative of ADESA or the Borrower pursuant to or in connection with this Agreement or any other Loan Document shall prove to be incorrect in any material respect when made or deemed made or submitted; or

(d) ADESA or the Borrower shall fail to observe or perform any covenant or agreement contained in SECTIONS 5.2, 5.3 (with respect to the applicable party's existence) or ARTICLES VI or VII; or

(e) ADESA or the Borrower shall fail in any material respect to timely observe or perform any covenant or agreement contained in this Agreement (other than those referred to in clauses (a), (b) and (d) above) or any other Loan Document to be performed or observed by it hereunder or under such other Loan Document and such failure shall continue for a period of thirty (30) days after the earlier of (i) ADESA's or Borrower's receipt of written notice thereof from the Administrative Agent or any Lender or (ii) ADESA or Borrower shall have knowledge of such failure; PROVIDED, HOWEVER, that if such failure is capable of cure, but is not capable of cure within such thirty day period, so long as ADESA or Borrower shall be diligently pursuing such cure, such failure shall not constitute an Event of Default unless it shall continue for a period of ninety (90) days after the earlier of (x) ADESA's or Borrower's receipt of written notice thereof from the Administrative Agent or any Lender or (y) ADESA or Borrower shall have knowledge of such failure; or

(f) any of the Consolidated Companies (whether as primary obligor or as guarantor or other surety) shall fail to pay any principal of or premium or interest on any Material Indebtedness that is outstanding, when and as the same shall become due and payable (whether at scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument evidencing such Material Indebtedness; or any other event shall occur or condition shall exist under any agreement or instrument relating to such Material Indebtedness and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or permit the acceleration of, the maturity of such Material Indebtedness; or any such Material Indebtedness shall be declared to be due and payable; or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), purchased or defeased, or any offer to prepay, redeem, purchase or defease such Indebtedness shall be required to be made, in each case prior to the stated maturity thereof; or

(g) any Loan Party shall (i) commence a voluntary case or other proceeding or file any petition seeking liquidation, reorganization or other relief under any federal, state or foreign bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a custodian, trustee, receiver, liquidator or other similar official of it or any substantial part of its property, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (i) of this Section, (iii) apply for or consent to the appointment of a custodian, trustee, receiver, liquidator or other similar official for such Loan Party or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take any action for the purpose of effecting any of the foregoing; or

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of any Loan Party or its debts, or any substantial part of its assets, under any federal, state or foreign bankruptcy, insolvency or other similar law now or hereafter in effect or (ii) the appointment of a custodian, trustee, receiver, liquidator or other similar official for any Loan Party or for a substantial part of its assets, and in any such case, such proceeding or petition shall remain undismissed for a period of ninety (90) days or an order or decree approving or ordering any of the foregoing shall be entered; or

(i) any Loan Party shall become unable to pay, shall admit in writing its inability to pay, or shall fail to pay, its debts as they become due; or

(j) any Loan Party ceases to do business as presently conducted or seeks to dissolve; or

(k) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with other ERISA Events that have occurred, could reasonably be expected to result in liability to ADESA or any Subsidiary in an aggregate amount exceeding $1,000,000; or

(l) one or more non-interlocutory judgments, non-interlocutory orders, decrees of arbitration awards shall be entered against any Loan Party or any Subsidiary of a Loan Party involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of $5,000,000 or more (in the case of ADESA and its Subsidiaries on a consolidated basis) or $20,000,000 or more (in the case of ALLETE) and the same shall remain unsatisfied, unvacated and unstayed pending appeal for a period of sixty (60) days after the entry thereof; or

(m) any non-monetary judgment, order or decree is entered against any Loan Party or any Subsidiary of a Loan Party which does or would reasonably be expected to have a Material Adverse Effect, and there shall be a period of twenty (20) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(n) a Change in Control shall occur or exist; or

(o) any Loan Document ceases to be in full force and effect or the validity or enforceability thereof is disaffirmed by or on behalf of any Loan Party, or at any time it is or becomes unlawful for any Loan Party to perform or comply with its obligations under any Loan Document, or any action at law, suit or in equity or other legal proceeding to cancel, revoke or rescind any Loan Document shall be commenced by or on behalf of any Loan Party or the obligations of any Loan Party under any Loan Document are not or cease to be legal, valid and binding on such Loan Party; or

(p) if the Deed of Trust at any time does not constitute a first Lien on the Real Property and other collateral encumbered thereby; or

(q) if a Claim is made that the Real Property or the Improvements do not comply with any Applicable Law or an action is instituted in any court or administrative agency with jurisdiction over the Real Property or the Borrower in which a Claim is made as to whether the Real Property or the Improvements do so comply, which is not resolved in the Borrower's favor within thirty (30) days after the commencement thereof except for such Claims as the Borrower is diligently contesting in good faith as long as the enforcement thereof is stayed; or

(r) if an Event of Loss or an Event of Taking occurs;

(s) if a Material Adverse Event shall occur which is not otherwise specifically dealt with under this Article VII;

(t) a default occurs under any of the other Loan Documents which is not timely cured within any applicable grace period provided therein;

then, and in every such event (other than an event with respect to any Loan Party described in clause (g) or (h) of this Section) and at any time thereafter during the continuance of such event, the Administrative Agent may, and upon the written request of the Required Lenders shall, by notice to the Loan Parties, in addition to the exercise of any rights and remedies under any of the other Loan Documents, take any or all of the following actions, at the same or different times: (i) declare the principal of and any accrued interest on the Term Loans, and all other Obligations owing hereunder, to be, whereupon the same shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Loan Party, (ii) exercise any remedy contained in the Security Documents and (iii) exercise any and all other remedies contained in any other Loan Document; and that, if an Event of Default specified in either clause (g) or (h) shall occur, the principal of the Term Loans then outstanding, together with accrued interest thereon, and all fees, and all other Obligations shall

automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Loan Parties.

## ARTICLE IX

## THE ADMINISTRATIVE AGENT

SECTION 9.1. APPOINTMENT OF ADMINISTRATIVE AGENT. Each Lender irrevocably appoints SunTrust Bank as the Administrative Agent and authorizes it to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent under this Agreement and the other Loan Documents, together with all such actions and powers that are reasonably incidental thereto. The Administrative Agent may perform any of its duties hereunder by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions set forth in this Article shall apply to any such sub-agent and the Related Parties of the Administrative Agent and any such sub-agent and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

SECTION 9.2. NATURE OF DUTIES OF ADMINISTRATIVE AGENT. The Administrative Agent shall not have any duties or obligations except those expressly set forth in this Agreement and the other Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default or an Event of Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except those discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in SECTION 10.2), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to any Loan Party or any of its Subsidiaries that is communicated to or obtained by the Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in SECTION 10.2) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall not be deemed to have knowledge of any Default or Event of Default unless and until written notice thereof is given to the Administrative Agent by a Loan Party or any Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements, or other terms and conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article III or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

SECTION 9.3. LACK OF RELIANCE ON THE ADMINISTRATIVE AGENT. Each of the Lenders acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each of the Lenders also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, continue to make its own decisions in taking or not taking of any action under or based on this Agreement, any related agreement or any document furnished hereunder or thereunder.

