

OTTER TAIL CORP
Form DEF 14A
March 08, 2006

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

Otter Tail Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

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SEC 1913 (02-02)

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2006
Proxy Statement and
Annual Meeting Notice

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**Otter Tail Corporation
Annual Meeting of Shareholders
Monday, April 10, 2006
10 a.m., CST**

Bigwood Event Center
921 Western Avenue
(Highway 210 West and Interstate 94)
Fergus Falls, Minnesota

Coffee will be served at 9:15 A.M., and lunch will follow the meeting. No reservation is necessary.

Please present your admission ticket, which is attached to your proxy.

**Contact Shareholder Services for
Information**

Email sharesvc@ottertail.com

Internet www.ottertail.com

Fax 218-998-3165

Phone 800-664-1259 or 218-739-8479

Mail Otter Tail Corporation
Box 496
Fergus Falls, Minnesota 56538-0496

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March 6, 2006

To the Holders of Common Shares of Otter Tail Corporation:

You are cordially invited to attend the Annual Meeting of Shareholders of Otter Tail Corporation, which will be held at the Bigwood Event Center, Best Western Motel, Highway 210 West and Interstate 94, Fergus Falls, Minnesota, at 10:00 A.M. on Monday, April 10, 2006.

Enclosed are a formal Notice of Annual Meeting and the Proxy Statement, which describe the business to be conducted at the meeting. The Board of Directors proposes that shareholders reelect Ms. Karen M. Bohn and elect Mr. Edward J. McIntyre and Ms. Joyce Nelson Schuette for three-year terms on the Board of Directors.

Shareholders will be asked to approve an amendment to add 500,000 shares to the 1999 Employee Stock Purchase Plan and to approve an amendment to add 1,000,000 shares to the 1999 Stock Incentive Plan, to extend the term of the Plan from December 13, 2008 to December 13, 2013, and to make certain other changes to terms of the Plan.

These are Otter Tail Corporation's two stock-based benefit plans. The purpose of these plans is to encourage employees to focus on Otter Tail Corporation's long-term success and tie their actions to shareholder value. The proposed amendments to the plans are explained in the accompanying Proxy Statement, and we ask that you read the explanation carefully.

Shareholders will be asked to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2006.

Your vote is important. Whether or not you attend the meeting, we encourage you to vote your shares. You may vote your shares on the Internet or by using a toll-free telephone number. Instructions for using these convenient services are provided with your proxy card. Of course, you may vote your shares by marking your votes on the proxy card, signing and dating it, and mailing it in the envelope provided. If your shares are held of record in a brokerage account, please follow the instructions that you receive from your broker. Your broker will submit a proxy card to Otter Tail Corporation reflecting the votes it receives. ESOP participants should follow the instructions provided by Wells Fargo Bank, N.A.

For those shareholders who have not consented to electronic delivery of proxy materials, I have enclosed a copy of Otter Tail Corporation's 2005 Annual Report.

Sincerely,

John C. MacFarlane
Chairman of the Board

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Notice of Annual Meeting

Notice is hereby given to the holders of common shares of Otter Tail Corporation that the Annual Meeting of Shareholders of Otter Tail Corporation will be held in the Bigwood Event Center, Best Western Motel, Highway 210 West and Interstate 94, Fergus Falls, Minnesota, on Monday, April 10, 2006, at 10:00 a.m. to consider and act upon the following matters:

1. To elect three Directors to Otter Tail Corporation's Board of Directors to serve terms of three years.
2. To amend the 1999 Employee Stock Purchase Plan to increase the number of available shares from 400,000 to 900,000.
3. To amend the 1999 Stock Incentive Plan to increase the number of available shares from 2,600,000 to 3,600,000, to extend the term of the Plan from December 13, 2008 to December 13, 2013, and to make certain other changes to the terms of the Plan.
4. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year 2006.
5. To transact such other business as may properly be brought before the meeting.

March 6, 2006

GEORGE A. KOECK
Corporate Secretary and General Counsel

Your Vote is Important

Please vote your proxy by telephone or the Internet as described in the instructions on the enclosed proxy card. Or sign and return the proxy card in the enclosed envelope, which does not require postage if mailed in the United States. If your shares are held of record in a brokerage account, please follow the instructions that you receive from your broker. Your broker will submit a proxy card to Otter Tail Corporation reflecting the votes it receives. ESOP participants should follow the instructions provided by Wells Fargo Bank, N.A.

