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Capitol Federal Financial, Inc.
Form 8-K
January 18, 2019

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)
January 18, 2019

CAPITOL FEDERAL
FINANCIAL, INC.

(Exact name of
Registrant as specified
in its Charter)

Maryland	001-34814	27-2631712
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

700 South Kansas
Avenue Topeka,
Kansas 66603

(Address of
principal executive
offices) (Zip Code)

Registrant's telephone number, including area code:
(785) 235-1341

N/A
(Former name or
former address, if
changed since last
report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

ITEM 7.01 REGULATION FD DISCLOSURE

On January 18, 2019, Capitol Federal Financial, Inc. (the "Company") issued the press release attached hereto as Exhibit 99 and incorporated herein by reference announcing the availability of the Company's Annual Meeting of Stockholders (the "Annual Meeting") presentation on the Company's website at 10:00 a.m. central time on January 22, 2019.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

Exhibit 99 – Press release announcing availability of Annual Meeting presentation dated January 18, 2019

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 hereunto duly authorized.

CAPITOL
FEDERAL
FINANCIAL, INC.

Date: By: /s/
January Kent G.
18, 2019 Townsend

Kent G.
Townsend,
Executive
Vice-President,
Chief
Financial
Officer,
and
Treasurer

imes New Roman" style="font-size:7.0pt;">2,889

0

\$37.76

2/02/2014

3,492

0

\$41.35

2/01/2015

3,411

0

\$44.15

2/01/2016

3,172

0

\$48.65

2/01/2017

3,878

1,940

\$39.10

2/01/2018

Donald J. Shippar

7,509

\$279,785

9,128

\$340,093

13,905

0

\$37.76

4/30/2013

19,618

0

\$41.35

4/30/2013

20,256

0

\$44.15

4/30/2013

19,125

0

10

\$48.65

4/30/2013

33,088

0

\$39.10

4/30/2013

(1) Each option award has a ten-year term. Therefore, the grant date for each award is the date ten years prior to the date shown in column (e) except as to Mr. Shippar's awards. Options vest in three equal installments on each of the first, second, and third anniversaries of the grant date. Mr. Shippar retired on April 30, 2010. His options then unexercisable became fully vested as of his retirement date. He has until the earlier of the original expiration date or three years from his retirement date to exercise all of his outstanding options.

(2) The amounts shown in column (f) are comprised of the following: (1) the performance shares earned for the 2008-2010 performance period, which amount for Mr. Shippar was prorated to reflect the 28/36th months of the performance period during which he was employed by the Company, and which all Named Executive Officers received in Common Stock on February 3, 2011; and (2) restricted stock units granted on February 2, 2009, and January 18, 2010, to each Named Executive Officer and additional grants to Mr. Hodnik on May 12, 2009, and May 1, 2010, plus dividend equivalents. Restricted stock units vest three years after the grant date provided the Named Executive Officer continues to be employed.

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by the Company. The restricted stock units granted to Mr. Shippar on February 2, 2009, and January 18, 2010, are shown in column (d) of the Option Exercises and Stock Vested table below because the restricted stock units vested on a prorated basis due to his retirement on April 30, 2010.

(3) The amounts shown in column (g) were calculated by multiplying the number of shares and units in column (f) by \$37.26, the closing price of Common Stock on December 31, 2010.

(4) The amounts shown in column (h) represent the Common Stock that would be payable for outstanding performance share awards if target performance were achieved (a TSR ranking of fourteenth among the 27-company peer group) for the performance period 2009-2011 and if superior performance was achieved (a TSR ranking of fourth among the 27-company peer group) for the performance period 2010-2012. If the performance period would have ended on December 31, 2010, performance shares would be earned at 70 percent of target for the 2009-2011 performance period and 140 percent of target for the 2010-2012 performance period. The amounts shown for Mr. Shippar reflect the prorated amounts for which he is eligible due to his April 30, 2010, retirement.

(5) The amounts shown in column (i) were calculated by multiplying the number of shares and units in column (h) by \$37.26, the closing price of Common Stock on December 31, 2010.

OPTION EXERCISES AND STOCK VESTED 2010

(a)	(b) Option Awards		(d) Stock Awards	
	(b) Number of Shares Acquired on Exercise	(c) Value Realized on Exercise	(d) Number of Shares Acquired on Vesting(1)	(e) Value Realized on Vesting
Alan R. Hodnik				
Mark A. Schober				
Deborah A. Amberg	1,360	\$13,397		
David J. McMillan				
Robert J. Adams				
Donald J. Shippar	7,217	\$55,663	2,373	\$85,338

(1) The amount shown in column (e) for Mr. Shippar reflects 1,976 Restricted Stock Units granted in February 2009 and 397 Restricted Stock Units granted in January 2010 that vested due to his retirement on April 30, 2010.

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(a) Name	(b) Plan Name	(c) Number of Years Credited Service (#)(1)	(d) Present Value of Accumulated Benefit(2)	(e) Payments During Last Fiscal Year
Alan R. Hodnik	Minnesota Power and Affiliated Companies			
	Retirement Plan A	11.75	\$194,321	\$0
	Minnesota Power and Affiliated Companies			
	Retirement Plan B	12.75	\$470,297	\$0
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	28.75	\$341,388	\$0
Mark A. Schober	Minnesota Power and Affiliated Companies			
	Retirement Plan A	28.67	\$870,936	\$0
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	32.92	\$643,732	\$0
Deborah A. Amberg	Minnesota Power and Affiliated Companies			
	Retirement Plan A	16.17	\$198,146	\$0
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	20.33	\$121,427	\$0
David J. McMillan	Minnesota Power and Affiliated Companies			
	Retirement Plan A	17.42	\$265,475	\$0
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	21.67	\$175,519	\$0
Robert J. Adams	Minnesota Power and Affiliated Companies			
	Retirement Plan A	19.67	\$263,734	\$0

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	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	23.92	\$121,072	\$0
Donald J. Shippar	Minnesota Power and Affiliated Companies			
	Retirement Plan A	28.67	\$1,070,838	\$45,956
	Minnesota Power and Affiliated Companies			
	Retirement Plan B	1.08	\$147,566	\$6,333
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan	28.00	\$572,090	\$34,289
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	33.33	\$2,621,104	\$484,700

(1) The amounts in column (c) for SERP II reflect actual years of service with the Company. Credited service under Retirement Plan A (as defined below) stopped on September 30, 2006, and under SERP I stopped on December 31, 2004. Mr. Shippar and Mr. Hodnik's credited service under Retirement Plan B (as defined below) reflects the actual time that they were active participants in Retirement Plan B.