SECTION 9.4. CERTAIN RIGHTS OF THE ADMINISTRATIVE AGENT. If the Administrative Agent shall request instructions from the Required Lenders with respect to any action or actions (including the failure to act) in connection with this Agreement, the Administrative Agent shall be entitled to refrain from such act or taking such act, unless and until it shall have received instructions from such Lenders; and the Administrative Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, no Lender shall have any right of action whatsoever against the Administrative Agent as a result of the Administrative Agent acting or

refraining from acting hereunder in accordance with the instructions of the Required Lenders where required by the terms of this Agreement.

SECTION 9.5. RELIANCE BY ADMINISTRATIVE AGENT. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed, sent or made by the proper Person. The Administrative Agent may also rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (including counsel for any Loan Party), independent public accountants and other experts selected by it and shall not be liable for any action taken or not taken by it in accordance with the advice of such counsel, accountants or experts.

SECTION 9.6. THE ADMINISTRATIVE AGENT IN ITS INDIVIDUAL CAPACITY. The bank serving as the Administrative Agent shall have the same rights and powers under this Agreement and any other Loan Document in its capacity as a Lender as any other Lender and may exercise or refrain from exercising the same as though it were not the Administrative Agent; and the terms "LENDERS", "REQUIRED LENDERS", "HOLDERS OF NOTES", or any similar terms shall, unless the context clearly otherwise indicates, include the Administrative Agent in its individual capacity. The bank acting as the Administrative Agent and its Affiliates may accept deposits from, lend money to, and generally engage in any kind of business with any Loan Party or any Subsidiary or Affiliate of any Loan Party as if it were not the Administrative Agent hereunder.

SECTION 9.7. SUCCESSOR ADMINISTRATIVE AGENT.

(a) The Administrative Agent may resign at any time by giving notice thereof to the Lenders and the Loan Parties. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent, subject to the approval by the Loan Parties provided that no Default or Event of Default shall exist at such time. If no successor Administrative Agent shall have been so appointed, and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a commercial bank organized under the laws of the United States of America or any state thereof or a bank which maintains an office in the United States, having a combined capital and surplus of at least $500,000,000.

(b) Upon the acceptance of its appointment as the Administrative Agent hereunder by a successor, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Documents. If within forty-five (45) days after written notice is given of the retiring Administrative Agent's resignation under this SECTION 9.7 no successor Administrative Agent shall have been appointed and shall have accepted such appointment, then on such 45th day (i) the retiring Administrative Agent's resignation shall become effective, (ii) the retiring Administrative Agent shall thereupon be discharged from its duties and obligations under the Loan Documents and (iii) the Required Lenders shall thereafter perform all duties of the retiring Administrative Agent under the Loan Documents until such time as the Required Lenders appoint a successor Administrative Agent as provided above. After any retiring Administrative Agent's resignation hereunder, the provisions of this Article IX shall continue in effect for the benefit of such retiring Administrative Agent and its representatives and agents in respect of any actions taken or not taken by any of them while it was serving as the Administrative Agent.

## ARTICLE X

## MISCELLANEOUS

SECTION 10.1. NOTICES.

(a) Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications to any party herein to be effective shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

To any Loan Party:

On or before March 31, 2004:
ADESA Corporation
310 East 96th Street
Suite 400
Indianapolis, Indiana 46240
Attention: Paul Lips, CFO
Telecopy Number: (317) 249-4240

After March 31, 2004:
ADESA Corporation
13085 Hamilton Crossing Blvd.
Carmel, Indiana 46032
Attention: Paul Lips, CFO
Telecopy Number: [TBD]

With copies to:

ALLETE, Inc.
30 West Superior Street
Duluth, MN 55802
Attention: James Vizanko, CFO
Telecopy Number: (218) 723-3912

General Counsel
ALLETE, Inc.
30 West Superior Street
Duluth, MN 55802
Telecopy Number: (218) 723-3960
On or before March 31, 2004:
General Counsel
ADESA Corporation
310 East 96th Street
Suite 400
Indianapolis, Indiana 46240
Telecopy Number: (317) 249-4501

After March 31, 2004:
General Counsel
ADESA Corporation
13085 Hamilton Crossing Blvd.
Carmel, Indiana 46032
Telecopy Number: [TBD]

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| To the Administrative Agent: | SunTrust Bank<br>200 South Orange Avenue/MC #1106<br>Orlando, Florida 32801<br>Attention: Edward Wooten, Director<br>Telecopy Number: (407) 237-4076 |
| To the Lenders: | SunTrust Bank<br>200 South Orange Avenue/MC #1106<br>Orlando, Florida 32801<br>Attention: Edward Wooten, Director<br>Telecopy Number: (407) 237-4076 |
| | Harris Trust and Savings Bank<br>111 West Monroe Street<br>10th Floor West<br>Chicago, Illinois 60603<br>Attention: Thad D. Rasche, Vice President<br>and<br>Peter Christopoulos, Associate<br>Telecopy Number: (312) 461-5225 |
| | LaSalle Bank National Association<br>One American Square, Suite 1600<br>Indianapolis, IN 46282<br>Attention: Matthew Doye, Assistant<br>Vice President<br>Telecopy Number: (317) 756-7021 |

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All such notices and other communications shall, when transmitted by overnight delivery, or faxed, be effective when delivered for overnight (next-day) delivery, or transmitted in legible form by facsimile machine, respectively, or if mailed, upon the third Business Day after the date deposited into the mails or if delivered, upon delivery; PROVIDED, that notices delivered to the Administrative Agent shall not be effective until actually received by such Person at its address specified in this SECTION 10.1.

(b) Any agreement of the Administrative Agent and the Lenders herein to receive certain notices by telephone or facsimile is solely for the convenience and at the request of the Loan Parties. The Administrative Agent and the Lenders shall be entitled to rely on the authority of any Person purporting to be a Person authorized by the Loan Parties to give such notice and the Administrative Agent and Lenders shall not have any liability to any Loan Party or other Person on account of any action taken or not taken by the Administrative Agent or the Lenders in reliance upon such telephonic or facsimile notice. The obligation of the Borrower to repay the Loans and all other Obligations hereunder shall not be affected in any way or to any extent by any failure of the Administrative Agent and the Lenders to receive written confirmation of any telephonic or facsimile notice or the receipt by the Administrative Agent and the Lenders of a confirmation which is at variance with the terms understood by the Administrative Agent and the Lenders to be contained in any such telephonic or facsimile notice.

SECTION 10.2. WAIVER; AMENDMENTS.

