

OTTER TAIL CORP  
Form DEF 14A  
March 03, 2008

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OMB APPROVAL

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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)

(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:

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.

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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:

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2) Form, Schedule or Registration Statement No.:

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SEC 1913 (02-02)

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**2008  
Proxy Statement and  
Annual Meeting Notice**

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**Otter Tail Corporation  
Annual Meeting of Shareholders  
Monday, April 14, 2008  
10 a.m., CDT**

**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 5, 2008

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 14, 2008.

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 2008.

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 2007 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 14, 2008, 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 2008.
3. To transact such other business as may properly be brought before the meeting.

March 5, 2008

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. 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 14, 2008**

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 provides these proxy materials for use at the Annual Meeting of Shareholders to be held on April 14, 2008. 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 5, 2008.

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, 2008 are entitled to vote at the annual meeting. As of the record date, 29,892,988 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 2008; and (3) 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; 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 and FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm.

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 election of Directors and the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm.

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, 2008 to be filed with the Securities and Exchange Commission ( SEC ). 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.

**Table of Contents****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% of the outstanding common shares of Otter Tail Corporation as of February 15, 2008, are as follows:

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Jeffrey L. Gendell 55 Railroad Avenue Greenwich, CT 06830 Cascade Investment L.L.C.	2,904,282 shs. <sup>1</sup>	9.72%
2365 Carillon Point Kirkland, WA 98033 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	2,556,499 shs. <sup>2</sup>	8.55%
	1,604,497 shs. <sup>3</sup>	5.37%

(1) The information shown is derived from a Schedule 13G filed February 8, 2008 with the SEC jointly by Jeffrey L. Gendell, Tontine Overseas Associates, L.L.C., Tontine Capital Partners, L.P. and Tontine Capital Management, L.L.C. According to Schedule 13G, (i) 577,375 common shares are directly owned by Tontine Capital

Overseas Master Fund, L.P. of which Tontine Overseas Associates, L.L.C. serves as investment manager and has shared voting and dispositive power, and (ii) 2,326,907 common shares are directly owned by Tontine Capital Partners, L.P., of which Tontine Capital Management, L.L.C. is the general partner and has shared voting and dispositive power. The Schedule 13G states that Jeffrey L. Gendell is the managing member of Tontine Capital Management, L.L.C. and Tontine Overseas Associates, L.L.C. and, in that capacity, directs their operations and has shared voting and dispositive power with respect to all 2,904,282 common shares owned by

Tontine Capital  
Overseas Master  
Fund, L.P. and  
Tontine Capital  
Partners, L.P.

- (2) 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.
- (3) 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 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, 2007) 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 Mr. Dennis R. Emmen, Mr. John D. Erickson and Mr. Nathan I. Partain expire at the time of the 2008 Annual Meeting of Shareholders. Mr. Emmen has reached an age where he must retire from the Board of Directors consistent with Otter Tail Corporation's Governance Guidelines. The Board of Directors, upon recommendation of the Corporate Governance Committee, nominates Mr. Erickson, Mr. Partain and Mr. James B. Stake for election to serve a three-year term ending at the time of the Annual Meeting of Shareholders in 2011. Mr. Stake was selected for nomination, after interview, consistent with the procedures found in the Corporate Governance Committee Charter.

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.

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 2008 Annual Meeting of Shareholders) and outlines of their business experiences. 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. Erickson and Mr. J. MacFarlane, all of the Directors and Director nominees are independent (as defined by the NASDAQ Listing Standards). 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.

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<b>Name</b>	<b>Principal Occupation</b>	<b>Age</b>	<b>Director Since</b>
<b>Nominees for election for three-year terms expiring in April 2011:</b>			
John D. Erickson	President & CEO Otter Tail Corporation Fergus Falls, Minnesota	49	2007
	Mr. Erickson serves on no Committees.		
Nathan I. Partain	President and Chief Investment Officer Duff and Phelps Investment Management Co. Chicago, Illinois	51	1993
	President, Chief Executive Officer and Chief Investment Officer DNP Select Income Fund, Inc. (closed-end utility income fund)		
	Director, DNP Select Income Fund Inc. Director, DTF Tax-Free Income Inc. Director, Duff & Phelps Utility and Corporate Bond Trust Inc.		
	Mr. Partain serves on the Audit, Compensation, and Executive Committees.		
James B. Stake	Retired Executive Vice President Enterprise Services 3M Company (diversified manufacturing) St. Paul, Minnesota	55	
<b>Directors with terms expiring in April 2010:</b>			
Arvid R. Liebe	Retired President Liebe Drug, Inc. (retail business)	66	1995
	Owner Liebe Farms, Inc. Milbank, South Dakota		
	Mr. Liebe serves on the Compensation, Corporate Governance, and Executive Committees.		



John C. MacFarlane	Chairman of the Board Retired Chief Executive Officer and President Otter Tail Corporation Fergus Falls, Minnesota	68	1983
	Mr. MacFarlane serves on the Executive Committee.		
Gary J. Spies	Chairman Service Food, Inc. (retail business) Fergus Falls, Minnesota	66	2001
	Vice President 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.		

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<b>Name</b>	<b>Principal Occupation</b>	<b>Age</b>	<b>Director Since</b>
<b>Directors with terms expiring in April 2009:</b>			
Karen M. Bohn	President Galeo Group, LLC (management consulting firm) Edina, Minnesota  Director, Gander Mountain Company  Ms. Bohn serves on the Audit, Corporate Governance, and Executive Committees.	54	2003
Edward J. McIntyre	Retired Vice President and Chief Financial Officer Xcel Energy, Inc. (energy company) Incline Village, Nevada  Mr. McIntyre serves on the Audit and Compensation Committees.	57	2006
Joyce Nelson Schuette	Retired Managing Director and Investment Banker Piper Jaffray & Co. (financial services) Minneapolis, Minnesota  Ms. Schuette serves on the Compensation and Corporate Governance Committees.	57	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, 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 of Directors meeting. Each Committee operates under a charter that is reviewed annually by that Committee and the Board of Directors.

The full Board of Directors held a total of nine regularly scheduled and special meetings in 2007. The Board of Directors also held a planning retreat with senior management. During 2007, the Board of Directors met in executive session without management at each meeting and the retreat. It also met 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 2007. Although Otter Tail Corporation does not have a formal policy, it is expected that its Directors and executive officers will attend the Annual Meeting of Shareholders in 2008.

*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 2007, were Ms. Karen M. Bohn, Mr. Emmen, Mr. Edward J. McIntyre, Mr. Partain (Chair), and Mr. Gary J. Spies. All committee members are independent Directors (as defined by the NASDAQ Listing Standards). The Board of Directors has determined that Mr. Emmen, Mr. McIntyre, and Mr. Partain meet the SEC definition of an audit committee financial expert and all members of the committee are financially literate. During the course of 2007 the Committee received training on new financial issues affecting Otter Tail Corporation. The Audit Committee held six meetings in 2007. For further information on the actions of the Audit Committee, please refer to the Report of the Audit Committee on page 18. The Audit Committee Charter may be reviewed at [www.ottertail.com](http://www.ottertail.com).

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*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. Working with an outside compensation consultant retained by it, and 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 2007, were Mr. Emmen, Mr. Liebe (Chair), Mr. McIntyre, Mr. Partain, and Ms. Joyce Nelson Schuette, all of whom are independent Directors (as defined by the NASDAQ Listing Standards). The Compensation Committee held seven meetings in 2007. For further information on the actions of the Compensation Committee, please refer to the Compensation Discussion and Analysis ( CD&A ) on page 8 and the Report of Compensation Committee on page 12. The Compensation Committee Charter may be reviewed at [www.ottertail.com](http://www.ottertail.com).

*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.

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 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 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 so as to 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 Securities and Exchange Commission 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 2007, 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 2007. The Corporate Governance Committee Charter may be reviewed at [www.ottertail.com](http://www.ottertail.com).

*Executive Committee*

The Executive Committee exercises certain powers of the Board of Directors between normally scheduled Board of Directors meetings and performs such duties as the Board of Directors may assign to it. The Executive Committee is composed of four members of the Board of Directors who, for 2007, were Ms. Bohn, Mr. Liebe, Mr. J. MacFarlane, and Mr. Partain (Chair). The Executive Committee did not meet in 2007.

