

Otter Tail Corp
Form 10-Q
May 11, 2015

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-53713

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

Minnesota 27-0383995
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

215 South Cascade Street, Box 496, Fergus Falls, Minnesota 56538-0496
(Address of principal executive offices) (Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: Otter Tail Corp - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.:

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer’s classes of Common Stock, as of the latest practicable date:

April 30, 2015 – 37,483,725 Common Shares (\$5 par value)

OTTER TAIL CORPORATION

INDEX

| <u>Part I. Financial Information</u> | | Page No. |
|--------------------------------------|---|-------------|
| <u>Item 1.</u> | <u>Financial Statements</u> | |
| | <u>Consolidated Balance Sheets – March 31, 2015 and December 31, 2014 (not audited)</u> | 2 & 3 |
| | <u>Consolidated Statements of Income - Three Months Ended March 31, 2015 and 2014 (not audited)</u> | 4 |
| | <u>Consolidated Statements of Comprehensive Income - Three Months Ended March 31, 2015 and 2014 (not audited)</u> | 5 |
| | <u>Consolidated Statements of Cash Flows - Three Months Ended March 31, 2015 and 2014 (not audited)</u> | 6 |
| | <u>Condensed Notes to Consolidated Financial Statements (not audited)</u> | 7-32 |
| <u>Item 2.</u> | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 33-45 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 45 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 46 |
| <u>Part II. Other Information</u> | | |
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 46 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 46 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 46 |
| <u>Item 6.</u> | <u>Exhibits</u> | 47 |
| <u>Signatures</u> | | 47 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Otter Tail Corporation
Consolidated Balance Sheets
(not audited)

| (in thousands) | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 157 | \$ -- |
| Accounts Receivable: | | |
| Trade—Net | 74,071 | 60,172 |
| Other | 14,406 | 13,179 |
| Inventories | 84,515 | 85,203 |
| Deferred Income Taxes | 52,065 | 49,482 |
| Unbilled Revenues | 15,199 | 17,996 |
| Regulatory Assets | 20,352 | 25,273 |
| Other | 6,935 | 7,187 |
| Assets of Discontinued Operations | 33,171 | 48,657 |
| Total Current Assets | 300,871 | 307,149 |
| Investments | 10,405 | 8,582 |
| Other Assets | 30,900 | 30,111 |
| Goodwill | 31,488 | 31,488 |
| Other Intangibles—Net | 11,113 | 11,251 |
| Deferred Debits | | |
| Unamortized Debt Expense | 4,130 | 4,300 |
| Regulatory Assets | 127,368 | 129,868 |
| Total Deferred Debits | 131,498 | 134,168 |
| Plant | | |
| Electric Plant in Service | 1,560,459 | 1,545,112 |
| Nonelectric Operations | 178,289 | 175,159 |
| Construction Work in Progress | 269,999 | 248,677 |
| Total Gross Plant | 2,008,747 | 1,968,948 |
| Less Accumulated Depreciation and Amortization | 709,842 | 700,418 |
| Net Plant | 1,298,905 | 1,268,530 |
| Total Assets | \$ 1,815,180 | \$ 1,791,279 |

See accompanying condensed notes to consolidated financial statements.

Otter Tail Corporation
Consolidated Balance Sheets
(not audited)

| (in thousands, except share data) | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Short-Term Debt | \$48,652 | \$ 10,854 |
| Current Maturities of Long-Term Debt | 204 | 201 |
| Accounts Payable | 95,876 | 107,013 |
| Accrued Salaries and Wages | 12,826 | 19,256 |
| Accrued Taxes | 15,342 | 13,793 |
| Derivative Liabilities | 11,567 | 14,230 |
| Other Accrued Liabilities | 8,890 | 8,793 |
| Liabilities of Discontinued Operations | 20,732 | 27,559 |
| Total Current Liabilities | 214,089 | 201,699 |
| Pensions Benefit Liability | 93,084 | 102,711 |
| Other Postretirement Benefits Liability | 54,100 | 53,638 |
| Other Noncurrent Liabilities | 24,485 | 26,794 |
| Commitments and Contingencies (note 9) | | |
| Deferred Credits | | |
| Deferred Income Taxes | 239,999 | 230,810 |
| Deferred Tax Credits | 25,914 | 26,384 |
| Regulatory Liabilities | 77,851 | 77,013 |
| Other | 947 | 975 |
| Total Deferred Credits | 344,711 | 335,182 |
| Capitalization | | |
| Long-Term Debt, Net of Current Maturities | 498,437 | 498,489 |
| Cumulative Preferred Shares— Authorized 1,500,000 Shares Without Par Value; | | |
| Outstanding - None | -- | -- |
| Cumulative Preference Shares – Authorized 1,000,000 Shares Without Par Value; | | |
| Outstanding - None | -- | -- |
| Common Shares, Par Value \$5 Per Share—Authorized, 50,000,000 Shares; | | |
| Outstanding, 2015—37,422,959 Shares; 2014—37,218,053 Shares | 187,115 | 186,090 |
| Premium on Common Shares | 284,341 | 278,436 |
| Retained Earnings | 119,340 | 112,903 |
| Accumulated Other Comprehensive Loss | (4,522) | (4,663) |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | |
|------------------------------|-------------|--------------|
| Total Common Equity | 586,274 | 572,766 |
| Total Capitalization | 1,084,711 | 1,071,255 |
| Total Liabilities and Equity | \$1,815,180 | \$ 1,791,279 |

See accompanying condensed notes to consolidated financial statements.

3

Otter Tail Corporation
Consolidated Statements of Income
(not audited)

| (in thousands, except share and per-share amounts) | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2015 | 2014 |
| Operating Revenues | | |
| Electric | \$113,533 | \$119,048 |
| Product Sales | 89,308 | 95,918 |
| Total Operating Revenues | 202,841 | 214,966 |
| Operating Expenses | | |
| Production Fuel - Electric | 14,599 | 22,030 |
| Purchased Power - Electric System Use | 23,692 | 21,785 |
| Electric Operation and Maintenance Expenses | 37,527 | 34,622 |
| Cost of Products Sold (depreciation included below) | 71,498 | 73,939 |
| Other Nonelectric Expenses | 12,463 | 9,951 |
| Depreciation and Amortization | 14,535 | 14,267 |
| Property Taxes - Electric | 3,502 | 2,971 |
| Total Operating Expenses | 177,816 | 179,565 |
| Operating Income | 25,025 | 35,401 |
| Interest Charges | 7,743 | 6,595 |
| Other Income | 572 | 1,535 |
| Income Before Income Taxes – Continuing Operations | 17,854 | 30,341 |
| Income Tax Expense – Continuing Operations | 4,073 | 8,562 |
| Net Income from Continuing Operations | 13,781 | 21,779 |
| Discontinued Operations | | |
| Loss - net of Income Tax Benefit of \$1,376 and \$225 for the respective periods | (2,072) | (349) |
| Impairment Loss - net of Income Tax Benefit of \$0 for the three months ended March 31, 2015 | (1,000) | -- |
| Gain on Disposition - net of Income Tax Expense of \$4,816 for the three months ended March 31, 2015 | 7,226 | -- |
| Net Income (Loss) from Discontinued Operations | 4,154 | (349) |
| Net Income | 17,935 | 21,430 |
| Average Number of Common Shares Outstanding—Basic | 37,243,118 | 36,240,350 |
| Average Number of Common Shares Outstanding—Diluted | 37,497,881 | 36,431,915 |
| Basic Earnings (Loss) Per Common Share: | | |
| Continuing Operations | \$0.37 | \$0.60 |
| Discontinued Operations | 0.11 | (0.01) |
| | \$0.48 | \$0.59 |
| Diluted Earnings (Loss) Per Common Share: | | |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | | |
|-------------------------|--------|--------|---|
| Continuing Operations | \$0.37 | \$0.60 | |
| Discontinued Operations | 0.11 | (0.01 |) |
| | \$0.48 | \$0.59 | |

| | | |
|-------------------------------------|----------|----------|
| Dividends Declared Per Common Share | \$0.3075 | \$0.3025 |
|-------------------------------------|----------|----------|

See accompanying condensed notes to consolidated financial statements

4

Otter Tail Corporation
Consolidated Statements of Comprehensive Income
(not audited)

| (in thousands) | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2015 | 2014 |
| Net Income | \$17,935 | \$21,430 |
| Other Comprehensive Income: | | |
| Unrealized Gain on Available-for-Sale Securities: | | |
| Reversal of Previously Recognized Gains Realized on Sale of Investments and Included in Other Income During Period | (3 |) (17 |
| Gains (Losses) Arising During Period | 32 |) (17 |
| Income Tax (Expense) Benefit | (10 |) 12 |
| Change in Unrealized Gains on Available-for-Sale Securities – net-of-tax | 19 |) (22 |
| Pension and Postretirement Benefit Plans: | | |
| Amortization of Unrecognized Postretirement Benefit Losses and Costs (note 11) | 204 | 50 |
| Income Tax (Expense) | (82 |) (20 |
| Pension and Postretirement Benefit Plans – net-of-tax | 122 |) 30 |
| Total Other Comprehensive Income | 141 | 8 |
| Total Comprehensive Income | \$18,076 | \$21,438 |

See accompanying condensed notes to consolidated financial statements.

Otter Tail Corporation
Consolidated Statements of Cash Flows
(not audited)

| (in thousands) | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2015 | 2014 |
| Cash Flows from Operating Activities | | |
| Net Income | \$ 17,935 | \$ 21,430 |
| Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities: | | |
| Net Gain from Sale of Discontinued Operations | (7,226) | -- |
| Net Loss from Discontinued Operations | 3,072 | 349 |
| Depreciation and Amortization | 14,535 | 14,267 |
| Deferred Tax Credits | (470) | (454) |
| Deferred Income Taxes | 7,038 | 13,073 |
| Change in Deferred Debits and Other Assets | 3,538 | (888) |
| Discretionary Contribution to Pension Plan | (10,000) | (20,000) |
| Change in Noncurrent Liabilities and Deferred Credits | 41 | (2,408) |
| Allowance for Equity/Other Funds Used During Construction | (256) | (340) |
| Change in Derivatives Net of Regulatory Deferral | (59) | 118 |
| Stock Compensation Expense—Equity Awards | 623 | 358 |
| Other—Net | 206 | 182 |
| Cash (Used for) Provided by Current Assets and Current Liabilities: | | |
| Change in Receivables | (11,288) | (22,329) |
| Change in Inventories | 688 | (9,236) |
| Change in Other Current Assets | 1,270 | 437 |
| Change in Payables and Other Current Liabilities | (20,185) | (7,731) |
| Change in Interest and Income Taxes Receivable/Payable | (1,549) | 1,013 |
| Net Cash Used in Continuing Operations | (2,087) | (12,159) |
| Net Cash Used in Discontinued Operations | (6,263) | (6,898) |
| Net Cash Used in Operating Activities | (8,350) | (19,057) |
| Cash Flows from Investing Activities | | |
| Capital Expenditures | (35,738) | (37,311) |
| Net Proceeds from Disposal of Noncurrent Assets | 1,292 | 848 |
| Net Increase in Other Investments | (3,492) | (989) |
| Net Cash Used in Investing Activities - Continuing Operations | (37,938) | (37,452) |
| Net Proceeds from Sale of Discontinued Operations | 21,343 | -- |
| Net Cash (Used in) Provided by Investing Activities - Discontinued Operations | (1,759) | 285 |
| Net Cash Used in Investing Activities | (18,354) | (37,167) |
| Cash Flows from Financing Activities | | |
| Change in Checks Written in Excess of Cash | (1,236) | -- |
| Net Short-Term Borrowings (Repayments) | 37,798 | (39,296) |
| Proceeds from Issuance of Common Stock – net of Issuance Expenses | 4,697 | 3,666 |
| Payments for Retirement of Capital Stock | (1,239) | (242) |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | |
|---|-----------|-----------|
| Proceeds from Issuance of Long-Term Debt | -- | 150,000 |
| Short-Term and Long-Term Debt Issuance Expenses | (4) | (502) |
| Payments for Retirement of Long-Term Debt | (49) | (40,946) |
| Dividends Paid and Other Distributions | (11,498) | (10,993) |
| Net Cash Provided by Financing Activities – Continuing Operations | 28,469 | 61,687 |
| Net Cash Used in Financing Activities – Discontinued Operations | (1,178) | -- |
| Net Cash Provided by Financing Activities | 27,291 | 61,687 |
| Net Change in Cash and Cash Equivalents - Discontinued Operations | (430) | (126) |
| Net Change in Cash and Cash Equivalents | 157 | 5,337 |
| Cash and Cash Equivalents at Beginning of Period | -- | 2,007 |
| Cash and Cash Equivalents at End of Period | \$157 | \$7,344 |

See accompanying condensed notes to consolidated financial statements.

OTTER TAIL CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(not audited)

In the opinion of management, Otter Tail Corporation (the Company) has included all adjustments (including normal recurring accruals) necessary for a fair presentation of the consolidated financial statements for the periods presented. The consolidated financial statements and condensed notes thereto should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Because of seasonal and other factors, the earnings for the three months ended March 31, 2015 should not be taken as an indication of earnings for all or any part of the balance of the year.

The following condensed notes are numbered to correspond to numbers of the notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

1. Summary of Significant Accounting Policies

Revenue Recognition

Due to the diverse business operations of the Company, revenue recognition depends on the product produced and sold or service performed. The Company recognizes revenue when the earnings process is complete, evidenced by an agreement with the customer, there has been delivery and acceptance, and the price is fixed or determinable. In cases where significant obligations remain after delivery, revenue recognition is deferred until such obligations are fulfilled. Provisions for sales returns and warranty costs are recorded at the time of the sale based on historical information and current trends. In the case of derivative instruments, such as Otter Tail Power Company (OTP) forward energy contracts, marked-to-market and realized gains and losses are recognized on a net basis in revenue in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging. Gains and losses on forward energy contracts subject to regulatory treatment, if any, are deferred and recognized on a net basis in revenue in the period realized.