(2) For the Named Executive Officers, except Mr. Shippar, the amounts shown in column (d) represent the discounted net present values of the annual annuity payments to which the Named Executive Officers would be entitled at retirement assuming they retire at age 62, the earliest age at which Named Executive Officers may receive unreduced pension benefits. Mr. Shippar retired on April 30, 2010. The amounts shown for him represent the discounted net present value of the annuity payments he began receiving upon retirement. In addition to retirement age, the following assumptions were used to calculate the present value of accumulated benefits: discount rate of 5.36 percent; cost of living adjustment of 2.5 percent; and female spouses are assumed to be three years younger than male spouses, except for Mr. Shippar for whom the calculation took into account his and his spouse's actual ages. The amounts reflect the accumulated pension benefits over the years of credited service shown for each plan.

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PENSION BENEFITS DISCUSSION

Minnesota Power and Affiliated Companies Retirement Plan A (Retirement Plan A) is a tax-qualified defined benefit pension plan that covers the majority of our nonunion employees, including the Named Executive Officers. Pension benefits are based on the employee's years of service and the employee's final average earnings. Final average earnings covered by Retirement Plan A include the highest consecutive 48 months of salary and Results Sharing awards in the last 15 years of service. Results Sharing was a broad-based profit-sharing program that was available to virtually all of our employees prior to January 2009. As the result of a Company-wide nonunion benefit change, Named Executive Officers have not accrued additional credited service under Retirement Plan A since September 30, 2006. The pension benefit is calculated as a life annuity using the following formula:

$$\left[0.8\% \times \begin{array}{c} \text{years of credited service from July 1, 1980} \\ \text{through September 30, 2006} \end{array} \right] \times \text{final average earnings}$$

plus (for Named Executive Officers hired before July 1, 1980)

$$\left[10\% + \begin{array}{c} (1\% \times \text{years of credited service} \\ \text{prior to July 1, 1980}) \end{array} \right] \times \text{final average earnings}$$

Mr. Shippar and Mr. Hodnik are also entitled to a pension benefit under the Minnesota Power and Affiliated Companies Retirement Plan B (Retirement Plan B) based on positions each held previously. Retirement Plan B is a tax-qualified defined benefit pension plan that covers the majority of our union employees. The Retirement Plan B pension benefit is calculated as a life annuity using the following formula:

$$\left[10\% + (1\% \times \text{years of credited service}) \right] \times \text{final average earnings}$$

The 10 percent portion of the formulas is prorated, based on years of service, between Retirement Plan A and Retirement Plan B for Mr. Shippar. Final average earnings covered by Retirement Plan B include the highest consecutive 48 months of salary and Results Sharing awards in the last 10 years of service. The remaining terms of Retirement Plan B are substantially the same as Retirement Plan A (Retirement Plan A and Retirement Plan B are collectively referred to as the Retirement Plans).

Normal retirement age under the Retirement Plans is age 65 with at least five years of continuous service with the Company. Named Executive Officers become eligible for an unreduced early retirement benefit at age 62 if they have at least 10 years of continuous service, or at age 58 if they have at least 40 years of continuous service. Named Executive Officers are first eligible for a reduced early-retirement benefit at age 50 with at least 10 years of continuous service. Early retirement benefits are calculated by reducing the retirement benefit by 4 percent for each year and partial year between age 62 and the early retirement benefit commencement age. Mr. Hodnik and Mr. Schober are currently eligible to receive early retirement benefits. Ms. Amberg, Mr. McMillan and Mr. Adams have a vested Retirement Plan A benefit, but are not currently eligible to receive early retirement benefits. Mr. Shippar retired on April 30, 2010, elected the normal form of benefit, and began receiving his Retirement Plan benefit on May 31, 2010.

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Each Named Executive Officer is married. The normal form of Retirement Plan A benefit payment for married participants is a life annuity with a 60 percent surviving spouse benefit. The normal form of Retirement Plan B benefit payment for married participants is a life annuity with a 50 percent surviving spouse benefit. At normal retirement age, each optional form of benefit payment is the actuarial equivalent of the normal form of benefit payment for both Retirement Plans. The Retirement Plans do not provide for lump sum distributions unless the lump sum equivalent value is \$10,000 or less. Once pension benefit payments have commenced, the benefit adjusts in future years to reflect changes in cost of living, with a maximum adjustment of 3 percent per year.

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Both the annual earnings that may be considered in calculating benefits under the Retirement Plans and the annual benefit amount that the Retirement Plans may deliver to a Named Executive Officer are limited by the Tax Code. The SERP Plans are designed to provide supplemental pension benefits, paid out of general Company assets, to eligible executives including the Named Executive Officers, in amounts sufficient to maintain total pension benefits upon retirement at the level which would have been provided by our Retirement Plans if benefits were not restricted by the Tax Code. The SERP formula is calculated as follows:

$$\left[0.8\% \times \begin{array}{l} \text{years of credited service from July 1, 1980} \\ \text{through retirement or termination date} \end{array} \right] \times \text{SERP final average earnings}$$

plus (for Named Executive Officers hired before July 1, 1980)

$$\left[10\% + \begin{array}{l} (1\% \times \text{years of credited service} \\ \text{prior to July 1, 1980}) \end{array} \right] \times \text{SERP final average earnings}$$

The compensation generally used to calculate SERP benefits is the sum of a participant's (i) annual salary and Results Sharing awards in excess of the Tax Code limits imposed on Retirement Plan A and (ii) AIP awards. The earnings used for purposes of calculating SERP benefits are equal to the highest consecutive 48 months of such SERP compensation. The highest-consecutive 48-month compensation for (i) and (ii) above can result in different periods; however, both must fall within the last 15 years of service. The present value on December 31, 2010, of each Named Executive Officer's SERP pension benefit is shown in the Pension Benefits table on page 34. The 2010 increase in the SERP II pension benefit value for each Named Executive Officer is included in column (g) of the Summary Compensation Table on page 26.

Each Named Executive Officer has elected a date when SERP benefit payments will commence and has elected the form of benefit payment. The normal form of payment for SERP I benefits is a 15-year annuity. The optional form of payment for the SERP I benefits is a life annuity, which is the actuarial equivalent of the normal form of payment. The normal form of payment for SERP II is a 15-year annuity. The optional forms of payment for SERP II benefits are a life annuity or a lump sum, each of which is actuarially equivalent to the normal form of payment.

