

Otter Tail Corp  
Form DEF 14A  
March 02, 2011

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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   
Filed by a Party other than the Registrant

Check the appropriate box:

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

**Otter Tail Corporation**  
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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1) Amount Previously Paid:

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3) Filing Party:

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2011  
Proxy Statement and  
Annual Meeting Notice

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**Otter Tail Corporation  
Annual Meeting of Shareholders**

**Monday, April 11, 2011**

**10:00 a.m., CT**

**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**

E-mail	<a href="mailto:sharesvc@ottertail.com">sharesvc@ottertail.com</a>
Internet	<a href="http://www.ottertail.com">www.ottertail.com</a>
Fax	218-998-3165
Phone	800-664-1259 or 218-739-8479
Mail	Otter Tail Corporation PO Box 496 Fergus Falls, Minnesota 56538-0496

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March 4, 2011

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 11, 2011.

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 elect Mr. John D. Erickson, Mr. Nathan I. Partain, and Mr. James B. Stake for three-year terms on the Board of Directors.

Shareholders will be asked to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2011.

Shareholders will also be asked to approve, in a non-binding advisory vote, the compensation provided to the Named Executive Officers as described in this Proxy Statement and to determine, in a non-binding advisory vote, whether future shareholder votes on the compensation of the Named Executive Officers should occur every one, two, or three years.

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 2010 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 at the Bigwood Event Center, Best Western Motel, Highway 210 West and Interstate 94, Fergus Falls, Minnesota, on Monday, April 11, 2011, 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 ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year 2011.
3. To approve, in a non-binding advisory vote, the compensation provided to the Named Executive Officers as described in this Proxy Statement.
4. To determine, in a non-binding advisory vote, whether future shareholder votes on the compensation of the Named Executive Officers should occur every year, every two years or every three years.
5. To transact such other business as may properly be brought before the meeting.

March 4, 2011

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, date, 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. Employee Stock Ownership Plan ( 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 you are 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](mailto:sharesvc@ottertail.com). To obtain directions to attend the Annual Meeting and vote in person contact Shareholder Services at our toll free number 800-664-1259.

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on April 11, 2011**

**The Proxy Statement, form of Proxy and Annual Report, including Otter Tail Corporation's Annual Report on Form 10-K are available online at <http://www.ottertail.com/investors/annual.cfm>.**





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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 is soliciting proxies and provides these materials in connection with its solicitation of proxies for use at the Annual Meeting of Shareholders to be held on April 11, 2011. 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 first sent to shareholders on or about March 4, 2011.
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, 2011 are entitled to vote at the Annual Meeting. As of the record date, 36,002,739 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 ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2011; (3) the non-binding advisory vote on compensation of the Named Executive Officers; (4) the non-binding advisory vote on the frequency for voting on compensation of the Named Executive Officers; 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 cardIf 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; or
  - 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; FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm; FOR the resolution approving the compensation of the Named Executive Officers; and FOR a three year interval for holding the non-binding advisory vote on executive compensation.

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. 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. Brokers have discretionary authority to vote on the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm.

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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 a current report on Form 8-K to be filed with the Securities and Exchange Commission ( SEC ) within four business days following the Annual Meeting. You may also find the results on our website [www.ottertail.com](http://www.ottertail.com).
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, employees of Otter Tail Corporation may solicit them by telephone or in person. Employees receive no additional compensation for these solicitation activities.

**Outstanding Voting Shares**

The total outstanding voting shares of Otter Tail Corporation stock as of February 15, 2011 is 36,002,739. Only common shareholders of record as of February 15, 2011 are entitled to vote at the Annual Meeting of Shareholders. The only persons known to Otter Tail Corporation to own beneficially (as defined by the SEC for proxy statement purposes) more than 5% of the outstanding common shares of Otter Tail Corporation as of February 15, 2011, are as follows:

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Cascade Investment, L.L.C. 2365 Carillon Point Kirkland, WA 98033	3,456,499 shs. <sup>1</sup>	9.6 %
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	1,973,620 shs. <sup>2</sup>	5.5 %

- (1) Based on information in an Amendment No. 6 to Schedule 13D jointly filed by Cascade Investment, L.L.C. ( Cascade ) and William H. Gates, III with the SEC on August 3, 2010 with respect to their holdings as of July 29, 2010. According to the filing, the common shares owned by Cascade may be deemed to be beneficially owned by Mr. Gates, as the sole member of Cascade. Michael Larson, the Business Manager of Cascade, has voting and investment power with respect to the common shares beneficially owned by Cascade. Mr. Larson disclaims beneficial ownership of the common shares beneficially owned by Cascade and Mr. Gates.
- (2) Based on information in an Amendment No. 1 to Schedule 13G filed by BlackRock, Inc. ( BlackRock ) with the SEC on February 2, 2011 for its holdings as of December 31, 2010. BlackRock reported that it has sole voting and investment power with respect to all 1,973,620 shares.

**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 Mr. John D. Erickson, Mr. Nathan I. Partain, and Mr. James B. Stake expire at the time of the 2011 Annual Meeting of Shareholders. The Board of Directors, upon recommendation of the Corporate Governance Committee, nominates Mr. Erickson, Mr. Partain, and Mr. Stake for election to serve a three-year term ending at the time of the Annual Meeting of Shareholders in 2014.

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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Biographies of the Director nominees and of the continuing Directors are found below. These biographies include the age of each Director (as of the 2011 Annual Meeting of Shareholders), an outline of his or her business experiences and the reasons for his or her selection for the Board. Each Director and Director nominee has held the same position or another executive position with the same employer for the past five years.