For the Company's operating companies recognizing revenue on certain products when shipped, those operating companies have no further obligation to provide services related to such product. The shipping terms used in these instances are FOB shipping point.

Warranty Reserves

The Company establishes reserves for estimated product warranty costs at the time revenue is recognized based on historical warranty experience and additionally for any known product warranty issues. Certain products previously sold by the Company carried one to fifteen year warranties. Although the Company engaged in extensive product quality programs and processes, the Company's warranty obligations have been and may in the future be affected by product failure rates, repair or field replacement costs and additional development costs incurred in correcting product failures. The Company's warranty reserve balances as of March 31, 2015 and December 31, 2014 relate entirely to products that were produced by IMD, Inc. and Shrcos, Inc. prior to the Company selling the assets of these companies and are included in liabilities of discontinued operations. See note 16 to consolidated financial statements.

Fair Value Measurements

The Company follows ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820), for recurring fair value measurements. ASC 820 provides a single definition of fair value, requires enhanced disclosures about assets and liabilities measured at fair value and establishes a hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value. The three levels defined by the hierarchy and examples of each

level are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices, such as equities listed by the New York Stock Exchange and commodity derivative contracts listed on the New York Mercantile Exchange (NYMEX).

Level 2 – Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reported date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

7

Level 3 – Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation and may include complex and subjective models and forecasts.

The following tables present, for each of the hierarchy levels, the Company's assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014:

| March 31, 2015 (in thousands) | Level 1 | Level 2 | Level 3 |
|--|---------|---------|----------|
| Assets: | | | |
| Current Assets – Other: | | | |
| Forward Energy Contracts | \$-- | \$-- | \$381 |
| Investments: | | | |
| Money Market Deposit Escrow Account – AEV, Inc. Sale | 2,000 | | |
| Corporate Debt Securities – Held by Captive Insurance Company | | 6,625 | |
| U.S. Government-Sponsored Enterprises' Debt Securities – Held by Captive Insurance Company | | 1,229 | |
| Other Assets: | | | |
| Money Market and Mutual Funds - Nonqualified Retirement Savings Plan | 550 | | |
| Total Assets | \$2,550 | \$7,854 | \$381 |
| Liabilities: | | | |
| Derivative Liabilities - Forward Gasoline Purchase Contracts | \$-- | \$282 | \$-- |
| Derivative Liabilities - Forward Energy Contracts | | | 11,285 |
| Total Liabilities | \$-- | \$282 | \$11,285 |
| | | | |
| December 31, 2014 (in thousands) | Level 1 | Level 2 | Level 3 |
| Assets: | | | |
| Current Assets – Other: | | | |
| Forward Energy Contracts | \$-- | \$-- | \$257 |
| Money Market and Mutual Funds - Nonqualified Retirement Savings Plan | 120 | | |
| Investments: | | | |
| Corporate Debt Securities – Held by Captive Insurance Company | | 6,761 | |
| U.S. Government-Sponsored Enterprises' Debt Securities – Held by Captive Insurance Company | | 1,253 | |
| Other Assets: | | | |
| Money Market and Mutual Funds - Nonqualified Retirement Savings Plan | 593 | | |
| Total Assets | \$713 | \$8,014 | \$257 |
| Liabilities: | | | |
| Derivative Liabilities - Forward Gasoline Purchase Contracts | \$-- | \$342 | \$-- |
| Derivative Liabilities - Forward Energy Contracts | | | 13,888 |
| Total Liabilities | \$-- | \$342 | \$13,888 |

The valuation techniques and inputs used for the Level 2 fair value measurements in the table above are as follows:

Forward Gasoline Purchase Contracts – These contracts are priced based on NYMEX quoted prices for Reformulated Blendstock for Oxygenate Blending (RBOB) Gasoline contracts. Prices used for the fair valuation of these contracts are based on NYMEX daily reporting date quoted prices for RBOB contracts with the same settlement periods.

Corporate and U.S. Government-Sponsored Enterprises' Debt Securities Held by the Company's Captive Insurance Company – Fair values are determined on the basis of valuations provided by a third-party pricing service which utilizes industry accepted valuation models and observable market inputs to determine valuation. Some valuations or model inputs used by the pricing service may be based on broker quotes.

Fair values for OTP's forward energy contracts with delivery points that are not at an active trading hub included in Level 3 of the fair value hierarchy in the table above as of March 31, 2015 and December 31, 2014, are based on prices indexed to observable prices at an active trading hub. Prices at illiquid trading points are based on a basis spread between that trading point and more liquid trading hub prices. These basis spreads are determined based on available market price information and the use of forward price curve models. The March 31, 2015 Level 3 forward electric basis spreads ranged from \$2.46 to \$8.00 per megawatt-hour under the active trading hub price. The weighted average price was \$34.45 per megawatt-hour.

In the table above, the fair value of the Level 3 forward energy contracts in derivative asset and derivative liability positions as of March 31, 2015 are related to power purchase contracts where OTP intends to take or has taken physical delivery of the energy under the contract. When OTP takes physical delivery of the energy purchased under these contracts the costs incurred are subject to recovery in base rates and through fuel clause adjustments. Any derivative assets or liabilities and related gains or losses recorded as a result of the fair valuation of these power purchase contracts will not be realized and are 100% offset by regulatory liabilities and assets related to fuel clause adjustment treatment of purchased power costs. Therefore, the net impact of any recorded fair valuation gains or losses related to these contracts on the Company's consolidated net income is \$0 and the net income impact of any future fair valuation adjustments of these contracts will be \$0. When energy is delivered under these contracts, they will be settled at the original contract price and any fair valuation gains or losses and related derivative assets or liabilities recorded over the life of the contracts will be reversed along with any offsetting regulatory liabilities or assets. Because of regulatory accounting treatment, any price volatility related to the fair valuation of these contracts had no impact on the Company's reported consolidated net income for the three month periods ended March 31, 2015 and 2014.

The following table presents changes in Level 3 forward energy contract derivative asset and liability fair valuations for the three month periods ended March 31, 2015 and 2014:

| (in thousands) | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2015 | 2014 |
| Forward Energy Contracts - Fair Values Beginning of Period | \$(13,631) | \$(11,341) |
| Less: Amounts Reversed on Settlement of Contracts Entered into in Prior Periods | 3,386 | 1,160 |
| Net Changes in Fair Value of Contracts Entered into in Prior Periods | (368) | 3,498 |
| Cumulative Fair Value Adjustments of Contracts Entered into in Prior Years at End of Period | (10,613) | (6,683) |
| Net (Loss) Gain Recognized as Regulatory Assets on Contract Entered into in Period | (291) | 40 |
| Forward Energy Contracts - Net Derivative Liability Fair Values End of Period | \$(10,904) | \$(6,643) |

Inventories

Inventories consist of the following:

| | March 31, 2015 | December 31, 2014 |
|---------------------------------|----------------------|-------------------------|
| (in thousands) | | |
| Finished Goods | \$ 27,607 | \$ 27,998 |
| Work in Process | 9,894 | 10,628 |
| Raw Material, Fuel and Supplies | 47,014 | 46,577 |
| Total Inventories | \$ 84,515 | \$ 85,203 |

Goodwill and Other Intangible Assets

Edgar Filing: Otter Tail Corp - Form 10-Q

An assessment of the carrying amounts of the goodwill of the Company's reporting units reported under continuing operations as of December 31, 2014 indicated the fair values are substantially in excess of their respective book values and not impaired.

The following table summarizes changes to goodwill by business segment during 2015:

| | Gross Balance December 31, 2014 | Accumulated Impairments | Balance (net of impairments) December 31, 2014 | Adjustments to Goodwill in 2015 | Balance (net of impairments) March 31, 2015 |
|----------------|---|----------------------------|---|--|---|
| (in thousands) | | | | | |
| Manufacturing | \$12,186 | \$ -- | \$ 12,186 | \$ -- | \$ 12,186 |
| Plastics | 19,302 | -- | 19,302 | -- | 19,302 |
| Total | \$31,488 | \$ -- | \$ 31,488 | \$ -- | \$ 31,488 |

Intangible assets with finite lives are amortized over their estimated useful lives and reviewed for impairment in accordance with requirements under ASC Topic 360-10-35, Property, Plant, and Equipment—Overall—Subsequent Measurement. In the first quarter of 2015, OTP began purchasing emission allowances to apply against sulfur dioxide emissions from Hoot Lake Plant. The cost of unused emission allowances is included in intangible assets on the Company's March 31, 2015 balance sheets. The following table summarizes the components of the Company's intangible assets at March 31, 2015 and December 31, 2014:

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Remaining Amortization Periods |
|---|-----------------------------|-----------------------------|---------------------------|--------------------------------------|
| March 31, 2015 (in thousands) | | | | |
| Amortizable Intangible Assets: | | | | |
| Customer Relationships | \$16,811 | \$ 5,996 | \$10,815 | 57-157 months |
| Other Intangible Assets Including Contracts | 639 | 447 | 192 | 18 months |
| Emission Allowances | 106 | -- | 106 | Expensed as used |
| Total | \$17,556 | \$ 6,443 | \$11,113 | |
| December 31, 2014 (in thousands) | | | | |
| Amortizable Intangible Assets: | | | | |
| Customer Relationships | \$16,811 | \$ 5,784 | \$11,027 | 60-160 months |
| Other Intangible Assets Including Contracts | 639 | 415 | 224 | 21 months |
| Total | \$17,450 | \$ 6,199 | \$11,251 | |

The amortization expense for these intangible assets was:

| (in thousands) | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2015 | 2014 |
| Amortization Expense – Intangible Assets | \$ 244 | \$ 244 |

The estimated annual amortization expense for these intangible assets for the next five years is:

| (in thousands) | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------|-------|-------|-------|-------|
| Estimated Amortization Expense – Intangible Assets | \$977 | \$945 | \$849 | \$849 | \$849 |

The following table presents a reconciliation of OTP's emission allowances balance for the three month period ended March 31, 2015:

| (in thousands) | Three Months Ended March 31, 2015 |
|---------------------------------------|---|
| Emission Allowances Beginning Balance | \$ -- |
| Allowances Purchased | 168 |
| Allowances Used | (62) |
| Emission Allowances Ending Balance | \$ 106 |

Supplemental Disclosures of Cash Flow Information

| (in thousands) | As of March 31, | |
|--|-----------------|----------|
| | 2015 | 2014 |
| Noncash Investing Activities: | | |
| Accounts Payable Outstanding Related to Capital Additions ¹ | \$32,838 | \$22,244 |
| Accounts Receivable Outstanding Related to Joint Plant Owner's Share of Capital Additions ² | \$7,554 | \$3,434 |

¹Amounts are included in cash used for capital expenditures in subsequent periods when payables are settled.

²Amounts are deducted from cash used for capital expenditures in subsequent periods when cash is received.

Coyote Station Lignite Supply Agreement – Variable Interest Entity—In October 2012, the Coyote Station owners, including OTP, entered into a lignite sales agreement (LSA) with Coyote Creek Mining Company, L.L.C. (CCMC), a subsidiary of The North American Coal Corporation, for the purchase of coal to meet the coal supply requirements of Coyote Station for the period beginning in May 2016 and ending in December 2040. The price per ton to be paid by the Coyote Station owners under the LSA will reflect the cost of production, along with an agreed profit and capital charge. CCMC was formed for the purpose of mining lignite coal to meet the coal fuel supply requirements of Coyote Station from May 2016 through December 2040 and, based on the terms of the LSA, is considered a variable interest entity (VIE) due to the transfer of all operating and economic risk to the Coyote Station owners, as the agreement is structured so that the price of the coal would cover all costs of operations as well as future reclamation costs. The Coyote Station owners are also providing a guarantee of the value of the assets of CCMC as they would be required to buy certain assets at book value should they terminate the contract prior to the end of the contract term and are providing a guarantee of the value of the equity of CCMC in that they are required to buy the entity at the end of the contract term at equity value. Under current accounting standards, the primary beneficiary of a VIE is required to include the assets, liabilities, results of operations and cash flows of the VIE in its consolidated financial statements. No single owner of Coyote Station owns a majority interest in Coyote Station and none, individually, has the power to direct the activities that most significantly impact CCMC. Therefore, none of the owners individually, including OTP, is considered a primary beneficiary of the VIE and the Company is not required to include CCMC in its consolidated financial statements.

Under the LSA, all development period costs of the Coyote Creek coal mine incurred during the development period will be recovered from the Coyote Station owners over the full term of the production period, which commences with the first delivery of coal to Coyote Station, scheduled for May 2016, by being included in the cost of production. The development fee and the capital charge incurred during the development period will be recovered from the Coyote Station owners over the first 52 months of the production period by being included in the cost of production during those months. The LSA was amended on March 16, 2015 to provide that, during any period between December 31, 2016 and the date on which CCMC makes initial deliveries of lignite, the Coyote Station owners will pay the following costs of production as advance payments for lignite: depreciation and amortization charges on capital assets and CCMC's obligations under its loans and leases. In addition, if the LSA terminates prior to the expiration of its term or the production period terminates prior to December 31, 2040 and Coyote Station owners purchase all of the outstanding membership interests of CCMC as required by the LSA, the owners will satisfy, or (if permitted by CCMC's applicable lender) assume, all of CCMC's obligations owed to CCMC's lenders under its loans and leases. The Coyote Station owners have limited rights to assign their rights and obligations under the LSA without the consent of CCMC's lenders during any period in which CCMC's obligations to its lenders remain outstanding. OTP's 35% share of development period costs, development fees and capital charges incurred by CCMC through March 31, 2015 is \$28.5 million. In the event the contract is terminated because regulations or legislation render the burning of coal cost prohibitive and the assets worthless, OTP's maximum exposure to loss as a result of its involvement with CCMC as of March 31, 2015 could be as high as \$28.5 million.