Shareholders who are currently receiving a paper copy of the proxy statement and annual report can elect to receive future reports over the Internet. If interested in this option, please contact Shareholder Services by calling our toll free number 800-664-1259, or by e-mail at sharesvc@ottertail.com.

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Proxy Statement Questions and Answers

1. Q: Why am I receiving these materials?
A: The Board of Directors of Otter Tail Corporation provides these proxy materials for use at the Annual Meeting of Shareholders to be held on April 10, 2006. As a shareholder you are invited to attend the annual meeting and are entitled to vote on the proposals described in this proxy statement. These materials were sent to shareholders on or about March 6, 2006.
2. Q: Who is entitled to vote at the annual meeting?
A: Only common shareholders of record at the close of business on February 15, 2006 are entitled to vote at the annual meeting. As of the record date, 29,423,297 common shares of Otter Tail Corporation were issued and outstanding. Each shareholder is entitled to one vote per share.
3. Q: What issues may I vote on at the annual meeting?
A: You may vote on (1) the election of three nominees to serve on the Board of Directors; (2) the amendment to the 1999 Employee Stock Purchase Plan; (3) the amendment to the 1999 Stock Incentive Plan; (4), the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2006; and (5) on any other business that is properly brought before the meeting.
4. Q: How do I vote my shares?
A: You may vote either in person at the annual meeting or by granting a proxy. If you desire to grant a proxy, then you have three voting options:
by telephone

by Internet

by proxy card
If you intend to vote by proxy, please refer to the instructions included on your proxy card. Voting by proxy will not affect your right to vote your shares if you attend the annual meeting and desire to vote in person.
5. Q: May I change my vote?
A: You have the right to revoke your proxy any time before the annual meeting by:
Providing written notice to an officer of Otter Tail Corporation and voting in person at the annual meeting.

Submitting another proper proxy by telephone or the Internet.

Submitting a new written proxy bearing a later date at any time before the proxy is voted at the meeting.
6. Q: How are the votes counted?
A: In the election of Directors, you may vote FOR all of the nominees or your vote may be WITHHELD with respect to one or more nominees. If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted FOR all nominees and FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm, and unless your shares are held in the name of a brokerage firm, FOR the amendment to the 1999 Employee Stock Purchase Plan and FOR the amendment to the 1999 Stock Incentive Plan.

Shares voted as abstentions on any matter (or as withhold authority as to Directors) will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum at the meeting and as unvoted, although present and entitled to vote, for purposes of determining the approval of each matter as to which the shareholder has abstained.

If your shares are held in the name of a brokerage firm and you do not provide voting instructions to your broker, your shares will not be voted on any proposal for which your broker does not have discretionary authority to vote under the rules of the NASDAQ Stock Market. If a broker submits a proxy that indicates that the broker does not have discretionary authority as to certain shares to vote on one or more proposals, those

shares will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum at the meeting, but will not be considered as present and entitled to vote with respect to such proposals. Under the rules of the NASDAQ Stock Market, brokers have discretionary authority to vote on the election of Directors and the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm, but do not have discretionary authority to vote on the proposals to amend the 1999 Employee Stock Purchase Plan and the 1999 Stock Incentive Plan.

7. Q: Where and when will I be able to find the results of the voting?

A: Preliminary results will be announced at the Annual Meeting of Shareholders. Otter Tail Corporation will publish the final results in its quarterly report on Form 10-Q for the quarter ending June 30, 2006 to be filed with the Securities and Exchange Commission (SEC). You may also find the results on our website www.ottertail.com.

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8. Q: Who bears the cost of soliciting votes for the annual meeting?

A: Otter Tail Corporation will pay the cost of preparing, assembling, printing, mailing, and distributing these proxy materials. In addition to soliciting proxies by mail, officers and employees of Otter Tail Corporation may solicit them by telephone or in person. Employees receive no additional compensation for these solicitation activities. Otter Tail Corporation has retained Morrow & Company to assist in the solicitation of proxies for a fee of \$6,500, plus certain out-of-pocket expenses.

Outstanding Voting Shares

The only persons known to Otter Tail Corporation to own beneficially (as defined by the SEC for proxy statement purposes) more than 5 percent of the outstanding common shares of Otter Tail Corporation as of February 15, 2006, are as follows:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Cascade Investment L.L.C. 2365 Carillon Point Kirkland, WA 98033	2,556,499 shs.(1)	8.7%
Otter Tail Corporation Employee Stock Ownership Plan Wells Fargo Bank, N.A., Trustee Institutional Trust Services MAC: N9113-030 2700 Snelling Avenue North, Suite 300 Roseville, MN 55113	1,650,077 shs.(2)	5.6%

(1) According to Form 13G dated February 14, 2006, the common shares owned by Cascade Investment L.L.C. as of December 31, 2005 are deemed to be owned beneficially by William H. Gates, III, as the sole member of Cascade Investment L.L.C., who has sole voting and investment power with respect to the shares shown.