SERP I benefits vest and become payable only if the Named Executive Officer retires after reaching age 50 with 10 years of service. SERP I payments commence upon retirement.

SERP II benefits vest and become payable only if the Named Executive Officer (i) retires after reaching age 50 with 10 years service, (ii) becomes disabled after reaching age 50 with 10 years of service, or (iii) reaches age 50 after becoming disabled with 10 years of service. Vested SERP II benefit payments commence upon the earlier of retirement or disability, or if a disability occurs prior to vesting, the earlier of attaining age 65 or the date of death. The SERP II benefits accrued after December 31, 2004, are accelerated upon a termination in connection with a change in control under the Severance Plan.

In all other respects, the eligibility requirements for SERP retirement benefits and the calculation of SERP early retirement benefits mirror Retirement Plan A's eligibility requirements and early retirement benefits discussed above.

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(a) Name	(b) Plan Name	(c) Executive Contributions in 2010(1)	(d) Company Contributions in 2010(2)	(e) Aggregate Earnings in 2010(3)	(f) Aggregate Withdrawals or Distributions in 2010	(g) Aggregate Balance as of December 31, 2010(4)
Alan R. Hodnik	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan	\$0	\$0	\$16,694	\$0	\$189,758
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	\$0	\$8,338	\$6,435	\$0	\$86,644
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan	\$0	\$0	\$73,819	\$0	\$794,610
Mark A. Schober	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	\$184,493	\$3,923	\$23,957	\$0	\$1,036,712
	Minnesota Power and Affiliated Companies Executive Investment Plan II	\$0	\$0	\$5,082	\$0	\$100,336
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan	\$0	\$0	\$11,275	\$0	\$235,545
Deborah A. Amberg	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	\$53,636	\$2,125	\$18,014	\$0	\$312,794
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan	\$0	\$0	\$5,498	\$0	\$230,885
David J. McMillan	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II	\$63,905	\$246	\$6,957	\$131,256	\$295,416
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan	\$0	\$0	\$9,443	\$0	\$69,951
Robert J. Adams	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan	\$0	\$0	\$4,853	\$0	\$33,163
	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan	\$0	\$0	\$9,443	\$0	\$69,951

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ALLETE and Affiliated Companies Supplemental						
Executive Retirement Plan II						
Donald J. Shippar	ALLETE and Affiliated Companies Supplemental					
	Executive Retirement Plan	\$0	\$0	\$7,926	\$422,204	\$0
ALLETE and Affiliated Companies Supplemental						
	Executive Retirement Plan II	\$0	\$7,890	\$15,097	\$814,263	\$0
Minnesota Power and Affiliated Companies						
	Executive Investment Plan II	\$0	\$0	\$3,646	\$214,003	\$0

(1) The amounts shown in column (c) include the following amounts: (i) salary earned and deferred in 2010 that was also reported in column (c) of the Summary Compensation Table on page 26: Mr. Schober \$55,615 and Mr. McMillan \$24,212; and (ii) compensation that was earned and deferred in 2010 that was also reported in column (f) of the 2010 Summary Compensation Table: Mr. Schober \$128,878, Ms. Amberg \$53,636 and Mr. McMillan \$39,693.

(2) The amounts shown in column (d) reflect compensation that was earned and deferred in 2010 that was also reported in column (h) of the Summary Compensation Table.

(3) The amounts shown in column (e) represent unrealized and realized earnings, including above-market interest earned in 2010 on nonqualified deferred balances, which was also reported in column (g) of the Summary Compensation Table as follows: Mr. Shippar \$1,805 and Mr. Schober \$1,043. Above-market interest was calculated using a 5.32 percent rate of return, which exceeds 120 percent of the applicable federal long-term rate of 4.24 percent.

(4) The amounts shown in column (g) for the aggregate balance for the SERP II includes compensation that was previously earned and reported in 2008 and 2009 on the Summary Compensation Table as follows: Mr. Hodnik \$5,153, Mr. Schober \$318,522, Ms. Amberg \$128,743, Mr. McMillan \$151,984, Mr. Adams \$21,603, and Mr. Shippar \$415,506. These amounts have since been adjusted for investment performance (i.e., earnings and losses) and deferrals credited during 2010. The aggregate balances shown for the SERP I and the Minnesota Power and Affiliated Companies Executive Investment Plan II include compensation that was previously earned and reported in the Summary Compensation Table prior to 2008 and have since been adjusted for investment performance (i.e., earnings and losses).

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The SERP also provides a supplemental defined contribution benefit and a deferral account benefit. The SERP supplemental defined contribution benefit is designed to provide Named Executive Officers a benefit that is substantially equal to the benefit they would have been entitled to receive if the Tax Code did not impose limitations on the types and amounts of compensation that can be included in the benefit calculations under the Flexible Compensation Plan and RSOP. Annually, each Named Executive Officer may elect to defer to a SERP II deferral account, on a before-tax basis, some or all of his or her salary and AIP award. Named Executive Officers whose base salary is below the tax-qualified benefit plan's annual compensation limits may also elect to defer some or all of the SERP II defined contribution benefit. Named Executive Officers can select among different crediting rates to apply to deferral balances under the SERP Plans, which primarily match the investment options available to all employees under the RSOP. These investment options include mutual funds and similar investments. The Named Executive Officers may change their investment elections at any time. The amount of the 2010 SERP II defined contribution benefit received by each Named Executive Officer is included in column (h) of the Summary Compensation Table on page 26. The aggregate amount each Named Executive Officer elected to defer and the amount that the Company contributed to the SERP II in 2010 is shown in the Nonqualified Deferred Compensation table on page 37.

Each Named Executive Officer has elected a date when benefit payments from his or her SERP I and SERP II deferral accounts will commence and has elected the form of benefit payment. Generally, SERP I and SERP II deferral account benefit payments will not begin earlier than the elected commencement date. However, for contributions made prior to January 1, 2005, the full SERP I deferral account balance will be paid prior to the scheduled commencement date to any Named Executive Officer who is not eligible to retire at the time he or she terminates employment with the Company. In addition, a Named Executive Officer may request an early distribution of some or all of his or her SERP I deferral account balance upon a demonstrated severe financial need, or at any time prior to the first scheduled payment date, may elect an early withdrawal of contributions made to his or her account prior to January 1, 2005, subject to a 10 percent early withdrawal penalty.