The Board of Directors has determined that, with the exception of Mr. John D. Erickson and Mr. John C. MacFarlane, all of the Directors and Director nominees are independent (as defined by the NASDAQ Listing Standards). Mr. Charles S. MacFarlane, President, Otter Tail Power Company, is the son of Mr. J. MacFarlane.

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

Name Nominees for election for three-year terms expiring in April 2014:	Background, Basis for Selection, Board Committees	Age	Director Since
John D. Erickson	Fergus Falls, Minnesota President & CEO Otter Tail Corporation As Chief Executive Officer since 2002, Mr. Erickson provides the Board his leadership experience, his financial expertise and his knowledge of Otter Tail Corporation and the utility industry developed over his years of service with Otter Tail Corporation. Mr. Erickson serves on no Committees.	52	2007
Nathan I. Partain	Chicago, Illinois President and Chief Investment Officer Duff & Phelps Investment Management Co. President, Chief Executive Officer and Chief Investment Officer DNP Select Income Fund, Inc. (closed-end utility income fund) Director, DNP Select Income Fund Inc.; DTF Tax-Free Income Inc.; Duff & Phelps Utility and Corporate Bond Trust Inc. (These three closed end investment fund companies share a common board, of which, Mr. Partain is one of ten directors. These entities constitute a single fund complex under SEC rules). The Board benefits from the financial expertise Mr. Partain provides, as well as from the knowledge he has acquired regarding the utility industry from twenty-four years of providing electric utility investment research and management services to institutional clients of Duff & Phelps. Mr. Partain serves on the Audit and Compensation Committees.	54	1993



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<b>Name</b>	<b>Background, Basis for Selection, Board Committees</b>	<b>Age</b>	<b>Director Since</b>
James B. Stake	Edina, Minnesota Retired Executive Vice President Enterprise Services 3M Company (diversified manufacturing) Director, C. H. Robinson Worldwide, Inc. Mr. Stake provides the Board with his business expertise with diversified companies developed during his career at 3M Company, which is particularly relevant to the non-utility operating companies of Otter Tail Corporation. Mr. Stake serves on the Audit and Compensation Committees.	58	2008
<b>Directors with terms expiring in April 2013:</b>			
Arvid R. Liebe	Milbank, South Dakota Retired President Liebe Drug, Inc. (retail business) Owner Liebe Farms, Inc. Mr. Liebe provides the Board with the benefit of his small business expertise relevant to the non-utility operating companies of Otter Tail Corporation. The Board also benefits from Mr. Liebe's familiarity with the South Dakota service territory of Otter Tail Power Company. Mr. Liebe serves on the Compensation and Corporate Governance Committees.	69	1995
John C. MacFarlane	Fergus Falls, Minnesota Chairman of the Board Retired Chief Executive Officer and President Otter Tail Corporation The Board benefits from the leadership skills and extensive knowledge of Otter Tail Corporation and the utility industry acquired by Mr. MacFarlane over his years of service as Chairman of the Board, and as Otter Tail Corporation's former Chief Executive Officer. Mr. MacFarlane serves on no Committees.	71	1983
Gary J. Spies	Fergus Falls, Minnesota Chairman Service Food, Inc. (retail business) Vice President	69	2001



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Fergus Falls Development Company,  
Midwest Regional Development Company, LLC  
(land and housing development)

Mr. Spies provides the Board with the benefit of his small business expertise relevant to the non-utility operating companies of Otter Tail Corporation. The Board also benefits from Mr. Spies' familiarity with the Minnesota service territory of Otter Tail Power Company.

Mr. Spies serves on the Audit and Corporate Governance Committees.

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<b>Name</b> <b>Directors with terms</b> <b>expiring</b> <b>in April 2012:</b>	<b>Background, Basis for Selection,</b> <b>Board Committees</b>	<b>Age</b>	<b>Director Since</b>
Karen M. Bohn	<p>Edina, Minnesota President Galeo Group, LLC (management consulting firm) Director, Ameriprise Certificate Company Former Director, Gander Mountain Company (Resigned, January 14, 2010) Ms. Bohn provides the Board with her business and financial expertise developed over the course of her career in the financial services sector, as well as her insight gained from providing consulting services in the areas of governance, management effectiveness, and strategy to a variety of large and small companies. Ms. Bohn serves on the Audit and Corporate Governance Committees.</p>	57	2003
Edward J. McIntyre	<p>White Salmon, Washington Retired Vice President and Chief Financial Officer Xcel Energy, Inc. (energy company) Mr. McIntyre provides the Board with the benefit of his business and financial expertise developed over the course of his career, as well as his experience in the utility industry acquired during his years of service with Xcel Energy, Inc. Mr. McIntyre serves on the Audit and Compensation Committees.</p>	60	2006
Joyce Nelson Schuette	<p>Walker, Minnesota Retired Managing Director and Investment Banker Piper Jaffray &amp; Co. (financial services) Ms. Schuette provides the Board with the benefit of the business and financial expertise she has developed over the course of her career, particularly in the area of investment banking. Ms. Schuette serves on the Compensation and Corporate Governance Committees.</p>	60	2006

**Meetings and Committees of the Board of Directors**

The full Board of Directors of Otter Tail Corporation considers all major decisions of Otter Tail Corporation. The Board of Directors has established a standing Audit Committee, Compensation Committee, and Corporate Governance Committee so that certain important matters can be addressed in more depth than may be possible in a full Board of Directors meeting. Each committee operates under a charter that is reviewed annually by that committee and the Board of Directors.

Pursuant to Otter Tail Corporation's bylaws and governance guidelines, the Board of Directors determines the best board leadership structure for Otter Tail Corporation from time to time. Otter Tail Corporation recognizes that different board leadership structures may be appropriate for companies in different situations. Since 2002 Otter Tail Corporation has had a separate Chairman of the Board and Chief Executive Officer. The Chairman and Chief Executive Officer are elected annually by the Board. Mr. J. MacFarlane, Chairman of the Board, has not held management responsibilities since 2002, when Mr. Erickson was first elected as Chief Executive Officer.