New Accounting Standards

ASU 2014-09—In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASC 606). ASC 606 is a comprehensive, principles-based accounting standard which amends current revenue recognition guidance with the objective of improving revenue recognition requirements by providing a single comprehensive model to determine the measurement of revenue and the timing of revenue recognition. ASC 606 also requires expanded disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

ASU 2014-09 amendments to the ASC are effective for fiscal years beginning after December 15, 2016, however, in April 2015, the FASB voted to propose a one year deferral of the effective date. The proposed deferral may permit early adoption, but would not allow adoption any earlier than the original effective date of the standard. Application methods permitted are: (1) full retrospective, (2) retrospective using one or more practical expedients and (3) retrospective with the cumulative effect of initial application recognized at the date of initial application. Early application of the ASU amendments is not permitted. The Company is currently reviewing ASU 2014-09, identifying key impacts to its businesses, reviewing revenue streams and contracts to determine areas where the amendments in ASU 2014-09 will be applicable and evaluating transition options.

ASU 2015-03—In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 will become effective for interim and annual reporting periods beginning after December 15, 2015 with early adoption permitted. The Company will apply the updated standards in ASU 2015-03 to its consolidated financial statements beginning in the first quarter of 2016. If applied as of March 31, 2015, both the Company's consolidated long-term assets and long-term debt would be reduced by approximately \$2.5 million—the balance of its consolidated unamortized debt issuance costs related to its outstanding long-term debt as of March 31, 2015.

ASU 2015-05—In April 2015, the FASB issued ASU 2015-05: Intangibles—Goodwill and Other—Internal Use Software (Subtopic 350-40) Customers Accounting for Fees Paid in a Cloud Computing Arrangement, to provide guidance to customers about whether a cloud computing arrangement includes a software license. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. The Company will be analyzing its cloud computing arrangements to determine if any such arrangements include software licenses that should be accounted for similar to the acquisition of other software licenses. The Company has not, at this time, estimated what impact, if any, adoption of the updated standard will have on its consolidated financial statements.

2. Segment Information

The Company's businesses have been classified into three segments to be consistent with its business strategy and the reporting and review process used by the Company's chief operating decision makers. These businesses sell products and provide services to customers primarily in the United States. The three segments are: Electric, Manufacturing and Plastics.

Electric includes the production, transmission, distribution and sale of electric energy in Minnesota, North Dakota and South Dakota by OTP. In addition, OTP is an active wholesale participant in the Midcontinent Independent System Operator, Inc. (MISO) markets. OTP's operations have been the Company's primary business since 1907.

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

Plastics consists of businesses producing polyvinyl chloride (PVC) pipe at plants in North Dakota and Arizona. The PVC pipe is sold primarily in the upper Midwest and Southwest regions of the United States.

OTP is a wholly owned subsidiary of the Company. All of the Company's other businesses are owned by its wholly owned subsidiary, Varistar Corporation (Varistar). The Company's corporate operating costs include items such as corporate staff and overhead costs, the results of the Company's captive insurance company and other items excluded from the measurement of operating segment performance. Corporate assets consist primarily of cash, prepaid expenses, investments and fixed assets. Corporate is not an operating segment. Rather, it is added to operating segment totals to reconcile to totals on the Company's consolidated financial statements.

No single customer accounted for over 10% of the Company's consolidated revenues in 2014. All of the Company's long-lived assets are within the United States.

The following table presents the percent of consolidated sales revenue by country:

| | Three Months Ended March 31, | | | |
|--|------------------------------|---|------|---|
| | 2015 | | 2014 | |
| United States of America | 96.3 | % | 97.2 | % |
| Mexico | 3.0 | % | 2.2 | % |
| Canada | 0.6 | % | 0.5 | % |
| All Other Countries (none individually greater than 0.05%) | 0.1 | % | 0.1 | % |

The Company evaluates the performance of its business segments and allocates resources to them based on earnings contribution and return on total invested capital. Information for the business segments for the three months ended March 31, 2015 and 2014 and total assets by business segment as of March 31, 2015 and December 31, 2014 are presented in the following tables:

Operating Revenue

| (in thousands) | Three Months Ended March 31, | |
|---------------------------|---------------------------------|------------|
| | 2015 | 2014 |
| Electric | \$ 113,547 | \$ 119,088 |
| Manufacturing | 56,759 | 55,435 |
| Plastics | 32,552 | 40,483 |
| Intersegment Eliminations | (17) | (40) |
| Total | \$ 202,841 | \$ 214,966 |

Interest Charges

| (in thousands) | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2015 | 2014 |
| Electric | \$ 6,121 | \$ 5,079 |
| Manufacturing | 832 | 808 |
| Plastics | 246 | 247 |
| Corporate and Intersegment Eliminations | 544 | 461 |
| Total | \$ 7,743 | \$ 6,595 |

Income Taxes

| (in thousands) | Three Months Ended March 31, | |
|----------------|---------------------------------|----------|
| | 2015 | 2014 |
| Electric | \$ 4,221 | \$ 5,750 |
| Manufacturing | 504 | 1,671 |
| Plastics | 1,264 | 2,133 |
| Corporate | (1,916) | (992) |
| Total | \$ 4,073 | \$ 8,562 |

Net Income

| (in thousands) | Three Months Ended March 31, | |
|----------------|---------------------------------|-----------|
| | 2015 | 2014 |
| Electric | \$ 13,178 | \$ 16,653 |
| Manufacturing | 1,184 | 2,896 |
| Plastics | 2,120 | 3,460 |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | |
|-------------------------|-----------|-----------|
| Corporate | (2,701) | (1,230) |
| Discontinued Operations | 4,154 | (349) |
| Total | \$ 17,935 | \$ 21,430 |

Identifiable Assets

| (in thousands) | March 31, 2015 | December 31, 2014 |
|-----------------------------------|-------------------|----------------------|
| Electric | \$ 1,484,289 | \$ 1,472,647 |
| Manufacturing | 139,143 | 130,701 |
| Plastics | 90,256 | 87,356 |
| Corporate | 68,321 | 51,918 |
| Assets of Discontinued Operations | 33,171 | 48,657 |
| Total | \$ 1,815,180 | \$ 1,791,279 |

3. Rate and Regulatory Matters

Below are descriptions of OTP's major capital expenditure projects and use of reagents and emission allowances that have had, or will have, a significant impact on OTP's revenue requirements, rates and alternative revenue recovery mechanisms, followed by summaries of specific electric rate or rider proceedings with the Minnesota Public Utilities Commission (MPUC), the North Dakota Public Service Commission (NDPSC), the South Dakota Public Utilities Commission (SDPUC) and the Federal Energy Regulatory Commission (FERC), impacting OTP's revenues in 2015 and 2014.

Major Capital Expenditure Projects

Big Stone Plant Air Quality Control System (AQCS)—The South Dakota Department of Environmental and Natural Resources determined that the Big Stone Plant is subject to Best-Available Retrofit Technology (BART) requirements of the Clean Air Act, based on air dispersion modeling indicating that Big Stone Plant's emissions reasonably contribute to visibility impairment in national parks and wilderness areas in Minnesota, North Dakota, South Dakota and Michigan.

OTP is currently in the final stages of constructing the BART-compliant AQCS at Big Stone Plant for a current projected cost of approximately \$384 million (OTP's 53.9% share would be \$207 million) with an expected commercial operation date of October 2015. OTP's share of AQCS construction expenditures incurred through March 31, 2015 is \$174.9 million, excluding Allowance for Funds Used During Construction (AFUDC).

Fargo–Monticello 345 kiloVolt (kV) Capacity Expansion 2020 (CapX2020) Project (the Fargo Project)—The Monticello to St. Cloud portion of the Fargo Project was placed into service on December 21, 2011. The St. Cloud to Alexandria portion of the Fargo Project was placed into service on April 23, 2014. The third and final phase of the Fargo Project, from Alexandria to Fargo, was energized on April 2, 2015.

Brookings–Southeast Twin Cities 345 kV CapX2020 Project (the Brookings Project)—The MISO granted unconditional approval of the Brookings Project as a Multi-Value Project (MVP) under the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff (MISO Tariff) in December 2011. The first phase of the 250 mile Brookings Project was energized in March 2014. Additional segments of the line were energized in April 2014. This line was placed into service on March 26, 2015.

The Big Stone South – Brookings MVP and CapX2020 Project—This is a planned 345 kV transmission line that will extend approximately 70 miles between a proposed substation near Big Stone City, South Dakota and the Brookings County Substation near Brookings, South Dakota. OTP and Xcel Energy jointly developed this project. MISO approved this project as an MVP under the MISO Tariff in December 2011. MVPs are designed to enable the region to comply with energy policy mandates and to address reliability and economic issues affecting multiple areas within the MISO region. The cost allocation is designed to ensure that the costs of transmission projects with regional benefits are properly assigned to those who benefit. A Notice of Intent to Construct Facilities (NICF) was filed with the SDPUC on February 29, 2012. The SDPUC approved the certification for the northern portion of the route on April 9, 2013 and granted approval of a route permit for the southern portion of the line on February 18, 2014. On August 1, 2014 OTP and Xcel Energy entered into agreements to construct the project. This line is expected to be in service in 2017.

The Big Stone South – Ellendale MVP—This is a proposed 345 kV transmission line that will extend 160 to 170 miles between a proposed substation near Big Stone City, South Dakota and a proposed substation near Ellendale, North

Dakota. OTP is jointly developing this project with Montana-Dakota Utilities Co., a Division of MDU Resources Group, Inc. (MDU). MISO approved this project as an MVP under the MISO Tariff in December 2011. OTP and MDU jointly filed an NCF with the SDPUC in March of 2012. On August 25, 2013 the NDPSC granted Certificates of Public Convenience and Necessity to OTP and MDU for ten miles of the proposed line to be built in North Dakota. On July 10, 2014 the NDPSC approved a Certificate of Corridor Compatibility and a route permit for the North Dakota section of the proposed line. On August 22, 2014 the SDPUC issued an order approving the route permit for the South Dakota section of the proposed line. If the proposed project receives all the necessary approvals, OTP anticipates the line will be completed in 2019.

Recovery of OTP's transmission investments is through the MISO Tariff (several as MVPs) and, currently, Minnesota, North Dakota and South Dakota Transmission Cost Recovery (TCR) Riders.

Reagent Costs and Emission Allowances

OTP's system wide costs for reagents and Cross-State Air Pollution Rule (CSAPR) emissions allowances are expected to increase to approximately \$4.1 million annually, \$3.6 million for reagents and \$0.5 million for emission allowances. The Minnesota, North Dakota and South Dakota share of costs are approximately 50%, 40% and 10%, respectively. Reagent costs will be phased in during 2015 and 2016 when the Big Stone Plant AQCS and Coyote Station and Hoot Lake Plant Mercury and Air Toxics Standards (MATS) projects are completed and in service. Emissions allowance costs are being incurred during 2015 to maintain compliance with CSAPR rules, which became effective January 1, 2015.

Minnesota

2010 General Rate Case—OTP's most recent general rate increase in Minnesota of approximately \$5.0 million, or 1.6%, was granted by the MPUC in an order issued on April 25, 2011 and effective October 1, 2011. Pursuant to the order, OTP's allowed rate of return on rate base increased from 8.33% to 8.61%, and its allowed rate of return on equity increased from 10.43% to 10.74%.

Minnesota Conservation Improvement Programs (MNCIP)—OTP recovers conservation related costs not included in base rates under the MNCIP through the use of an annual recovery mechanism approved by the MPUC. On September 26, 2014 the MPUC approved OTP's 2013 financial incentive request for \$4.0 million, an updated surcharge rate to be effective October 1, 2014, as well as a change to the carrying charge to be equal to the short term cost of debt set in OTP's most recent general rate case. Based on results from the 2014 MNCIP program year, OTP now estimates a financial incentive for 2014 of \$3.0 million. OTP is estimating a lower incentive for 2014 in response to the MPUC lowering the MNCIP financial incentive from approximately \$0.09 per kwh saved for 2013-2015 to \$0.07 per kwh saved for 2014-2016. Additionally, OTP estimated it saved approximately 2 million less kwhs in 2014 compared with 2013 under conservation improvement programs in Minnesota. OTP requested approval for recovery of its 2014 MNCIP financial incentive and 2014 program costs not included in base rates from the MPUC in an April 1, 2015 filing.

Transmission Cost Recovery Rider—The Minnesota Public Utilities Act provides a mechanism for automatic adjustment outside of a general rate proceeding to recover the costs, plus a return on investment at the level approved in a utility's last general rate case, of new transmission facilities that meet certain criteria. OTP filed its annual update to its Minnesota TCR rider on February 7, 2013 to include three new projects as well as updated costs associated with existing projects. In a written order issued on March 10, 2014, the MPUC approved OTP's 2013 TCR rider update but disallowed recovery of capitalized internal costs, costs in excess of Certificate of Need estimates and a carrying charge in the TCR rider. These items were removed from OTP's Minnesota TCR rider effective March 1, 2014. OTP will be allowed to seek recovery of these costs in a future rate case. In response to the MPUC's approval of OTP's annual TCR update, OTP submitted a compliance filing in April 2014 reflecting the TCR rider revenue requirements changes relating to the MPUC's ruling and requesting no rate change be implemented at the time. The MPUC approved OTP's compliance filing on June 19, 2014. On February 18, 2015 the MPUC approved OTP's 2014 TCR rider annual update with an effective date of March 1, 2015.

Environmental Cost Recovery (ECR) Rider—On December 18, 2013 the MPUC granted approval of OTP's Minnesota ECR rider for recovery of OTP's Minnesota jurisdictional share of the revenue requirements of its investment in the Big Stone Plant AQCS effective January 1, 2014. The ECR rider recoverable revenue requirements include a current return on the project's CWIP balance at the level approved in OTP's most recent general rate case. OTP filed its 2014 annual update on July 31, 2014, requesting a \$4.1 million annual increase in the rider from \$6.1 million to \$10.2

million. The MPUC approved OTP's ECR rider annual update request on November 24, 2014, effective December 1, 2014. Because the effective date was two months behind the anticipated implementation date for the updated rate and a portion of the requested increase had been collected under the initial rate, the approved updated rate is based on a revenue requirement of \$9.8 million. The rate will continue to be updated in annual filings with the MPUC until the costs are rolled into base rates at an undetermined future date.