A Named Executive Officer is not allowed to elect to receive an early withdrawal of amounts contributed after January 1, 2005, to his or her SERP II deferral account, except that he or she may request early withdrawal in the event of an unforeseen emergency, which request is subject to the approval of the Compensation Committee. Contributions made to a SERP II deferral account after December 31, 2004, will be paid in full upon a termination of employment in connection with a change in control.

A Named Executive Officer may elect to receive his or her SERP deferral account balance in the form of either a lump sum payment or monthly installments over a 5-, 10-, or 15-year period, or a combination of both. A Named Executive Officer who retires will receive a fixed 7.5 percent annual interest crediting rate on his or her deferral account balance until paid in full.

Prior to 1996, the Company also provided executives an opportunity to elect to defer salary and AIP awards under the Minnesota Power and Affiliated Companies Executive Investment Plan II (EIP II), a nonqualified deferred compensation plan. Deferrals pursuant to such opportunity ended in 2002 and EIP II has been closed to new contributions since then. The Company resets the crediting rate under the EIP II annually at 120 percent of the rolling average of the 10-year Treasury Note. The EIP II benefits become payable upon retirement in the form of monthly annuity payments over a 5-, 10-, or 15-year period as elected by the executive. Generally, EIP II benefit payments will not begin earlier than the elected commencement date. However, the Named Executive Officer may request an early distribution of some or all of his EIP II account balance upon a demonstrated severe financial need, or at any time prior to the first scheduled payment date, he or she may elect an early withdrawal of his account balance subject to a 10 percent early withdrawal penalty.

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POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The Severance Plan covers each Named Executive Officer as well as other key executives (collectively, Participants). Under the Severance Plan, a change in control of ALLETE generally means any one of the following events:

- Acquisition by any person, entity, or group acting together of more than 50 percent of the total fair market value or total voting power of the Company's Common Stock;
- Acquisition in any 12-month period of 40 percent or more of the Company's assets by any person, entity, or group acting together;
- Acquisition in any 12-month period of 30 percent or more of the total voting power of the Company's Common Stock by any person, entity, or group acting together; or
- A majority of members of the Board of Directors is replaced during any 12-month period.

Each Named Executive Officer is entitled to receive specified benefits in the event his or her employment is involuntarily terminated six months before or up to two years after a change in control. An involuntary termination is deemed to occur if (i) the Company terminates the employment of the Named Executive Officer other than for cause, or (ii) the Named Executive Officer resigns from his or her employment with good reason. Cause generally includes reasons such as failure to perform duties, willful misconduct, or felony convictions. Good reason generally means a material reduction in the Named Executive Officer's responsibilities or authority; a material reduction in his or her supervisor's responsibilities or authority; a material reduction in base salary, incentive compensation, or other benefits; a material breach by the Company of an agreement under which a Named Executive Officer provides services; or reassignment to another geographic location more than 50 miles from the Named Executive Officer's current job location.

Under the Severance Plan, Mr. Hodnik, Mr. Schober and Ms. Amberg would be entitled to receive a lump sum severance payment of 2.5 times their annual compensation. Mr. Adams and Mr. McMillan would receive a severance payment of 1.5 times their annual compensation. Mr. Shippar's participation in the Severance Plan ended upon his retirement; therefore, he would not be entitled to receive any severance payment. Annual compensation includes base salary and an amount representing a target award under the AIP in effect for the year of termination. The Severance Plan also provides a lump sum benefit continuation payment to Mr. Hodnik, Mr. Schober, and Ms. Amberg approximately equal in value to the benefits (as specified below) that they would have received had they remained in the employ of the Company after their termination for an additional 2.5 years, and in the case of Mr. Adams and Mr. McMillan, an additional 1.5 years. The lump sum benefit continuation payment includes the value of the following benefits: (i) premiums for medical, dental, and basic group term life insurance benefits; (ii) Company contributions under the Flexible Benefit Plan; and (iii) the present value of additional SERP II benefits the Participant would have received under the SERP II had employment continued for 2.5 or 1.5 years after the later of the change in control or termination, as applicable. As a condition of receiving payments under the Severance Plan, Participants must sign a waiver of potential claims against the Company, and must agree not to disclose confidential information, engage in any business in competition with the Company for a period of one year, recruit any employee or director of the Company for employment for a period of two years, or publicly criticize the Company.

Upon a change in control, awards under the AIP would be calculated as if the end of the performance year had occurred, based on the Company's performance through the date of the change in control. AIP awards could range from zero to 200 percent of the target award opportunity depending on actual goal results. The SERP II also provides for a lump sum payment of benefits earned after December 31, 2004, through the termination of employment in connection with a change in control. Under the LTIP, if a change in control were to occur, unvested stock options would immediately vest, restricted stock units would immediately vest on a prorated basis, and performance share awards would immediately pay out on a prorated basis at the greater of target level or the level earned based on then-current actual TSR ranking as compared to the peer group companies.

The total amount of severance payments due under the Severance Plan plus any payments accelerated under the AIP, LTIP, and SERP II due to a change in control will be limited to an amount which would result in no portion of such amount being subject to excise tax under Section 4999 of the Tax Code, unless the payment would have to

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be reduced to an amount less than 85 percent of the amount the Named Executive Officer would otherwise have received, absent the imposition of the excise tax. If payments to a Named Executive Officer would be reduced to an amount less than 85 percent of the amount the Named Executive Officer would otherwise have received, total payments would not be reduced and the Named Executive Officer would instead receive an additional gross-up payment that would provide the Named Executive Officer with the same net after-tax payment the Named Executive Officer would have received if the excise tax had not applied to any of the payments.

As described previously in 2011 Executive Compensation Changes starting on page 24, the following plan provisions relating to a change in control were amended in January 2011:

- The Severance Plan was amended effective January 19, 2011, to eliminate the excise tax gross-up feature, to eliminate benefit continuation payments, and to establish a modified severance payment cap whereby the severance payment would be reduced to a level below the safe harbor amount if the executive would receive a higher after tax benefit than if the executive were to pay the applicable excise tax on the full payment amount.
- The AIP was amended effective January 1, 2011, to provide that in the event of a Change in Control (as defined by the AIP), any award earned pursuant to the AIP will be prorated based on the number of months in the performance year which had elapsed as of the date of a Change in Control.

Estimated Potential Payments Upon Termination Associated With a Change in Control

If a change in control had occurred on December 31, 2010, prior to the plan changes listed above, and if, as a result, a Named Executive Officer's employment was terminated on the same date, the following table illustrates the value that the Named Executive Officer would have received.