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Otter Tail Corporation believes that its current leadership structure, with Mr. Erickson serving as Chief Executive Officer and Mr. J. MacFarlane serving as Chairman of the Board, is the optimal structure for Otter Tail Corporation at this time. The Chief Executive Officer and the Chairman of the Board have an excellent working relationship. That leadership structure also provides the significant benefits that come from Mr. J. MacFarlane's long tenure as Chairman of the Board and his prior experience as Chief Executive Officer of Otter Tail Corporation.

The Board of Directors retains responsibility for risk oversight for Otter Tail Corporation. The Board of Directors is routinely called upon in the exercise of its business judgment to assess the risk involved in matters brought to it for consideration. As a part of the strategic planning process the Directors assess the risk involved in the strategic plan of Otter Tail Corporation. The Board of Directors also engages in a risk assessment process at least annually.

The full Board of Directors held a total of ten regularly scheduled and special meetings in 2010. In addition to these meetings, the Board of Directors also held a planning retreat with senior management in 2010. During 2010, the Board of Directors met in executive session without Mr. Erickson and management at each meeting. It also met in executive session without Chairman Mr. J. MacFarlane present at certain meetings. Each Director attended at least 75% of the total meetings of the Board of Directors and the meetings of the committees on which he or she served. Each Director attended the Annual Meeting of Shareholders in 2010. It is expected that the Directors and executive officers of Otter Tail Corporation will attend the Annual Meeting of Shareholders in 2011.

### *Audit Committee*

The Audit Committee reviews the 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 Otter Tail Corporation's Code of Conduct. This committee is composed of five members of the Board of Directors who, for 2010, were Ms. Bohn, Mr. McIntyre, Mr. Partain (Chair), Mr. Spies and Mr. Stake. All committee members are independent Directors (as defined by the NASDAQ Listing Standards). The Board of Directors has determined that Mr. McIntyre and Mr. Partain meet the SEC definition of an audit committee financial expert and all members of the committee are financially literate. The Audit Committee routinely meets in executive session with internal audit and the independent registered public accounting firm without management present. During the course of 2010 the committee received training on new financial issues affecting Otter Tail Corporation. The Audit Committee held five meetings in 2010. For further information on the actions of the Audit Committee, please refer to the Report of the Audit Committee on page 25. The Audit Committee Charter may be reviewed at [www.ottertail.com](http://www.ottertail.com).

### *Compensation Committee*

The Compensation Committee reviews, recommends, and reports to the Board of Directors on all compensation programs, plans and policies involving Otter Tail Corporation's Board of Directors and certain executive officers and it develops, evaluates, and recommends for approval all equity based compensation plans of Otter Tail Corporation. The Compensation Committee oversees the administration of the 1999 Employee Stock Purchase Plan, the 1999 Stock Incentive Plan, and the Executive Annual Incentive Plan. Historically, the Compensation Committee has retained an outside consultant to advise it in its decision making process. That consultant has not been used by management to an extent that would require disclosure under SEC rules. Subject to approval by the Board of Directors, this committee sets compensation for the Directors, the Chief Executive Officer, the Chief Financial Officer, and certain other executive officers. This committee is composed of five members of the Board of Directors who, for 2010, were Mr. Liebe (Chair), Mr. McIntyre, Mr. Partain, Ms. Schuette and Mr. Stake, all of whom are independent Directors (as defined by the NASDAQ Listing Standards). The Compensation Committee held four meetings in 2010. For further information on the actions of the Compensation Committee, please refer to the Compensation Discussion and Analysis (CD&A) on page 10 and the Report of the Compensation Committee on page 16. The Compensation Committee Charter may be reviewed at [www.ottertail.com](http://www.ottertail.com).



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### *Corporate Governance Committee*

The Corporate Governance Committee identifies and recommends to the Board of Directors qualified candidates for election as Directors, recommends Director committee assignments, and recommends actions necessary for the proper governance of Otter Tail Corporation, and for the evaluation of the performance of the Board of Directors and Chief Executive Officer. With input from the Chief Executive Officer, the Corporate Governance Committee recommends certain executive officers for annual election. The Corporate Governance Committee reviews issues and developments related to corporate governance practices and makes recommendations to the Board of Directors on changes in structure, rule or practice necessary for compliance and for good corporate governance.

Otter Tail Corporation's Corporate Governance Committee Charter provides that the skills and characteristics required generally of Directors include diversity, age, business background and experience, accomplishments, experiences in the business of Otter Tail Corporation and a willingness to make the requisite commitment of time and effort. Accordingly, the Board of Directors has not set minimum standards for Director candidates. Rather, it seeks highly qualified individuals with diverse backgrounds, 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 of Directors. 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 recommendation is submitted by a shareholder or some other source.

If a shareholder wishes to nominate a candidate for election to the Board of Directors, in order for the nomination to be properly made the shareholder must give written notice to the Secretary of Otter Tail Corporation. Notice must be received at Otter Tail Corporation's principal executive offices at least 90 days before the date that is one year after the prior year's regular meeting. The notice must set forth: (i) the name and address of the shareholder who intends to make the nomination and of the nominee or nominees, (ii) a representation that the shareholder is a holder of record of shares of Otter Tail Corporation entitled to vote at the meeting and that the shareholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (iii) a description of all arrangements or understanding between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder, (iv) such other information regarding each nominee proposed by the shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had each nominee been nominated, or intended to be nominated, by the Board of Directors, and (v) the consent of each nominee to serve as a Director of Otter Tail Corporation if so elected.