**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 [boardofdirectors@ottertail.com](mailto:boardofdirectors@ottertail.com). Although reviewed by the General Counsel, all questions are forwarded to the Board of Directors or the appropriate committee or Director.

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In 2006 the Compensation Committee retained Towers Perrin to assess the competitiveness of the compensation provided to Directors of Otter Tail Corporation. Towers Perrin established a group of comparable companies by revenue in general industry. From that group it established a market median for compensation in the categories of retainers, committee chair retainers, meeting and committee fees, and equity compensation. Towers Perrin made recommendations to the Compensation Committee for changes in Director compensation that would place it at or near market median for Director compensation in each category. Based upon the recommendations, the Compensation Committee set compensation for Directors for 2006 that was slightly above the market median. The Compensation Committee tentatively determined in 2006 that it would not increase Director compensation in 2007. In 2007, the Compensation Committee reviewed the information provided to it by Towers Perrin in 2006. As contemplated in 2006, the Compensation Committee left Director compensation essentially unchanged for 2007.

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.

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 \$30,000. The Chairman receives an annual retainer of \$66,000. Each committee chair receives an additional retainer of \$7,000 per year. Non-employee Directors receive a fee of \$1,500 for each Board of Directors and committee meeting they attend. In addition, non-employee Directors receive an actual expense or a \$100 travel allowance 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 2007 was 1,900 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 to hold 4,000 shares of Otter Tail Corporation stock to be obtained within five years of beginning service on the Board of Directors.

*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, 2007.

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$) 1</b>	<b>Stock Awards (\$)<sup>2,3</sup></b>	<b>Total (\$)</b>
John C. MacFarlane <sup>4</sup>	81,000.00	45,633.00	126,633.00
Karen M. Bohn <sup>5</sup>	67,000.00	42,681.00	109,681.00
Dennis R. Emmen	64,500.00	94,457.00	158,957.00
John D. Erickson <sup>6</sup>			
Arvid R. Liebe <sup>7</sup>	67,000.00	45,633.00	112,633.00
Edward J. McIntyre	64,500.00	26,630.00	91,130.00
Kenneth L. Nelson <sup>8</sup>	13,000.00	84,227.00	97,227.00
Nathan I. Partain <sup>9</sup>	78,500.00	45,633.00	124,133.00
Joyce Nelson Schuette	61,500.00	26,630.00	88,130.00
Gary J. Spies <sup>10</sup>	60,000.00	45,633.00	105,633.00

- (1) Includes the aggregate dollar amount of all fees earned for services as a Director (both paid and deferred) including annual retainer, committee chair retainer, and meeting fees for each Board of Directors and committee meeting attended.
  
- (2) Represents the expense recognized by Otter Tail Corporation for 2007 determined in accordance with Financial Accounting Standard No. 123R (FAS 123R), using the same assumptions as are described at Note 7 to the consolidated financial statements in the Annual Report of Otter Tail Corporation for 2007. The grant date fair value of the restricted stock award for the 1,900 shares granted on April 9, 2007 was \$66,585.00.

In accordance with FAS 123R, 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 of Otter Tail Corporation common shares on the date of the grant (\$35.045).



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- (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 4,500 / 200,000;  
Ms. Bohn 4,500 / 0;  
Mr. Emmen 4,500 / 4,000; Mr. Liebe 4,500 / 2,000;  
Mr. McIntyre 3,550 / 0; Mr. Partain 4,500 / 4,000;  
Ms. Schuette 3,550 / 0; Mr. Spies 4,500 / 2,000.
- (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. Nelson retired from the Board effective April 9,

2007.

(9) Mr. Partain is Chair of the Audit Committee and Executive Committee.

(10) Mr. Spies defers both retainer and meeting fees and receives them 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, Director nominees, 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, 2007:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>1,2</sup>	Percent Class
Karen M. Bohn	6,850	
Dennis R. Emmen	15,900 <sup>3</sup>	
John D. Erickson	188,305 <sup>4</sup>	
George A. Koeck	10,758	
Arvid R. Liebe	12,482	
Charles S. MacFarlane	53,044 <sup>5</sup>	
John C. MacFarlane	269,827 <sup>6</sup>	
Edward J. McIntyre	5,694 <sup>7</sup>	
Lauris N. Molbert	59,048 <sup>8</sup>	
Kevin G. Moug	34,636 <sup>9</sup>	
Nathan I. Partain	16,537 <sup>10</sup>	
Joyce Nelson Schuette	4,295	
Gary J. Spies	25,919 <sup>11</sup>	
James B. Stake		
All Directors, Director nominees, and executive officers as a group	703,295	2.4%

(1) Represents outstanding common shares beneficially owned both directly and indirectly as of December 31, 2007. No Director, Director nominee, or

executive officer beneficially owns more than 1% of the total outstanding common shares as of December 31, 2007. 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 executive officer were pledged as of December 31, 2007.

- (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, 728

shares; Mr. C. MacFarlane, 788 shares; Mr. J. MacFarlane, 21,580 shares; Mr. Molbert, 215 shares; Mr. Moug, 198 shares; and all Directors and executive officers as a group, 28,491 shares.

Includes the following common shares subject to options exercisable within 60 days of December 31, 2007:

Mr. Emmen, 4,000 shares; Mr. Erickson, 116,000 shares; Mr. Koeck, 3,400 shares; Mr. Liebe, 2,000 shares; Mr. C. MacFarlane, 24,000 shares; Mr. J. MacFarlane, 200,000 shares; Mr. Molbert, 30,000 shares; Mr. Moug, 15,000 shares; Mr. Partain, 4,000 shares; Mr. Spies, 2,000 shares; and all Directors and executive officers as a group, 400,400

shares.

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

(4) Includes 8,434 shares owned jointly with Mr. Erickson's wife as to which he shares voting and investment power.

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- (5) Includes 165 shares owned by Mr. C. MacFarlane's minor children as to which he, as custodian, has voting and investment power.
- (6) Includes 28,301 shares owned jointly with Mr. J. MacFarlane's wife as to which he shares voting and investment power.
- (7) Includes 1,000 shares held in trust with Mr. McIntyre's wife as to which he shares voting and investment power.
- (8) Includes 23,433 shares owned jointly with Mr. Molbert's wife as to which he shares voting and investment power.
- (9) Includes 853 shares owned jointly with Mr. Moug's wife as to which he shares voting and investment power. Includes 217 shares owned by

Mr. Moug's  
minor children  
as to which he,  
as custodian,  
has voting and  
investment  
power.

(10) Includes 1,000  
shares owned  
jointly with  
Mr. Partain's  
wife as to which  
he shares voting  
and investment  
power.

(11) 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, 2007 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% 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 the certification of the Directors and executive officers, Otter Tail Corporation believes that during the year ended December 31, 2007, 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 four principal executive officers: Mr. Erickson, Chief Executive Officer and President; Mr. Molbert, Chief Operating Officer and Executive Vice President; Mr. Moug, Chief Financial Officer and Treasurer; and Mr. Koeck, General Counsel and Corporate Secretary (referred to in this CD&A as the executive officers) and recommending it to the Board of Directors. Each of these executive officers is included in the Summary Compensation Table and the related tables beginning on page 13. The fifth individual found in the Summary Compensation Table and the related tables is Mr. C. MacFarlane, President, Otter Tail Power Company, which is a division of Otter Tail Corporation. Compensation for Mr. C. MacFarlane is determined by Mr. Molbert, the Chief Operating Officer of Otter Tail Corporation, to whom he reports. His compensation is discussed separately.

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 income, 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 which includes base pay, annual cash incentive and stock-based long-term incentive is measured against similarly sized organizations (based on revenue) in general industry and the utility sector. Otter Tail Corporation targets total direct compensation for each executive officer near median for similarly sized organizations in general industry and the utility sector. The mix of pay (base pay, annual cash incentive and long-term incentive) 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 annual cash incentive and long-term incentive is performance based.

