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Otter Tail Corp
Form 10-K
February 29, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2011

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 0-53713

OTTER TAIL CORPORATION
(Exact name of registrant as specified in its charter)

MINNESOTA
(State or other jurisdiction of incorporation or
organization)

27-0383995
(I.R.S. Employer Identification No.)

215 SOUTH CASCADE STREET, BOX 496, FERGUS FALLS, MINNESOTA
(Address of principal executive offices)

56538-0496
(Zip Code)

Registrant's telephone number, including area code: 866-410-8780

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON SHARES, par value \$5.00 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
CUMULATIVE PREFERRED SHARES, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. (Yes No)

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. (Yes No)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (Yes No)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). (Yes No)

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer (X)

Accelerated Filer ()

Non-Accelerated Filer ()

Smaller Reporting Company ()

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). (Yes ___ No X)

The aggregate market value of common stock held by non-affiliates, computed by reference to the last sales price on June 30, 2011 was \$750,816,323.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 36,104,395 Common Shares (\$5 par value) as of February 15, 2012.

Documents Incorporated by Reference:

Proxy Statement for the 2012 Annual Meeting-Portions incorporated by reference into Part III

OTTER TAIL CORPORATION
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PART I

Item 1. BUSINESS

(a) General Development of Business

Otter Tail Power Company was incorporated in 1907 under the laws of the State of Minnesota. In 2001, the name was changed to “Otter Tail Corporation” to more accurately represent the broader scope of electric and nonelectric operations and the name Otter Tail Power Company (OTP) was retained for use by the electric utility. On July 1, 2009, Otter Tail Corporation completed a holding company reorganization whereby OTP, which had previously been operated as a division of Otter Tail Corporation, became a wholly owned subsidiary of the new parent holding company named Otter Tail Corporation (the Company). The new parent holding company was incorporated in June 2009 under the laws of the State of Minnesota in connection with the holding company reorganization. The Company’s executive offices are located at 215 South Cascade Street, P.O. Box 496, Fergus Falls, Minnesota 56538-0496 and 4334 18th Avenue SW, Suite 200, P.O. Box 9156, Fargo, North Dakota 58106-9156. Its telephone number is (866) 410-8780.

The Company makes available free of charge at its internet website (www.ottertail.com) its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). Information on the Company’s website is not deemed to be incorporated by reference into this Annual Report on Form 10-K.

Otter Tail Corporation and its subsidiaries conduct business primarily in the United States, Canada and Mexico. The Company had approximately 3,155 full-time employees in its continuing operations at December 31, 2011.

In 2011, in execution of the Company’s announced strategy of realigning its business portfolio to reduce its risk profile and dedicate a greater portion of its resources toward electric utility operations, the Company sold Idaho Pacific Holdings, Inc. (IPH), its Food Ingredient Processing business, and E.W. Wylie Corporation (Wylie), its trucking company headquartered in West Fargo, North Dakota, which was included in its Wind Energy segment. On January 18, 2012, the Company sold the assets of Aviva Sports, Inc. (Aviva), a wholly owned subsidiary of the Company’s waterfront equipment manufacturer that sells a variety of recreational equipment. On February 6, 2012, the Company entered into an agreement to sell DMS Health Technologies, Inc. (DMS), its Health Services business. The closing, which is subject to certain closing conditions, is expected to occur by February 29, 2012. As a result of these transactions, the Company’s business structure no longer includes Health Services or Food Ingredient Processing segments, and now includes the remaining five segments: Electric, Wind Energy, Manufacturing, Construction and Plastics. The chart below indicates the companies now included in each segment.

All information in this report, including comparative financial information, has been revised to reflect the continuing operations of the Company’s business segments.

Electric includes the production, transmission, distribution and sale of electric energy in Minnesota, North Dakota and South Dakota by OTP. In addition, OTP is an active wholesale participant in the Midwest Independent Transmission System Operator (MISO) markets. OTP’s operations have been the Company’s primary business since 1907. Additionally, Electric also includes Otter Tail Energy Services Company (OTESCO), which provides

technical and engineering services.

Wind Energy consists of a steel fabrication company primarily involved in the production of wind towers sold in the United States and Canada, with manufacturing facilities in North Dakota, Oklahoma and an idled plant in Fort Erie, Ontario, Canada.

Manufacturing consists of businesses in the following manufacturing activities: contract machining, metal parts stamping and fabrication, and production of waterfront equipment, material and handling trays and horticultural containers. These businesses have manufacturing facilities in Florida, Illinois, and Minnesota and sell products primarily in the United States.

Construction consists of businesses involved in residential, commercial and industrial electric contracting and construction of fiber optic and electric distribution systems, water, wastewater and HVAC systems primarily in the central United States.

Plastics consists of businesses producing polyvinyl chloride (PVC) pipe in the upper Midwest and Southwest regions of the United States.