The Corporate Governance Committee is composed of four members of the Board of Directors who, for 2010, were Ms. Bohn (Chair), Mr. Liebe, Ms. Schuette, and Mr. Spies, all of whom are independent Directors (as defined by the NASDAQ Listing Standards). The Corporate Governance Committee held four meetings in 2010. The Corporate Governance Committee Charter may be reviewed at [www.ottertail.com](http://www.ottertail.com).

### **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 of Directors, 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

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boardofdirectors@ottetail.com. Although reviewed by the General Counsel, all questions are forwarded to the Board of Directors or to the appropriate committee or Director as determined by the General Counsel.

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Compensation for non-employee Directors is described below. Mr. Erickson does not receive Director compensation for his service as a member of the Board of Directors.

The Compensation Committee last retained Towers Watson (formerly Towers Perrin) to assess the competitiveness of the compensation provided to Directors of Otter Tail Corporation in 2007. Towers Watson, also has presented to the Committee information on Director compensation structure. Based in part on the information provided by Towers Watson, the Compensation Committee determined in 2008 to adopt a simple retainer structure for Director compensation. The simple retainer structure was retained in 2009 and 2010.

Non-employee Directors of Otter Tail Corporation receive an annual retainer for their services as a Director. Non-employee Directors, except the Chairman, receive an annual retainer of \$60,000. The Chairman receives an annual retainer of \$84,000. Each committee chair receives an additional retainer of \$7,000 per year. These fees have been unchanged since 2008. Directors do not receive a meeting fee for attending either committee or Board of Director meetings. In addition, non-employee Directors receive actual expense reimbursement if they are required to furnish their own transportation to Board of Directors or committee meetings outside their city of residence.

Each non-employee Director receives an annual grant of restricted stock, which in 2010 was 3,100 shares 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.

Otter Tail Corporation has established a stock ownership guideline for Directors. Directors are expected to hold 4,000 shares of Otter Tail Corporation stock to be obtained within five years of beginning service on the Board of Directors. The Directors meet the guidelines.

*Director Compensation Table*

The following table provides summary compensation information for each Director with the exception of Mr. Erickson for the year ending December 31, 2010.

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)¹</b>	<b>Stock Awards (\$)², ³</b>	<b>Total (\$)</b>
John C. MacFarlane⁴	84,000	67,689	151,689
Karen M. Bohn⁵	67,000	67,689	134,689
John D. Erickson⁶			
Arvid R. Liebe⁷	67,000	67,689	134,689
Edward J. McIntyre	60,000	67,689	127,689
Nathan I. Partain⁸	74,000	67,689	141,689
Joyce Nelson Schuette	60,000	67,689	127,689



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Gary J. Spies <sup>9</sup>	60,000	67,689	127,689
James B. Stake	60,000	67,689	127,689

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- (1) Includes the aggregate dollar amount of all fees earned or paid in cash for services as a Director (both paid and deferred) including annual retainer and committee chair retainers.
- (2) Represents the aggregate grant-date fair value of restricted stock awards granted to non-employee Directors in 2010 computed in accordance with Financial Accounting Standards Board Accounting Standards Codification ( FASB ASC ) Topic 718. The aggregate grant-date fair value of the restricted stock award for the 3,100 shares granted to each non-employee Director on April 12, 2010 was \$67,689. In accordance with FASB ASC Topic 718, Otter Tail Corporation chose the grant-date fair value of the restricted stock as the equivalent to the average of the high and low price on the date of the grant (\$21.835).
- (3) The number of shares of restricted stock and stock options held by each non-employee Director at fiscal year end is as follows (restricted/options): Mr. J. MacFarlane 7,525/100,000; Ms. Bohn 7,525/0; Mr. Liebe 7,525/2,000; Mr. McIntyre 7,525/0; Mr. Partain 7,525/2,000; Ms. Schuette 7,525/0; Mr. Spies 7,525/2,000; and Mr. Stake 7,050/0. No compensation expense was recognized in 2010 related to stock options held by non-employee Directors.
- (4) Mr. J. MacFarlane is Chairman of the Board. Mr. J. MacFarlane donates 100% of his retainer to charity.
- (5) Ms. Bohn is Chair of the Corporate Governance Committee.
- (6) Mr. Erickson does not receive Director compensation for his service as a member of the Board of Directors.
- (7) Mr. Liebe is Chair of the Compensation Committee.
- (8) Mr. Partain is Chair of the Audit Committee.
- (9) Mr. Spies defers his retainer and receives it in stock units.

**Security Ownership of Directors and Officers**

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, 2010. Lauris Molbert resigned as an employee of Otter Tail Corporation, and from his position as Chief Operating Officer and Executive Vice President of Otter Tail Corporation, effective December 30, 2010. Because he is named in the Summary Compensation Table, information on his share ownership is included in the table below.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>1, 2</sup>	Percent Class <sup>1</sup>
Karen M. Bohn	16,050	
John D. Erickson	192,032 <sup>3</sup>	
George A. Koeck	14,851	
Michelle L. Kommer	1,131	
Arvid R. Liebe	22,252	
Charles S. MacFarlane	70,842 <sup>4</sup>	

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John C. MacFarlane	190,610 <sup>5</sup>	
Edward J. McIntyre	14,048	
Lauris N. Molbert	88,324	
Kevin G. Moug	39,286 <sup>6</sup>	
Nathan I. Partain	28,236 <sup>7</sup>	
Joyce Nelson Schuette	14,432	
Gary J. Spies	47,571 <sup>8</sup>	
James B. Stake	10,083	
All Directors and executive officers as a group	749,748	2.1%

(1) Represents outstanding common shares beneficially owned both directly and indirectly as of December 31, 2010. No Director or executive officer beneficially owns more than 1% of the total outstanding common shares as of December 31, 2010. Except as indicated by footnote below, the beneficial owner possesses sole voting and investment powers with respect to the shares shown. No shares owned by any Director or

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executive officer were pledged as of December 31, 2010. The information provided is based upon 36,002,739 common shares outstanding as of December 31, 2010.