In 2006, the Compensation Committee retained Towers Perrin to prepare market-based compensation data comparing compensation information for the executive officers of Otter Tail Corporation with that for executive officers of companies of comparable size in general industry. The Compensation Committee also requested Towers Perrin to prepare market-based compensation data for the utility sector. Because of the diverse nature of Otter Tail Corporation's operating companies, the Compensation Committee benchmarked against the general industry



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data in making its decisions. It used the utility sector data as a significant check or second reference point for its decisions. Towers Perrin provided both the general industry data and the utility sector data from its own resources without input from Otter Tail Corporation. This data came from its Executive Compensation Database and was regressed to reflect an organization of the size of Otter Tail Corporation. This data was utilized by Towers Perrin in establishing a market median for each executive officer related to base pay, annual cash incentive, and stock-based long-term incentive. In addition to market data, the Compensation Committee considers individual performance, historical compensation, internal equity with other officers and the broader work force, and regional considerations. Management has a role in the compensation process. Mr. Erickson makes compensation recommendations for Mr. Molbert, Mr. Moug, and Mr. Koeck, which the Committee may, but is not required to, consider. Mr. Erickson does not make an initial recommendation on his own compensation.

In 2007, the Compensation Committee set base pay and annual cash incentive for each executive officer based upon the market data provided to it by Towers Perrin in 2006, and other factors including individual performance, historical compensation, internal equity, and regional considerations.

***Base Pay***

Base pay is a traditional element of compensation provided almost universally by corporations. Base pay for each executive officer is set after considering market data for similar jobs in general industry and the utility sector as provided by the Compensation Committee's independent consultants. The Compensation Committee also considers the level of compensation at risk for the executive officer in Otter Tail Corporation's Executive Annual Incentive Plan. In 2007, base pay was increased for each executive officer, however, all four executive officers remain significantly below the market median for general industry (based upon the 2006 market data). In addition to the factors discussed above, this deviation from market reflects the Compensation Committee's belief in pay at risk.

***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 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 annual cash incentive for each executive officer is measured against the market data provided by Towers Perrin. The target 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. As a result, the targeted annual cash incentive percentage for 2007 was slightly above the market median (based on the 2006 market data) for each executive officer and ranged from 50% of base pay to 95% of base pay. When combining base pay with targeted annual cash incentive, the executive officers were still below the market median for targeted cash compensation; ranging from a low of 66% (Mr. Erickson) of general industry market median to a high of 95% of general industry market median (based on the 2006 market data). This deviation is due, in part, to the deference given to the utility sector market data provided by Towers Perrin which is somewhat lower overall; and in Mr. Erickson's case due to his preference for compensation closer to that of the other executive officers.

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. Before setting targets, the Compensation Committee takes into consideration whether the budget of Otter Tail Corporation reflects appropriate financial performance within the utility sector. In 2007 it compared return on equity ( ROE ) as budgeted at Otter Tail Corporation with ROE performance within the utility sector as found in several publicly available sources. The Compensation Committee found that a targeted ROE of 11% was at the high end of the median range found in the utility sector and accordingly the financial targets derived from it would require strong executive performance. These financial targets derived from budget and compared to utility sector performance provide a good benchmark for targeted performance for the annual cash incentive plan. The threshold performance level is set so as to make it achievable in most years, reflecting the fact that a significant portion of compensation is at

risk. The target performance level for 2007 was set to promote solid performance. The maximum performance level is set high to reward only exceptional performance. With the exception of the ROE measure, Otter Tail Corporation is not disclosing the precise targets for each element of annual cash incentive. The remaining targets and ranges are consistent with the public earnings guidance of Otter Tail Corporation. Otter Tail Corporation does not publicly disclose its budget and related financial measures. Budget information is confidential and disclosure of it would put Otter Tail Corporation at a competitive disadvantage. The financial targets for annual cash incentive are divided into three components as follows:

1. **Corporate earnings per share.** Each executive officer receives 33.33% of the total target payout if Otter Tail Corporation achieves the targeted earnings per share. Each officer receives 8.33% 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 was slightly above the targeted performance level for earnings per share in 2007.

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2. **Corporate return on equity.** Each officer receives 33.33% of the total target payout if Otter Tail Corporation achieves the targeted return on equity. Each officer receives 8.33% 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 was slightly below the targeted performance level for return on equity in 2007.
3. **Cash flow from operations.** Each officer receives 33.33% of the total target payout if Otter Tail Corporation achieves the targeted cash flow from operations. Each officer receives 8.33% 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 was slightly below the targeted performance level for cash flow from operations in 2007.

The Compensation Committee has discretion over the treatment of extraordinary gains, write offs or other events in determining the amount of incentive bonus to be paid. For 2007, the amount of annual cash incentive was based upon actual results.

*Long-Term Incentives*

Before awarding long-term incentives, the Compensation Committee retained Towers Perrin to complete a competitive analysis of the compensation and benefit levels of the four executive officers. This report prepared in early summer 2007, reviewed base salary, annual incentive, long-term incentives, and retirement benefits for the executive officers as benchmarked against general industry and utility sector data gathered from published survey data. The report reviewed the design characteristics of Otter Tail Corporation's annual and long-term incentive plans as well as Otter Tail Corporation's perquisite and benefit practices and change-in-control practices benchmarked against a manufacturing services peer group and utility sector peer group developed by Towers Perrin with some input from Otter Tail Corporation and relying upon information provided in most recent proxy statements.

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 Compensation Committee added restricted stock to the long-term incentive mix to be more consistent with market, consistent with the recommendations of Towers Perrin.

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 61 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. It does so by rewarding continuity of service of the executive officers since the restricted stock awards vest over a period of 3<sup>1</sup>/<sub>2</sub> years and restricted stock is forfeited upon voluntary termination. In addition, the value of shares awarded increase or decrease with the value provided to shareholders.

The targeted long-term incentive for each executive officer was set with reference to the market median for similarly sized companies in the general industry and the utility sector as determined by the Compensation Committee's outside consultant. The long-term incentive awards at target for the executive officers, with the exception of Mr. Erickson, were set near the mid-point of a range determined by averaging the values for the general industry and the utility sectors. The long-term incentive award for Mr. Erickson was set significantly below this mid-point due primarily to his request. The Compensation Committee determined to split the long-term incentive with 75% of value delivered through performance shares and 25% of value delivered through restricted stock.

The performance shares were granted on October 29, 2007 by written action of the Compensation Committee.

Whether the performance shares become payable is based upon the total shareholder return of Otter Tail Corporation as compared to the total shareholder return of the companies that comprise the EEI Index over a three year period. For the grant awarded in 2007 the three year period is from January 1, 2007 through December 31, 2009. The EEI Index is chosen because it is the sector which includes Otter Tail Corporation common stock. 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 2010. The target amount will be paid if the total shareholder return for Otter Tail Corporation is at the 50th percentile of 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 that 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 will be paid in common shares of Otter Tail Corporation.

The shares of restricted stock were granted on October 29, 2007 by written action of the Compensation Committee. The shares vest at a rate of 25% per year over a three and one-half year period with the first quarter vesting on April 8, 2008 and the remaining quarters on the same date in 2009, 2010 and 2011. Upon the grant date the executive officers are eligible for full dividend and voting rights.

**Table of Contents***Other Benefits*

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

*Compensation for Charles S. MacFarlane*

Compensation for Mr. C. MacFarlane is set solely by Mr. Molbert in his role as Mr. C. MacFarlane's supervisor. The components of Mr. C. MacFarlane's compensation consist of base pay, annual cash incentive, stock-based long-term incentive, retirement income, 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) market median 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 regulated return on equity, utility return on invested capital and individual performance. Individual performance is measured by Mr. Molbert and is 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. It also takes into consideration Mr. C. MacFarlane's role on the Otter Tail Corporation executive team. Mr. Molbert has discretion to vary positively or negatively from the results dictated by performance. The financial targets for regulated return on equity and utility return on invested capital 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. For the same reasons as discussed in the section related to the executive officers' annual cash incentive compensation, Otter Tail Corporation is not disclosing the specific financial targets for regulated return on equity and utility return on invested capital in the CD&A.

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

1. **Regulated Return on Equity.** Mr. C. MacFarlane receives 30% of the total target payout if Otter Tail Power Company achieves targeted regulated return on equity. Otter Tail Power Company did not meet the targeted performance level in 2007.
2. **Utility Return on Invested Capital.** Mr. C. MacFarlane receives 30% of his total target payout if Otter Tail Power Company achieves the targeted utility return on invested capital. Otter Tail Power Company met the targeted performance level in 2007.
3. **Individual Performance.** The amount payable under the individual performance goal is targeted at 40% of Mr. C. MacFarlane's targeted payout and may be increased above or below target at Mr. Molbert's discretion. It is 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. It also takes into consideration Mr. C. MacFarlane's role on the Otter Tail Corporation executive team. Mr. C. MacFarlane was paid an individual performance bonus in 2007.