(a) No failure or delay by the Administrative Agent or any Lender in exercising any right or power hereunder or any other Loan Document, and no course of dealing between any Loan Party and the Administrative Agent or any Lender, shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power hereunder or thereunder. The rights and remedies of the Administrative Agent and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies provided by law. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by any Loan Party therefrom shall in any event

be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

(b) No amendment or waiver of any provision of this Agreement or the other Loan Documents, nor consent to any departure by any Loan Party therefrom, shall in any event be effective unless the same shall be in writing and signed by each of the Loan Parties and the Required Lenders or each of the Loan Parties and the Administrative Agent with the consent of the Required Lenders and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; PROVIDED, that no amendment or waiver shall: (i) reduce the principal amount of any Term Loan or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (ii) postpone the date fixed for any payment of any principal of, or interest on, any Term Loan or interest thereon or any fees hereunder or reduce the amount of, waive or excuse any such payment, or extend the Maturity Date, without the written consent of each Lender affected thereby, (iii) change SECTION 2.16(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby , without the written consent of each Lender, (iv) change any of the provisions of this Section or the definition of "REQUIRED LENDERS" or any other provision hereof specifying the number or percentage of Lenders which are required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the consent of each Lender; (v) release any Guarantor or limit the liability of any such Guarantor under the Guaranty Agreement; (vi) release all or substantially all collateral securing any of the Obligations or agree to subordinate any Lien in such collateral to any other creditor of the Borrower; PROVIDED FURTHER, that no such agreement shall amend, modify or otherwise affect the rights, duties or obligations of the Administrative Agent without the prior written consent of the Administrative Agent. The Borrower agrees to pay to each Lender an administration fee equal to $2,500 for each amendment, supplement or other modification of, or waiver in respect of, any Loan Document, which fee shall be payable as of the effective date of such amendment, supplement, modification or waiver (and the Administrative Agent is authorized by the Borrower to debit amounts on deposit in any of Borrower's accounts maintained with the Administrative Agent for such payment).

SECTION 10.3. EXPENSES; INDEMNIFICATION.

(a) The Borrower shall pay (i) all reasonable, out-of-pocket costs and expenses of the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent and its Affiliates, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents and any amendments, modifications or waivers thereof (whether or not the Transaction shall be consummated), and (ii) all out-of-pocket costs and expenses (including, without limitation, the reasonable fees, charges and disbursements of outside counsel and the allocated cost of inside counsel) incurred by the Administrative Agent or any Lender in connection with the enforcement or protection of its rights in connection with this Agreement, including its rights under this Section, or in connection with the Term Loans made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) The Borrower shall indemnify the Administrative Agent and each Lender and each Related Party, on an After-Tax Basis, of any of the foregoing (each, an "INDEMNITEE") against, and hold each of them harmless from, any and all costs, losses, liabilities, claims, damages and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, which may be incurred by or asserted against any Indemnitee arising out of, in connection with or as a result of (i) the execution or delivery of this Agreement or any other agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transaction, (ii) the Term Loans or any actual or proposed use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned by the Borrower or any Subsidiary or any Environmental Liability related in any way to the Borrower or any Subsidiary or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; PROVIDED, that the Borrower shall not be obligated to indemnify any Indemnitee for any of the foregoing arising out of such Indemnitee's gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final and nonappealable judgment.

(c) The Borrower shall pay, and hold the Administrative Agent and each of the Lenders harmless from and against, any and all present and future stamp, documentary, and other similar taxes with respect

to this Agreement and any other Loan Documents, any collateral described therein, or any payments due thereunder, and save the Administrative Agent and each Lender harmless from and against any and all liabilities with respect to or resulting from any delay or omission to pay such taxes.

(d) To the extent that the Borrower fails to pay any amount required to be paid to the Administrative Agent under clauses (a), (b) or (c) hereof, each Lender severally agrees to pay to the Administrative Agent such Lender's Pro Rata Share (determined as of the time that the unreimbursed expense or indemnity payment is sought) of such unpaid amount; PROVIDED, that the unreimbursed expense or indemnified payment, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent in its capacity as such.

(e) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to actual or direct damages) arising out of, in connection with or as a result of, this Agreement or any agreement or instrument contemplated hereby, the transactions contemplated therein, the Term Loans or the use of proceeds thereof.

(f) All amounts due under this Section shall be payable promptly after written demand therefor.

SECTION 10.4. SUCCESSORS AND ASSIGNS.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void).

(b) Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement and the other Loan Documents (including all or a portion of the Term Loan at the time owing to it); PROVIDED, that (i) except in the case of an assignment to a Lender or an Affiliate of a Lender , each of the Borrower and the Administrative Agent must give their prior written consent (which consent shall not be unreasonably withheld or delayed), (ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire amount of the assigning Lender's Term Loan hereunder or an assignment while an Event of Default has occurred and is continuing, the amount of the Term Loan of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 (unless the Borrower and the Administrative Agent shall otherwise consent), (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement and the other Loan Documents, (iv) the assigning Lender and the assignee shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee payable by the assigning Lender or the assignee (as determined between such Persons) in an amount equal to $2,500 and (v) such assignee, if it is not a Lender, shall deliver a duly completed Administrative Questionnaire to the Administrative Agent, in form and substance satisfactory to the Administrative Agent; PROVIDED, that any consent of the Borrower otherwise required hereunder shall not be required if an Event of Default has occurred and is continuing. Upon the execution and delivery of the Assignment and Acceptance and payment by such assignee to the assigning Lender of an amount equal to the purchase price agreed between such Persons, such assignee shall become a party to this Agreement and any other Loan Documents to which such assigning Lender is a party and, to the extent of such interest assigned by such Assignment and Acceptance, shall have the rights and obligations of a Lender under this Agreement, and the assigning Lender shall be released from its obligations hereunder to a corresponding extent (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of SECTIONS 2.13, 2.14 and 2.15 and 10.3. Upon the consummation of any such assignment hereunder, the assigning Lender, the Administrative Agent and the Borrower shall make appropriate arrangements to have new Notes issued if so requested by either or both the assigning Lender or the assignee. Any assignment or other transfer by a Lender that does not fully comply with the terms of this clause (b) shall be treated for purposes of this Agreement as a sale of a participation pursuant to clause (c) below.