- (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, 844 shares; Mr. C. MacFarlane, 1,333 shares; Mr. Molbert, 249 shares; Mr. Moug, 230 shares; and all Directors and executive officers as a group, 7,638 shares.

Includes the following common shares subject to options exercisable within 60 days of December 31, 2010: Mr. Erickson, 75,000 shares; Mr. Liebe, 2,000 shares; Mr. C. MacFarlane, 16,000 shares; Mr. J. MacFarlane, 100,000 shares; Mr. Partain, 2,000 shares; Mr. Spies, 2,000 shares; and all Directors and executive officers as a group, 197,000 shares.

- (3) Includes 8,199 shares owned jointly with Mr. Erickson's wife as to which he shares voting and investment power.
- (4) Includes 2,859 shares owned by Mr. C. MacFarlane's minor children as to which he, as custodian, has voting and investment power.
- (5) Includes 32,867 shares owned jointly with Mr. J. MacFarlane's wife as to which he shares voting and investment power.
- (6) Includes 1,449 shares owned jointly with Mr. Moug's wife as to which he shares voting and investment power. Includes 253 shares owned by Mr. Moug's minor children as to which he, as custodian, has voting and investment power.
- (7) Includes 3,000 shares owned jointly with Mr. Partain's wife as to which he shares voting and investment power.
- (8) Includes 1,000 shares owned jointly with Mr. Spies' wife as to which he shares voting and investment power.

No Director or executive officer of Otter Tail Corporation owned beneficially, directly, or indirectly, on December 31, 2010 any shares of any series of cumulative preferred shares of Otter Tail Corporation.

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% 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. Based on a review of the Section 16 reports filed by the Directors and executive officers, Otter Tail Corporation believes that during the year ended December 31, 2010, its Directors and executive officers complied with all Section 16(a) filing requirements.

**Compensation Discussion and Analysis**

*Purpose and Philosophy*

The Compensation Committee of the Board of Directors is responsible for developing and recommending to the Board of Directors Otter Tail Corporation's executive compensation program for the principal executive officers: Mr. Erickson, Chief Executive Officer and President; Lauris Molbert, Chief Operating Officer and Executive Vice President; Kevin Moug, Chief Financial Officer; George Koeck, General Counsel and Corporate Secretary; and Michelle Kommer, Senior Vice President of Human Resources (referred to in this CD&A as the executive officers). Each of these executive officers is included in the Summary Compensation Table and the related tables beginning on page 16. The sixth individual found in the Summary Compensation Table and the related tables is Mr. C. MacFarlane, President, Otter Tail Power Company. Compensation for Mr. C. MacFarlane was determined by Mr. Erickson and Mr. Molbert. Mr. C. MacFarlane's compensation is discussed separately.

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Although Mr. Molbert resigned on December 30, 2010, information regarding his compensation in 2010 and his role in determining compensation for Mr. C. MacFarlane in 2010 are included in this CD&A and Mr. Molbert is treated as an executive officer for 2010.

The Compensation Committee has adopted an Executive Compensation Policy which outlines the overall executive compensation philosophy of Otter Tail Corporation and describes the components of executive compensation for the executive officers. Otter Tail Corporation believes that strong, effective leadership is the cornerstone of its continued growth and success. To be successful, Otter Tail Corporation must be able to attract, retain, and motivate highly qualified executive officers with the competencies needed to excel in a rapidly changing marketplace and to understand issues relating to a diverse group of companies in several different industries.

Executive compensation at Otter Tail Corporation is focused on results. Otter Tail Corporation provides fair and equitable compensation to its executive officers by combining base pay, annual cash incentive, stock-based long-term incentive, retirement plans, and competitive health, dental and other benefits. The Executive Annual Incentive Plan is designed to reward executives for Otter Tail Corporation's current year financial success and recognize the responsibilities of the executive officers for meeting Otter Tail Corporation's financial performance goals. Stock-based incentives focus on long-term performance by aligning the executive officers' long-term financial interests with Otter Tail Corporation's shareholders' interest. Pension and retirement plans are provided to encourage long tenure amongst the executive officers. Health, dental, vacation, and other benefits are designed to be competitive with companies with whom Otter Tail Corporation competes for executive talent.

Total direct compensation includes base pay, annual cash incentive and stock-based long-term incentive. The mix of pay is designed to reflect a strong bias towards pay for performance by placing a majority of target compensation at risk. The only element of total direct compensation that is not performance based is base pay. Both the annual cash incentive and stock-based long-term incentive are performance based.

Although the Compensation Committee has historically retained a compensation consultant to provide market-based compensation data in connection with its consideration of the compensation of the executive officers, it has not done so since May 2007. For 2010 the Compensation Committee requested that Ms. Kommer, Senior Vice President of Human Resources, research and provide for the Compensation Committee an analysis regarding market trends that have emerged with respect to executive compensation since the market crash in 2008 and the corresponding economic recession. In determining executive compensation in 2010 the Compensation Committee considered Ms. Kommer's research and input, the financial performance of Otter Tail Corporation during difficult economic conditions, as well as individual performance, historical compensation, internal equity with other officers and the broader work force, and regional considerations. In addition to providing background information, Ms. Kommer and Mr. Erickson made compensation recommendations for Mr. Molbert, Mr. Moug, and Mr. Koeck, and Mr. Erickson made compensation recommendations for Ms. Kommer. The Compensation Committee may, but is not required, to consider these recommendations. The Compensation Committee does not receive a recommendation for Mr. Erickson's compensation.