Reagent Costs and Emission Allowances—On July 31, 2014 OTP filed a request with the MPUC to revise its Fuel Clause Adjustment (FCA) rider in Minnesota to include recovery of reagent and emission allowance costs. On March 12, 2015 the MPUC denied OTP's request to revise its FCA rider to include recovery of these costs. These costs will be reviewed in OTP's next general rate case in Minnesota and considered for recovery either through the FCA rider or general rates.

North Dakota

General Rates—OTP's most recent general rate increase in North Dakota of \$3.6 million, or approximately 3.0%, was granted by the NDPSC in an order issued on November 25, 2009 and effective December 2009. Pursuant to the order, OTP's allowed rate of return on rate base was set at 8.62%, and its allowed rate of return on equity was set at 10.75%.

Renewable Resource Adjustment—OTP has a North Dakota Renewable Resource Adjustment (NDRRA) which enables OTP to recover the North Dakota share of its investments in renewable energy facilities it owns in North Dakota. This rider allows OTP to recover costs associated with new renewable energy projects as they are completed with a return on investment at the level approved in OTP's most recent general rate case. On December 28, 2012 OTP submitted its annual update to the NDRRA with a proposed effective date of April 1, 2013. The update resulted in a rate reduction, so the NDPSC did not issue an order suspending the rate change. Consequently, pursuant to statute, OTP was allowed to implement updated rates effective April 1, 2013. On July 10, 2013, the NDPSC approved the updated rates implemented on April 1, 2013. The NDPSC approved OTP's 2013 annual update to the NDRRA on March 12, 2014 with an effective date of April 1, 2014, which resulted in a 13.5% reduction in the NDRRA rate. OTP submitted its 2014 annual update to the NDRRA on December 31, 2014, which was approved by the NDPSC on March 25, 2015 with an effective date of April 1, 2015. In each instance the NDRRA rates have been based upon a return on investment at the rate of return approved in the OTP's last general rate case. Approved in the 2014 annual update was a change in rate design from an amount per kwh consumed to a percentage of a customer's bill.

Transmission Cost Recovery Rider—North Dakota law provides a mechanism for automatic adjustment outside of a general rate proceeding to recover jurisdictional capital and operating costs incurred by a public utility for new or modified electric transmission facilities. For qualifying projects, the law authorizes a current return on construction work in progress and a return on investment at the level approved in the utility's most recent general rate case. On August 30, 2013 OTP filed its annual update to its North Dakota TCR rider rate, which was approved on December 30, 2013 and became effective January 1, 2014. On August 29, 2014 OTP filed its annual update to the North Dakota TCR rider rate. Within this TCR filing, as required by the order for the North Dakota Big Stone II rider, OTP included the over-collection of North Dakota Big Stone II abandoned plant costs of \$0.1 million. The NDPSC approved the annual update on December 17, 2014 with an effective date of January 1, 2015.

Environmental Cost Recovery Rider—On May 9, 2012 the NDPSC approved OTP's application for an ADP related to the Big Stone Plant AQCS. On February 8, 2013 OTP filed a request with the NDPSC for an ECR rider to recover OTP's North Dakota jurisdictional share of the revenue requirements associated with its investment in the Big Stone Plant AQCS. On December 18, 2013 the NDPSC approved OTP's North Dakota ECR rider based on revenue requirements through the 2013 calendar year and thereafter, with rates effective for bills rendered on or after January 1, 2014. The ECR provides for a current return on construction work in progress and a return on investment at the level approved in OTP's most recent general rate case. On March 31, 2014 OTP filed its annual update to its North Dakota ECR rider rate. The update included a request to increase the ECR rider rate from 4.319% of base rates to 7.531% of base rates. The NDPSC approved OTP's 2014 ECR rider annual update request on July 10, 2014 with an August 1, 2014 implementation date. On March 31, 2015 OTP filed its annual update to the ECR with a proposed implementation date of July 1, 2015.

Reagent Costs and Emission Allowances—On July 31, 2014 OTP filed a request with the NDPSC to revise its FCA rider in North Dakota to include recovery of new reagent and emission allowance costs. On February 25, 2015 the NDPSC approved recovery of these costs through the modification of the ECR rider to add a new variable monthly reagent and emissions allowance charge effective May 1, 2015.

South Dakota

2010 General Rate Case—On April 21, 2011, the SDPUC issued a written order approving an overall revenue increase for OTP of approximately \$643,000 (2.32%) and an overall rate of return on rate base of 8.50%. Final rates were effective with bills rendered on and after June 1, 2011.

Transmission Cost Recovery Rider—South Dakota law provides a mechanism for automatic adjustment outside of a general rate proceeding to recover jurisdictional capital and operating costs incurred by a public utility for new or modified electric transmission facilities. The SDPUC approved an annual update to OTP's South Dakota TCR on April 23, 2013 with an effective date of May 1, 2013. The SDPUC approved OTP's following annual update on February 18, 2014 with an effective date of March 1, 2014. The SDPUC approved OTP's most recent annual update on February 13, 2015 with an effective date of March 1, 2015.

Environmental Cost Recovery Rider—On November 25, 2014 the SDPUC approved OTP's ECR rider request to recover OTP's jurisdictional share of costs and provide a return on investment for the Big Stone Plant AQCS and Hoot Lake Plant MATS projects, with an effective date of December 1, 2014.

Reagent Costs and Emission Allowances—On August 1, 2014 OTP filed a request with the SDPUC to revise its FCA rider in South Dakota to include recovery of reagent and emission allowance costs. On September 16, 2014 the SDPUC approved OTP's request to include recovery of these costs in its South Dakota FCA rider.

Revenues Recorded under Rate Riders

The following table presents revenue recorded by OTP under rate riders in place in Minnesota, North Dakota and South Dakota for the three month periods ended March 31, 2015 and 2014:

| Rate Rider (in thousands) | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2015 | 2014 |
| Minnesota | | |
| Conservation Improvement Program Costs and Incentives ¹ | \$ 1,928 | \$ 1,521 |
| Transmission Cost Recovery | 1,615 | 2,304 |
| Environmental Cost Recovery | 2,557 | 1,763 |
| North Dakota | | |
| Renewable Resource Adjustment | 1,883 | 1,435 |
| Transmission Cost Recovery | 1,936 | 1,514 |
| Environmental Cost Recovery | 2,156 | 1,522 |
| Big Stone II Project Costs | -- | 361 |
| South Dakota | | |
| Transmission Cost Recovery | 363 | 346 |
| Environmental Cost Recovery | 504 | -- |

¹Includes MNCIP costs recovered in base rates.

FERC

Multi-Value Transmission Projects—On December 16, 2010 the FERC approved the cost allocation for a new classification of projects in the MISO region called MVPs. MVPs are designed to enable the region to comply with energy policy mandates and to address reliability and economic issues affecting multiple transmission zones within the MISO region. The cost allocation is designed to ensure that the costs of transmission projects with regional benefits are properly assigned to those who benefit. On October 20, 2011 the FERC reaffirmed the MVP cost allocation on rehearing.

On November 12, 2013 a group of industrial customers and other stakeholders filed a complaint with the FERC seeking to reduce the return on equity (ROE) component of the transmission rates that MISO transmission owners, including OTP, may collect under the MISO Tariff. The complainants are seeking to reduce the current 12.38% return on equity used in MISO's transmission rates to a proposed 9.15%. A group of MISO transmission owners have filed responses to the complaint, defending the current return on equity and seeking dismissal of the complaint. On October 16, 2014 the FERC issued an order finding that the current MISO return on equity may be unjust and unreasonable and setting the issue for hearing, subject to the outcome of settlement discussion. Settlement discussions did not resolve the dispute and the FERC set the proceeding to a Track II Hearing for complex cases that can take several months to decide with a FERC decision anticipated in fall 2016 at the earliest. On November 6, 2014 a group of MISO

transmission owners, including OTP, filed for a FERC incentive of an additional 50-basis points for Regional Transmission Organization participation (RTO Adder). On January 5, 2015 the FERC granted the request, deferring collection of the RTO Adder until the resolution of the return on equity complaint proceeding.

On February 12, 2015 another group of stakeholders filed a complaint with the FERC seeking to reduce the return on equity component of the transmission rates that MISO transmission owners, including OTP, may collect under the MISO Tariff from the current 12.38% to a proposed 8.67%. A group of MISO transmission owners have filed responses to the complaint, defending the current return on equity and seeking dismissal of the complaint. As of April 30, 2015, the FERC had not responded to the complaint.

In the first quarter of 2015, OTP recorded a \$0.6 million liability representing its current best estimate of a refund obligation, net of amounts that would be subject to recovery under state jurisdictional TCR riders, based on a potential reduction by FERC in the ROE component of the MISO Tariff.

4. Regulatory Assets and Liabilities

As a regulated entity, OTP accounts for the financial effects of regulation in accordance with ASC Topic 980, Regulated Operations (ASC 980). This accounting standard allows for the recording of a regulatory asset or liability for costs that will be collected or refunded in the future as required under regulation. Additionally, ASC 980-605-25 provides for the recognition of revenues authorized for recovery outside of a general rate case under alternative revenue programs which provide for recovery of costs and incentives or returns on investment in such items as transmission infrastructure, renewable energy resources or conservation initiatives. The following tables indicate the amount of regulatory assets and liabilities recorded on the Company's consolidated balance sheets:

| (in thousands) | March 31, 2015 | | | Remaining Recovery/ Refund Period |
|---|-----------------|------------------|------------------|--------------------------------------|
| | Current | Long-Term | Total | |
| Regulatory Assets: | | | | |
| Prior Service Costs and Actuarial Losses on Pensions and Other Postretirement Benefits ¹ | \$7,465 | \$99,659 | \$107,124 | see below |
| Deferred Marked-to-Market Losses ¹ | 2,059 | 9,226 | 11,285 | 69 months |
| Conservation Improvement Program Costs and Incentives ² | 3,815 | 3,511 | 7,326 | 27 months |
| Accumulated ARO Accretion/Depreciation Adjustment ¹ | -- | 5,305 | 5,305 | asset lives |
| Minnesota Transmission Cost Recovery Rider Accrued Revenues ² | 2,152 | 1,835 | 3,987 | 12 months |
| Big Stone II Unrecovered Project Costs – Minnesota ¹ | 601 | 3,086 | 3,687 | 93 months |
| MISO Schedule 26/26A Transmission Cost Recovery Rider True-up ¹ | 2,140 | 636 | 2,776 | 24 months |
| Debt Reacquisition Premiums ¹ | 351 | 1,802 | 2,153 | 210 months |
| Deferred Income Taxes ¹ | -- | 1,461 | 1,461 | asset lives |
| Recoverable Fuel and Purchased Power Costs ¹ | 1,249 | -- | 1,249 | 12 months |
| Big Stone II Unrecovered Project Costs – South Dakota ² | 100 | 718 | 818 | 98 months |
| North Dakota Transmission Cost Recovery Rider Accrued Revenues ² | 420 | -- | 420 | 12 months |
| Minnesota Renewable Resource Rider Accrued Revenues ² | -- | 68 | 68 | see below |
| North Dakota Renewable Resource Rider Accrued Revenues ² | -- | 61 | 61 | 12 months |
| Total Regulatory Assets | \$20,352 | \$127,368 | \$147,720 | |
| Regulatory Liabilities: | | | | |
| Accumulated Reserve for Estimated Removal Costs – Net of Salvage | \$-- | \$75,220 | \$75,220 | asset lives |
| North Dakota Renewable Resource Rider Accrued Refund | 1,803 | -- | 1,803 | 12 months |
| Deferred Income Taxes | -- | 1,447 | 1,447 | asset lives |
| Revenue for Rate Case Expenses Subject to Refund – Minnesota | -- | 908 | 908 | see below |
| | 451 | -- | 451 | 12 months |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | | | |
|--|----------|----------|----------|------------|
| Minnesota Environmental Cost Recovery Rider Accrued Refund | | | | |
| Deferred Marked-to-Market Gains | 204 | 177 | 381 | 58 months |
| Big Stone II Over Recovered Project Costs – North Dakota | 111 | -- | 111 | 9 months |
| Deferred Gain on Sale of Utility Property – Minnesota Portion | 6 | 99 | 105 | 225 months |
| South Dakota Environmental Cost Recovery Rider Accrued Refund | 86 | -- | 86 | 12 months |
| South Dakota Transmission Cost Recovery Rider Accrued Refund | 48 | -- | 48 | 12 months |
| North Dakota Environmental Cost Recovery Rider Accrued Refund | 35 | -- | 35 | 12 months |
| Total Regulatory Liabilities | \$2,744 | \$77,851 | \$80,595 | |
| Net Regulatory Asset Position | \$17,608 | \$49,517 | \$67,125 | |

1Costs subject to recovery without a rate of return.

2Amount eligible for recovery under an alternative revenue program which includes an incentive or rate of return.