Payments	Mr. Hodnik	Mr. Schober	Ms. Amberg	Mr. McMillan	Mr. Adams	Mr. Shippar(11)
Severance Payment(1)	\$1,600,000	\$1,025,875	\$823,682	\$514,794	\$440,700	\$0
Annual Incentive Plan(2)	\$0	\$0	\$0	\$0	\$0	\$0
Unvested Stock Options(3)	\$0	\$0	\$0	\$0	\$0	\$0
Performance Shares(4)	\$369,738	\$255,179	\$170,118	\$157,003	\$119,812	\$0
Unvested Restricted Stock						
Units(5)	\$119,292	\$70,063	\$46,734	\$46,734	\$35,012	\$0
SERP II Pension(6)	\$95,696	\$144,918	\$0	\$51,259	\$0	\$0
SERP II Defined						
Contribution(7)	\$20,846	\$9,809	\$5,314	\$1,481	\$498	\$0
Benefits(8)	\$40,766	\$42,175	\$39,847	\$23,667	\$15,142	\$0
Outplacement Services(9)	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$0
Excise Tax & Gross-Up(10)	\$945,338	\$595,921	\$0	\$0	\$0	\$0
Total Payments	\$3,216,676	\$2,168,940	\$1,110,695	\$819,938	\$636,164	\$0

(1) The values for severance payments were calculated based on December 31, 2010, base salary, target AIP, and the applicable severance benefit multiple of salary.

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- (2) Because the performance period ended on December 31, 2010, no acceleration of benefits would have occurred under this scenario.
- (3) The award values for stock options were calculated based on the difference between the option exercise price and the \$37.26 closing price of Common Stock on December 31, 2010.
- (4) Outstanding performance shares for the performance periods 2008-2010, 2009-2011, and 2010-2012 would be accelerated under this scenario. The award values shown assume that target TSR performance would be used to calculate the award payout for the 2008-2010 and 2009-2011 performance periods, and 140 percent of target TSR performance for the 2010-2012 performance period. Award values were based on the \$37.26 closing price of Common Stock on December 31, 2010.
- (5) The award values for restricted stock units were calculated and prorated based on the \$37.26 closing price of Common Stock on December 31, 2010.
- (6) Ms. Amberg and Mr. Adams would not be eligible for retirement benefits even after being credited with an additional 2.5 and 1.5 years of service, respectively.
- (7) The award values shown reflect 2.5 years and 1.5 years, as applicable, of SERP II defined contribution benefits.

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(8) The award values shown reflects the value of (i) medical, dental, and basic group term life insurance benefit premiums, and (ii) Company contributions under the Flexible Benefit Plan that the Named Executive Officers would have received had they remained in the employ of the Company after their termination for an additional 2.5 years or, in the case of Mr. Adams and Mr. McMillan, an additional 1.5 years.

(9) The Company will pay outplacement service providers directly up to the amount shown for the cost of outplacement services provided to the Named Executive Officers. No amount will be paid unless the Named Executive Officers choose to utilize outplacement services within the time frame specified in the Severance Plan.

(10) Mr. Hodnik and Mr. Schober would be subject to the excise tax and eligible for a gross-up payment. The gross-up payment would cover (i) the amount of federal excise taxes, and (ii) the additional income taxes resulting from payment of the gross-up.

(11) Because Mr. Shippar retired, he would not have been eligible to receive any payments upon a change in control on December 31, 2010.

Estimated Potential Payments Upon Termination Due to Retirement, Disability, or Death

The LTIP also provides for immediate accelerated vesting of stock options and, on a prorated basis, of restricted stock units upon the retirement, disability, or death of a Named Executive Officer. Named Executive Officers have three years from retirement, and one year from disability or death, to exercise all outstanding stock options. Named Executive Officers may be entitled to a prorated performance share award upon retirement, disability, or death if TSR performance goals are achieved at the conclusion of the three-year performance period. The following table illustrates the value Named Executive Officers would have received solely in connection with accelerated vesting triggered by a retirement, disability or death, had the event occurred on December 31, 2010, except as to Ms. Amberg, Mr. McMillan, and Mr. Adams, for whom retirement would not have been a potential triggering event.

Payments	Mr. Hodnik	Mr. Schober	Ms. Amberg	Mr. McMillan	Mr. Adams	Mr. Shippar
Annual Incentive Plan(1)	\$0	\$0	\$0	\$0	\$0	\$0
Unvested Stock Options(2)	\$0	\$0	\$0	\$0	\$0	\$0
Performance Shares(3)	\$312,903	\$223,230	\$148,844	\$135,728	\$103,819	\$501,271
Unvested Restricted Stock Units(4)	\$119,292	\$70,063	\$46,734	\$46,734	\$35,012	\$85,338
Total Payments	\$432,195	\$293,293	\$195,578	\$182,462	\$138,831	\$586,609

(1) Because the performance period ended on December 31, 2010, no acceleration of benefits would have occurred under this scenario.

(2) The award values for stock options were calculated based on the difference between the option exercise price and the \$37.26 closing share price of Common Stock on December 31, 2010. Since the option exercise price is greater than the closing share price on December 31, 2010, the value for unvested stock options is zero.

(3) Outstanding performance shares for the performance periods 2008-2010, 2009-2011, and 2010-2012 would be earned on a prorated basis under this scenario if TSR performance goals are achieved at the conclusion of the three-year performance period. The award values shown assume performance shares would be earned based on TSR performance of 100 percent of target for the 2008-2010 performance period, 70 percent of target for the 2009-2011 performance period and 140 percent of target for the 2010-2012 performance period through December 31, 2010. Award values were based on the \$37.26 closing price of Common Stock on December 31, 2010. Because Mr. Shippar terminated on account of retirement on April 30, 2010, he remains eligible to receive a prorated payment if the LTIP performance targets are achieved. Mr. Shippar's 2008 grant was prorated at 28/36th, his 2009 grant at 16/36th and his 2010 grant was prorated at 4/36th.

(4) The award values for restricted stock units were calculated and prorated based on the \$37.26 closing share price on December 31, 2010. Mr. Shippar's Restricted Stock Units vested pro rata upon his April 30, 2010, retirement date. The 2009 grant was prorated at 15/36th and the 2010 grant was prorated at 4/36th. His valuation for income tax purposes was on November 2, 2010, at \$35.96 per share.

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Estimated Additional Payments Due to Long-Term Disability

Typically ALLETE employees, including the Named Executive Officers, who become disabled may, while on long-term disability, continue to be treated as employees for certain purposes, including remaining eligible to earn retirement plan contributions and credited service for purposes of calculating the SERP II benefit until the earlier of voluntary resignation or reaching normal retirement age. The table below illustrates the estimated additional SERP II benefit that would have been earned by each Named Executive Officer if he or she had gone on long-term disability on December 31, 2010.