(2) The common shares owned by the Employee Stock Ownership Plan (ESOP) are held in trust for the benefit of participants in the ESOP for which Wells Fargo Bank, N.A. is Trustee, subject to the direction of the ESOP Retirement Committee. The ESOP has sole investment power over the common shares held in trust. Participants are entitled to instruct the ESOP Trustee on how to vote all common shares allocated to their accounts (1,631,935 common shares as of December 31, 2005) and will receive a separate proxy for voting such shares. All common shares allocated to the participants for which no voting instructions are received will be voted by the Trustee in proportion to the instructed shares. All unallocated common shares held by the ESOP (none as of December 31, 2005) will be voted as directed by the Retirement Committee.

Election of Directors

The Board of Directors of Otter Tail Corporation is comprised of nine Directors divided into three classes. The members of each class are elected to serve three-year terms with the term of office of each class ending in successive years.

The terms of Ms. Karen M. Bohn, Mr. Thomas M. Brown, and Mr. Robert N. Spolum expire at the time of the 2006 Annual Meeting of Shareholders. Mr. Brown and Mr. Spolum will be retiring from the Board at the time of the 2006 Annual Meeting in accordance with Board policies. Otter Tail Corporation thanks Mr. Brown and Mr. Spolum for their contributions to the Board.

The Board of Directors, upon recommendation of the Corporate Governance Committee, nominates Ms. Karen M. Bohn for reelection to serve a three-year term ending at the time of the Annual Meeting in 2009. The Board of Directors, upon recommendation of the Corporate Governance Committee, nominates Mr. Edward J. McIntyre and

Ms. Joyce Nelson Schuette for election to serve three-year terms ending at the time of the Annual Meeting in 2009. Each nominee was initially recommended to the Board of Directors by a non-management Director of Otter Tail Corporation.

Under Minnesota law, the affirmative vote of a plurality of the common shares present and entitled to vote with respect to the election of Directors is required for the election of the nominees to the Board of Directors. Proxies, unless otherwise directed thereon, will be voted in favor of all nominees. The proxies solicited may be voted for a substitute nominee or nominees in the event that any of the nominees is unable to serve, or for good reason will not serve, which is a contingency not now anticipated.

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Brief biographies of the Director nominees and of the continuing Directors are found below. These biographies include the ages of the Directors (as of the 2006 Annual Meeting of Shareholders) and outlines of their business experiences. Each Director has held the same position or another executive position with the same employer for the past five years.

The Board has determined that, with the exception of John C. MacFarlane, all of the Directors and Director nominees are independent as defined by the NASDAQ Listing Standards.

The Board recommends a vote FOR the election of all nominees to the Board of Directors.

Name	Principal Occupation	Age	Director Since
Nominees for election for three-year terms expiring in April 2009:			
Karen M. Bohn	President and Chief Executive Officer Galeo Group, LLC (management consulting firm) Edina, Minnesota Director, Gander Mountain Company Ms. Bohn serves on the Audit and Corporate Governance Committees.	52	2003
Edward J. McIntyre	Former Vice President and Chief Financial Officer Xcel Energy Corporation (energy company) Incline Village, Nevada	55	
Joyce Nelson Schuette	Managing Director and Investment Banker Piper Jaffray & Co. (financial services) Minneapolis, Minnesota	55	
Directors with terms expiring in April 2008:			
Dennis R. Emmen	Retired Senior Vice President, Finance, Treasurer and Chief Financial Officer Otter Tail Power Company Fergus Falls, Minnesota Mr. Emmen serves on the Audit and Compensation Committees.	72	1984
Kenneth L. Nelson	President and Chief Executive Officer Barrel O Fun, Inc. President and Chief Executive Officer	64	1990

Kenny's Candy, Inc.

President and Chief Executive Officer

Tuffy's Pet Foods, Inc.

(snack and pet food manufacturing)

Perham, Minnesota

Mr. Nelson serves on the Audit Committee.

Nathan I. Partain

President, Chief Executive Officer

and Chief Investment Officer

DNP Select Income Fund, Inc.

(closed-end utility income fund)

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1993

President and Chief Executive Officer

Duff and Phelps Investment Management Co.