Edgar Filing: Otter Tail Corp - Form 10-Q

| (in thousands) | December 31, 2014 | | | Remaining Recovery/ Refund Period |
|---|-------------------|------------------|------------------|--------------------------------------|
| | Current | Long-Term | Total | |
| Regulatory Assets: | | | | |
| Prior Service Costs and Actuarial Losses on Pensions and Other Postretirement Benefits ¹ | \$7,464 | \$101,526 | \$108,990 | see below |
| Deferred Marked-to-Market Losses ¹ | 4,492 | 9,396 | 13,888 | 72 months |
| Conservation Improvement Program Costs and Incentives ² | 5,843 | 2,500 | 8,343 | 18 months |
| Accumulated ARO Accretion/Depreciation Adjustment ¹ | -- | 5,190 | 5,190 | asset lives |
| Big Stone II Unrecovered Project Costs – Minnesota ¹ | 592 | 3,207 | 3,799 | 96 months |
| Minnesota Transmission Cost Recovery Rider Accrued Revenues ² | 943 | 2,455 | 3,398 | 24 months |
| MISO Schedule 26/26A Transmission Cost Recovery Rider True-up ¹ | 2,585 | 807 | 3,392 | 24 months |
| Debt Reacquisition Premiums ¹ | 351 | 1,890 | 2,241 | 213 months |
| Deferred Income Taxes ¹ | -- | 2,086 | 2,086 | asset lives |
| Recoverable Fuel and Purchased Power Costs ¹ | 1,114 | -- | 1,114 | 12 months |
| North Dakota Transmission Cost Recovery Rider Accrued Revenues ² | 859 | -- | 859 | 12 months |
| Big Stone II Unrecovered Project Costs – South Dakota ² | 100 | 743 | 843 | 101 months |
| North Dakota Environmental Cost Recovery Rider Accrued Revenues ² | 706 | -- | 706 | 12 months |
| Minnesota Environmental Cost Recovery Rider Accrued Revenues ² | 186 | -- | 186 | 12 months |
| Minnesota Renewable Resource Rider Accrued Revenues ² | -- | 68 | 68 | see below |
| South Dakota Environmental Cost Recovery Rider Accrued Revenues ² | 38 | -- | 38 | 12 months |
| Total Regulatory Assets | \$25,273 | \$129,868 | \$155,141 | |
| Regulatory Liabilities: | | | | |
| Accumulated Reserve for Estimated Removal Costs – Net of Salvage | \$-- | \$74,237 | \$74,237 | asset lives |
| Deferred Income Taxes | -- | 1,550 | 1,550 | asset lives |
| North Dakota Renewable Resource Rider Accrued Refund | 933 | 85 | 1,018 | 15 months |
| Revenue for Rate Case Expenses Subject to Refund – Minnesota | -- | 784 | 784 | see below |
| Deferred Marked-to-Market Gains | -- | 257 | 257 | 67 months |
| Big Stone II Over Recovered Project Costs – North Dakota | 147 | -- | 147 | 12 months |
| Deferred Gain on Sale of Utility Property – Minnesota Portion | 6 | 100 | 106 | 228 months |
| South Dakota Transmission Cost Recovery Rider Accrued Refund | 48 | -- | 48 | 12 months |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | | | |
|---|----------|----------|----------|-----------|
| South Dakota – Nonasset-Based Margin Sharing Excess | 24 | -- | 24 | 12 months |
| Total Regulatory Liabilities | \$1,158 | \$77,013 | \$78,171 | |
| Net Regulatory Asset Position | \$24,115 | \$52,855 | \$76,970 | |

1Costs subject to recovery without a rate of return.

2Amount eligible for recovery under an alternative revenue program which includes an incentive or rate of return.

The regulatory asset related to prior service costs and actuarial losses on pensions and other postretirement benefits represents benefit costs and actuarial losses subject to recovery through rates as they are expensed over the remaining service lives of active employees included in the plans. These unrecognized benefit costs and actuarial losses are required to be recognized as components of Accumulated Other Comprehensive Income in equity under ASC Topic 715, Compensation—Retirement Benefits, but are eligible for treatment as regulatory assets based on their probable recovery in future retail electric rates.

All Deferred Marked-to-Market Gains and Losses recorded as of March 31, 2015 are related to forward purchases of energy scheduled for delivery through December 2020.

Conservation Improvement Program Costs and Incentives represent mandated conservation expenditures and incentives recoverable through retail electric rates.

The Accumulated Asset Retirement Obligation (ARO) Accretion/Depreciation Adjustment will accrete and be amortized over the lives of property with asset retirement obligations.

Minnesota Transmission Cost Recovery Rider Accrued Revenues relate to revenues earned on qualifying transmission system facilities that have not been billed to Minnesota customers as of March 31, 2015.

Big Stone II Unrecovered Project Costs – Minnesota are the Minnesota share of generation and transmission plant-related costs incurred by OTP related to its participation in the abandoned Big Stone II generation project.

MISO Schedule 26/26A Transmission Cost Recovery Rider True-up relates to the over/under collection of revenue based on comparison of the expected versus actual construction on eligible projects in the period. The true-up also includes the state jurisdictional portion of MISO Schedule 26/26A for regional transmission cost recovery that was included in the calculation of the state transmission riders and subsequently adjusted to reflect actual billing amounts in the schedule.

Debt Reacquisition Premiums are being recovered from OTP customers over the remaining original lives of the reacquired debt issues, the longest of which is 210 months.

The regulatory assets and liabilities related to Deferred Income Taxes result from changes in statutory tax rates accounted for in accordance with ASC Topic 740, Income Taxes.

Big Stone II Unrecovered Project Costs – South Dakota are the South Dakota share of generation and transmission plant-related costs incurred by OTP related to its participation in the abandoned Big Stone II generation project.

North Dakota Transmission Cost Recovery Rider Accrued Revenues relate to revenues earned on qualifying transmission system facilities that have not been billed to North Dakota customers as of March 31, 2015.

Minnesota Renewable Resource Rider Accrued Revenues relate to revenues earned on qualifying renewable resource costs incurred to serve Minnesota customers that have not been billed to Minnesota customers. On April 4, 2013 the MPUC approved OTP's request to set the MNRRRA rate to zero effective May 1, 2013 and authorized that any unrecovered balance be retained as a regulatory asset to be recovered in OTP's next general rate case.

North Dakota Renewable Resource Rider Accrued Revenues relate to qualifying renewable resource costs incurred to serve North Dakota customers that have not been billed to North Dakota customers as of March 31, 2015.

The Accumulated Reserve for Estimated Removal Costs – Net of Salvage is reduced as actual removal costs, net of salvage revenues, are incurred.

The North Dakota Renewable Resource Rider Accrued Refund relates to amounts collected for qualifying renewable resource costs incurred to serve North Dakota customers that are refundable to North Dakota customers as of March 31, 2015.

Revenue for Rate Case Expenses Subject to Refund – Minnesota relate to revenues collected under general rates to recover costs related to prior rate case proceedings in excess of the actual costs incurred, which are subject to refund.

The Minnesota Environmental Cost Recovery Rider Accrued Refund relates to amounts collected on the Minnesota share of OTP's investment in the Big Stone Plant AQCS project that are refundable to Minnesota customers as of March 31, 2015.

Big Stone II Over Recovered Project Costs – North Dakota represent amounts collected from North Dakota customers in excess of the North Dakota share of generation and transmission plant-related costs incurred by OTP related to its participation in the abandoned Big Stone II generation project.

The South Dakota Environmental Cost Recovery Rider Accrued Refund relates to amounts collected on the South Dakota share of OTP's investments in the Big Stone Plant AQCS and Hoot Lake Plant MATS projects that are refundable to South Dakota customers as of March 31, 2015.

The South Dakota Transmission Cost Recovery Rider Accrued Refund relates to amounts collected for qualifying transmission system facilities and operating costs incurred to serve South Dakota customers that are refundable to South Dakota customers as of March 31, 2015.

The North Dakota Environmental Cost Recovery Rider Accrued Refund relates to amounts collected on the North Dakota share of OTP's investment in the Big Stone Plant AQCS project that are refundable to North Dakota customers as of March 31, 2015.

If for any reason, OTP ceases to meet the criteria for application of guidance under ASC 980 for all or part of its operations, the regulatory assets and liabilities that no longer meet such criteria would be removed from the consolidated balance sheet and included in the consolidated statement of income as an extraordinary expense or income item in the period in which the application of guidance under ASC 980 ceases.

5. Forward Contracts Classified as Derivatives

Electricity Contracts

All of OTP's wholesale purchases and sales of energy under forward contracts that do not meet the definition of capacity contracts are considered derivatives subject to mark-to-market accounting. OTP's objective in entering into forward contracts for the purchase and sale of energy is to meet the energy requirements of its retail customers and to optimize the use of its generating and transmission facilities. OTP's intent in entering into certain of these contracts is to settle them through the physical delivery of energy when physically possible and economically feasible. Prior to December 2014, OTP also entered into certain contracts for trading purposes with the intent to profit from fluctuations in market prices through the timing of purchases and sales. Effective December 31, 2014 OTP discontinued its trading activities not directly associated with serving retail customers.

OTP's forward contracts outstanding as of March 31, 2015 and December 31, 2014 for the purchase of electricity are scheduled for delivery at the OTP node, which is an illiquid trading point. Prices used to value OTP's forward purchases at this trading point were based on a basis spread between the OTP node and more liquid trading hub prices. These basis spreads were determined based on available market price information and the use of forward price curve models. The fair value measurements of these forward energy contracts fall into Level 3 of the fair value hierarchy set forth in ASC 820.

The following tables show the effect of marking to market OTP's forward contracts for the purchase of electricity and the location and fair value amounts of the related derivatives reported on the Company's consolidated balance sheets as of March 31, 2015 and December 31, 2014, and the change in the Company's consolidated balance sheet position from December 31, 2014 to March 31, 2015 and December 31, 2013 to March 31, 2014:

| (in thousands) | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| Current Asset – Marked-to-Market Gain | \$ 381 | \$ 257 |
| Regulatory Asset – Current Deferred Marked-to-Market Loss | 2,059 | 4,492 |
| Regulatory Asset – Long-Term Deferred Marked-to-Market Loss | 9,226 | 9,396 |
| Total Assets | 11,666 | 14,145 |
| Current Liability – Marked-to-Market Loss | (11,285) | (13,888) |
| Regulatory Liability – Current Deferred Marked-to-Market Gain | (204) | -- |
| Regulatory Liability – Long-Term Deferred Marked-to-Market Gain | (177) | (257) |
| Total Liabilities | (11,666) | (14,145) |
| Net Fair Value of Marked-to-Market Energy Contracts | \$ -- | \$ -- |

| (in thousands) | Year-to-Date March 31, 2015 | Year-to-Date March 31, 2014 |
|---|-----------------------------------|-----------------------------------|
| Cumulative Fair Value Adjustments Included in Earnings - Beginning of Year | \$ -- | \$ 115 |
| Less: Amounts Realized on Settlement of Contracts Entered into in Prior Periods | -- | (72) |
| Changes in Fair Value of Contracts Entered into in Prior Periods | -- | (43) |
| Cumulative Fair Value Adjustments in Earnings of Contracts Entered into in Prior Years at End of Period | -- | -- |
| Changes in Fair Value of Contracts Entered into in Current Period | -- | 39 |
| Cumulative Fair Value Adjustments Included in Earnings - End of Period | \$ -- | \$ 39 |

The following realized and unrealized net loss on forward energy contracts is included in electric operating revenues on the Company's consolidated statements of income:

| (in thousands) | Three Months Ended | |
|---|--------------------|---------|
| | 2015 | 2014 |
| Net Loss on Forward Electric Energy Contracts | \$ -- | \$ (4) |

OTP has established guidelines and limits to manage credit risk associated with wholesale power and capacity purchases and sales. Specific limits are determined by a counterparty's financial strength. Counterparties with investment grade credit ratings have minimum credit ratings of BBB- (Standard & Poor's), Baa3 (Moody's) or BBB- (Fitch). OTP had no exposure at March 31, 2015 to counterparties with investment grade or below investment grade credit ratings with respect to any of its forward energy contracts.

Individual counterparty exposures for certain contracts can be offset according to legally enforceable netting arrangements. However, the Company does not net offsetting payables and receivables or derivative assets and liabilities under legally enforceable netting arrangements on the face of its consolidated balance sheet. The amounts of derivative asset and derivative liability balances that were subject to legally enforceable netting arrangements as of March 31, 2015 and December 31, 2014 are indicated in the following table:

| (in thousands) | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| Derivative assets subject to legally enforceable netting arrangements | \$ 381 | \$ 257 |
| Derivative liabilities subject to legally enforceable netting arrangements | (11,567) | (14,230) |
| Net balance subject to legally enforceable netting arrangements | \$ (11,186) | \$ (13,973) |

The following table provides a breakdown of OTP's credit risk standing on forward energy contracts in marked-to-market loss positions as of March 31, 2015 and December 31, 2014:

| (in thousands) | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| Current Liability – Marked-to-Market Loss | | |
| Loss Contracts Covered by Deposited Funds or Letters of Credit | \$282 | \$ 45 |
| Contracts Requiring Cash Deposits if OTP's Credit Falls Below Investment Grade ¹ | 11,285 | 13,888 |
| Loss Contracts with No Ratings Triggers or Deposit Requirements | -- | 297 |
| Total Current Liability – Marked-to-Market Loss | \$11,567 | \$ 14,230 |
| ¹ Certain OTP derivative energy contracts contain provisions that require an investment grade credit rating from each of the major credit rating agencies on OTP's debt. If OTP's debt ratings were to fall below investment grade, the counterparties to these forward energy contracts could request the immediate deposit of cash to cover contracts in net liability positions. | | |
| Contracts Requiring Cash Deposits if OTP's Credit Falls Below Investment Grade | \$11,285 | \$ 13,888 |
| Offsetting Gains with Counterparties under Master Netting Agreements | (381) | (257) |
| Reporting Date Deposit Requirement if Credit Risk Feature Triggered | \$10,904 | \$ 13,631 |

6. Reconciliation of Common Shareholders' Equity, Common Shares and Earnings Per Share

Reconciliation of Common Shareholders' Equity

| (in thousands) | Par Value, Common Shares | Premium on Common Shares | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total Common Equity |
|---|--------------------------------|-----------------------------------|----------------------|--|---------------------------|
| Balance, December 31, 2014 | \$186,090 | \$278,436 | \$112,903 | \$ (4,663) | \$572,766 |
| Common Stock Issuances, Net of Expenses | 1,220 | 6,302 | | | 7,522 |
| Common Stock Retirements | (195) | (1,044) | | | (1,239) |
| Net Income | | | 17,935 | | 17,935 |
| Other Comprehensive Income | | | | 141 | 141 |
| Tax Benefit – Stock Compensation | | 24 | | | 24 |
| Employee Stock Incentive Plans Expense | | 623 | | | 623 |
| Common Dividends (\$0.3075 per share) | | | (11,498) | | (11,498) |
| Balance, March 31, 2015 | \$187,115 | \$284,341 | \$119,340 | \$ (4,522) | \$586,274 |

Shelf Registration

The Company's shelf registration statement filed with the U.S. Securities and Exchange Commission (SEC) on May 11, 2012, under which the Company may offer for sale, from time to time, either separately or together in any combination, equity, debt or other securities described in the shelf registration statement, including common shares of the Company, expires on May 10, 2015. On May 14, 2012, the Company entered into a Distribution Agreement with J.P. Morgan Securities (JPMS) under which it may offer and sell its common shares from time to time in an At-the-Market offering program through JPMS, as its distribution agent, up to an aggregate sales price of \$75 million.