### *Base Pay*

Base pay is a traditional element of compensation provided almost universally by corporations. Because of Otter Tail Corporation's performance and the difficult economic conditions, the base pay for all executive officers, with the exception of Ms. Kommer, has been frozen at the level in effect on April 1, 2008. In 2010, Ms. Kommer received a modest increase in base salary in recognition of the expansion of her duties due to her promotion to Vice President of Human Resources in 2009.

### *Annual Cash Incentive*

The Otter Tail Corporation Executive Annual Incentive Plan provides financial incentives to the executive officers for achieving Otter Tail Corporation annual performance targets. The annual cash incentive is designed to place a significant portion of each executive officer's annual cash compensation at risk depending upon the financial and, beginning in 2010, workplace safety performance of Otter Tail Corporation for that year. The target annual cash incentive for each executive officer is measured as a percentage of base pay. The target

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annual cash incentive is greater for Mr. Erickson and Mr. Molbert in recognition of their primary responsibility of delivering solid financial results for Otter Tail Corporation and to correlate highly with the philosophy of pay for performance. To place more of the total compensation at risk in accordance with this philosophy, a higher percentage of total targeted compensation is paid through incentive compensation. Based on Otter Tail Corporation's financial performance and the difficult economic conditions, the target annual cash incentive for all executive officers, with the exception of Ms. Kommer, has been frozen at the level in effect on April 1, 2008. Ms. Kommer's target cash incentive for 2010 was set at a level determined by the Compensation Committee, with input from management, to be appropriate in light of her promotion to Vice President of Human Resources in 2009 and the resulting expansion of her duties.

The financial targets for annual cash incentive are premised upon the executive officers delivering on their financial performance commitments to Otter Tail Corporation as reflected, in part, in the annual budget approved by the Board of Directors. In 2010 targeted annual cash incentive compensation was tied to the annual budget approved by the Board of Directors. The Compensation Committee set the target for return on equity at 6.4%, the target for corporate earnings per share at \$1.19 and the target for cash flow from operations at \$125,000,000. Because of the importance placed upon financial performance in 2010, no threshold performance level was set, and the target performance level was set to a level of performance that is acceptable from the perspective of the Board of Directors. The maximum performance level was set high to reward exceptional performance. In addition to the financial incentives described above, the Annual Incentive Plan includes a non-financial measure for workplace safety. One of Otter Tail Corporation's five core values is safety. Otter Tail Corporation strives to provide safe work places and require safe work practices throughout its businesses. The Compensation Committee believes that management's tone related to workplace safety is critical to achieving Otter Tail Corporation's goals regarding workplace safety. Safety is measured against the weighted average composite case rate for the industries in which Otter Tail Corporation and its subsidiaries operate. The incentive for safety is paid if the weighted average composite case rate of Otter Tail Corporation and its subsidiaries is less than the weighted average composite case rate for the industries in which Otter Tail Corporation and its subsidiaries operate. The target for 2010 was 5.85%. Subject to the discretion of the Compensation Committee, the safety incentive is not to be paid in a year where there is a workplace fatality due to a workplace accident. The financial and workplace safety performance targets for annual cash incentive are divided into four components as follows:

1. **Corporate earnings per share.** Each executive officer receives 30% of the total target payout if Otter Tail Corporation achieves the targeted earnings per share, and additional increments for performance above the target. For corporate earnings per share the target was \$1.19 and the maximum was \$1.80. Otter Tail Corporation was below the target performance level for earnings per share in 2010.
2. **Corporate return on equity.** Each executive officer receives 30% of the total target payout if Otter Tail Corporation achieves the targeted return on equity, and additional increments for performance above the target. For corporate return on equity the target was 6.4% and the maximum was 11%. Otter Tail Corporation was below the target performance level for return on equity in 2010.
3. **Cash flow from operations.** Provided Otter Tail Corporation meets the target level of performance for corporate earnings per share and corporate return on equity, each officer receives 30% of the total target payout if Otter Tail Corporation achieves the targeted cash flow from operations and additional increments for performance above the target. For cash flow from operations the target was \$125,000,000 and the maximum was \$160,000,000. Otter Tail Corporation was below the target performance level for cash flow from operations in 2010.

The Compensation Committee has discretion over the treatment of extraordinary gains, write offs or other events in determining the amount of annual cash incentive to be paid.



4. **Safety Incentive.** Each executive officer receives 10% of the total target payout if Otter Tail Corporation achieves the target workplace safety measure. The target weighted average composite case rate was 5.85%. Otter Tail met this performance level for safety in 2010. However, the safety incentive shall not be paid to the executives, at the discretion of the Compensation Committee, in a year when there is a workplace fatality due to a workplace accident. That was the case in 2010 and the Compensation Committee, consistent with management's recommendation, exercised its discretion to not pay the safety incentive.

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### *Long-Term Incentives*

Long-term incentive compensation for executive officers consists of performance share awards and restricted stock 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 Otter Tail Corporation stock performance and to further align the interests of the executive officers with shareholders. It does so in two ways. First, the number of shares awarded to the executive officers is based upon total shareholder return as compared to the total shareholder return of companies in the Edison Electric Institute Index (EEI Index) for the three year period beginning on the first day of the year in which the grant is awarded. The EEI Index provides total shareholder returns for 57 shareholder owned electric utilities. Second, the value of the shares awarded increases or decreases with value provided to shareholders.

The restricted stock awards are also designed to align the interest of the executive officers with that of shareholders. They do so by rewarding continuity of service of the executive officers since the restricted stock awards vest over a period of four years and unvested, restricted stock is forfeited upon voluntary termination. In addition, the value of shares awarded increases or decreases with the value provided to shareholders.