The Company's corporate operating costs include items such as corporate staff and overhead costs, the results of the Company's captive insurance company and other items excluded from the measurement of operating segment performance. Corporate assets consist primarily of cash, prepaid expenses, investments and fixed assets. Corporate is not an operating segment. Rather, it is added to operating segment totals to reconcile to totals on the Company's consolidated financial statements.

OTP and OTESCO are wholly owned subsidiaries of the Company. All of the Company's other businesses are owned by its wholly owned subsidiary, Varistar Corporation (Varistar).

The Company's current strategy is to continue to review its business portfolio to see where additional opportunities exist to improve its risk profile, improve credit metrics and generate additional sources of cash to support the growth opportunities in its electric utility. By adding to the utility earnings base and reducing the size of its nonelectric holdings, the Company also plans to lower its overall risk, create a more predictable earnings stream, improve its credit quality and preserve its ability to fund the dividend. Over time, the Company expects the electric utility business will provide approximately 75% to 85% of its overall earnings. The Company expects its nonelectric businesses will provide 15% to 25% of its earnings, and will continue to be a fundamental part of its strategy.

In evaluating its portfolio of operating companies, the Company looks for the following characteristics:

- a threshold level of net earnings and a return on invested capital in excess of the Company's weighted average cost of capital,
- a strategic differentiation from competitors and a sustainable cost advantage,
- a stable or growing industry,
- an ability to quickly adapt to changing economic cycles, and
- a strong management team committed to operational excellence.

For a discussion of the Company's results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," on pages 41 through 63 of this Annual Report on Form 10-K.

(b) Financial Information about Industry Segments

The Company is engaged in continuing businesses that have been classified into five segments: Electric, Wind Energy, Manufacturing, Construction and Plastics. Financial information about the Company's continuing segments and geographic areas is included in note 2 of "Notes to Consolidated Financial Statements" on pages 81 through 83 of this Annual Report on Form 10-K.

(c) Narrative Description of Business

ELECTRIC

General

Electric consists of two businesses: OTP and OTESCO. OTP, headquartered in Fergus Falls, Minnesota, provides electricity to more than 129,000 customers in a 50,000 square mile area of Minnesota, North Dakota and South Dakota. OTESCO, headquartered in Fergus Falls, Minnesota, provides technical and engineering services primarily in North Dakota and Minnesota. The Company derived 32%, 39% and 38% of its consolidated operating revenues from the Electric segment for each of the three years ended December 31, 2011, 2010 and 2009, respectively.

The breakdown of retail electric revenues by state is as follows:

State	2011	2010
Minnesota	48.8 %	48.9 %
North Dakota	42.2	41.2
South Dakota	9.0	9.9
Total	100.0 %	100.0 %

The territory served by OTP is predominantly agricultural. The aggregate population of OTP's retail electric service area is approximately 230,000. In this service area of 423 communities and adjacent rural areas and farms, approximately 125,646 people live in communities having a population of more than 1,000, according to the 2010 census. The only communities served which have a population in excess of 10,000 are Jamestown, North Dakota (15,427); Bemidji, Minnesota (13,431); and Fergus Falls, Minnesota (13,138). As of December 31, 2011, OTP served 129,259 customers. Although there are relatively few large customers, sales to commercial and industrial customers are significant.

The following table provides a breakdown of electric revenues by customer category. All other sources include gross wholesale sales from utility generation, net revenue from energy trading activity and sales to municipalities.

Customer Category	2011	2010
Commercial	36.2 %	36.4 %
Residential	32.9	31.3
Industrial	23.8	23.3
All Other Sources	7.1	9.0
Total	100.0 %	100.0 %

Wholesale electric energy kilowatt-hour (kwh) sales were 12.9% of total kwh sales for 2011 and 18.4% for 2010. Wholesale electric energy kwh sales decreased by 34.1% between the years while revenue per kwh sold decreased by 34.2%. Activity in the short-term energy market is subject to change based on a number of factors and it is difficult to predict the quantity of wholesale power sales or prices for wholesale power in the future.

Capacity and Demand

As of December 31, 2011 OTP's owned net-plant dependable kilowatt (kW) capacity was:

Baseload Plants	
Big Stone Plant	257,800 kW

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Coyote Station	146,400
Hoot Lake Plant	140,900
Total Baseload Net Plant	545,100 kW
Combustion Turbine and Small Diesel Units	108,000 kW
Hydroelectric Facilities	2,700 kW
Owned Wind Facilities (rated at nameplate)	
Luverne Wind Farm (33 turbines)	49,500 kW
Ashtabula Wind Center (32 turbines)	48,000
Langdon Wind Center (27 turbines)	40,500
Total Owned Wind Facilities	138,000 kW

The baseload net plant capacity for Big Stone Plant and Coyote Station constitutes OTP's ownership percentages of 53.9% and 35%, respectively. OTP owns 100% of the Hoot Lake Plant. During 2011, OTP generated about 75.3% of its retail kwh sales and purchased the balance.

In addition to the owned facilities described above OTP had the following purchased power agreements in place on December 31, 2011:

Purchased Wind Power Agreements (rated at nameplate and greater than 2,000 kW)

Edgeley