	Mr. Hodnik	Mr. Schober	Ms. Amberg	Mr. McMillan	Mr. Adams	Mr. Shippar (2)
Additional SERP II Benefit(1)	\$14,815	\$0	\$189,397	\$58,858	\$166,675	\$0

(1) The amounts shown represent the difference between the discounted net present values of the annual annuity payments to which the Named Executive Officers would be entitled upon a termination of employment occurring on December 31, 2010, and at normal retirement age. The following assumptions were used to calculate the amounts shown above: Each Named Executive Officer became disabled on December 31, 2010, and remained on disability until reaching normal retirement age; discount rate of 5.36 percent; cost of living adjustment of 2.5 percent; and female spouses are assumed to be three years younger than male spouses.

(2) Because Mr. Shippar retired on April 30, 2010, he was not eligible to receive any additional SERP II benefit based on becoming disabled on December 31, 2010.

Named Executive Officers do not receive any other enhancements to their retirement benefits upon termination of employment other than in connection with a change in control or becoming disabled as described above. Vested retirement benefits become payable upon termination of employment as discussed in the Pension Benefits Discussion starting on page 35. The SERP and EIP II deferral account benefits become payable upon termination of employment as described following the Nonqualified Deferred Compensation table beginning on page 38.

DIRECTOR COMPENSATION 2010

The Compensation Committee has primary responsibility for the process of developing and evaluating the non-employee director compensation programs. The Board approves the non-employee director compensation programs.

The following table sets forth the non-employee director compensation earned in 2010, except for amounts earned by Mr. Shippar after his retirement on April 30, 2010. Mr. Shippar's non-employee director compensation is reported in the Summary Compensation Table on page 26 because Mr. Shippar was the Company's Chief Executive Officer until his retirement, after which he became the non-employee Board Chair.

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(a) Name	(b) Fees Earned or Paid in Cash(1)	(c) Stock Awards(1), (2)	(d) Option Awards(3)	(e) All Other Compensation(4)	(f) Total
Kathleen A. Brekken	\$45,026	\$59,974	\$0	\$269	\$105,269
Kathryn W. Dindo	\$39,026	\$59,974	\$0	\$229	\$99,229
Heidi J. Eddins	\$42,000	\$60,000	\$0	\$0	\$102,000
Sidney W. Emery, Jr.	\$37,526	\$59,974	\$0	\$0	\$97,500
James S. Haines, Jr.	\$37,500	\$60,000	\$0	\$137	\$97,637
James J. Hoolihan	\$44,000	\$60,000	\$0	\$0	\$104,000
Madeleine W. Ludlow	\$43,026	\$59,974	\$0	\$0	\$103,000
George L. Mayer	\$15,500	\$0	\$0	\$166	\$15,666
Douglas C. Neve	\$47,526	\$59,974	\$0	\$242	\$107,742
Jack I. Rajala	\$15,000	\$0	\$0	\$0	\$15,000
Leonard C. Rodman	\$44,000	\$60,000	\$0	\$0	\$104,000
Bruce W. Stender	\$55,026	\$59,974	\$0	\$238	\$115,238

(1) Ms. Eddins, Mr. Hoolihan, and Mr. Rodman elected to defer their 2010 Annual Stock Retainer fees and Mr. Haines elected to defer all of his eligible director fees under the ALLETE Non-Employee Director Compensation Deferral Plan II. For the directors who elected to receive their 2010 annual stock retainer in shares, the fractional share amount (\$26) was paid in cash.

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(2) The amounts shown in column (c) reflect the grant-date fair value of the Annual Stock Retainer paid on June 1, 2010, at which time each director, except Mr. Mayer and Mr. Rajala, received 1,678 fully-vested shares of Common Stock valued at \$35.72 (which was the five day average closing price, including the date that is ten calendar days prior to June 1, 2010). Mr. Mayer and Mr. Rajala retired from the Board on May 11, 2010, and did not receive shares.

(3) No options were granted in 2010. Mr. Rajala had 2,586 fully-vested stock option awards outstanding as of December 31, 2010.

(4) The amounts shown in column (e) reflect tax reimbursement related to spousal travel. The aggregate cost to the Company for spousal travel was calculated as the full actual cost of each benefit in excess of the amount the Company would have paid had the director been traveling or eating without his or her spouse and, in each case, was less than \$10,000. As of January 1, 2011, tax reimbursements related to spousal travel were eliminated.

Employee directors receive no additional compensation for their services as directors. The Company pays each non-employee director under the terms of the ALLETE Director Stock Plan an annual retainer fee, a portion of which is paid in cash and a portion of which is paid in Common Stock as set forth below:

	2010 Annual Retainer Fees	
	Cash	Stock
Board Chair	\$85,000	\$90,000
Lead Director	\$55,000	\$60,000
All Other Directors	\$30,000	\$60,000

Based on the results of a Board of Director compensation benchmarking study prepared by PM&P and no increases to Director compensation since 2007, the Compensation Committee approved, and the Board of Directors ratified, an increase of \$5,000 to the annual cash retainer for all Board members except the Board Chair effective January 19, 2011.

In addition, the Company pays each non-employee director, other than the Board Chair and Lead Director, annual cash retainer fees for each committee and chair assignment as set forth below:

	2010 Committee Retainer Fees	
	Member Fee	Chair (Includes Member Fee)
Audit Committee	\$9,000	\$17,500
Compensation Committee	\$7,500	\$13,000
Corporate Governance Committee	\$7,500	\$12,000

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Retainer fees are prorated based on the actual term of service per year.

The Board Chair and Lead Director receive their respective cash retainer and the director stock retainer fee, but do not receive any other committee or chair retainers. Directors may elect to receive all or part of the cash portions of their retainer fees in Common Stock.

The Company provides a deferral account benefit to the directors under the terms of the ALLETE Director Compensation Deferral Plan (Deferral Plan I) and the ALLETE Non-Employee Director Compensation Deferral Plan II (Deferral Plan II). Deferral Plan I and Deferral Plan II collectively are referred to as the Deferral Plans. On December 31, 2004, the Company froze Deferral Plan I with respect to all deferrals. Effective January 1, 2005, the Company established Deferral Plan II to comply with Section 409A of the Tax Code. Deferral Plan II governs all cash retainers initially deferred after December 31, 2004. On May 1, 2009, the Board amended the Deferral Plan II to permit directors to elect to defer their stock retainers.