Common Shares

Following is a reconciliation of the Company's common shares outstanding from December 31, 2014 through March 31, 2015:

| | |
|--|------------|
| Common Shares Outstanding, December 31, 2014 | 37,218,053 |
| Issuances: | |
| Executive Stock Performance Awards (2012-2014 shares earned) | 89,991 |
| Automatic Dividend Reinvestment and Share Purchase Plan: | |
| Dividends Reinvested | 42,518 |
| Cash Invested | 16,553 |
| At-the-Market Offering | 38,160 |
| Employee Stock Purchase Plan: | |
| Cash Invested | 19,993 |
| Dividends Reinvested | 5,985 |
| Employee Stock Ownership Plan | 21,137 |
| Stock Options Exercised | 9,000 |
| Vesting of Restricted Stock Units | 700 |
| Retirements: | |
| Shares Withheld for Individual Income Tax Requirements | (39,131) |
| Common Shares Outstanding, March 31, 2015 | 37,422,959 |

Earnings Per Share

The numerator used in the calculation of both basic and diluted earnings per common share is net income for the three month periods ended March 31, 2015 and 2014. The denominator used in the calculation of basic earnings per common share is the weighted average number of common shares outstanding during the period excluding nonvested restricted shares granted to the Company's directors and employees, which are considered contingently returnable and not outstanding for the purpose of calculating basic earnings per share. The denominator used in the calculation of diluted earnings per common share is derived by adjusting basic shares outstanding for the items listed in the following reconciliation of Weighted Average Common Shares Outstanding – Basic to Weighted Average Common Shares Outstanding – Diluted for the three month periods ended March 31:

| | 2015 | 2014 |
|--|------------|------------|
| Weighted Average Common Shares Outstanding – Basic | 37,243,118 | 36,240,350 |
| Plus: | | |
| Shares Expected to be Awarded for Stock Performance Awards Granted to Executive Officers | 229,100 | 131,000 |
| Nonvested Restricted Shares | 83,330 | 90,798 |
| Underlying Shares Related to Nonvested Restricted Stock Units Granted to Employees | 70,900 | 55,655 |
| Shares Expected to be Issued Under the Deferred Compensation Program for Directors | 40,462 | 39,197 |
| Potentially Dilutive Stock Options | 3,750 | 18,050 |
| Less: | | |
| Shares Equivalent of Tax Savings from Issuance of Dilutive Shares | (169,842) | (127,709) |
| Shares Equivalent of Proceeds from Exercise of Potentially Dilutive Stock Options | (2,937) | (15,426) |
| Total Dilutive Shares | 254,763 | 191,565 |
| Weighted Average Common Shares Outstanding – Diluted | 37,497,881 | 36,431,915 |

The effect of dilutive shares on earnings per share for the three month periods ended March 31, 2015 and 2014, resulted in no differences greater than \$0.01 between basic and diluted earnings per share in total or from continuing or discontinued operations in either period.

7. Share-Based Payments

Stock Incentive Awards

On February 6, 2015 the Company's Board of Directors granted the following stock incentive awards to the Company's executive officers under the 2014 Stock Incentive Plan.

| Award | Shares/Units Granted | Weighted Average Grant-Date Fair Value per Award | Vesting |
|--|-------------------------|--|---------------------------------------|
| Stock Performance Awards Granted to Executive Officers | 77,500 | \$26.99 | December 31, 2017 |
| Restricted Stock Units Granted to Executive Officers: | | | |
| Graded Vesting | 20,900 | \$31.675 | 25% per year through February 6, 2019 |
| Cliff Vesting | 6,400 | \$31.675 | 100% on February 6, 2020 |

Under the performance share awards the aggregate award for performance at target is 77,500 shares. For target performance the Company's executive officers would earn an aggregate of 51,667 common shares based on the Company's total shareholder return relative to the total shareholder return of the companies that comprise the Edison Electric Institute Index over the performance measurement period of January 1, 2015 through December 31, 2017. The Company's executive officers would also earn an aggregate of 25,833 common shares for achieving the target set for the Company's 3-year average adjusted return on equity. Actual payment may range from zero to 150% of the target amount, or up to 116,250 common shares. The executive officers have no voting or dividend rights related to these shares until the shares, if any, are issued at the end of the performance period. The terms of these awards are such that the entire award will be classified and accounted for as a liability, as required under ASC Topic 718, Compensation—Stock Compensation, and will be measured over the performance period based on the fair value of the award at the end of each reporting period subsequent to the grant date.

Under the 2015 performance award agreements, payment and the amount of payment in the event of retirement, resignation for good reason or involuntary termination without cause is to be made at the end of the performance period based on actual performance, subject to proration in certain cases, except that the payment of performance awards granted to certain officers who are parties to executive employment agreements with the Company is to be made at target at the date of any such event.

The vesting of restricted stock units is accelerated in the event of a change in control, disability, death or retirement or, subject to proration in certain cases. All restricted stock units granted to executive officers are eligible to receive dividend equivalent payments on all unvested awards over the awards respective vesting periods, subject to forfeiture under the terms of the restricted stock unit award agreements. The grant-date fair value of each restricted stock unit was the average of the high and low market price per share on the date of grant.

The end of the period over which compensation expense is recognized for the above share-based awards for the individual grantees is the shorter of the indicated vesting period for the respective awards or the date the grantee becomes eligible for retirement as defined in their award agreement.

Edgar Filing: Otter Tail Corp - Form 10-Q

As of March 31, 2015 the remaining unrecognized compensation expense related to outstanding, unvested stock-based compensation was approximately \$2.8 million (before income taxes) which will be amortized over a weighted-average period of 2.3 years.

Amounts of compensation expense recognized under the Company's six stock-based payment programs for the three month periods ended March 31, 2015 and 2014 are presented in the table below:

| (in thousands) | Three months ended | |
|---|--------------------|--------|
| | March 31, | |
| | 2015 | 2014 |
| Employee Stock Purchase Plan (15% discount) | \$ 49 | \$ 42 |
| Restricted Stock Granted to Directors | 98 | 123 |
| Restricted Stock Granted to Executive Officers | 157 | 135 |
| Restricted Stock Units Granted to Non-Executive Employees | 66 | 58 |
| Restricted Stock Units Granted to Executive Officers | 253 | -- |
| Stock Performance Awards Granted to Executive Officers | 1,020 | 526 |
| Totals | \$ 1,643 | \$ 884 |

8. Retained Earnings Restriction

The Company is a holding company with no significant operations of its own. The primary source of funds for payments of dividends to the Company's shareholders is from dividends paid or distributions made by the Company's subsidiaries. As a result of certain statutory limitations or regulatory or financing agreements, restrictions could occur on the amount of distributions allowed to be made by the Company's subsidiaries.

Both the Company and OTP credit agreements contain restrictions on the payment of cash dividends upon a default or event of default. An event of default would be considered to have occurred if the Company did not meet certain financial covenants. As of March 31, 2015 the Company was in compliance with the debt covenants. See note 10 to the Company's consolidated financial statements on Form 10-K for the year ended December 31, 2014 for further information on the covenants.

Under the Federal Power Act, a public utility may not pay dividends from any funds properly included in a capital account. What constitutes "funds properly included in a capital account" is undefined in the Federal Power Act or the related regulations; however, FERC has consistently interpreted the provision to allow dividends to be paid as long as (1) the source of the dividends is clearly disclosed, (2) the dividend is not excessive and (3) there is no self-dealing on the part of corporate officials.

The MPUC indirectly limits the amount of dividends OTP can pay to the Company by requiring an equity-to-total-capitalization ratio between 45.0% and 55.0%. OTP's equity to total capitalization ratio including short-term debt was 50.7% as of March 31, 2015. Total capitalization for OTP cannot currently exceed \$987 million.

9. Commitments and Contingencies

Construction and Other Purchase Commitments

At December 31, 2014 OTP had commitments under contracts in connection with construction programs extending into 2018 of approximately \$106.6 million. At March 31, 2015 OTP had commitments under contracts in connection with construction programs extending into 2018 aggregating approximately \$106.1 million.

Electric Utility Capacity and Energy Requirements and Coal and Delivery Contracts

OTP has commitments for the purchase of capacity and energy requirements under agreements extending into 2039. In the first quarter of 2015, OTP entered into an energy purchase agreement for the purchase of electricity in April, May and June of 2015 to make up for reduced generation from Coyote Station as it continues to make repairs related to damage caused by a boiler feed pump failure and ensuing fire in December 2014. The total cost for the replacement power will be approximately \$2.9 million.

OTP has contracts providing for the purchase and delivery of a significant portion of its current coal requirements. OTP's current coal purchase agreements, under which OTP is committed to the minimum purchase amounts or to make payments in lieu thereof, expire in 2015, 2016, 2017 and 2040. In the first quarter of 2015, OTP entered into a second contract for the purchase of Wyoming subbituminous coal to meet a portion of its 2015 through 2017 coal requirements at Big Stone Plant. OTP's share of the purchase commitment under this contract as of March 31, 2015 is approximately \$10.0 million. Fuel clause adjustment mechanisms lessen the risk of loss from market price changes because they provide for recovery of most fuel costs.

Operating Leases

In April of 2015, OTP entered into an agreement to extend the term of its lease of rail cars used for the transport of coal to Hoot Lake Plant by 36 months beginning April 1, 2015, for a total commitment of approximately \$2.8 million.

Contingencies

Contingencies, by their nature, relate to uncertainties that require the Company's management to exercise judgment both in assessing the likelihood a liability has been incurred as well as in estimating the amount of potential loss. The most significant contingencies impacting the Company's consolidated financial statements are those related to environmental remediation, risks associated with indemnification obligations under divestitures of discontinued operations and litigation matters. Should all of these known items result in liabilities being incurred, the loss could be as high as \$5.0 million.

In the first quarter of 2015, OTP recorded a \$0.6 million liability representing its current best estimate of a refund obligation, net of amounts that would be subject to recovery under state jurisdictional TCR riders, based on a potential reduction by FERC in the ROE component of the MISO Tariff.

On June 21, 2010 the EPA published a proposed rule that outlines two possible options to regulate disposal of coal ash generated from the combustion of coal by electric utilities under the Resource Conservation and Recovery Act (RCRA). In one option, the EPA would propose to list coal ash destined for disposal in landfills or surface impoundments as “special wastes” subject to regulation under Subtitle C of RCRA. Subtitle C regulations set forth the EPA’s hazardous waste regulatory program, which regulates the generation, handling, transport and disposal of wastes. Under the other proposed regulatory option, the EPA would regulate the disposal of coal ash under Subtitle D of RCRA, the regulatory program for nonhazardous solid wastes. On December 19, 2014 the EPA announced a final rule following the Subtitle D nonhazardous provisions. Publication of the final rule on April 17, 2015 opened a 90-day window within which petitions for judicial review may be filed in the D.C. Circuit. Challenges by environmental groups are possible and the outcome of such challenges cannot be predicted. Thus, uncertainty regarding the status of this rule is likely to continue for a period of time. The rule requires OTP to complete certain actions, such as installing additional groundwater monitoring wells and investigating whether existing surface impoundments meet defined location restrictions, in order to determine whether existing surface impoundments should be retired or retrofitted with liners. The cost impact of this rule will not be known until those actions are completed. As of the date of this report on Form 10-Q, OTP had not completed its assessment under the final rule nor made a determination if compliance with the rule would require immediate remediation or result in the recognition of additional AROs beyond those already recognized by OTP in connection with its active and inactive ash disposal sites. Existing landfill cells can continue to operate as designed, but future expansions will require composite liner and leachate collection systems. The EPA is also considering future regulation of coal ash under Subtitle C.

Other

The Company is a party to litigation arising in the normal course of business. The Company regularly analyzes current information and, as necessary, provides accruals for liabilities that are probable of occurring and that can be reasonably estimated. The Company believes the effect on its consolidated results of operations, financial position and cash flows, if any, for the disposition of all matters pending as of March 31, 2015 will not be material.