(c) Any Lender may at any time, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (a "PARTICIPANT") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of the Term Loan owing to it); PROVIDED, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of its obligations hereunder, and (iii) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Loan Documents. Any agreement between such Lender and the Participant with respect to such participation shall provide that such Lender shall retain the sole right and responsibility to enforce this Agreement and the other Loan Documents and the right to approve any amendment, modification or waiver of this Agreement and the other Loan Documents; PROVIDED, that such participation agreement may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver of this Agreement described in the first proviso of SECTION 10.2(b) that affects the Participant. The Borrower agrees that each Participant shall be entitled to the benefits of SECTIONS 2.13, 2.14 and 2.15 to the same extent as if it were a Lender hereunder and had acquired its interest by assignment pursuant to paragraph (b); PROVIDED, that no Participant shall be entitled to receive any greater payment under SECTION 2.13 or 2.15 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant unless the sale of such participation is made with the Borrower's prior written consent. To the extent permitted by law, the Borrower agrees that each Participant shall be entitled to the benefits of SECTION 2.16 as though it were a Lender, PROVIDED, that such Participant agrees to share with the Lenders the proceeds thereof in accordance with SECTION 2.16 as fully as if it were a Lender hereunder. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of SECTION 2.15 unless the Borrower is notified of such participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with SECTION 2.15(e) as though it were a Lender hereunder.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement and its Notes (if any) to secure its obligations to a Federal Reserve Bank without complying with this Section; PROVIDED, that no such pledge or assignment shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 10.5. GOVERNING LAW; JURISDICTION; CONSENT TO SERVICE OF PROCESS.

(a) This Agreement and the other Loan Documents shall be construed in accordance with and be governed by the law (without giving effect to the conflict of law principles thereof) of the State of Florida.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of the United States District Court of the Middle District of Florida, and of any state court of the State of Florida located in Orange County and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any other Loan Document or the Transaction, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such Florida state court or , to the extent permitted by Applicable Law, such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower irrevocably and unconditionally waives any objection which it may now or hereafter have to the laying of venue of any such suit, action or proceeding described in paragraph (b) of this Section and brought in any court referred to in paragraph (b) of this Section. Each of the parties hereto irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to the service of process in the manner provided for notices in SECTION 10.1. Nothing in this Agreement or in any other Loan Document will affect the right of any party hereto to serve process in any other manner permitted by law.

SECTION 10.6. WAIVER OF JURY TRIAL. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTION (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 10.7. RIGHT OF SETOFF. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, each Lender shall have the right, at any time or from time to time upon the occurrence and during the continuance of an Event of Default, without prior notice to the Loan Parties, any such notice being expressly waived by the Loan Parties to the extent permitted by Applicable Law, to set off and apply against all deposits (general or special, time or demand, provisional or final) of any Loan Party at any time held or other obligations at any time owing by such Lender to or for the credit or the account of such Loan Party against any and all Obligations held by such Lender irrespective of whether such Lender shall have made demand hereunder and although such Obligations may be unmatured. Each Lender agrees promptly to notify the Administrative Agent and each Loan Party after any such set-off and any application made by such Lender; PROVIDED, that the failure to give such notice shall not affect the validity of such set-off and application.

SECTION 10.8. COUNTERPARTS; INTEGRATION. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Agreement, the other Loan Documents, and any separate letter agreement(s) relating to any fees payable to the Administrative Agent constitute the entire agreement among the parties hereto and thereto regarding the subject matters hereof and thereof and supersede all prior agreements and understandings, oral or written, regarding such subject matters.

SECTION 10.9. EFFECTIVENESS; SURVIVAL.

(a) This Agreement shall become effective on the date (the "EFFECTIVE DATE") on which all of the parties hereto shall have signed a counterpart hereof (whether the same or different counterparts) and have delivered the same to the Administrative Agent pursuant to SECTION 3.1(b) or, in the case of the Lenders, shall have given to the Administrative Agent written or facsimile notice (actually received) that the same has been signed and mailed to the Administrative Agent; PROVIDED, HOWEVER, notwithstanding execution of this Agreement by the Loan Parties and each of the Lenders party hereto and satisfaction (or waiver) of each of the conditions set forth in SECTION 3.1, this Agreement shall not be or become effective and binding upon the parties until executed and accepted by the Administrative Agent in its capacity as such on behalf of the Lenders.

(b) All covenants, agreements, representations and warranties made by the Loan Parties herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of the Term Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Term Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid. The provisions of SECTIONS 2.13, 2.14, 2.15, and 10.3 and Article IX shall survive and remain in full force and effect regardless of the consummation of the Transaction, the repayment of the Term Loans or the termination of this Agreement or any provision hereof. All representations and warranties made herein, in the certificates, reports, notices, and other documents delivered pursuant to this Agreement shall survive the execution and delivery of this Agreement and the other Loan Documents, and the making of the Term Loans.

SECTION 10.10. SEVERABILITY. Any provision of this Agreement or any other Loan Document held to be illegal, invalid or unenforceable in any jurisdiction, shall, as to such jurisdiction, be ineffective to the extent of such

illegality, invalidity or unenforceability without affecting the legality, validity or enforceability of the remaining provisions hereof or thereof; and the illegality, invalidity or unenforceability of a particular provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 10.11. CONFIDENTIALITY. The Administrative Agent and each Lender agrees to take normal and reasonable precautions to maintain the confidentiality of any information designated in writing as confidential and provided to it by any Loan Party or any Subsidiary of any such Loan Party, except that such information may be disclosed (i) to any Related Party of the Administrative Agent or any such Lender, including without limitation accountants, legal counsel and other advisors, (ii) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (iii) to the extent requested by any regulatory agency or authority, (iv) to the extent that such information becomes publicly available other than as a result of a breach of this Section, or which becomes available to the Administrative Agent, any Lender or any Related Party of any of the foregoing on a nonconfidential basis from a source other than a Loan Party, (v) in connection with the exercise of any remedy hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, and (ix) subject to provisions substantially similar to this SECTION 10.11, to any actual or prospective assignee or Participant, or (vi) with the consent of the applicable Loan Party. Any Person required to maintain the confidentiality of any information as provided for in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such information as such Person would accord its own confidential information.

SECTION 10.12. INTEREST RATE LIMITATION. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Term Loan, together with all fees, charges and other amounts which may be treated as interest on such Loan under applicable law (collectively, the "CHARGES"), shall exceed the maximum lawful rate of interest (the "MAXIMUM RATE") which may be contracted for, charged, taken, received or reserved by a Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Rate to the date of repayment, shall have been received by such Lender.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed [under seal in the case of each Loan Party] by their respective authorized officers as of the day and year first above written.

ADESA CALIFORNIA, INC.

By: /s/ James P. Hallett
---
Name: James P. Hallett
Title: President

[SEAL]

SUNTRUST BANK,
as Administrative Agent and as a Lender

By: /s/ Chris Aguilar
---
Name: Chris Aguilar
Title: Managing Director

Term Loan Commitment: $16,050,000

HARRIS TRUST AND SAVINGS BANK,
as a Lender

By: /s/ Thad D. Rasche
---
Name: Thad D. Rasche
Title: Vice President

Term Loan Commitment: $14,475,000

LASALLE BANK NATIONAL ASSOCIATION,
as a Lender

By: /s/ Matthew Doye
---
Name: Matthew Doye
Title: AVP

Term Loan Commitment: $14,475,000

JOINDER BY GUARANTORS

Each of the Guarantors hereby join in the execution of this Agreement for the purpose of signifying its consent to and approval of, and its agreement to be bound by, the terms and conditions of this Agreement applicable to it.