Chicago, Illinois

Mr. Partain serves on the Audit, Compensation,
and Executive Committees.

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Name	Principal Occupation	Age	Director Since
Directors with terms expiring in April 2007:			
Arvid R. Liebe	President Liebe Drug, Inc. (retail business) Owner Liebe Farms, Inc. Milbank, South Dakota Mr. Liebe serves on the Compensation, Corporate Governance, and Executive Committees.	64	1995
John C. MacFarlane	Chairman of the Board Retired Chief Executive Officer and President Otter Tail Corporation Fergus Falls, Minnesota Mr. MacFarlane serves on the Executive Committee.	66	1983
Gary J. Spies	Chairman and President Service Food, Inc. (retail business) Fergus Falls, Minnesota Partner Fergus Falls Development Company, Midwest Regional Development Company, LLC (land and housing development) Fergus Falls, Minnesota Mr. Spies serves on the Audit and Corporate Governance Committees.	64	2001

Meetings and Committees of the Board

The full Board of Directors of Otter Tail Corporation considers all major decisions of Otter Tail Corporation. The Board has established a standing Audit Committee, Compensation Committee, Corporate Governance Committee, and Executive Committee so that certain important matters can be addressed in more depth than may be possible in a full Board meeting. Committee charters can be found on the Otter Tail Corporation website at www.ottertail.com. The full Board of Directors held a total of eight regularly scheduled and special meetings in 2005. The Board of Directors also held a planning retreat with senior management. In conjunction with each meeting and the retreat, the Board of Directors met in executive session without management present. During 2005, the Board of Directors also met in executive session without management and Chairman John C. MacFarlane present. Each incumbent Director attended all meetings of the Board of Directors, and all meetings of the committees during the periods he or she served on such committees, held during the period for which he or she was a Director with the exception of Mr. Spies who

abstained from participation in six special meetings of the Audit Committee due to a potential conflict of interest. Each then-incumbent Director attended the Annual Meeting of Shareholders in 2005.

The Corporation expects that all Directors and executive officers will attend the Annual Meeting of Shareholders.

Audit Committee

The Audit Committee reviews financial results of Otter Tail Corporation, reviews accounting, audit and control procedures, and retains and supervises the independent registered public accounting firm. The Audit Committee has oversight responsibility for the Corporation's Code of Conduct. This committee is composed of six members of the Board of Directors who, for 2005, were Karen M. Bohn, Dennis R. Emmen, Kenneth L. Nelson, Nathan I. Partain, Gary J. Spies, and Robert N. Spolum (Chair). All committee members are independent Directors as defined by the NASDAQ Listing Standards. The Board has determined that Mr. Emmen, Mr. Partain, and Mr. Spolum meet the SEC definition for financial expert and all members of the committee are financially literate. The committee held ten meetings in 2005. For further information on the actions of the Audit Committee, please refer to the Report of the Audit Committee on page 12.

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Compensation Committee

The Compensation Committee reviews, approves, and reports to the Board on compensation programs and benefit plan matters involving the Corporation's Directors and executive officers. The Compensation Committee oversees the administration of the 1999 Employee Stock Purchase Plan, the 1999 Stock Incentive Plan, and the Executive Annual Incentive Plan. Working with an outside compensation consultant, and subject to approval by the Board, this committee sets compensation for the Directors, the Chief Executive Officer, and certain executive officers. This committee is composed of four members of the Board of Directors who, for 2005, were Thomas M. Brown, Dennis R. Emmen, Arvid R. Liebe (Chair), and Nathan I. Partain, all of whom are independent Directors, as defined by the NASDAQ Listing Standards. The committee held four meetings in 2005. For further information on the actions of the Compensation Committee, please refer to the Report of the Compensation Committee on page 7.