10. Short-Term and Long-Term Borrowings

The following table presents the status of our lines of credit as of March 31, 2015 and December 31, 2014:

| (in thousands) | Line Limit | In Use on March 31, 2015 | Restricted due to Outstanding Letters of Credit | Available on March 31, 2015 | Available on December 31, 2014 |
|---|------------|--------------------------------|---|-----------------------------------|--------------------------------------|
| Otter Tail Corporation Credit Agreement | \$ 150,000 | \$ 40,846 | \$ 195 | \$ 108,959 | \$ 138,872 |
| OTP Credit Agreement | 170,000 | 7,806 | 560 | 161,634 | 169,440 |
| Total | \$ 320,000 | \$ 48,652 | \$ 755 | \$ 270,593 | \$ 308,312 |

The following tables provide a breakdown of the assignment of the Company's consolidated short-term and long-term debt outstanding as of March 31, 2015 and December 31, 2014:

| March 31, 2015 (in thousands) | OTP | Otter Tail Corporation | Otter Tail Corporation Consolidated |
|---|-----------|------------------------|-------------------------------------|
| Short-Term Debt | \$7,806 | \$ 40,846 | \$ 48,652 |
| Long-Term Debt: | | | |
| 9.000% Notes, due December 15, 2016 | | \$ 52,330 | 52,330 |
| Senior Unsecured Notes 5.95%, Series A, due August 20, 2017 | 33,000 | | 33,000 |
| Senior Unsecured Notes 4.63%, due December 1, 2021 | 140,000 | | 140,000 |
| Senior Unsecured Notes 6.15%, Series B, due August 20, 2022 | 30,000 | | 30,000 |
| Senior Unsecured Notes 6.37%, Series C, due August 20, 2027 | 42,000 | | 42,000 |
| Senior Unsecured Notes 4.68%, Series A, due February 27, 2029 | 60,000 | | 60,000 |
| Senior Unsecured Notes 6.47%, Series D, due August 20, 2037 | 50,000 | | 50,000 |
| Senior Unsecured Notes 5.47%, Series B, due February 27, 2044 | 90,000 | | 90,000 |
| North Dakota Development Note, 3.95%, due April 1, 2018 | -- | 237 | 237 |
| Partnership in Assisting Community Expansion (PACE) Note, 2.54%, due March 18, 2021 | -- | 1,074 | 1,074 |
| Total | \$445,000 | \$ 53,641 | \$ 498,641 |
| Less: Current Maturities | -- | 204 | 204 |
| Total Long-Term Debt | \$445,000 | \$ 53,437 | \$ 498,437 |
| Total Short-Term and Long-Term Debt (with current maturities) | \$452,806 | \$ 94,487 | \$ 547,293 |

| December 31, 2014 (in thousands) | OTP | Otter Tail Corporation | Otter Tail Corporation Consolidated |
|---|----------|------------------------|-------------------------------------|
| Short-Term Debt | \$-- | \$ 10,854 | \$ 10,854 |
| Long-Term Debt: | | | |
| 9.000% Notes, due December 15, 2016 | | \$ 52,330 | \$ 52,330 |
| Senior Unsecured Notes 5.95%, Series A, due August 20, 2017 | \$33,000 | | 33,000 |
| Senior Unsecured Notes 4.63%, due December 1, 2021 | 140,000 | | 140,000 |
| Senior Unsecured Notes 6.15%, Series B, due August 20, 2022 | 30,000 | | 30,000 |
| Senior Unsecured Notes 6.37%, Series C, due August 20, 2027 | 42,000 | | 42,000 |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | | |
|--|-----------|-----------|------------|
| Senior Unsecured Notes 4.68%, Series A, due February 27, 2029 | 60,000 | | 60,000 |
| Senior Unsecured Notes 6.47%, Series D, due August 20, 2037 | 50,000 | | 50,000 |
| Senior Unsecured Notes 5.47%, Series B, due February 27, 2044 | 90,000 | | 90,000 |
| North Dakota Development Note, 3.95%, due April 1, 2018 | -- | 256 | 256 |
| Partnership in Assisting Community Expansion (PACE) Note, 2.54%, due March 18, 2021 | -- | 1,105 | 1,105 |
| Total | \$445,000 | \$ 53,691 | \$ 498,691 |
| Less: Current Maturities | -- | 201 | 201 |
| Unamortized Debt Discount | -- | 1 | 1 |
| Total Long-Term Debt | \$445,000 | \$ 53,489 | \$ 498,489 |
| Total Short-Term and Long-Term Debt (with current maturities) | \$445,000 | \$ 64,544 | \$ 509,544 |

27

11. Pension Plan and Other Postretirement Benefits

Pension Plan—Components of net periodic pension benefit cost of the Company's noncontributory funded pension plan are as follows:

| (in thousands) | Three Months Ended March | |
|---|--------------------------|----------|
| | 2015 | 2014 |
| Service Cost—Benefit Earned During the Period | \$ 1,500 | \$ 1,175 |
| Interest Cost on Projected Benefit Obligation | 3,325 | 3,285 |
| Expected Return on Assets | (4,600) | (4,187) |
| Amortization of Prior-Service Cost: | | |
| From Regulatory Asset | 47 | 64 |
| From Other Comprehensive Income ¹ | 1 | 2 |
| Amortization of Net Actuarial Loss: | | |
| From Regulatory Asset | 1,633 | 868 |
| From Other Comprehensive Income ¹ | 40 | 23 |
| Net Periodic Pension Cost | \$ 1,946 | \$ 1,230 |

¹Corporate cost included in Other Nonelectric Expenses.

Cash flows—The Company made discretionary plan contributions totaling \$10,000,000 in January 2015. The Company currently is not required and does not expect to make an additional contribution to the plan in 2015. The Company also made discretionary plan contributions totaling \$20,000,000 in January 2014.

Executive Survivor and Supplemental Retirement Plan—Components of net periodic pension benefit cost of the Company's unfunded, nonqualified benefit plan for executive officers and certain key management employees are as follows:

| (in thousands) | Three Months Ended March | |
|--|--------------------------|--------|
| | 2015 | 2014 |
| Service Cost—Benefit Earned During the Period | \$ 47 | \$ 13 |
| Interest Cost on Projected Benefit Obligation | 381 | 380 |
| Amortization of Prior-Service Cost: | | |
| From Regulatory Asset | 4 | 5 |
| From Other Comprehensive Income ¹ | 10 | 13 |
| Amortization of Net Actuarial Loss: | | |
| From Regulatory Asset | 83 | 35 |
| From Other Comprehensive Income ² | 151 | 12 |
| Net Periodic Pension Cost | \$ 676 | \$ 458 |
| 1Amortization of Prior Service Costs from Other Comprehensive Income Charged to: | | |
| Electric Operation and Maintenance Expenses | \$ 4 | \$ 5 |
| Other Nonelectric Expenses | 6 | 8 |
| 2Amortization of Net Actuarial Loss from Other Comprehensive Income Charged to: | | |
| Electric Operation and Maintenance Expenses | \$ 78 | \$ 33 |

Edgar Filing: Otter Tail Corp - Form 10-Q

Other Nonelectric Expenses 73 (21)

Postretirement Benefits—Components of net periodic postretirement benefit cost for health insurance and life insurance benefits for retired OTP and corporate employees, net of the effect of Medicare Part D Subsidy:

| (in thousands) | Three Months Ended March | |
|---|--------------------------|-----------|
| | 31, 2015 | 2014 |
| Service Cost—Benefit Earned During the Period | \$ 375 | \$ 315 |
| Interest Cost on Projected Benefit Obligation | 550 | 558 |
| Amortization of Prior-Service Cost: | | |
| From Regulatory Asset | 51 | 51 |
| From Other Comprehensive Income ¹ | 1 | 1 |
| Amortization of Net Actuarial Loss: | | |
| From Regulatory Asset | 48 | -- |
| From Other Comprehensive Income ¹ | 1 | -- |
| Net Periodic Postretirement Benefit Cost | \$ 1,026 | \$ 925 |
| Effect of Medicare Part D Subsidy | \$ (450) | \$ (308) |

¹ Corporate cost included in Other Nonelectric Expenses.

12. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Short-Term Investments—The carrying amount approximates fair value because of the short-term maturity of those instruments.

Short-Term Debt—The carrying amount approximates fair value because the debt obligations are short-term and the balances outstanding as of March 31, 2015 and December 31, 2014 related to the Otter Tail Corporation Credit Agreement and the OTP Credit Agreement were subject to variable interest rates of LIBOR plus 1.75% and LIBOR plus 1.25%, respectively, which approximate market rates.

Long-Term Debt including Current Maturities—The fair value of the Company's and OTP's long-term debt is estimated based on the current market indications of rates available to the Company for the issuance of debt. The Company's long-term debt subject to variable interest rates approximates fair value. The fair value measurements of the Company's long-term debt issues fall into level 2 of the fair value hierarchy set forth in ASC 820.

| (in thousands) | March 31, 2015 | | December 31, 2014 | |
|---|-----------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and Cash Equivalents | \$ 157 | \$ 157 | \$ -- | \$ -- |
| Short-Term Debt | (48,652) | (48,652) | (10,854) | (10,854) |
| Long-Term Debt including Current Maturities | (498,641) | (571,801) | (498,690) | (600,828) |

14. Income Tax Expense – Continuing Operations

The following table provides a reconciliation of income tax expense calculated at the net composite federal and state statutory rate on income from continuing operations before income taxes and income tax expense for continuing operations reported on the Company's consolidated statements of income for the three month periods ended March 31, 2015 and 2014:

| (in thousands) | Three Months Ended March 31, | |
|--|------------------------------|-----------|
| | 2015 | 2014 |
| Income Before Income Taxes – Continuing Operations | \$ 17,854 | \$ 30,341 |
| Tax Computed at Company's Net Composite Federal and State Statutory Rate (39%) | 6,963 | 11,833 |
| Increases (Decreases) in Tax from: | | |
| Federal Production Tax Credits | (2,054) | (2,252) |
| Section 199 Domestic Production Activities Deduction | (362) | (358) |
| North Dakota Wind Tax Credit Amortization – Net of Federal Taxes | (212) | (212) |
| Employee Stock Ownership Plan Dividend Deduction | (172) | (189) |
| AFUDC Equity | (100) | (133) |
| Corporate Owned Life Insurance | (80) | (112) |
| Other Items – Net | 90 | (15) |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | | | |
|---|----------|---|----------|---|
| Income Tax Expense – Continuing Operations | \$ 4,073 | | \$ 8,562 | |
| Effective Income Tax Rate – Continuing Operations | 22.8 | % | 28.2 | % |

The following table summarizes the activity related to our unrecognized tax benefits:

| (in thousands) | 2015 | 2014 |
|---|--------|----------|
| Balance on January 1 | \$ 222 | \$ 4,239 |
| Increases Related to Tax Positions for Prior Years | -- | 137 |
| Increases Related to Tax Positions for Current Year | 44 | -- |
| Uncertain Positions Resolved During Year | -- | -- |
| Balance on March 31 | \$ 266 | \$ 4,376 |

The balance of unrecognized tax benefits as of March 31, 2015 would reduce our effective tax rate if recognized. The total amount of unrecognized tax benefits as of March 31, 2015 is not expected to change significantly within the next twelve months. The Company classifies interest and penalties on tax uncertainties as components of the provision for income taxes in its consolidated statement of income. No interest is accrued on tax uncertainties as of March 31, 2015.

The Company and its subsidiaries file a consolidated U.S. federal income tax return and various state and foreign income tax returns. As of March 31, 2015, with limited exceptions, the Company is no longer subject to examinations by taxing authorities for tax years prior to 2011. On September 13, 2013 the IRS and U.S. Treasury issued final regulations on the deductibility and capitalization of expenditures related to tangible property, generally effective for tax years beginning on or after January 1, 2014. Taxpayers were allowed to elect early adoption of the regulations for the 2012 or 2013 tax year. Deferred tax liabilities at March 31, 2015 are not materially affected by the regulations. The final regulations do not impact the effect of Revenue Procedure 2013-24 issued on April 30, 2013, which provided guidance for repairs related to generation property. Among other things, the Revenue Procedure listed units of property and material components of units of property for purposes of analyzing repair versus capitalization issues. The Company will adopt Revenue Procedure 2013-24 and the final tangible property regulations for income tax filings for tax year 2014.

16. Discontinued Operations

In 2014 the Company entered into signed letters of intent to sell its two construction companies that made up its Construction segment. On April 30, 2015 the Company sold Foley Company (Foley), its former water, wastewater, power and industrial construction contractor headquartered in Kansas City, Missouri, for \$12.0 million in cash plus adjustments for working capital and other related items to be determined within 120 days of closing. On February 28, 2015 the Company sold the assets of its former energy and electrical construction contractor headquartered in Moorhead, Minnesota (AEV, Inc.) in exchange for \$22.3 million in cash plus an estimated \$0.9 million in adjustments for working capital and fixed assets to be determined within 90 days of closing. The Company recorded an estimated \$7.2 million net-of-tax gain on the sale of AEV, Inc. The assets, liabilities, operating results and cash flows of Foley and AEV, Inc. are being reported as discontinued operations as of, and for the periods preceding, March 31, 2015. On February 8, 2013 the Company completed the sale of substantially all the assets of its former waterfront equipment manufacturing company previously included in the Company's Manufacturing segment. On November 30, 2012 the Company completed the sale of the assets of its former wind tower manufacturing company. The following summary presentations of the results of discontinued operations for the three-month periods ended March 31, 2015 and 2014, include the operating results of Foley, AEV, Inc. and residual expenses from the Company's former wind tower and waterfront equipment manufacturers:

| (in thousands) | For the Three Months Ended | |
|-----------------------------------|----------------------------|-----------|
| | March 31, | |
| | 2015 | 2014 |
| Operating Revenues | \$ 18,724 | \$ 25,506 |
| Operating Expenses | 22,141 | 26,368 |
| Goodwill Impairment Charge | 1,000 | -- |
| Operating Loss | (4,417) | (862) |
| Other (Deductions) Income | (31) | 288 |
| Income Tax Benefit | (1,376) | (225) |
| Net Loss from Operations | (3,072) | (349) |
| Gain on Disposition Before Taxes | 12,042 | -- |
| Income Tax Expense on Disposition | 4,816 | -- |
| Net Gain on Disposition | 7,226 | -- |
| Net Income (Loss) | \$ 4,154 | \$ (349) |

Following are summary presentations of the major components of assets and liabilities of discontinued operations as of March 31, 2015 and December 31, 2014:

Edgar Filing: Otter Tail Corp - Form 10-Q

| (in thousands) | March 31, 2015 | December 31, 2014 |
|--|-------------------|----------------------|
| Current Assets | \$ 26,928 | \$ 35,174 |
| Goodwill and Intangibles | 1,814 | 2,814 |
| Net Plant | 4,429 | 10,669 |
| Assets of Discontinued Operations | \$ 33,171 | \$ 48,657 |
| Current Liabilities | \$ 15,616 | \$ 22,864 |
| Deferred Income Taxes | 5,116 | 4,695 |
| Liabilities of Discontinued Operations | \$ 20,732 | \$ 27,559 |

Foley and AEV, Inc. entered into fixed-price construction contracts. Revenues under these contracts have been recognized on a percentage-of-completion basis. The method used to determine the progress of completion is based on the ratio of costs incurred to total estimated costs on construction projects.