Dated as of the 30th day of June, 2003.

ADESA CORPORATION

By: /s/ James P. Hallett
Name: James P. Hallett
Title: President and CEO

[SEAL]

ALLETE, INC.

By: /s/ Steven W. Tyacke
Name: Steven W. Tyacke
Title: Assistant General Counsel

[SEAL]

# GUARANTY AGREEMENT

GUARANTY AGREEMENT dated as of June 30, 2003, among ADESA CORPORATION, an Indiana corporation, and ALLETE, INC., a Minnesota corporation (each individually, a "GUARANTOR" and collectively, the "GUARANTORS") of ADESA CALIFORNIA, INC., a California corporation (the "BORROWER"), and SUNTRUST BANK, a Georgia banking corporation as administrative agent (the "ADMINISTRATIVE AGENT") for the Lenders (as defined in the Credit Agreement referred to below).

Reference is made to the Term Loan Agreement dated as of June 30, 2003 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among the Borrower, the lenders from time to time party thereto (the "LENDERS") and SunTrust Bank, as administrative agent for the Lenders (in such capacity, the "ADMINISTRATIVE AGENT"), joined by the Guarantors. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

The Lenders have agreed to make Term Loans to the Borrower pursuant to, and upon the terms and subject to the conditions specified in, the Credit Agreement. The Borrower is the direct wholly-owned Subsidiary of ADESA Corporation ("ADESA") which, in turn, is an indirect Subsidiary of ALLETE, Inc. ("ALLETE"), and accordingly, each of the Guarantors acknowledges that it will derive substantial benefit from the making of the Term Loans by the Lenders. The obligations of the Lenders to make the Term Loans are conditioned on, among other things, the execution and delivery by the Guarantors of a Guaranty Agreement in the form hereof. As consideration therefor and in order to induce the Lenders to make the Term Loans, the Guarantors are willing to execute this Guaranty Agreement.

Accordingly, the parties hereto agree as follows:

SECTION 1. GUARANTEE. Each Guarantor unconditionally guarantees, jointly with the other Guarantors and severally, as a primary obligor and not merely as a surety, (a) the due and punctual payment of (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Term Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and (ii) all other monetary obligations, including fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Loan Parties to the Administrative Agent and the Lenders under the Credit Agreement and the other Loan Documents, (b) the due and punctual performance of all covenants, agreements, obligations and liabilities of the Loan Parties under or pursuant to the Credit Agreement and the other Loan Documents; and (c) the due and punctual payment and performance of all obligations of the Borrower, monetary or otherwise, under each Hedging Agreement entered into with a counterparty that was a Lender or an Affiliate of a Lender at the time such Hedging Agreement was entered into (all the monetary and other obligations referred to in the preceding clauses (a) through (c) being collectively called the "OBLIGATIONS"). Each Guarantor further agrees that the Obligations may be extended or renewed, in whole or in part (but the principal amount of the Notes may not be increased), without notice to or further assent from it, and that it will remain bound upon its guarantee notwithstanding any extension or renewal of any Obligation.

SECTION 2. OBLIGATIONS NOT WAIVED. To the fullest extent permitted by applicable law, each Guarantor waives presentment to, demand of payment from and protest to the Borrower of any of the Obligations, and also waives notice of acceptance of its guarantee and notice of protest for nonpayment. To the fullest extent permitted by applicable law, the obligations of each Guarantor hereunder shall not be affected by (a) the failure of the Administrative Agent or any Lender to assert any claim or demand or to enforce or exercise any right or remedy against the Borrower or any other Guarantor under the provisions of the Credit Agreement, any other Loan Document or otherwise, (b) any rescission, waiver, amendment or modification of, or any release from any of the terms or provisions of, this Agreement, any other Loan Document or any other agreement, including with respect to any other Guarantor under this Agreement, or (c) the failure to perfect any security interest in, or the release of, any of the security held by or on behalf of the Administrative Agent or any Lender.

SECTION 3. SECURITY. Each of the Guarantors authorizes the Administrative Agent and each of the Lenders, from time to time at their discretion and without notice to Guarantors (but subject to the terms of the other Loan Documents), to take any or all of the following actions without impairing the Guarantors' obligations hereunder: (a) retain or obtain a lien on or security interest in any property to secure any of the Obligations or any liability or obligation hereunder; (b) retain or obtain the primary or secondary obligation of any obligor or obligors, in addition to the Guarantors, with respect to any of the Obligations; (c) extend or renew for one or more periods (regardless of whether longer than the original period), or release or compromise any obligation of the Guarantors hereunder or any obligation of any nature of any other obligor (including, without limitation, the Borrower) with respect to any of the Obligations: (d) release or fail to perfect its lien on or security interest in, or impair, surrender, release or permit any substitution or exchange for, all or any part of any property securing any of the Obligations or any liability or obligation hereunder, or extend or renew for one or more periods (regardless of whether longer than the original period) or release or compromise any obligations of any nature of any obligor with respect to any such property, or apply any such property and direct the order or manner of sale thereof as they, in their sole discretion, may determine; (e) release or substitute any one or more endorsees, other guarantors of other obligors; and (f) resort to the Guarantors, or either of them, for payment of any the Obligations, regardless of whether the Administrative Agent or any other Person shall have resorted to any property securing any of the Obligations or any liability or obligation hereunder or shall have proceeded against the Borrower or any other obligator primarily or secondarily obligated with respect to any of the Obligations (all of the actions referred to in this clause (f) being hereby expressly waived by the Guarantors).

SECTION 4. GUARANTEE OF PAYMENT. Each Guarantor further agrees that its guaranty constitutes a guarantee of payment when due and not of collection, and waives any right to require that any resort be had by the Administrative Agent or any Lender to any of the security held for payment of the Obligations or to any balance of any deposit account or credit on the books of the Administrative Agent or any Lender in favor of the Borrower or any other Person.

SECTION 5. NO DISCHARGE OR DIMINISHMENT OF GUARANTEE. The obligations of each Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason (other than the indefeasible payment in full in cash of the Obligations), including any claim of waiver, release, surrender, alteration or compromise of any of the Obligations, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Guarantor hereunder shall not be discharged or impaired or otherwise affected by the failure of the Administrative Agent or any Lender to assert any claim or demand or to enforce any remedy under the Credit Agreement, any other Loan Document or any other agreement, by any waiver or modification of any provision of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or omission that may or might in any manner or to the extent vary the risk of any Guarantor or that would otherwise operate as a discharge of each Guarantor as a matter of law or equity (other than the indefeasible payment in full in cash of all the Obligations).