Annually, each director may elect to defer to a Deferral Plan II cash account some or all of his or her cash retainer fees. Directors can select among different investment crediting rates to apply to deferral cash account balances under the Deferral Plans. These investment options include mutual funds and similar investments. The directors may change their investment elections at any time. Annually, each director may elect to defer to a Deferral Plan II stock account some or all of his or her stock retainer fees. Deferred stock retainer fees are credited to a director's stock account which mirrors the performance of our Common Stock and is credited with dividend equivalents equal to cash dividends that are declared and paid on our Common Stock.

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Each director elects a date when benefit payments from his or her Deferral Plan I and Deferral Plan II accounts will commence and the form of benefit payment. Generally, Deferral Plan I and Deferral Plan II account benefit payments will not begin earlier than the elected commencement date. Directors may, however, request an early distribution of some or all contributions made prior to January 1, 2005, to his or her Deferral Plan I account subject to a 10 percent early withdrawal penalty.

A director is not allowed to elect to receive an early withdrawal of amounts contributed after January 1, 2005, to his or her Deferral Plan II account, except that he or she may request early withdrawal in the event of an unforeseen emergency, which request is subject to the approval of the Compensation Committee.

A director may elect to receive his or her Deferral Plan cash and stock account balances in the form of either a lump sum payment or annual installments over a 5-, 10-, or 15-year period, or a combination of both. A director who retires from the Board will receive a fixed 7.5 percent annual interest crediting rate on his or her Deferral Plan cash account balance and will receive dividend equivalents on his or her Deferral Plan II stock account balance until paid in full.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth the shares of Common Stock available for issuance under the Company's equity compensation plans as of December 31, 2010.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)
Equity Compensation Plans Approved by Security Holders	560,665	\$40.72	918,804
Equity Compensation Plans Not Approved by Security Holders	0	N/A	0
Total	560,665	\$40.72	918,804

(1) Excludes the number of securities shown in the first column as to be issued upon exercise of outstanding options, warrants, and rights. The amount shown is comprised of: (i) 841,218 shares available for issuance under the LTIP in the form of options, rights, restricted stock units, performance shares, and other grants as approved by the Compensation Committee of the Board; (ii) 33,780 shares available for issuance under the Director Stock Plan as payment for a portion of the annual retainer payable to non-employee directors; and (iii) 43,806 shares available for issuance under the ALLETE and Affiliated Companies Employee Stock Purchase Plan.

ITEM NO. 2 APPROVAL OF ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION

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The recently enacted Dodd-Frank Act provides the Company's shareholders the opportunity to vote to approve, on an advisory or non-binding basis, the compensation of our Named Executive Officers as disclosed in this Proxy Statement in accordance with SEC rules.

As discussed under the heading "Compensation Discussion and Analysis" (CD&A), the Company's executive compensation program is designed to enhance shareholder value in the Company while attracting and retaining experienced, qualified executive talent. The Executive Compensation Committee believes the Company's executive compensation programs reflect a strong pay-for-performance philosophy and are well aligned with the shareholders' long-term interests.

We urge you to read the CD&A, which discusses how our compensation policies and procedures implement our compensation philosophy, as well as the compensation tables and narrative disclosures which describe the compensation of our Named Executive Officers in 2010. The Executive Compensation Committee and the Board believe that the policies and procedures described in the CD&A are effective in implementing our compensation philosophy and, for these reasons, the Board recommends that the Company's shareholders vote in favor of approving the compensation of the Named Executive Officers.

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We are asking that the shareholders approve the following resolution:

RESOLVED, that the shareholders of the Company approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in the Company's 2011 proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission (which disclosure includes the Compensation Discussion and Analysis, the Executive Compensation tables and the related footnotes and narrative that follows the tables).

The Board recommends a vote **FOR** the foregoing resolution, approving the compensation of the Named Executive Officers on an advisory basis as disclosed in this Proxy Statement in accordance with SEC rules.

This advisory vote on the compensation of our Named Executive Officers is not binding on the Company, the Executive Compensation Committee, or our Board. However, the Executive Compensation Committee and Board expect to take into account the outcome of the vote when considering future executive compensation decisions.

**ITEM NO. 3 ADVISORY VOTE ON THE FREQUENCY OF FUTURE
ADVISORY VOTES ON EXECUTIVE COMPENSATION**

The Dodd-Frank Act also provides the Company's shareholders with the opportunity to indicate how frequently the Company should seek an advisory vote on the compensation of our Named Executive Officers as disclosed in this Proxy Statement in accordance with SEC rules, such as Item No. 2 beginning on page 44 of this Proxy Statement. By voting on this proposal, shareholders may indicate whether they would prefer that the advisory vote on the compensation of our Named Executive Officers occur once every one, two, or three years.

The Board believes that an annual advisory vote on the compensation of the Company's Named Executive Officers is the most appropriate for the Company and its shareholders. In making this recommendation, the Board considered that an annual advisory vote on executive compensation will allow the Company's shareholders to provide their direct input on the Company's executive compensation philosophy, policies and practices. An annual vote thus allows for shareholder feedback on the most consistent basis and promotes shareholder awareness of the Company's executive compensation policies and practices.

For the above reasons, the Board recommends a vote for a **1 YEAR** frequency of future advisory votes on executive compensation.

This advisory vote on the frequency of future advisory votes on executive compensation is not binding on the Company, the Executive Compensation Committee, or our Board. However, the Executive Compensation Committee and Board expect to take into account the outcome of the vote when considering the frequency of future executive compensation advisory votes.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board is comprised of five non-employee directors, each of whom has been determined by the Board to be independent under ALLETE's Corporate Governance Guidelines, and within the meaning of the rules of both the NYSE and the SEC. The Board has also determined that each member of the Audit Committee is financially literate and that Mr. Neve and Ms. Dindo are each an audit committee financial expert within the meaning of the rules of the SEC. The Audit Committee operates pursuant to a written charter that was reviewed and reaffirmed in January 2011. The current Audit Committee charter is available on the Company's Web site at www.allete.com. The Audit Committee assists in the Board's oversight of the integrity of the Company's financial reports, compliance with legal and regulatory requirements, the qualifications and independence of the independent registered public accounting firm, both the internal and external audit process, and internal controls over financial reporting. The Audit Committee reviews and recommends to the Board that the audited financial statements be included in the Annual Report.