Corporate Governance Committee

The Corporate Governance Committee provides recommendations to the Board on candidates for election as Directors, on Director committee assignments, on actions necessary for the proper governance of Otter Tail Corporation, and on actions necessary for the evaluation of the performance of the Board of Directors and Chief Executive Officer. With input from the Chief Executive Officer, the committee recommends certain executive officers for annual election. The committee reviews, as necessary, changes in corporate governance required by statute or rule and makes recommendations to the Board on changes in structure, rule or practice necessary for compliance and for good corporate governance. The Board of Directors has not set minimum standards for Director candidates. Rather, it seeks highly qualified individuals with a wide variety of business and life experiences that will enable them to constructively review and guide management of Otter Tail Corporation. Otter Tail Corporation has successfully obtained highly qualified candidates for Directors without utilizing a paid outside consultant. The Corporate Governance Committee considers and evaluates potential Director candidates and makes its recommendations to the full Board. Any shareholder may submit a recommendation for nomination to the Board of Directors by sending a written statement of the qualifications of the recommended individual to the President and Chief Executive Officer, Otter Tail Corporation, Box 496, Fergus Falls, Minnesota 56538-0496. The Corporate Governance Committee will utilize the same process for evaluating all nominees, regardless of whether the nominee is submitted by a shareholder or some other source. The Corporate Governance Committee is composed of four members of the Board of Directors who, for 2005, were Karen M. Bohn, Thomas M. Brown (Chair), Arvid R. Liebe, and Gary J. Spies, all of whom are independent Directors, as defined by the NASDAQ Listing Standards. The committee held four meetings in 2005.

Executive Committee

The Executive Committee exercises certain powers of the Board between normally scheduled Board meetings and performs such duties as the Board may assign to it. This committee is composed of four members of the Board of Directors who, for 2005, were Arvid R. Liebe, John C. MacFarlane, Nathan I. Partain (Chair), and Robert N. Spolum. The committee did not meet in 2005.

Contact with the Board of Directors

Shareholders may contact the Board of Directors by either mail or e-mail. Questions may be sent to the entire Board, to a particular committee, or to an individual Director. The mailing address is Otter Tail Corporation, Board of Directors, Box 9156, Fargo, North Dakota 58106-9156 and the e-mail address is boardofdirectors@ottertail.com. Although reviewed by the General Counsel, all questions are forwarded to the Board of Directors or the appropriate committee or Director.

Director Compensation

All Directors of Otter Tail Corporation receive an annual retainer for their services as a Director, including service on committees. All Directors, except the Chairman, receive an annual retainer of \$27,000. The Chairman receives an annual retainer of \$63,000. All Directors receive a fee of \$1,500 for attendance at each board and committee meeting. Each committee chair receives an additional retainer of \$5,000 per year. In addition, Directors receive an actual expense or a \$100 travel allowance if they are required to furnish their own transportation to board or committee meetings outside their city of residence.

In 2005, each Director received 1,300 shares of restricted stock, granted under the terms of the 1999 Stock Incentive Plan. The shares of restricted stock, which were granted on the date of the annual meeting, vest over a period of four

years, at the rate of 25% per year, and are eligible for full dividend and voting rights.

Directors may elect to receive their compensation (other than expense reimbursements) in the form of cash, stock or a combination. Directors may elect to defer the receipt of all or part of their cash compensation pursuant to the Otter Tail Corporation Deferred Compensation Plan for Directors. The deferral may be in the form of cash or stock units. Cash deferrals receive interest at a rate equal to 1% over the prime commercial rate of U.S. Bank National Association. Deferrals in the form of stock units are credited quarterly with dividend equivalents equal to the dividend rate on Otter Tail Corporation's common shares and the deferred amount is paid out in common shares.

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Listed in the following table are the number of common shares of Otter Tail Corporation beneficially owned by Directors and the executive officers named in the Summary Compensation Table, as well as the number of shares owned by Directors and executive officers of Otter Tail Corporation as a group as of December 31, 2005:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)(2)	Percent Class
Karen M. Bohn	2,750	
Thomas M. Brown	13,682	
Dennis R. Emmen	11,800 (3)	
John D. Erickson	185,943 (4)	
George A. Koeck	25,076	
Arvid R. Liebe	9,459 (5)	
Charles S. MacFarlane	42,000 (6)	
John C. MacFarlane	313,659 (7)	1.1%
Lauris N. Molbert	74,147	
Kevin G. Moug	56,545 (8)	
Kenneth L. Nelson	23,744	
Nathan I. Partain	11,841 (9)	
Gary J. Spies	8,752 (10)	
Robert N. Spolum	24,388	
All Directors and executive officers as a group	803,786	2.7%

(1) Represents outstanding common shares beneficially owned both directly and indirectly as of December 31, 2005. Except for John C. MacFarlane, no Director, Director nominee, or executive officer beneficially owns more than one percent of the total outstanding common shares as of December 31, 2005. Except as indicated by footnote below, the beneficial owner possesses sole voting and investment powers with respect to the shares shown.