Mr. C. MacFarlane receives long-term incentive compensation in the form of restricted stock units granted by the Compensation Committee under the Otter Tail Corporation 1999 Stock Incentive Plan. The restricted stock units, which were granted on the date of the 2007 Annual Meeting of Shareholders vest into Otter Tail Corporation common shares in their entirety on April 8, 2011, provided Mr. C. MacFarlane is employed by Otter Tail Power Company on that date. Until the restricted stock units vest into Otter Tail Corporation common shares, Mr. C. MacFarlane has no dividend or voting rights.

*Stock Ownership Guidelines*

Otter Tail Corporation has established stock ownership requirements 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; and Mr. Koeck, 10,000 shares. Stock options are not considered as shares counting towards the ownership guidelines which must be met in 2009.

*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 executive officers security in retirement through its pension and supplemental retirement plans. The executive officers, including Mr. C. MacFarlane, participate in the plans related to retirement income and deferred compensation.

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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, including 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 provides a 401(k) retirement savings plan 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 is on precisely the same terms as other participants in the plan.

*Severance Benefits*

Otter Tail Corporation has entered into change in control severance agreements with each of the executive officers except Mr. C. MacFarlane, that provide financial protection in the event of a change in control that disrupts the executive officer's career. These agreements were revised and the benefits reduced in 2007. 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 found at page 18.

Otter Tail Corporation has also entered into executive employment agreements with the executive officers, except for 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 found at page 18.

*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.

**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, 2007, filed with the SEC.

Arvid R. Liebe, Chair

Dennis R. Emmen

Edward J. McIntyre  
Nathan I. Partain  
Joyce Nelson Schuette



**Table of Contents****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 two 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 2007 ( Named Executive Officers ).

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$) <sup>1</sup>	Stock Awards (\$) <sup>2</sup>	Option Awards (\$) <sup>3</sup>	Non-Equity Change in Pension Incentive Value & All		Other Compensation (\$) <sup>6</sup>	Total Compensation (\$)
						Plan Compensation (\$) <sup>4</sup>	Non-Qualified Deferred Earnings (\$) <sup>5</sup>		
John D. Erickson President & CEO	2007	453,500		799,264		408,016	534,915	13,625	2,209,320
Kevin G. Moug Chief Financial Officer & Treasurer	2006	295,000		342,945		168,798	226,222	16,425	1,049,390
Lauris N. Molbert Executive Vice President & COO	2006	272,250		317,582		166,824	163,746	16,300	936,702
George A. Koeck General Counsel & Corporate Secretary	2007	360,500		623,334		324,274	484,722	15,225	1,808,055
Charles S. MacFarlane President, Other Tail Power Company	2006	341,000	119,880	548,235	3,613	330,820	333,687	15,100	1,568,842
	2007	252,500		241,866		119,563	296,078	15,225	925,232
	2006	241,250		193,637		121,863		15,100	571,850
	2007	313,250	119,880	117,453	3,613	59,940	90,789	8,537	713,462
	2006	250,250	63,500	98,549	10,840	31,750	70,738	8,748	534,375

(1) In 2006 and 2007 Mr. C. MacFarlane's bonus was based upon his leadership in the development of wind opportunities for Otter Tail Power Company

and the development of Big Stone II and in preparing for significant regulatory activities. It was awarded at the discretion of Mr. Molbert. Except with respect to Mr. C. MacFarlane, Otter Tail Corporation awards cash bonuses based solely on the achievement of certain performance targets and are thus reflected in the Non-Equity Incentive Plan Compensation column of this table.

- (2) The amounts shown represent the expense recognized by Otter Tail Corporation for 2006 and 2007 determined in accordance with FAS 123R using the same assumptions as are described at Note 7 to the consolidated financial statements in the Annual Report of Otter Tail Corporation for 2006 and

2007  
respectively.

- (3) The amounts shown represent the expense recognized by Otter Tail Corporation for 2006 and 2007 determined in accordance with FAS 123R using the same assumptions as are described at Note 7 to the consolidated financial statements in the Annual Report of Otter Tail Corporation for 2006 and 2007 respectively.
- (4) Non-Equity Incentive Plan Compensation represents awards earned during 2006 and 2007 for achieving performance goals under the Executive Annual Incentive Plan. See CD&A for a more detailed description.
- (5) This column represents the change in pension value and was determined utilizing the

same assumptions as are described at Note 12 to the consolidated financial statements in the Annual Report of Otter Tail Corporation for each of 2006 and 2007. In 2006 the actual change in pension for Mr. Erickson and Mr. Koeck was a reduction in pension value of (\$806,956) for Mr. Erickson and (\$134,826) for Mr. Koeck.

- (6) Amounts of All Other Compensation for 2007 consists of (i) amounts contributed by Otter Tail Corporation under the Otter Tail Corporation 401(k) retirement savings plan for 2007 as follows: Mr. Erickson, \$5,625; Mr. Molbert, \$5,625; Mr. Moug, \$5,625; Mr. Koeck, \$5,625; Mr. C. MacFarlane, \$5,625; (ii) a car allowance as follows:

Mr. Erickson,  
\$8,000;  
Mr. Molbert,  
\$9,600;  
Mr. Moug,  
\$10,800;  
Mr. Koeck,  
\$9,600; and  
(iii) the amount  
of Otter Tail  
Corporation's  
contribution  
under the  
Employee Stock  
Ownership Plan  
for 2007 which  
was invested in  
common shares  
for the account  
of Mr. C.  
MacFarlane,  
\$2,912.

**Table of Contents***Grants of Plan-Based Awards*

The following table summarizes the 2007 grants of equity and non-equity awards to the Named Executive Officers.

**Grants of Plan-Based Awards**

Name	Grant Date <sup>1</sup>	Estimated Future Payouts Under			Estimated Future Payouts Under			All other Stock Awards <sup>4</sup>	All other Stock Option Awards <sup>4</sup>	Grant Date Fair Value of Stock Awards (\$)
		Non-Equity Incentive Plan Awards <sup>2</sup>	Equity Incentive Plan Awards <sup>3</sup>				No. of Shares or Units	No. of Options		
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	or Underlying Awards (\$/Sh)	and Option Awards (\$)	
John D. Ericksen	09-April-07 29-Oct-07	708,775	435,100	870,200	10,600	21,200	42,400	6,500	1,227,452	
Kevin G. Moug	09-April-07 29-Oct-07	745,000	180,000	360,000	4,450	8,900	17,800	2,700	514,267	
Lauris N. Molbert	09-April-07 29-Oct-07	786,450	345,800	691,600	8,800	17,600	35,200	5,400	1,019,152	
George A. Koeck	09-April-07 29-Oct-07	731,875	127,500	255,000	3,400	6,800	13,600	2,100	394,252	
Charles S. MacFarland	09-April-07		199,800					3,450	103,741	

(1) The grant date of all awards is the date of the Board of Directors action in which such award is approved.

(2) Represents awards granted to Mr. Erickson,

Mr. Moug,  
Mr. Molbert and  
Mr. Koeck  
under the  
Executive  
Annual  
Incentive Plan.  
The awards are  
contingent upon  
Otter Tail  
Corporation  
reaching  
performance  
targets in three  
categories of  
performance:  
corporate  
earnings per  
share, return on  
equity and cash  
flow from  
operations. Each  
executive is  
entitled to  
receive an  
award in an  
amount of 25%  
to 200% of the  
target for each  
category based  
upon the  
performance of  
Otter Tail  
Corporation in  
the category,  
provided Otter  
Tail Corporation  
meets the  
threshold  
performance  
level. This plan  
and targets are  
more fully  
described in the  
CD&A. The  
amount actually  
paid in 2007 is  
reported under  
Non-Equity  
Incentive Plan  
Compensation

in the Summary  
Compensation  
Table.

Represents an  
incentive award  
granted to  
Mr. C.

MacFarlane as  
determined on a  
basis consistent  
with the plan  
described in the  
CD&A. There  
are two formula  
driven  
measures,  
regulated utility  
return on equity  
and utility  
return on  
invested capital.