In 2010, the Compensation Committee determined to maintain at 2009 levels the value delivered through long-term incentives, based on Otter Tail Corporation's financial performance and the challenging economic climate. The actual targeted value delivered in 2010 compared to 2009 was the same, representing a 20% reduction from 2008. For performance shares, the precise number of shares for each executive officer was calculated by dividing the targeted value delivered for each executive officer by the product of the per share price of the Company's common stock on April 12, 2010 (\$21.835) and a discount rate of 81% to account for the three-year performance period. For restricted stock, the precise number of shares for each executive officer was calculated by dividing the targeted value delivered for each executive officer by the product of the per share price of the Company's common stock on April 12, 2010 (\$21.835) and a discount rate of 89% to account for the four-year vesting period.

The grants of performance shares were approved by the Compensation Committee on April 12, 2010. Whether the performance shares become payable is based upon the total shareholder return of Otter Tail Corporation as compared to the total shareholder returns of the companies that comprise the EEI Index over a three year period. For the grant awarded in 2010 the three year period is from January 1, 2010 through December 31, 2012. The EEI Index is chosen because it is the sector which includes Otter Tail Corporation common shares. For purposes of this calculation, total shareholder return equals stock appreciation plus the value of dividends reinvested. The actual payment of common shares may range from zero to 200% of the target amount and will be paid in 2013. The target amount will be paid if the total shareholder return for Otter Tail Corporation is at the 50th percentile of the total shareholder returns of the companies that comprise the EEI Index over the three year period. The threshold performance level is set at the 25th percentile and the maximum performance level is set at the 85th percentile. Otter Tail Corporation believes the target is appropriate as it is indicative of performance consistent with the sector over the three year measurement period. Stronger than sector performance is awarded with additional shares. Weaker than sector performance is penalized with the executive officers receiving fewer or no shares. The performance shares, to the extent they become payable, are paid in common shares of Otter Tail Corporation.

The grants of restricted stock were approved by the Compensation Committee on April 12, 2010. The shares vest at a rate of 25% per year over a four year period with the first quarter vesting on April 8, 2011 and the remaining quarters on the same date in 2012, 2013, and 2014. Upon the grant date the executive officers are eligible for full dividend and voting rights.

### *Other Benefits*

The executive officers and Mr. C. MacFarlane receive health, dental, life, vacation and other traditional benefits identical to or consistent with the non-executive employees of Otter Tail Corporation.

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### *Compensation for Charles S. MacFarlane*

The Compensation Committee does not set compensation for Mr. C. MacFarlane. In 2010 compensation was initially set by Mr. Molbert and was evaluated by Mr. Erickson. In 2011, Mr. C. MacFarlane's compensation will be set by Mr. Erickson. The components of Mr. C. MacFarlane's compensation consist of base pay, annual cash incentive, stock-based long-term incentive, retirement plans, and competitive health, dental and other benefits.

Mr. C. MacFarlane's compensation (including base salary, short and long-term incentive) is determined based upon several factors, including (1) compensation for similar positions at similarly sized companies in the utility sector; (2) job complexity; (3) tenure; and (4) internal compensation equities with incumbent employees.

Consistent with the philosophy of Otter Tail Corporation, Mr. C. MacFarlane's annual cash incentive is designed to place a significant portion of his annual cash compensation at risk depending upon the financial performance of Otter Tail Power Company for that year. The targeted annual cash incentive percentage for Mr. C. MacFarlane is 60% of base pay. The targets for annual cash incentive for Mr. C. MacFarlane are designed to reward Mr. C. MacFarlane for providing demonstrated leadership, achieving budgeted financial returns and meeting non-financial goals at Otter Tail Power Company. The three components measured in determining annual cash incentive are utility return on equity, utility net income and individual performance. Individual performance is measured by Mr. Erickson and was based upon Mr. C. MacFarlane's performance against key performance indicators, including safety, customer satisfaction, plant availability, system reliability, strategy development and implementation, and personal goals. Mr. Erickson had discretion in 2010 to vary positively or negatively from the results dictated by performance. The financial targets for utility return on equity and utility net income are based upon meeting the financial goals of Otter Tail Power Company as determined in the Otter Tail Power Company budgeting process with Otter Tail Corporation.

The annual cash incentive targets for Mr. C. MacFarlane are divided into three components:

1. **Utility Return on Equity.** Mr. C. MacFarlane receives 30% of the total target payout if Otter Tail Power Company achieves targeted utility return on equity. The target for utility return on equity was 9.50%. Otter Tail Power Company achieved the targeted performance level in 2010.
2. **Utility Net Income.** Mr. C. MacFarlane receives 30% of his total target payout if Otter Tail Power Company achieves the targeted utility net income. The target for utility net income was \$33,000,000. Otter Tail Power Company achieved the targeted performance level in 2010.
3. **Individual Performance.** Mr. C. MacFarlane receives 40% of his total targeted payout based upon his individual performance. Mr. C. MacFarlane met target performance as determined by Mr. Erickson's evaluation of Mr. C. MacFarlane's performance in 2010.

Mr. C. MacFarlane receives long-term incentive compensation in the form of restricted stock granted by the Compensation Committee under the Otter Tail Corporation 1999 Stock Incentive Plan. Restricted stock was granted on April 12, 2010, and vests 25% per year over a four year period with the first quarter vesting on April 8, 2011 and the remaining quarters vesting on the same date in 2012, 2013 and 2014. Upon the grant date, Mr. C. MacFarlane has full dividend and voting rights.