(2) Includes common shares held by the Trustee of Otter Tail Corporation's Employee Stock Ownership Plan for the account of executive officers of Otter Tail Corporation with respect to which such persons have sole voting power and no investment power, as follows: Mr. Erickson, 4,982 shares; Mr. Koeck, 676 shares; Mr. C. MacFarlane, 516 shares; Mr. J. MacFarlane, 20,046 shares; Mr. Molbert, 200 shares; Mr. Moug, 184 shares; and all Directors, Director nominees and executive officers as a group, 26,604 shares.

Includes the following common shares subject to options exercisable within 60 days of December 31, 2005: Mr. Brown, 4,000 shares; Mr. Emmen, 4,000 shares; Mr. Erickson, 116,000 shares; Mr. Koeck, 20,000 shares; Mr. Liebe, 2,000 shares; Mr. C. MacFarlane, 22,250 shares; Mr. J. MacFarlane, 252,000 shares; Mr. Molbert, 50,000 shares; Mr. Moug, 39,750 shares; Mr. Nelson, 4,000 shares; Mr. Partain, 4,000 shares; Mr. Spies, 2,000 shares; Mr. Spolum, 2,000 shares; and all Directors, Director nominees and executive officers as a group, 522,000 shares.

(3) Includes 3,000 shares owned jointly with Mr. Emmen's wife as to which he shares voting and investment power.

(4) Includes 7,834 shares owned jointly with Mr. Erickson's wife as to which he shares voting and investment power.

(5)

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Includes 31 shares owned by Mr. Liebe's minor children as to which he, as custodian, has voting and investment power.

- (6) Includes 153 shares owned by Mr. C. MacFarlane's minor children as to which he, as custodian, has voting and investment power.
- (7) Includes 26,831 shares owned jointly with Mr. J. MacFarlane's wife as to which he shares voting and investment power.
- (8) Includes 791 shares owned jointly with Mr. Moug's wife as to which he shares voting and investment power.
Includes 11 shares owned by Mr. Moug's minor children as to which he, as custodian, has voting and investment power.
- (9) Includes 1,000 shares owned jointly with Mr. Partain's wife as to which he shares voting and investment power.
- (10) Includes 1,000 shares owned jointly with Mr. Spies' wife as to which he shares voting and investment power.

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No Director, Director nominee, or executive officer of Otter Tail Corporation owned beneficially, directly, or indirectly, on December 31, 2005 any shares of any series of cumulative preferred shares of Otter Tail Corporation except for Mr. Emmen, who owned 115 cumulative preferred shares of the \$3.60 series.

The information with respect to beneficial ownership of securities of Otter Tail Corporation is based on information furnished to Otter Tail Corporation by each person included in the table.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Otter Tail Corporation's Directors and executive officers and holders of more than 10 percent of Otter Tail Corporation's common shares to file with the SEC initial reports of ownership and reports of changes in ownership of common shares and other equity securities of Otter Tail Corporation. Otter Tail Corporation believes that during the year ended December 31, 2005 its Directors and executive officers complied with all Section 16(a) filing requirements.

Executive Compensation*Compensation Committee Report on Executive Compensation*

The Compensation Committee of the Board of Directors is composed solely of independent Directors as defined by the NASDAQ Listing Standards, and operates under a written charter adopted by the Board of Directors. This committee is responsible for developing Otter Tail Corporation's executive compensation program for Mr. Erickson, Mr. Molbert, Mr. Moug, and Mr. Koeck (referred to in this report as the executive officers) and recommending it to the Board of Directors. The components of the executive compensation program are base salary, annual incentive bonus, and long-term incentive in the form of performance shares.

Executive compensation is focused on results. Otter Tail Corporation provides fair and equitable compensation for executives combining base pay, annual cash incentives, stock-based long-term incentives and competitive benefits. Annual incentive plans are designed to reward executives for Otter Tail Corporation's current year financial success, recognizing the executive's responsibility for meeting Otter Tail Corporation's overall financial performance goals, as well as those of the operating companies. Stock-based incentives are focused on long-term performance by aligning the executive's long-term financial interest with Otter Tail Corporation's shareholders. Stock ownership requirements ensure that the executives remain focused on long-term shareholder value.

Working with an outside compensation consultant (Towers Perrin), the Compensation Committee develops annual recommendations for compensation for the Chief Executive Officer and the other executive officers. In 2004 Towers Perrin had prepared market-based compensation data comparing compensation information for the four top management positions of Otter Tail Corporation with that for executives of companies of comparable size in both the energy sector and general industry. In 2005, Towers Perrin discussed that data with the Compensation Committee and the trends in compensation that had taken place since that data was collected. Towers Perrin met with the Committee in executive session.