The third  
measure is  
individual  
performance  
and is based  
primarily upon  
performance  
against key  
performance  
indicators as  
described in the  
CD&A. This  
plan and targets  
are more fully  
described in the  
CD&A. The  
amount actually  
paid in 2007 is  
reported under  
Non-Equity  
Incentive Plan  
Compensation  
in the Summary  
Compensation  
Table.

- (3) Represents  
grants of  
performance



shares to each of Mr. Erickson, Mr. Moug, Mr. Molbert, and Mr. Koeck that vest dependent upon the three year total shareholder return as compared to the total shareholder returns for the companies comprising the Edison Electric Institute Index. The awards of performance shares are more fully described in the CD&A.

- (4) Represents restricted stock grants to Mr. Erickson, Mr. Moug, Mr. Molbert and Mr. Koeck that vest ratably on April 8, 2008, April 8, 2009, April 8, 2010 and April 8, 2011 provided they are employed by Otter Tail Corporation on those dates. The executive officers have voting and dividend rights in the restricted shares. Represents a restricted stock unit grant to Mr. C.

MacFarlane received in 2007. The restricted stock units vest into Otter Tail Corporation common shares on April 8, 2011 provided Mr. C. MacFarlane is employed by Otter Tail Power Company on that date. Mr. C. MacFarlane does not have dividend or voting rights for the restricted stock units until they vest.

**Table of Contents***Outstanding Equity Awards at Fiscal Year End*

The following table summarizes the total outstanding equity awards as of December 31, 2007 for the Named Executive Officers:

**Outstanding Equity Awards at Fiscal Year-end**

Name	Option Awards					Stock Awards		Equity Incentive Plan Awards:
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercisable Options (#)	Number of Securities Underlying Unexercised Options (#)	Exercise Price (\$)	Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>1</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>1</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) <sup>2</sup>
John D. Erickson	16,000			19.19	23-Feb-09			
	25,000			19.75	10-Apr-10			
	75,000			26.25	09-Apr-11	6,500	224,900	34,200 42,400 1,183,320 1,467,040
Kevin G. Moug	15,000			26.25	09-Apr-11	2,700	93,420	16,050 17,800 555,330 615,880
	30,000			26.25	09-Apr-11	5,400	186,840	26,700 35,200 923,820 1,217,920
George A. Koeck	3,400			26.25	09-Apr-11	2,100	72,660	11,100 13,600 384,060 470,560
	10,000			29.74	10-Dec-11			
Charles S. MacFarlane	8,000			27.25	14-Apr-13			
	3,000			26.50	12-Apr-14			
	3,000			24.93	11-Apr-15			
						10,000	346,000	

(1)

The unvested shares of restricted stock for Mr. Erickson, Mr. Moug, Mr. Molbert and Mr. Koeck vest ratably on April 8, 2008, April 8, 2009, April 8, 2010 and April 8, 2011. The unvested shares of restricted stock for Mr. C. MacFarlane vest on April 8, 2008 and April 8, 2009. The restricted stock units of Mr. C. MacFarlane vest on April 8, 2010 and April 8, 2011.

- (2) The unvested performance shares for Mr. Erickson, Mr. Moug, Mr. Molbert and Mr. Koeck are reported at maximum as required by rule. The actual number of shares paid, which may range from zero to maximum, shall be determined by the Compensation Committee after it determines

whether the performance goals have been met at the conclusion of 2008 and 2009. This typically occurs in February of each year.

*Option Exercises and Stock Vested in Last Fiscal Year*

The following table provides information on option exercises and stock vested in 2007 related to the Named Executive Officers and the resulting value realized.

**Option Exercises & Stock Vested**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) <sup>1</sup>	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) <sup>1</sup>
John D. Erickson			18,300	620,664
Kevin G. Moug	10,000	101,353	7,350	247,863
Lauris N. Molbert	20,000	155,064	12,750	430,650
George A. Koeck	16,600	128,914	4,150	139,617
Charles S. MacFarlane	3,000	15,480	2,000	70,180

(1) The value realized on the exercise of stock options is the difference between the fair market value of Otter Tail Corporation's common shares at the time of exercise and the exercise price contained in the award agreement of the stock option. The value realized on the vesting of stock awards is the fair market value of Otter

Tail  
Corporation's  
common shares  
at the time of  
vesting. The fair  
market value as  
used in this  
table is the  
average of the  
high and low  
price of Otter  
Tail  
Corporation's  
common shares  
on the date of  
exercise or  
vesting.

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**Table of Contents***Pension and Supplemental Retirement Plans*

The Pension Plan is a tax-qualified defined benefit pension plan. All employees of Otter Tail Corporation, including Otter Tail Power Company employees hired prior to September 1, 2006, are eligible to participate in the Pension Plan. Benefits for Mr. Erickson, Mr. Moug, Mr. Molbert, and Mr. Koeck are determined by multiplying 37% of final average earnings (as defined in the Plan) by a fraction the numerator of which is the number of years of benefit accrual service up to 30 years and the denominator of which is 30. For these executive officers, final average earnings is determined using the 42 consecutive months out of the last 10 consecutive years prior to the participant's retirement which produces the highest average salary. For Mr. C. MacFarlane, the benefit is determined by multiplying 38% of his final average earnings by a fraction the numerator of which is the number of years of benefit accrual service up to 30 years and the denominator of which is 30. Final average earnings for Mr. C. MacFarlane is determined by using the 30 consecutive months out of the last 10 years prior to the participant's retirement that produces the highest average salary. A full pension benefit is paid if the executive officer retires after he or she reaches age 62. If the executive officer commences payment prior to age 62, there is a reduction in pension benefit on a scale beginning at 5% at age 61 and ending at 39% at age 55, the earliest age at which the pension benefit may be received. The plan does not provide for a lump sum distribution. The plan does not contemplate, nor have there been granted, additional years of credited service.

Each of the Named Executive Officers participates in the ESSRP. Participation in the ESSRP is determined by the Board of Directors. The ESSRP was amended and restated effective January 1, 2005 and amended again effective January 1, 2006. The principal effect of the restatement is to reduce future benefits under the ESSRP and reduce costs to Otter Tail Corporation. Mr. Erickson and Mr. Koeck will receive retirement benefits under the ESSRP equal to the greater of the following:

- (1) A benefit equal to 70% of the participant's final average earnings (as defined in the ESSRP) offset by the participant's social security benefit and the amount of the participant's benefit from Otter Tail Corporation's tax-qualified defined benefit Pension Plan; provided that the amount of this benefit will not increase after December 31, 2010. If this benefit is applicable, it will be paid for 15 years to the participant or the participant's beneficiary, or for such longer period of time as the participant lives. Final average earnings under the ESSRP is the average of the participant's total cash payments (base salary and bonus) paid to the participant during the highest consecutive 42 months in the 10 years prior to the date as of which final average earnings is determined.
- (2) The benefit calculated under Otter Tail Corporation's tax-qualified defined benefit Pension Plan, modified to include the participant's bonus in the computation of covered compensation and to exclude any statutory compensation and benefits limit, and offset by the participant's benefit from the tax-qualified defined benefit Pension Plan. If this benefit is applicable, it will be paid in the same form as the participant's tax-qualified defined benefit Pension Plan benefit.

Mr. Moug, Mr. Molbert and Mr. C. MacFarlane will receive retirement benefits under the ESSRP equal to the greater of the following:

- (1) A benefit equal to 65% of the participant's final average earnings (as defined in the ESSRP) offset by the participant's social security benefit and the amount of the participant's benefit from Otter Tail Corporation's tax-qualified defined benefit Pension Plan; provided that the amount of this benefit will not increase after December 31, 2010. The benefit amount accrues over a 15 year period. If this benefit is applicable, it will be paid for 15 years to the participant or the participant's beneficiary, or for such longer period of time as the participant lives. Final average earnings for Mr. Moug and Mr. Molbert is defined in the same manner as for Mr. Erickson and Mr. Koeck. Final average earnings for Mr. C. MacFarlane is defined as the average of the total cash payments (base salary and bonus) paid to the participant during the highest consecutive 30 months in the 10 years prior to the date as of which final average earnings is determined.
- (2) The benefit calculated under Otter Tail Corporation's tax-qualified defined benefit Pension Plan, modified to include the participant's bonus in the computation of covered compensation and to exclude any statutory compensation and benefit limits, and offset by the participant's benefit from the tax-qualified defined Pension

Plan. If this benefit is applicable, it will be paid in the same form as the participant's tax-qualified defined benefit Pension Plan benefit.