### *Stock Ownership Guidelines*

Otter Tail Corporation has established stock ownership guidelines to ensure that the executive officers remain focused on long-term shareholder value. The ownership guidelines are as follows: Mr. Erickson, 70,000 shares; Mr. Molbert, 35,000 shares; Mr. Moug, 20,000 shares; Mr. Koeck, 10,000 shares, and Ms. Kommer, 5,000 shares. Stock options are not considered as shares counting towards the ownership guidelines and new officers are given five years to meet the guidelines. Each of the executive officers meets the guidelines.

*Retirement Income and Deferred Compensation*

Historically, the executive officers of Otter Tail Corporation have provided Otter Tail Corporation with long-term service. Otter Tail Corporation believes that this long-term service by its executive officers has been fundamental to its success. Accordingly, Otter Tail Corporation encourages long-term service by providing

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executive officers security in retirement through its pension and supplemental retirement plans. Except for Ms. Kommer, the executive officers and Mr. C. MacFarlane, participate in the plans related to retirement income and deferred compensation. Ms. Kommer's retirement benefit is described separately.

Central to providing retirement security and encouraging long-term service by its executive officers are the Otter Tail Corporation Pension Plan ( Pension Plan ) and non-qualified Executive Survivor and Supplemental Retirement Plan ( ESSRP ). Combined, these plans deliver a defined pension benefit that increases with years of service and compensation. A further description of the benefits under the plan is found in the narrative description to the Pension Benefits Table.

The executive officers and Mr. C. MacFarlane may elect to participate in a non-qualified deferred compensation plan. The plan offers a relatively low cost, competitive benefit consistent with plans offered by other employers. Participation in the plan is limited to the executive officers of Otter Tail Corporation and certain other employees of Otter Tail Corporation and its subsidiaries. Under the plan, participants may defer up to 50% of their base pay and 100% of their annual cash incentive compensation. The amounts deferred are segregated into one or more accounts chosen by the participant and earn a return based upon the performance of the investment option chosen by the participant. One account under the plan has a beginning distribution date coinciding with retirement. Other accounts may have distribution dates determined by the participant. Deferred contributions are made pre-tax. Each participant makes his or her own investment decisions on the amounts deferred and is solely at risk for investment returns. There are no Otter Tail Corporation contributions to the plan for executive officers and it is not at risk for individual investment returns.

Otter Tail Corporation also provides a 401(k) retirement savings plan in which the employees of Otter Tail Corporation, including the executive officers and Mr. C. MacFarlane, may participate. The plan permits all employees to set aside a portion of their income into the 401(k) retirement savings plan and Otter Tail Corporation matches 50% of the first 5% set aside by an employee up to the statutory maximum. The participation of the executive officers, with the exception of Ms. Kommer, is on precisely the same terms as other participants in the plan.

In lieu of participation in the Pension Plan, Ms. Kommer's participation in the 401(k) is enhanced. At the annual discretion of Otter Tail Corporation, an additional amount is contributed to her 401(k) account. In 2010 the additional amount contributed was 4% of Ms. Kommer's 2010 cash compensation.

### *Severance Benefits*

Otter Tail Corporation has entered into change in control severance agreements with each of the executive officers, but not with Mr. C. MacFarlane, which provide financial protection in the event of a change in control that disrupts the executive officer's career. These agreements are designed to attract and retain high caliber executive officers, recognizing that change in control protections are commonly provided at comparable companies with which Otter Tail Corporation competes for executive talent. In addition, the change in control protections will enhance the impartiality and objectivity of the executive officers in the event of a change in control situation and better ensure that shareholder interests are protected. The protections contained in the change in control agreements provide for a double trigger which means that there must be both a change in control and a termination of employment for the provisions to apply. A more complete description of the change in control agreements is found in the tabular disclosure in this Proxy Statement found at page 22.

Otter Tail Corporation has also entered into executive employment agreements with the executive officers, but not with Mr. C. MacFarlane. These agreements have been entered into by Otter Tail Corporation to clearly define the obligations of Otter Tail Corporation and the benefits to the executive officer upon termination from employment. These agreements are more fully described in the tabular disclosure in this Proxy Statement found at page 22.

*Deductibility of Executive Compensation*

Section 162(m) of the Internal Revenue Code imposes limits on tax deductions for executive compensation in excess of \$1,000,000 paid to certain executive officers. It is the Compensation Committee's policy to take reasonable steps to preserve this tax deduction.

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**Report of Compensation Committee**

The Compensation Committee of Otter Tail Corporation's Board of Directors is composed of five independent directors as defined by the NASDAQ Listing Standards, and operates under a written charter adopted by the Board of Directors. The Compensation Committee reviewed and discussed with management the foregoing CD&A. Based upon that review and discussion with management and its independent review of the CD&A, the Compensation Committee has recommended to the Board of Directors that the CD&A be included in this Proxy Statement and in Otter Tail Corporation's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC.

Arvid R. Liebe, Chair  
 Edward J. McIntyre  
 Nathan I. Partain  
 Joyce Nelson Schuette  
 James B. Stake

**Executive Compensation**

The following tables and accompanying narrative disclosure and footnotes should be read in conjunction with the CD&A, which sets forth the objectives of Otter Tail Corporation's executive compensation and benefit program.

*Summary Compensation Table*

The table below contains information about compensation for the last three fiscal years paid to the individuals who served as Chief Executive Officer and Chief Financial Officer and each of the other three most highly compensated executive officers who were serving as executive officers at the end of 2010 ( Named Executive Officers ). Mr. Molbert resigned effective December 30, 2010, but is indicated as a Named Executive Officer for 2010 in accordance with applicable SEC rules.

**Summary Compensation Table**

	<b>Change in Pension Value &amp; Non-Equity Incentive</b>	<b>Non-Qualified Deferred</b>
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