Compensation for Mr. C. MacFarlane was set by the Executive Vice President and Chief Operating Officer because Mr. C. MacFarlane is not elected to his position by the Board of Directors.

Base salary

The Chief Executive Officer makes specific recommendations to the Compensation Committee with respect to adjustments in base salary for executive officers (other than himself) based upon the market data analysis described above and other factors, which typically are subjective and reflect individual performances during the year or changes in corporate responsibilities. The Compensation Committee reviews the recommendations of the Chief Executive Officer for consistency with the market data analysis. The Compensation Committee may adjust base salaries, however, as it sees fit without respect to the market data analysis or any other objective criteria. For 2005, base salary for each executive officer was below the mid-point of the market data analysis.

Annual incentive bonus

The Compensation Committee utilizes an annual incentive bonus plan for Otter Tail Corporation's executive officers. The Otter Tail Corporation Executive Annual Incentive Plan provides incentives to executive officers if Otter Tail Corporation achieves certain performance targets. The annual incentive bonus is designed to place a significant portion of each executive officer's annual cash compensation at risk depending upon the financial performance of Otter Tail Corporation for that year. The Compensation Committee is responsible for setting performance targets near the

end of the first quarter each year and establishes total target payout percentages for each of these officers based on the market data analysis and other subjective factors. For 2005 the performance targets were as follows:

1. Corporate earnings per share. Each officer receives 33 1/3 percent of the total target payout if Otter Tail Corporation achieves the targeted earnings per share. Each officer receives 8 1/3 percent of the total target payout if Otter Tail Corporation achieves the minimum performance level, and additional increments for performance above the target. Otter Tail Corporation exceeded the targeted performance level for earnings per share in 2005.

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2. Corporate return on equity. Each officer receives 33 1/3 percent of the total target payout if Otter Tail Corporation achieves the targeted return on equity. Each officer receives 8 1/3 percent of the total target payout if Otter Tail Corporation achieves the minimum performance level, and additional increments for performance above the target. Otter Tail Corporation exceeded the targeted performance level for return on equity in 2005.
 3. Cash flow from operations. Each officer receives 33 1/3 percent of the total target payout if Otter Tail Corporation achieves the targeted cash flow from operations. Each officer receives 8 1/3 percent of the total target payout if Otter Tail Corporation achieves the minimum performance level and additional increments for performance above the target. Otter Tail Corporation exceeded the targeted performance level for cash flow from operations in 2005.
- The Compensation Committee has discretion over treatment of extraordinary gains, write-offs, or other events in determining the amount of incentive bonus to be paid. For 2005, the amount of annual incentive bonus was based upon actual results.

Long-term incentives

Long-term incentive compensation for executive officers is based on performance share awards granted by the Compensation Committee under Otter Tail Corporation's 1999 Stock Incentive Plan. The performance share awards are designed to tie the long-term incentives for the executive officers to company performance and to further align the interests of these individuals with shareholders.

In 2005 the Compensation Committee awarded 50,100 performance shares to the executive officers as a group as the target amount. The size of the grant awarded to each executive officer was consistent with or below the market data provided by Towers Perrin for awards to officers in similar positions in comparable companies. The performance shares, to the extent they become payable, will be paid in common shares of Otter Tail Corporation. Whether the performance shares become payable will be based upon the total shareholder return of Otter Tail Corporation as compared to the companies that comprise the Edison Electric Institute Index over a three year period from January 1, 2005 through December 31, 2007. Actual payment of common shares may range from zero to 150% of the target amount and will be paid in 2008.

Chief Executive Officer compensation

The Board of Directors, upon the Compensation Committee's recommendation, sets the Chief Executive Officer's base salary. The committee determines the Chief Executive Officer's base salary utilizing the same criteria as it utilizes to determine the base salaries for the other executive officers, but without recommendation from the Chief Executive Officer. For 2005, base salary for the Chief Executive Officer was below the mid-point of the market data analysis. The committee determines the Chief Executive Officer's annual incentive bonus, if any, in the same manner that it determines the bonus of the other executive officers. For 2005, the annual incentive bonus was based upon actual results. In 2005, the committee granted the Chief Executive Officer an award of performance shares based on the same criteria as the grants of performance shares to the other executive officers.

Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code imposes limits on tax deductions for executive compensation in excess of \$1 million paid to any of the top five executive officers named in the Summary Compensation Table. It is the committee's policy to take reasonable steps to preserve this tax deduction.