The executive officers are all vested in their benefits under the ESSRP. Mr. Moug, Mr. Molbert and Mr. Koeck were granted an additional 5, 6.5, and 3.6 years of service, respectively, under the ESSRP as of January 1, 2005. These increases were designed to more equitably apply the reduction in benefits caused by the January 1, 2005 Amendment to the ESSRP. The ESSRP does not provide for a lump sum distribution.

If an executive officer under the ESSRP dies while employed by Otter Tail Corporation, Otter Tail Corporation will pay the participant's beneficiary an amount equal to four times the participant's annual salary and bonus at the time of death. If an executive officer under the ESSRP dies after retirement or dies after termination for other reasons with a vested benefit, Otter Tail Corporation will pay the participant's beneficiary a lesser amount, depending upon the executive officer's age at death and his or her vested percentage.

If an executive officer retires prior to age 62 or terminates prior to retirement, with a vested benefit in the ESSRP, the executive officer will receive a reduced benefit amount. If a participant dies while still employed, his or her beneficiary will receive the actuarial equivalent of the participant's benefit in 15 annual installments. Upon a change in control (as defined in the ESSRP), or in the event of the death of the executive officer while actively employed by Otter Tail Corporation, the executive officer becomes 100% vested in his or her accrued benefit. In the event of disability, years of credited service and years of participation continue to accrue under the ESSRP until such time as payments under Otter Tail Corporation's long-term disability plan end. The Board of Directors has the right to amend, suspend or terminate the ESSRP, but no such action can reduce the benefits already accrued.



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The following table summarizes the number of years of credited service and present accumulated value of the pension benefits for the Named Executive Officers under the Otter Tail Corporation Pension Plan and ESSRP.

**Pension Benefits**

<b>Name</b>	<b>Plan Name</b>	<b>Number of Years Credited Service (#)</b>	<b>Present Value of Accumulated Benefit (\$)<sup>1</sup></b>	<b>Payments During Last Fiscal Year (\$)</b>
John D. Erickson	Pension Plan	27.50	510,000	
	ESSRP	13.00	2,659,805	
Kevin G. Moug	Pension Plan	6.00	104,000	
	ESSRP	11.00 <sup>2</sup>	900,444	
Lauris N. Molbert	Pension Plan	6.00	118,000	
	ESSRP	12.50 <sup>3</sup>	1,986,696	
George A. Koeck	Pension Plan	8.33	213,000	
	ESSRP	11.60 <sup>4</sup>	1,137,035	
Charles S. MacFarlane	Pension Plan	6.08	76,000	
	ESSRP	6.00	243,008	

(1) The present value of the accumulated benefit is calculated in accordance with Financial Accounting Standard 87. See Note 12 to the consolidated financial statements in the 2007 Annual Report of Otter Tail Corporation for the policy and assumptions made in the valuation of this accumulated benefit.

- (2) Includes 5 years of additional credited service which results in an additional accumulated benefit at present value of \$505,060.
- (3) Includes 6.5 years of additional credited service which results in an additional accumulated benefit at present value of \$1,159,031.
- (4) Includes 3.6 years of additional credited service which results in an additional accumulated benefit at present value of \$340,637.

*Non-Qualified Deferred Compensation*

The following table presents information on non-qualified deferred compensation for the Named Executive Officers:

**Non-Qualified Deferred Compensation<sup>1</sup>**

<b>Name</b>	<b>Executive Contributions in Last FY (\$)<sup>2</sup></b>	<b>Registrant Contributions in Last FY (\$)</b>	<b>Aggregate Earnings in Last FY (\$)<sup>2</sup></b>	<b>Aggregate Withdrawals/Distributions (\$)</b>	<b>Aggregate Balance at Last FYE (\$)<sup>3</sup></b>
John D. Erickson			53,899		602,193
Kevin G. Moug	14,708		8,143		162,326
Lauris N. Molbert	45,205		20,827		324,907
George A. Koeck					
Charles S. MacFarlane	31,325		39,000		332,771

- (1) The terms of Otter Tail Corporation's non-qualified deferred

compensation plan are described in the CD&A.

(2) The amounts reported in the Executive Contributions column are also reported as compensation to the Named Executive Officers in the Summary Compensation Table while the amounts in the Aggregate Earnings column are not.

(3) The amounts related to Executive Contributions reported in this column were previously reported in Summary Compensation Tables of Otter Tail Corporation, while the amounts related to Aggregate Earnings were not.

*Potential Termination Payments Upon a Change in Control*

In 2007 Otter Tail Corporation entered into revised change in control severance agreements (the Severance Agreements ) with Mr. Erickson, Mr. Moug, Mr. Molbert, and Mr. Koeck. These Severance Agreements contain significantly reduced benefits from the agreements reported in the past, due primarily to reducing from 3 years to 2 years the multiplier for severance pay and benefits and eliminating the tax gross-up provisions. The Severance Agreements provide for certain payments and other benefits if, following a Change in Control, Otter Tail Corporation terminates the executive officer's employment without Cause or the executive officer terminates his employment for Good Reason. Such payments and benefits include: (i) severance pay equal to two times the sum of the executive officer's salary (at the highest annual rate in effect during the two years prior to the termination) and average annual bonus (for the two years prior to the termination); (ii) two years of continued life, health, and disability insurance;

(iii) the payment of legal fees and expenses relating to the termination; and (iv) the termination of any noncompetition arrangement between Otter Tail Corporation and the executive officer. Under the Severance Agreements, Cause is defined as willful and continued failure to perform duties and obligations or willful misconduct materially injurious

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to Otter Tail Corporation; **Good Reason** is defined to include a change in the employee's responsibility or status, a reduction in salary or benefits, or a mandatory relocation; and **Change in Control** is defined to include a change in control of the type required to be disclosed under SEC proxy rules, acquisition by a person or group of 35% of the outstanding voting stock of Otter Tail Corporation, a proxy fight or contested election which results in Continuing Directors (as defined in the Agreements) not constituting a majority of Otter Tail Corporation's Board of Directors, or another event the majority of the Continuing Directors determines to be a Change in Control.

*Potential Termination Payments due Outside a Change in Control*

Otter Tail Corporation has entered into employment agreements (the **Employment Agreements**) with Mr. Erickson, Mr. Moug, Mr. Molbert, and Mr. Koeck. The Employment Agreements provide that if Otter Tail Corporation terminates the employment of one of the executive officers for Cause or if one of the executive officers terminates the employment relationship without Good Reason (as defined in the Employment Agreements) that the executive officer shall receive base pay and benefits through the date of termination. Alternatively, if Otter Tail Corporation terminates the employment of one of the executive officers for any other reason, or if one of the executive officers terminates the employment relationship for Good Reason, Otter Tail Corporation shall pay a severance payment equal to 1.5 times the sum of the executive officer's base pay plus his most recent annual cash incentive payment in full satisfaction of Otter Tail Corporation's obligations to the executive officer.

The following table presents information regarding potential payments pursuant to the agreements described above upon termination or change in control for each of the executive officers named below assuming the event took place on December 31, 2007.

**Summary of Termination Provisions**

	<b>No Change in Control</b>		
<b>For Cause (\$)</b>	<b>Death/Disability (\$)</b>	<b>Without Cause (\$)</b>	<b>Change in Control (\$)</b>
John D. Erickson <sup>1</sup>	1,522,400	2,833,232	3,669,231
Kevin G. Moug <sup>2</sup>	678,160	1,378,396	2,095,419
Lauris N. Molbert <sup>3</sup>	1,224,840	2,267,070	3,411,783
George A. Koeck <sup>4</sup>	491,320	1,056,615	1,683,155
Charles S. MacFarlane <sup>5</sup>			200,138

- (1) For Mr. Erickson, Death/Disability consists of performance shares vesting at target in the amount of \$1,522,400; Without Cause consists of performance shares vesting at target in the amount of \$1,522,400, and severance in the amount of

\$1,310,832;  
Upon a Change  
in Control  
consists of  
performance  
shares vesting at  
target in the  
amount of  
\$1,522,400,  
severance in the  
amount of  
\$1,888,694,  
restricted stock  
vesting in the  
amount of  
\$224,900, and a  
health benefit in  
the amount of  
\$33,237.