SECTION 6. DEFENSES OF BORROWER WAIVED. To the fullest extent permitted by applicable law, each Guarantor waives any defense based on or arising out of any defense of the Borrower or the unenforceability of the Obligations or any part thereof from any cause, or the cessation from any cause of the liability of the Borrower, other than the final and indefeasible payment in full in cash of the Obligations. The Administrative Agent and the Lenders may, at their election, foreclose on any security held by one or more of them by one or more judicial or nonjudicial sales, accept an assignment of any such security in lieu of foreclosure, compromise or adjust any part of the Obligations, make any other accommodation with the Borrower or any other guarantor, without affecting or impairing in any way the liability of any Guarantor hereunder except to the extent the Obligations have been fully, finally and indefeasibly paid in cash. Pursuant to applicable law, each Guarantor waives any defense arising out of any such election even though such election operates, pursuant to applicable law, to impair or to extinguish any right of reimbursement or subrogation or other right or remedy of such Guarantor against the Borrower or any other Guarantor or guarantor, as the case may be, or any security.

SECTION 7. AGREEMENT TO PAY; SUBORDINATION. In furtherance of the foregoing and not in limitation of any other right that the Administrative Agent or any Lender has at law or in equity against any Guarantor by virtue hereof, upon the failure of the Borrower or any other Loan Party to pay any Obligation when

and as the same shall become due, whether at maturity, by acceleration, after notice of prepayment or otherwise, each Guarantor hereby promises to and will forthwith pay, or cause to be paid, to the Administrative Agent for the benefit of the Lenders in cash the amount of such unpaid Obligations. Upon payment by any Guarantor of any sums to the Administrative Agent, all rights of such Guarantor against the Borrower arising as a result thereof by way of right of subrogation, contribution, reimbursement, indemnity or otherwise shall in all respects be subordinate and junior in right of payment to the prior indefeasible payment in full in cash of all the Obligations. In addition, any indebtedness of the Borrower now or hereafter held by any Guarantor is hereby subordinated in right of payment to the prior payment in full in cash of the Obligations. If any amount shall erroneously be paid to any Guarantor on account of (i) such subrogation, contribution, reimbursement, indemnity or similar right or (ii) any such indebtedness of the Borrower, such amount shall be held in trust for the benefit of the Administrative Agent and the Lenders and shall forthwith be paid to the Administrative Agent to be credited against the payment of the Obligations, whether matured or unmatured, in accordance with the terms of the Loan Documents.

SECTION 8. INFORMATION. Each Guarantor assumes all responsibility for being and keeping itself informed of the Borrower's financial condition and assets, and of all other circumstances bearing upon the risk of nonpayment of the Obligations and the nature, scope and extent of the risks that such Guarantor assumes and incurs hereunder, and agrees that none of the Administrative Agent or the Lenders will have any duty to advise any of the Guarantors of information known to it or any of them regarding such circumstances or risks.

SECTION 9. REPRESENTATIONS AND WARRANTIES. Each Guarantor represents and warrants as to itself that all representations and warranties relating to it contained in the Credit Agreement are true and correct.

SECTION 10. TERMINATION. The guarantees made hereunder (a) shall terminate when all the Obligations have been paid in full in cash and satisfied and (b) shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of any Obligation is rescinded or must otherwise be restored by any Lender or any Guarantor upon the bankruptcy or reorganization of the Borrower, any Guarantor or otherwise. In connection with the foregoing, the Administrative Agent shall execute and deliver to such Guarantor or Guarantor's designee, at such Guarantor's expense, any documents or instruments which such Guarantor shall reasonably request from time to time to evidence such termination and release.

SECTION 11. BINDING EFFECT; SEVERAL AGREEMENT; ASSIGNMENTS. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Guarantors that are contained in this Agreement shall bind and inure to the benefit of each party hereto and their respective successors and assigns. This Agreement shall become effective as to any Guarantor when a counterpart hereof executed on behalf of such Guarantor shall have been delivered to the Administrative Agent, and a counterpart hereof shall have been executed on behalf of the Administrative Agent, and thereafter shall be binding upon such Guarantor and the Administrative Agent and their respective successors and assigns, and shall inure to the benefit of such Guarantor, the Administrative Agent and the Lenders, and their respective successors and assigns, except that no Guarantor shall have the right to assign its rights or obligations hereunder or any interest herein (and any such attempted assignment shall be void); PROVIDED, HOWEVER, that if ALLETE is a party to an internal reorganization pursuant to which all or substantially all of ALLETE'S common stock is exchanged for the common stock of an entity that becomes ALLETE'S parent, ALLETE may assign and delegate its rights and obligations under this Guaranty to its new parent so long as (a) such new parent is at least of the same credit quality (as reasonably determined by the Lenders) as ALLETE immediately prior to such reorganization and (b) such new parent executes and delivers to the Administrative Agent such assumption agreements, certificates and opinions as the Administrative Agent reasonably requests. Upon any such delegation and assumption of obligations in accordance with the previous sentence, ALLETE, but not ADESA, shall be relieved of and fully discharged from all obligations hereunder, whether such obligations arose before or after such delegation and assumption. This Agreement shall be construed as a separate agreement with respect to each Guarantor and may be amended, modified, supplemented, waived or released with respect to any Guarantor without the approval of any other Guarantor and without affecting the obligations of any other Guarantor hereunder.

SECTION 12. WAIVERS; AMENDMENT.

(a) No failure or delay of the Administrative Agent of any in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and of the Administrative Agent hereunder and of the Lenders under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by any Guarantor therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver and consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on any Guarantor in any case shall entitle such Guarantor to any other or further notice in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to a written agreement entered into between the Guarantors with respect to which such waiver, amendment or modification relates and the Administrative Agent, with the prior written consent of the Required Lenders (except as otherwise provided in the Credit Agreement).

SECTION 13. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF FLORIDA.

SECTION 14. NOTICES. All communications and notices hereunder shall be in writing and given as provided in Section 10.1 of the Credit Agreement. All communications and notices hereunder to each Guarantor shall be given to it at its address set forth in Section 10.1 of the Credit Agreement.

SECTION 15. SURVIVAL OF AGREEMENT; SEVERABILITY.

(a) All covenants, agreements representations and warranties made by the Guarantors herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or the other Loan Document shall be considered to have been relied upon by the Administrative Agent and the Lenders and shall survive the making by the Lenders of the Term Loans regardless of any investigation made by any of them or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Term Loan or any other fee or amount payable under this Agreement or any other Loan Document is outstanding and unpaid.

(b) In the event one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 16. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract (subject to Section 11), and shall become effective as provided in Section 11. Delivery of an executed signature page to this Agreement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Agreement.

SECTION 17. RULES OF INTERPRETATION. The rules of interpretation specified in Section 1.03 of the Credit Agreement shall be applicable to this Agreement.

SECTION 18. JURISDICTION; CONSENT TO SERVICE OF PROCESS.

(a) Each Guarantor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any Florida state court or Federal court of the United States of America

sitting in Orlando, Florida, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such Florida state court or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against any Guarantor or its properties in the courts of any jurisdiction.