Arvid R. Liebe, Chair
Thomas M. Brown
Dennis R. Emmen
Nathan I. Partain

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The following table contains information about compensation to Otter Tail Corporation's Chief Executive Officer and its other four most highly compensated executive Officers for each of the last three fiscal years.

Name and Principal Position	Year	Annual Compensation		Long-term Compensation Awards		
		Salary	Bonus (1)	Restricted Stock Awards (\$)(2)	Securities Underlying Options/SARs (#)	All Other Compensation (3)
John D. Erickson President & CEO	2005	\$372,000	\$556,806			\$14,850
	2004	\$358,000	\$149,682			\$14,725
	2003	\$348,000	\$61,600	\$980,820		\$14,600
Lauris N. Molbert Executive Vice President & COO	2005	\$310,500	\$464,992			\$14,850
	2004	\$297,500	\$124,735			\$14,725
	2003	\$283,500	\$50,750	\$599,390		\$14,600
Kevin G. Moug Chief Financial Officer & Treasurer	2005	\$246,250	\$221,254			\$16,050
	2004	\$236,000	\$59,375			\$15,925
	2003	\$227,500	\$46,000	\$326,940		\$15,800
George A. Koeck General Counsel & Corporate Secretary	2005	\$224,250	\$172,103			\$14,850
	2004	\$205,250	\$43,034			\$14,725
	2003	\$197,500	\$35,000	\$168,919		\$6,200
Charles S. MacFarlane President, Otter Tail Power Company	2005	\$239,000	\$105,160	\$74,790	3,000	\$8,862
	2004	\$231,914	\$73,687	\$79,485	3,000	\$9,292
	2003	\$216,250	\$95,000	\$54,490	8,000	\$9,519

- (1) Includes awards under the annual incentive bonus program for certain executive officers described above in the Compensation Committee Report on Executive Compensation.
- (2) At year end 2005, the aggregate number and value of all restricted shares held by each of the named officers was: Mr. Erickson, 26,600/\$770,868; Mr. Molbert, 14,575/\$422,383; Mr. Moug, 7,725/\$223,870; Mr. Koeck, 4,400/\$127,512; Mr. C. MacFarlane, 6,250/\$181,125. Dividends are paid on the restricted shares. The restricted shares vest 25% each year over a four-year period provided the executive officer remains employed by Otter Tail Corporation.
- (3) Amounts of All Other Compensation for 2005 consists of (i) amounts contributed by the Company under the Otter Tail Corporation Retirement Savings Plan for 2005 as follows: Mr. Erickson, \$5,250; Mr. Molbert, \$5,250; Mr. Moug, \$5,250; Mr. Koeck, \$5,250; Mr. C. MacFarlane, \$5,250; (ii) a car allowance as follows: Mr. Erickson, \$9,600; Mr. Molbert, \$9,600; Mr. Moug, \$10,800; Mr. Koeck, \$9,600; and (iii) the amount of the Company's contribution under the Employee Stock Ownership Plan for 2005 which was invested in common shares for the account of Mr. C. MacFarlane, \$3,612. There were no ESOP contributions to Mr. Erickson, Mr. Molbert, Mr. Moug and Mr. Koeck.

Options/SAR Grants in Last Fiscal Year (1) (2)

The following table provides information on grants of stock options in 2005 to the officer named below.

	Number of Securities Underlying Options/SARs Granted (#)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)	Expiration Date	Grant Date Present Value (\$)(1)(2)
Charles S. MacFarlane	3,000	4.01%	\$24.93	4/11/2015	\$ 14,280

- (1) The option was granted with a term of ten years and becomes exercisable in full, six months after the grant date. The option becomes fully exercisable upon a change of control. The exercise price may be paid by delivery of common shares, and tax withholding obligations related to exercise may be paid by delivery or withholding of common shares.
- (2) In accordance with SEC rules, the Black-Scholes option pricing model was chosen to estimate the grant date present value of the option set forth in this table. Otter Tail Corporation's use of this model should not be construed as an endorsement of its accuracy at valuing options. All stock option valuation models, including the Black-Scholes model, require a prediction about the future movement of the stock price. The following assumptions were made for the purpose of calculating the grant date present value for the options granted: expected life of the option of seven years, volatility at 25.4% dividend yield of 4.4% and discount rate of 4.3%.

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Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values

The following table provides information on option exercises in 2005 by the officers named below and on the number and value of any unexercised options held by these officers at the end of 2005.

		Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#)	Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End (\$) (1)
Shares Acquired	Value		