- (2) For Mr. Moug,  
Death/Disability  
consists of  
performance  
shares vesting at  
target in the  
amount of  
\$678,160;  
Without Cause  
consists of  
performance  
shares vesting at  
target in the  
amount of  
\$678,160 and  
severance in the  
amount of  
\$700,236; Upon  
a Change in  
Control consists  
of performance  
shares vesting at  
target in the  
amount of  
\$678,160,  
severance in the  
amount of  
\$988,078,  
restricted stock  
vesting in the  
amount of

\$93,420, three additional years of credited service under the ESSRP in the amount of \$303,037, and a health benefit in the amount of \$32,724.

- (3) For Mr. Molbert, Death/Disability consists of performance shares vesting at target in the amount of \$1,224,840; Without Cause consists of performance shares vesting at target in the amount of \$1,224,840, and severance in the amount of \$1,042,230; Upon a Change in Control consists of performance shares vesting at target in the amount of \$1,224,840, severance in the amount of \$1,523,812, restricted stock vesting in the amount of \$186,840, three additional years of credited service under the ESSRP in the amount of \$445,781, and a health benefit in

the amount of  
\$30,510.

- (4) For Mr. Koeck, Death/Disability consists of performance shares vesting at target in the amount of \$491,320; Without Cause consists of performance shares vesting at target in the amount of \$491,320, and severance in the amount of \$565,295; Upon a Change in Control consists of performance shares vesting at target in the amount of \$491,320, severance in the amount of \$803,966, restricted stock vesting in the amount of \$72,660, three additional years of credited service under the ESSRP in the amount of \$282,287, and a health benefit in the amount of \$32,922.
- (5) Mr. C. MacFarlane does not have a Change in Control agreement, but



he would receive three additional years of credited service under the ESSRP in the event of a change in control in the amount of \$200,138.

#### **Report of Audit Committee**

The Audit 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 Audit Committee retains and supervises Otter Tail Corporation's independent registered public accounting firm, currently Deloitte & Touche LLP.

Management is responsible for Otter Tail Corporation's internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of Otter Tail Corporation's consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

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In this context, the Audit Committee met and held discussions with management and the independent registered public accounting firm. Management represented to the Audit Committee that Otter Tail Corporation's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees, as amended). Otter Tail Corporation's independent registered public accounting firm also provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent registered public accounting firm that firm's independence.

Based on the Audit Committee's discussions with management and the independent registered public accounting firm and the Audit Committee's review of the consolidated financial statements and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in Otter Tail Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC.

Nathan I. Partain, Chair

Karen M. Bohn

Dennis R. Emmen

Edward J. McIntyre

Gary J. Spies

**Ratification of Independent Registered  
Public Accounting Firm**

At the Annual Meeting of Shareholders, the Board of Directors will propose that shareholders ratify the appointment of the firm of Deloitte & Touche LLP as the independent registered public accounting firm to audit the consolidated financial statements of Otter Tail Corporation for 2008. This firm has no direct or indirect financial interest in Otter Tail Corporation.

The Audit Committee of Otter Tail Corporation's Board of Directors has appointed Deloitte & Touche LLP as our independent registered public accounting firm for 2008. Shareholder ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm is not required by our bylaws or otherwise. However, the Board of Directors is submitting the appointment of Deloitte & Touche LLP to the shareholders for ratification as a matter of good corporate practice. If the shareholders fail to ratify the appointment, the Audit Committee will reconsider whether or not to retain that firm. Even if the appointment is ratified, the Audit Committee, which is solely responsible for appointing and terminating our independent registered public accounting firm, may in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of Otter Tail Corporation and its shareholders.

A partner of the independent registered public accounting firm of Deloitte & Touche LLP will be present at the annual meeting to answer questions and to make a statement if he or she desires to do so. An affirmative vote of a majority of the common shares present and entitled to vote with respect to the ratification of the independent registered public accounting firm is required for ratification. Proxies, unless otherwise directed thereon, will be voted in favor of this proposal. The Board of Directors recommends a vote FOR the ratification of Deloitte & Touche LLP as the independent registered public accounting firm for 2008.

*Fees*

Aggregate fees that Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the Deloitte Entities) billed to Otter Tail Corporation for 2007 and 2006 are as follows:

	<b>2007</b>	<b>2006</b>
<b>Fees for Professional Services</b>		
Total Audit Fees	\$ 1,255,300(a)	\$ 1,200,000(b)

Audit-Related Fees	8,000(c)	17,080(d)
Total Audit and Audit-Related Fees	1,263,300	1,217,080
All Other Fees	109,144(e)	50,640(f)
Total Fees Paid to Deloitte Entities	\$ 1,372,444	\$ 1,267,720

(a) 2007 audit fees, per engagement letter, of \$1,135,000 estimated expenses for the 2007 audit of \$80,000, and fees related to the adoption of a new accounting standard of \$40,300.

(b) 2006 audit fees, per engagement letter, of \$1,120,000 estimated expenses for the 2006 audit of \$80,000.

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- (c) 2007 fees of \$8,000 related to a Form S-3 filing with the Securities and Exchange Commission.
- (d) 2006 fees of \$7,740 related to the North Dakota Department of Health agreed-upon procedures, \$5,500 related to the 2006 SEC comment letter, and \$3,840 related to the Form S-8 filing.
- (e) Includes fees for tax planning and miscellaneous issues of \$109,144.
- (f) Includes fees for tax planning and miscellaneous issues of \$36,265 and IRS e-filing assistance of \$14,375.

*Pre-Approval of Audit/Non-Audit Services Policy*

Otter Tail Corporation's Audit Committee has adopted, and the Board of Directors has ratified, the Audit and Non-Audit Services Pre-Approval Policy which sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent registered public accounting firm may be pre-approved. The independent registered public accounting firm has reviewed this policy and believes that implementation of the policy will not adversely affect the firm's independence.

Four categories of services have been defined by Otter Tail Corporation within the policy to provide a consistent framework for assessment, decision-making, approval and reporting. The following is a summary of the key provisions of the policy.

Audit services are specified services directly related to performing the independent audit of Otter Tail Corporation and its subsidiaries. The independent registered public accounting firm will submit to the Audit Committee for pre-approval the scope and estimated fees associated with the current year audit at the August Audit Committee meeting.

Audit-related services are specified services that are related extensions of audit services and are logically performed by the independent registered public accounting firm. Additional services exceeding the specified pre-approved limits require specific Audit Committee approval.

Tax services are specified services related to tax matters. Using the independent registered public accounting firm for these matters creates efficiencies, minimizes disruption, or preserves confidentiality. Additional services exceeding the specified pre-approved limits, or adding service types to the pre-approved list, requires specific Audit Committee approval.

Other services include (a) synergistic services for which utilizing the independent registered public accounting firm creates efficiencies, minimizes disruption, or preserves confidentiality, or (b) unique qualifications services for which management has determined that the independent registered public accounting firm possesses unique or superior qualifications to provide the services. Additional services exceeding the specified pre-approved limits, or adding service types to the pre-approved list, requires specific Audit Committee approval.

Restricted non-audit services include nine specific restricted services outlined in the SEC's final rule on auditor independence issued January 28, 2003. These services are not to be performed by the independent registered public accounting firm.

During 2006 and 2007, all of the services provided by Deloitte Entities for the services described above under audit fees, audit-related fees, tax fees, and all other fees were pre-approved by the Audit Committee consistent with this procedure.

**Policy and Procedures Regarding Transactions with Related Persons**

The Board of Directors of Otter Tail Corporation has adopted a Policy and Procedures Regarding Transactions with Related Persons. This policy delegates to the Audit Committee responsibility for reviewing, approving, or ratifying transactions with Related Persons that are required to be disclosed under the rules of the Securities and Exchange Commission. Under the policy, a Related Person includes any of the directors or executive officers of Otter Tail Corporation, certain shareholders, and their immediate families. The policy applies to transactions in which Otter Tail Corporation is a participant and a Related Person will have a direct or indirect material interest, and where the amount involved exceeds \$120,000. Under the policy, management of Otter Tail Corporation is responsible for disclosing to the Audit Committee all material information related to any covered transaction in order to give the Audit Committee an opportunity to authorize, approve, or ratify the covered transaction based upon its determination that the covered

transaction is fair and reasonable and on terms no less favorable to Otter Tail Corporation than could be obtained in a comparable arm's length transaction with an unrelated third party. A copy of Policy and Procedures Regarding Transactions with Related Persons can be found at [www.ottertail.com](http://www.ottertail.com).