(b) Each Guarantor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any Florida state or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 14. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 19. WAIVER OF JURY TRIAL. EACH PARTY HERETO HERBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 19.

SECTION 20. RIGHT OF SETOFF. If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other Indebtedness at any time owing by such Lender to or for the credit or the account of any Guarantor against any or all the obligations of such Guarantor now or hereafter existing under this Agreement and the other Loan Documents held by such Lender, irrespective of whether or not such Person shall have made any demand under this Agreement or any other Loan Document and although such obligations may be unmatured. The rights of each Lender under this Section 20 are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

ADESA CORPORATION

By: /s/ James P. Hallett
---
Name: James P. Hallett
Title: President and CEO

ALLETE, INC.

By: /s/ Steven W. Tyacke
---
Name: Steven W. Tyacke
Title: Assistant General Counsel

SUNTRUST BANK,
as Administrative Agent

By: /s/ Chris Aguilar
---
Name: Chris Aguilar
Title: Managing Director

Exhibit 10(d)

BORROWER PROMISSORY NOTE

$28,373,000 April 3, 2000

ASSET HOLDINGS III, L.P., an Ohio limited partnership (the "Borrower"), for value received, promises to pay to CORNERSTONE FUNDING CORPORATION I, a Delaware corporation (the "Issuer"), the sum of TWENTY-EIGHT MILLION THREE HUNDRED SEVENTY-THREE THOUSAND and 00/100 DOLLARS ($28,373,000) and to pay (i) interest on the unpaid balance of such principal sum from and after the date of this Borrower Promissory Note at the interest rate or interest rates borne by the Issuer's Floating Rate Notes, Series 2000A in the aggregate principal amount of $28,373,000 (the "Notes") and (ii) interest on overdue principal, and to the extent permitted by law, on overdue interest, at the interest rate provided under the terms of the Notes.

This Borrower Promissory Note (the "Borrower Note") has been executed and delivered by the Borrower pursuant to a certain Participation Agreement (the "Agreement"), dated as of March 31, 2000, among Borrower, ADESA Corporation, an Indiana corporation (the "Lessee"), SunTrust Bank, a banking corporation organized and existing under the laws of the State of Georgia (the "Credit Bank"), and the Issuer. Terms used but not defined herein shall have the meanings ascribed to such terms in the Agreement and the Note Indenture.

Pursuant to the Agreement, the Issuer has made a loan (the "Loan") to the Borrower of the proceeds from the issuance and sale of the Notes, to be applied to assist the Borrower in refinancing certain indebtedness incurred by the Borrower to pay the cost of acquiring certain real property (the "Leased Property") which will be owned by the Borrower and leased to the Lessee, and to pay additional Property Costs related to the transactions contemplated by the Agreement.

The Borrower has agreed, and hereby does agree, to repay such loan by making payments hereunder ("Loan Payments") at the times and in the amounts set forth in this Borrower Note. The Notes have been issued, concurrently with the execution and delivery of this Borrower Note, pursuant to, and are secured by, the Master Trust Indenture (the "Master Indenture") dated as of March 31, 2000, between the Issuer and the Note Trustee as supplemented by the First Supplemental Series Indenture between the Issuer and the Note Trustee dated as of March 31, 2000 (the "Supplemental Indenture" and, together with the Master Indenture, the "Indenture").

To provide funds to pay the Debt Service on the Notes as and when due, or to reimburse the Credit Bank for Drawings under the Letter of Credit used to make such payments, the Borrower hereby agrees to and shall make Loan Payments as follows: on each Interest Payment Date the amount equal to interest due on the Notes on such Interest Payment Date, and on each Interest Payment Date on which principal of the Notes shall be due and payable pursuant to the redemption provisions of the Note Indenture, or upon maturity of the Notes, an amount equal to such principal due and payable on such date. In addition, to provide funds to pay the Debt Service on the Notes as and when due at any other time, the Borrower hereby agrees to and shall make Loan Payments on any other date on which any Debt Service on the Notes shall be due and

payable, whether upon acceleration, call for redemption or otherwise, in the amount of the Debt Service so due and payable.

If payment or provision for payment in accordance with the Indenture is made in respect of the Debt Service on the Notes from moneys other than Loan Payments, this Note shall be deemed paid to the extent such payments or provisions for payment of Debt Service have been made. The Borrower shall receive a credit against its obligation to make Loan Payments hereunder to the extent of the moneys delivered to the Note Trustee under and pursuant to the Letter of Credit for the payment of Debt Service and any other amounts on deposit in the Note Fund and available to pay Debt Service on the Notes pursuant to the Indenture. Subject to the foregoing, all Loan Payments shall be in the full amount required hereunder.

All Loan Payments shall be payable in lawful money of the United States of America, in immediately available funds, and shall be made to the Note Trustee at its Operations Office (as defined in the Indenture) for the account of the Issuer, deposited in the Note Fund and used as provided in the Indenture.

All parties hereto, whether as makers, endorsers, or otherwise, severally waive presentment for payment, demand, protest, and notice of dishonor, notice of intention to accelerate, notice of acceleration, notice of the existence, creation or nonpayment of all or any of the Loan Advances and all other notices whatsoever.