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During 2010, the Audit Committee met and held separate discussions with members of management and the Company's independent registered public accounting firm, PricewaterhouseCoopers, regarding certain audit activities and with the Director of Internal Audit regarding the plans for and results of selected internal audits. The Audit Committee reviewed the quarterly financial statements. It reviewed with management and the independent registered public accounting firm the effectiveness of internal controls over financial reporting, and the Company's compliance with laws and regulations. It also reviewed the Company's process for communicating its code of business conduct and ethics. The Audit Committee approved the appointment of PricewaterhouseCoopers as the Company's independent registered public accounting firm for the year 2011, subject to shareholder ratification. The Audit Committee received and reviewed the written disclosures and letter from PricewaterhouseCoopers required by applicable requirements of the Public Company Accounting Oversight Board (PCAOB) regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence and discussed with the independent registered public accounting firm the firm's independence. The Audit Committee has received written material addressing PricewaterhouseCoopers' internal quality control procedures and other matters, as required by the NYSE Listing Standards.

The Audit Committee has: (i) reviewed and discussed the Company's Consolidated Financial Statements for the year ended December 31, 2010, with the Company's management and with the Company's independent registered public accounting firm; (ii) met with management to discuss all financial statements prior to their issuance and to discuss significant accounting issues and management judgments; and (iii) discussed with the Company's independent registered public accounting firm the matters required to be discussed by the statement on auditing standards No. 61, as amended (as adopted by the PCAOB in rule 3200T) which include, among other items, matters related to the conduct of the audit of the Company's financial statements. Management represented to the Audit Committee that the Company's Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America.

Based on the above-mentioned review and discussions, the Audit Committee recommended to the Board that the audited financial statements be included in the Annual Report.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has pre-approval policies and procedures related to the provision of audit and non-audit services by the independent registered public accounting firm. Under these procedures, the Audit Committee pre-approves both the type of services to be provided by the independent registered public accounting firm and the estimated fees related to these services. During the pre-approval process, the Audit Committee considers the impact of the types of services and the related fees on the independence of the independent registered public accounting firm. The services and fees must be deemed compatible with the maintenance of the independence of the independent registered public accounting firm, including compliance with the SEC's rules and regulations.

The Audit Committee will, as necessary, consider and, if appropriate, pre-approve the provision of additional audit and non-audit services by the independent registered public accounting firm that were not encompassed by the Audit Committee's annual pre-approval and that are not prohibited by law. The Audit Committee has delegated to the Chair of the Audit Committee the authority to pre-approve, on a case-by-case basis, these additional audit and non-audit services, provided that the Chair shall promptly report any decisions to pre-approve such services to the Audit Committee.

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Audit and Non-Audit Fees

The following table presents fees for professional audit services rendered by PricewaterhouseCoopers for the audit of the Company's annual financial statements for the years ended December 31, 2010, and December 31, 2009, and fees billed for other services rendered by PricewaterhouseCoopers during those periods.

All audit and non-audit services and fees for 2010 were pre-approved by the Audit Committee. The Company has considered and determined that the provision of the non-audit services noted below is compatible with maintaining PricewaterhouseCoopers' independence.

	2010	2009
Audit Fees(1)	\$1,120,552	\$1,145,733
Audit-Related Fees(2)	53,355	
Tax Fees(3)	229,569	7,885
All Other Fees(4)	17,000	3,000
Total	\$1,420,476	\$1,156,618

(1) Audit fees were comprised of audit work performed on the integrated audit of the Consolidated Financial Statements, as well as work generally only the independent registered public accounting firm can reasonably be expected to provide, such as required regulatory audits, subsidiary audits, accounting consultations and security offerings.

(2) Audit-related fees were comprised of certain accounting consultation services performed in 2010.

(3) Tax fees were comprised of tax compliance services, including assistance with the preparation of tax returns and claims for tax refunds, and tax consultation and planning services, including assistance with tax audits and appeals. In 2010, tax compliance services totaled \$20,050, and tax consulting services totaled \$209,519. In 2009, fees were for tax consultation.

(4) Other fees were comprised of license and maintenance fees for accounting research software. HR benchmarking services are included in 2010 fees.

March 22, 2011

Audit Committee

Douglas C. Neve, Chair

James J. Hoolihan

Kathryn W. Dindo

Leonard C. Rodman

Bruce W. Stender, ex-officio

**ITEM NO. 4 RATIFICATION OF THE APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board recommends shareholder ratification of the appointment of PricewaterhouseCoopers as the Company's independent registered public accounting firm for the year 2011. PricewaterhouseCoopers has acted in this capacity since October 1963.

A representative of PricewaterhouseCoopers will be present at the Annual Meeting of Shareholders, will have an opportunity to make a statement if he or she so desires, and will be available to respond to appropriate questions.

The Board recommends a vote **FOR** ratifying the appointment of PricewaterhouseCoopers as the Company's independent registered public accounting firm for 2011.

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OTHER BUSINESS

The Board knows of no other business to be presented at the Annual Meeting. However, if any other matters properly come before the Annual Meeting, it is the intention of the persons named in the proxy form to vote pursuant to the proxies in accordance with their judgment in such matters.

All shareholders are respectfully asked to vote their proxies promptly so that the necessary vote may be present at the Annual Meeting.

Shareholder Proposals for the 2012 Annual Meeting

All proposals from shareholders to be considered for inclusion in the Proxy Statement relating to the Annual Meeting scheduled for May 8, 2012, must be received by the Secretary of ALLETE at 30 West Superior Street, Duluth, MN 55802-2093 not later than November 25, 2011. The Company's Bylaws provide that for business to be properly brought before an annual meeting by a shareholder, the shareholder must have delivered timely notice to the Company's Secretary. To be timely, advance notice for business to be brought before an annual meeting generally must be received not less than 90 days nor more than 120 days prior to the anniversary of the immediately preceding annual meeting of shareholders. Therefore, for the Annual Meeting scheduled for May 8, 2012, ALLETE must receive a shareholder's notice between January 9, 2012, and February 8, 2012. A shareholder's notice must also comply with informational and other requirements set forth in the Company's Bylaws. The persons to be named as proxies in the proxy cards relating to the 2012 Annual Meeting may have the discretion to vote their proxies in accordance with their judgment on any matter as to which ALLETE did not have notice in accordance with the advance notice process prior to February 8, 2012, without discussion of such matter in the Proxy Statement relating to the 2012 Annual Meeting.

By order of the Board of Directors,

Deborah A. Amberg

Senior Vice President, General Counsel, and Secretary

March 22, 2011

Duluth, Minnesota