At its February 16, 2007 meeting, the Audit Committee approved Otter Tail Corporation entering into a Note Purchase Agreement with Cascade Investment L.L.C. pursuant to which Otter Tail Corporation agreed to issue to Cascade, in a private placement transaction, \$50 million aggregate principal amount of Otter Tail Corporation's senior notes due November 30, 2017. The transaction closed and the Note was issued on December 14, 2007. The Note bears interest at a rate of 5.778% per annum. The Cascade Note Purchase Agreement provides that Otter Tail Corporation may, at its option and upon notice as described in the Cascade Note Purchase Agreement, prepay all or any part of the Cascade Note (in an amount not less than 10% of the aggregate principal amount of the Cascade Note then outstanding in the case of a partial prepayment) at 100% of the principal amount prepaid, together with accrued interest and a make-whole amount. The Cascade Note Purchase Agreement also states that in the event of a transfer of utility assets put event, Cascade has the right to require Otter Tail Corporation to repurchase the Cascade Note in full, together with accrued interest and a make-whole amount, on the terms and conditions specified in the Cascade Note Purchase Agreement.

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The Cascade Note Purchase Agreement contains a number of restrictions on the businesses of Otter Tail Corporation and its subsidiaries, including restrictions on the ability of Otter Tail Corporation and certain of its subsidiaries to merge, sell assets, create or incur lines on assets, guarantee the obligations of any other party, and engage in transactions with related parties. The Cascade Note Purchase Agreement also contains covenants by Otter Tail Corporation not to permit its debt-to-total capitalization ratio to exceed 60%, not to permit its interest charges coverage ratio to be less than 1.5 to 1, determined as of the end of a fiscal quarter for the preceding twelve-month period, and not to allow its priority debt to exceed 20% of total capitalization. Otter Tail Corporation's obligations under the Cascade Note Purchase Agreement are guaranteed by certain of Otter Tail Corporation's subsidiaries. Cascade is considered a Related Person because it owns approximately 8.55% of Otter Tail Corporation's outstanding common shares as of February 15, 2008.

**Shareholder Proposals for 2009 Annual Meeting**

Any holder of common shares of Otter Tail Corporation who intends to present a proposal which may properly be acted upon at the 2009 Annual Meeting of Shareholders of Otter Tail Corporation must submit such proposal to Otter Tail Corporation so that it is received at Otter Tail Corporation's executive offices at 4334 18th Avenue SW, Suite 200, Box 9156, Fargo, North Dakota 58106-9156, on or before November 5, 2008, for inclusion in Otter Tail Corporation's Proxy Statement and form of Proxy relating to that meeting.

If a holder of common shares wishes to present a proposal at the 2009 Annual Meeting of Shareholders, but does not wish to include it in the Proxy Statement and form of Proxy relating to that meeting, or wishes to nominate a candidate for Director, the holder must submit notice of the proposal or nomination in accordance with the procedures provided in the Otter Tail Corporation Bylaws to Otter Tail Corporation's executive offices on or before January 14, 2009 in order for the proposal to be considered timely.

**Other Business**

As of the date hereof, the Board of Directors of Otter Tail Corporation is aware of no other proposals to be presented to the annual meeting, in addition to the items described above. If any other matters properly come before the annual meeting, the proxies will vote thereon at their discretion.

A copy of Otter Tail Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, including financial statements and schedules thereto, filed with the SEC, is available without charge to shareholders. Address written requests to:

Corporate Secretary  
Otter Tail Corporation  
Box 9156  
Fargo, ND 58106-9156  
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215 South Cascade Street  
Box 496  
Fergus Falls, Minnesota 56538-0496  
4334 18<sup>th</sup> Avenue SW  
Box 9156  
Fargo, North Dakota 58106-9156  
[www.ottertail.com](http://www.ottertail.com)

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215 South Cascade Street, Fergus Falls, MN 56537

**SEE OTHER SIDE**

**This proxy will be voted as directed. In the absence of specific directions, the proxy will be voted FOR the election of Directors, and FOR Item 2.**

**P/N**

**Please return upper portion in envelope provided.**

**PLEASE VOTE YOUR PROXY ...NOW!**

**Please vote your proxy promptly. This will help save the expense of follow-up letters to shareholders who have not responded. We encourage you to vote by telephone or Internet. However, if you prefer to vote by mail, please complete, sign and date the reverse side of this card. If you vote by the Internet or telephone, please do not mail your proxy card.**

**If you elected to view proxy materials via the Internet, you will only receive this voting instruction form. Please go to our website at [www.ottertail.com/annual](http://www.ottertail.com/annual) to view the annual report and proxy statement online.**

**OTTER TAIL CORPORATION  
ANNUAL MEETING OF SHAREHOLDERS  
Monday, April 14, 2008  
10:00 AM  
ADMISSION TICKET  
(OVER)**

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ANNUAL MEETING  
ADMISSION TICKET

Admission ticket for Otter Tail Corporation Annual Meeting of Shareholders, April 14, 2008 at 10:00 a.m. at the Bigwood Event Center, 921 Western Avenue (Highway 210 West and I-94), Fergus Falls, MN.

Number of individuals \_\_\_\_\_

**Please present this ticket for admittance of shareholder(s) named above.**

**VOTING INSTRUCTIONS**

**You may vote your proxy in one of three ways.**

**Company Number: 664**  
**Number:**

**VOTE BY THE INTERNET <https://secure.ottertail.com/proxy>**

Use the Internet to vote your proxy 24 hours a day, 7 days a week.

You will be prompted to enter the 3-digit company number and the 6-digit number, which are located in the box to the right.

Internet voting will terminate at 12:00 noon C.D.T., April 11, 2008.

**VOTE BY TELEPHONE 1-888-514-5365**

Use any touch-tone phone to vote your proxy 24 hours a day, 7 days a week.

You will be prompted to enter the 3-digit company number and the 6-digit number which are located in the box to the right.

Please note the following options:

Ø To vote as the Board of Directors recommends on *All* proposals: press 1

Ø To vote on each item separately, press 0. You will then hear these instructions:

Proposal 1: To vote FOR ALL nominees, press 1; to WITHHOLD FOR ALL nominees, press 9; to WITHHOLD FOR AN INDIVIDUAL nominee, press 0.

Proposal 2: To vote FOR, press 1; AGAINST, press 9; ABSTAIN, press 0.

Ø When asked, you must confirm your vote by pressing 1.

Phone voting will terminate at 12:00 noon C.D.T., April 11, 2008.

**VOTE BY MAIL**

Mark, sign, and date your proxy card and return it in the postage-paid envelope provided.

**Do not mail the proxy card if you vote by phone or Internet.**

Thank you for voting.

*ò Please detach here ò*

**proxy**  
**Solicited on Behalf of the Board of**

**Directors of OTTER TAIL CORPORATION**

The undersigned hereby appoint KAREN BOHN AND JOYCE NELSON SCHUETTE (each with power to act alone and with full power of substitution) the proxies of the undersigned to vote all common shares that the undersigned is entitled to vote at the Annual Meeting of Otter Tail Corporation to be held April 14, 2008, and at any adjournment thereof, and hereby directs that this proxy be voted as instructed herein. The Board of Directors recommends voting for the election of Directors (Item 1), for the ratification of Deloitte & Touche LLP as our independent registered public accounting firm (Item 2).

**1. ELECTION OF DIRECTORS**

01) John D. Erickson  
 FOR  
 WITHHOLD

02) Nathan I. Partain  
 FOR  
 WITHHOLD

03) James B. Stake  
 FOR  
 WITHHOLD

**2. THE RATIFICATION OF DELOITTE & TOUCHE LLP as our independent registered public accounting firm.**

FOR  AGAINST  ABSTAIN

**3. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.**

Dated: \_\_\_\_\_, 2008

Signature

Signature, if held jointly

Please sign exactly as name appears on other side. When signing as attorney, administrator, trustee, or guardian, please give your full title.