ALL PAYMENTS TO BE MADE BY THE BORROWER IN RESPECT OF THE LOAN AND THIS BORROWER NOTE SHALL BE MADE ONLY FROM CERTAIN PAYMENTS RECEIVED UNDER THE LEASE AND CERTAIN PROCEEDS OF THE LEASED PROPERTY AND ONLY TO THE EXTENT THAT THE CREDIT BANK SHALL HAVE RECEIVED SUFFICIENT PAYMENTS FROM SUCH SOURCES TO MAKE PAYMENTS IN RESPECT OF THE LETTER OF CREDIT LIABILITIES IN ACCORDANCE WITH AND SUBJECT TO THE PRIORITIES SET FORTH IN ARTICLE III OF THE REIMBURSEMENT AGREEMENT. THE ISSUER, BY ITS ACCEPTANCE HEREOF AGREES THAT IT WILL LOOK SOLELY TO SUCH SOURCES OF PAYMENT TO THE EXTENT AVAILABLE FOR DISTRIBUTION TO THE ISSUER OR THE NOTE TRUSTEE AS PROVIDED IN THE REIMBURSEMENT AGREEMENT AND THAT NEITHER THE BORROWER NOR ITS RESPECTIVE PARTNERS, NOR ANY OF THEIR RESPECTIVE ORGANIZERS, INCORPORATORS, LIMITED OR GENERAL PARTNERS, MEMBERS, STOCKHOLDERS, DIRECTORS, OFFICERS, MANAGERS, EMPLOYEES OR AGENTS (COLLECTIVELY, THE "BORROWER PARTIES") SHALL BE PERSONALLY LIABLE TO THE ISSUER OR THE CREDIT BANK FOR ANY AMOUNT PAYABLE HEREUNDER OR UNDER THE REIMBURSEMENT AGREEMENT. NOTHING IN THIS BORROWER NOTE, THE REIMBURSEMENT AGREEMENT OR ANY OTHER OPERATIVE DOCUMENT SHALL BE CONSTRUED AS CREATING ANY LIABILITY (OTHER THAN FOR WILLFUL MISCONDUCT) OF THE BORROWER TO PAY ANY SUM OR TO PERFORM ANY COVENANT, EITHER EXPRESS OR IMPLIED, IN THIS BORROWER NOTE, THE REIMBURSEMENT AGREEMENT OR ANY OTHER OPERATIVE DOCUMENT (ALL SUCH LIABILITY, IF ANY, BEING EXPRESSLY WAIVED BY THE ISSUER BY ITS ACCEPTANCE HEREOF AND BY THE CREDIT BANK BY ITS ACCEPTANCE OF THE ASSIGNMENT HEREOF) AND THAT THE ISSUER, THE CREDIT BANK AND EACH OTHER HOLDER OF THIS BORROWER NOTE, BY ITS ACCEPTANCE HEREOF, ON BEHALF OF ITSELF AND ITS SUCCESSORS AND ASSIGNS, AGREES IN THE CASE OF ANY LIABILITY OF THE BORROWER HEREUNDER OR THEREUNDER (EXCEPT FOR SUCH LIABILITY ATTRIBUTABLE TO BORROWER'S WILLFUL MISCONDUCT) THAT IT WILL LOOK SOLELY TO THOSE CERTAIN PAYMENTS RECEIVED UNDER THE LEASE AND THOSE CERTAIN PROCEEDS OF THE LEASED PROPERTY AS PROVIDED IN ARTICLE III OF THE REIMBURSEMENT AGREEMENT; PROVIDED, HOWEVER, THAT THE BORROWER (BUT NOT ITS PARTNERS, THE ISSUER OR CORNERSTONE CAPITAL CORPORATION, OR ANY OF THEIR RESPECTIVE ORGANIZERS,

INCORPORATORS, STOCKHOLDERS, PARTNERS, MEMBERS, MANAGERS, DIRECTORS, EMPLOYEES, OFFICERS AND AGENTS) SHALL IN ANY EVENT BE LIABLE WITH RESPECT TO (I) THE REMOVAL OF BORROWER'S LIENS OR LIABILITIES INVOLVING ITS WILLFUL MISCONDUCT OR (II) FAILURE TO TURN OVER PAYMENTS THE BORROWER HAS RECEIVED IN ACCORDANCE WITH ARTICLE III OF THE REIMBURSEMENT AGREEMENT; AND PROVIDED, FURTHER THAT THE FOREGOING EXCULPATION OF THE BORROWER AND THE BORROWER PARTIES SHALL NOT BE DEEMED TO BE EXCULPATIONS OF THE LESSEE, THE GUARANTOR OR ANY OTHER PERSON.

Any provision to the contrary contained in this Borrower Note or in any of the other Operative Documents notwithstanding, it is expressly provided that in no case or event shall the aggregate of (i) all Interest payable by the Lessor and (ii) the aggregate of any other amounts accrued or paid pursuant to this Borrower Note or any of the other Operative Documents, which under applicable laws are or may be deemed to constitute interest, ever exceed the maximum rate of interest which could lawfully be contracted for, charged or received. In this connection, it is expressly stipulated and agreed that it is the intent of the Borrower and the Issuer to contract in strict compliance with the applicable usury laws of the State and of the United States (whichever permit the higher rate of interest) from time to time in effect. In furtherance thereof, none of the terms of this Borrower Note or any of the other Operative Documents shall ever be construed to create a contract to pay, as consideration for the use, forbearance or detention of money, interest at a rate in excess of the maximum contract interest rate permitted to be contracted for, charged or received by the applicable laws of the United States or the State (whichever permit the higher rate of interest). The Borrower and any other parties now or hereafter becoming liable for payment of any indebtedness under this Borrower Note or any other Operative Documents shall never be liable for interest in excess of the maximum rate that may be lawfully contracted for or charged under the laws of the State and of the United States (whichever permit the higher rate of interest). If under any circumstances the aggregate amounts paid include amounts which by law are deemed interest which would exceed the maximum amount of interest which could lawfully have been contracted for, charged or received, the parties stipulate that such amounts will be deemed to have been paid as a result of an error on the part of the parties, and the party receiving such excess payment shall promptly, upon discovery of such error or upon notice thereof from the party making such payment, refund the amount of such excess or at the option of the Issuer or then holder of this Borrower Note, credit such excess against any unpaid principal balance owing. To the maximum extent permitted by applicable law, all amounts contracted for, charged or received for the use, forbearance, or detention of money shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of this Borrower Note.

This Borrower Note shall be governed by and construed in accordance with the laws of the State of Ohio, without regard to conflicts of law principles.

This Borrower Note is subject to optional, extraordinary optional and mandatory prepayment, in whole or in part, at the times and upon the terms and conditions for optional, extraordinary optional and mandatory redemption of the Notes as set forth in the Indenture. Any optional or extraordinary optional prepayment is also subject to satisfaction, upon the same terms, of any applicable notice, deposit or other requirements which apply to the optional or extraordinary optional redemption of the Notes as set forth in the Indenture.

IN WITNESS WHEREOF, the Borrower has signed this Borrower Note as of the date first above written.

ASSET HOLDINGS III, L.P., an Ohio limited partnership

By: Realty Facility Holdings I, L.L.C., its General Partner

By: /s/ Robert F. Gage
---
Robert F. Gage, President

Exhibit 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

I, David G. Gartzke, Chairman, President and Chief Executive Officer of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2003 of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2003

David G. Gartzke
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David G. Gartzke
Chairman, President and Chief Executive Officer

Exhibit 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

I, James K. Vizanko, Vice President, Chief Financial Officer and Treasurer of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2003 of ALLETE;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2003

James K. Vizanko
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James K. Vizanko
Vice President, Chief Financial Officer and
Treasurer

Exhibit 32

SECTION 1350 CERTIFICATION OF PERIODIC REPORT
BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, each of the undersigned officers of ALLETE, Inc. (ALLETE), does hereby certify that:

1. The Quarterly Report on Form 10-Q of ALLETE for the quarterly period ended June 30, 2003 (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ALLETE.

Dated: August 8, 2003 David G. Gartzke
---

David G. Gartzke
Chairman, President and Chief Executive Officer

Dated: August 8, 2003 James K. Vizanko
---

James K. Vizanko
Vice President, Chief Financial Officer and
Treasurer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability pursuant to that section. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that ALLETE specifically incorporates it by reference.

A signed original of this written statement required by Section 906 has been provided to ALLETE and will be retained by ALLETE and furnished to the Securities and Exchange Commission or its staff upon request.