The following tables summarize costs incurred and billings and estimated earnings recognized on uncompleted contracts included in current assets and current liabilities of discontinued operations:

| (in thousands) | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| Costs Incurred on Uncompleted Contracts | \$339,594 | \$ 402,332 |
| Less Billings to Date | (354,256) | (411,909) |
| Plus Estimated Earnings Recognized | 14,458 | 15,154 |
| Net Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts | \$(204) | \$ 5,577 |

| (in thousands) | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts | \$3,216 | \$ 8,133 |
| Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts | (3,420) | (2,556) |
| Net Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts | \$(204) | \$ 5,577 |

The Company has a standard quarterly Estimate at Completion process in which management reviews the progress and performance of the Company's contracts accounted for under percentage-of-completion accounting. As part of this process, management reviews include, but are not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities, and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule, technical requirements and other contract requirements. Management must make assumptions regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the contract, and performance by subcontractors, among other variables. Based on this analysis, any adjustments to net sales, costs of sales, and the related impact to operating income are recorded as necessary in the period they become known. These adjustments may result from positive program performance and an increase in operating profit during the performance of individual contracts if management determines it will be successful in mitigating risks surrounding the technical, schedule, and cost aspects of those contracts or realizing related opportunities. Likewise, these adjustments may result in a decrease in operating profit if management determines it will not be successful in mitigating these risks or realizing related opportunities. Changes in estimates of net sales, costs of sales, and the related impact to operating income are recognized using a cumulative catch-up, which recognizes, in the current period, the cumulative effect of the changes on current and prior periods based on a contract's percent complete. A significant change in one or more of these estimates could affect the profitability of one or more of the Company's contracts. If a loss is indicated at a point in time during a contract, a projected loss for the entire contract is estimated and recognized. An increase in estimated costs on one large job in progress at Foley in excess of previous period cost estimates resulted in \$2.3 million in pretax charges in the first quarter of 2015.

In the fourth quarter of 2014 the Company entered into negotiations to sell Foley and, as a result of an impairment indicator, the Company recorded a \$5.6 million goodwill impairment charge. This impairment charge was based on the indicated offering price in a signed letter of intent for the purchase of Foley. In the first quarter of 2015, Foley recorded an additional \$1.0 million goodwill impairment charge as a result of a revision in the estimated valuation of Foley due to first quarter financial results. The first quarter 2015 goodwill impairment loss is reflected in the results of

discontinued operations and the remaining goodwill balance related to Foley is included in assets of discontinued operations.

Included in current liabilities of discontinued operations are warranty reserves. Details regarding the warranty reserves follow:

| (in thousands) | 2015 | 2014 |
|--|----------|----------|
| Warranty Reserve Balance, January 1 | \$ 2,527 | \$ 3,087 |
| Additional Provision for Warranties Made During the Year | -- | -- |
| Settlements Made During the Year | (6) | -- |
| Decrease in Warranty Estimates for Prior Years | -- | (100) |
| Warranty Reserve Balance, March 31 | \$ 2,521 | \$ 2,987 |

The warranty reserve balances as of March 31, 2015 relate entirely to warranties scheduled to expire over the next five years on products produced by the Company's former wind tower and waterfront equipment manufacturing companies. Expenses associated with remediation activities of these companies could be substantial. Although the assets of these companies have been sold and their operating results are reported under discontinued operations in the Company's consolidated statements of income, the Company retains responsibility for warranty claims related to the products these companies produced prior to the companies being sold. For wind towers, the potential exists for multiple claims based on one defect repeated throughout the production process or for claims where the cost to repair or replace the defective part is highly disproportionate to the original cost of the part. For example, if the Company is required to cover remediation expenses in addition to regular warranty coverage, the Company could be required to accrue additional expenses and experience additional unplanned cash expenditures which could adversely affect the Company's consolidated results of operations and financial condition.

Retainage

Assets of discontinued operations include the following amounts billed under contracts by the Company's construction companies that have been retained by customers pending project completion:

| (in thousands) | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| Accounts Receivable Retained by Customers | \$4,018 | \$ 6,759 |

17. Subsequent Events

Sale of Foley

On April 30, 2015 the Company completed the sale of Foley in exchange for \$12.0 million in cash plus adjustments for working capital and other related items to be determined within 120 days of closing. Although the net carrying value of Foley had been adjusted to its indicated fair value through goodwill impairment charges recorded prior to the sale based on acceptance of the buyer's offering price, the final proceeds and loss on sale will not be known until the adjustments for working capital and other related items have been determined.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Following is an analysis of the operating results of Otter Tail Corporation (the Company, we, us and our) by business segment for the three months ended March 31, 2015 and 2014, followed by a discussion of changes in our consolidated financial position during the three months ended March 31, 2015 and our business outlook for the remainder of 2015.

Comparison of the Three Months Ended March 31, 2015 and 2014

Consolidated operating revenues were \$202.8 million for the three months ended March 31, 2015 compared with \$215.0 million for the three months ended March 31, 2014. Operating income was \$25.0 million for the three months ended March 31, 2015 compared with \$35.4 million for the three months ended March 31, 2014. The Company recorded diluted earnings per share from continuing operations of \$0.37 for the three months ended March 31, 2015 compared with \$0.60 for the three months ended March 31, 2014, and total diluted earnings per share of \$0.48 for the three months ended March 31, 2015 compared with \$0.59 for the three months ended March 31, 2014.

Amounts presented in the segment tables that follow for operating revenues, cost of products sold and other nonelectric operating expenses for the three month periods ended March 31, 2015 and 2014 will not agree with amounts presented in the consolidated statements of income due to the elimination of intersegment transactions. The amounts of intersegment eliminations by income statement line item are listed below:

| Intersegment Eliminations (in thousands) | March 31, 2015 | March 31, 2014 |
|--|----------------|----------------|
| Operating Revenues: | | |
| Electric | \$ 14 | \$ 40 |
| Nonelectric | 3 | -- |
| Cost of Products Sold | -- | 2 |
| Other Nonelectric Expenses | 17 | 38 |

Electric

| (in thousands) | Three Months Ended | | Change | % Change |
|---|--------------------|------------|------------|----------|
| | 2015 | 2014 | | |
| Retail Sales Revenues | \$ 103,614 | \$ 105,504 | \$(1,890) | (1.8) |
| Wholesale Revenues – Company Generation | 1,060 | 4,900 | (3,840) | (78.4) |
| Net Revenue – Energy Trading Activity | 127 | (269) | 396 | 147.2 |
| Other Revenues | 8,746 | 8,953 | (207) | (2.3) |
| Total Operating Revenues | \$ 113,547 | \$ 119,088 | \$(5,541) | (4.7) |
| Production Fuel | 14,599 | 22,030 | (7,431) | (33.7) |
| Purchased Power – System Use | 23,692 | 21,785 | 1,907 | 8.8 |
| Other Operation and Maintenance Expenses | 37,527 | 34,622 | 2,905 | 8.4 |
| Depreciation and Amortization | 11,064 | 10,763 | 301 | 2.8 |
| Property Taxes | 3,502 | 2,971 | 531 | 17.9 |
| Operating Income | \$ 23,163 | \$ 26,917 | \$(3,754) | (13.9) |
| Electric kilowatt-hour (kwh) Sales (in thousands) | | | | |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | | | |
|--|-----------|-----------|-----------|---------|
| Retail kwh Sales | 1,361,683 | 1,397,891 | (36,208) | (2.6) |
| Wholesale kwh Sales – Company Generation | 36,097 | 73,305 | (37,208) | (50.8) |
| Wholesale kwh Sales – Purchased Power Resold | 20 | 1,611 | (1,591) | (98.8) |
| Heating Degree Days | 3,337 | 4,089 | (752) | (18.4) |

The \$1.9 million decrease in retail revenue includes:

A \$3.3 million decrease in revenues due to much milder winter weather in 2015 compared with 2014, which was the main factor contributing to the 2.6% decrease in retail kilowatt-hour (kwh) sales.

A \$1.6 million decrease in fuel clause adjustment (FCA) revenues and fuel and purchased power costs recovered in base rates related to decreased kwh sales and lower costs recoverable through the FCA, all factors that were impacted by the milder winter of 2015.

A \$0.4 million reduction in Big Stone II Cost Recovery rider revenues as the North Dakota share of abandoned plant costs were fully recovered as of March 31, 2014.

offset by:

A \$1.9 million increase in Environmental Cost Recovery (ECR) rider revenues related to earning a return in North Dakota and Minnesota on increasing amounts invested in the air quality control system (AQCS) under construction at Big Stone Plant, and the initiation of an ECR rider in South Dakota in December 2014 to recover costs and earn a return on amounts invested in the Big Stone Plant AQCS and the Hoot Lake Plant Mercury and Air Toxics Standards project.

A \$1.0 million increase in revenue from kwh sales to customers whose demand was not negatively impacted by the weather, mainly pipeline operators.

A \$0.5 million increase in revenues in the first quarter of 2015 related to an increase in conservation program incentives recoverable under the Minnesota Conservation Improvement Program rider.

Wholesale electric revenues from company-owned generation decreased \$3.8 million as a result of a 56.1% decrease in revenue per wholesale kwh sold combined with a 50.8% decrease in sales volume. The decrease in wholesale kwh sales and prices was driven by decreased wholesale market demand resulting from much milder weather in the first quarter of 2015. Also, Otter Tail Power Company (OTP) had fewer resources available for selling into the wholesale market as Coyote Station was operating at reduced load due to a December 2014 boiler feed pump failure and ensuing fire, and Big Stone Plant was taken off line February 27, 2015 for a planned spring outage. Additionally, Hoot Lake Plant was curtailed for economic dispatch reasons related to low market prices for electricity and generation from company-owned wind turbines was down 9.8% from the first quarter of 2014 due to icing, scheduled repairs and lower average wind speed in the first quarter of 2015.

Production fuel costs decreased \$7.4 million as a result of a 30.3% decrease in kwhs generated from OTP's steam-powered and combustion turbine generators primarily due to the factors discussed above. The cost of purchased power to serve retail customers increased \$1.9 million due to a 43.1% increase in kwhs purchased, partially offset by a 24.0% decrease in the cost per kwh purchased. The increase in power purchases for retail sales was necessitated by the reduced availability of company-owned generating capacity discussed above. The decreased cost per kwh purchased was driven by lower market demand mainly resulting from the milder winter weather in 2015.

Electric operating and maintenance expenses increased \$2.9 million mainly as a result of:

A \$1.6 million increase in external service costs related to maintenance work being performed during Big Stone Plant's extended spring maintenance which began February 27, 2015 in conjunction with tying in the new AQCS.

A \$0.8 million increase in Midcontinent Independent System Operator, Inc. (MISO) transmission service charges related to increasing investments in regional CapX2020 and MISO-designated Multi-Value Projects.

A \$0.5 million increase in expenditures for vegetation maintenance and control around power lines.

A \$0.4 million increase in labor benefit costs, mainly related to an increase in corporate costs allocated to utility operations.

offset by:

A \$0.4 million reduction in the amortization of the North Dakota share of Big Stone II abandoned plant costs which were fully recovered as of March 31, 2014.

Depreciation expense increased \$0.3 million as a result of increased investment in transmission, distribution and general plant placed in service in 2014 and 2015.

The \$0.5 million increase in property tax expense was due to higher assessed values of property in Minnesota and South Dakota in combination with increasing investments in transmission and distribution property, mainly in Minnesota.

34

| Manufacturing | | | | |
|-------------------------------|--------------------|-----------|-------------|----------|
| (in thousands) | Three Months Ended | | | % Change |
| | March 31, | | | |
| | 2015 | 2014 | Change | |
| Operating Revenues | \$ 56,759 | \$ 55,435 | \$ 1,324 | 2.4 |
| Cost of Products Sold | 45,699 | 42,199 | 3,500 | 8.3 |
| Operating Expenses | 5,938 | 5,225 | 713 | 13.6 |
| Depreciation and Amortization | 2,592 | 2,620 | (28) | (1.1) |
| Operating Income | \$ 2,530 | \$ 5,391 | \$ (2,861) | (53.1) |

The increase in revenues in our Manufacturing segment reflects the following:

Revenues at BTD Manufacturing, Inc. (BTD), our metal parts stamping and fabrication company, increased \$0.5 million primarily as a result of increased demand in recreational and lawn and garden equipment end markets, offset by reductions in demand in agriculture and wind energy equipment end markets, lower tooling revenues and a decrease in revenue from the sale of scrap-metal due to commodity price reductions.

Revenues at T.O. Plastics, Inc. (T.O. Plastics), our manufacturer of thermoformed plastic and horticultural products, increased \$0.8 million. While sales volume for horticultural products was flat quarter over quarter, an increase in sales of higher priced products relative to a decrease in sales of lower priced products resulted in a \$0.4 million increase in horticultural sales revenues. An increase in sales of various other products to industrial customers also contributed \$0.4 million to the increase in revenue.

The increase in cost of products sold in our Manufacturing segment relates to the following:

Cost of products sold at BTD increased \$2.3 million, including a \$1.8 million increase in material costs related to increased sales combined with lower productivity efficiencies and a \$0.5 million increase in benefit costs.

Cost of products sold at T.O. Plastics increased \$1.2 million including a \$0.9 million increase in material and labor costs related to the increase in sales and a \$0.3 million increase in shipping costs, mainly related to less than full load shipments of horticultural products to meet customer demand and delivery dates.

The increase in operating expenses in our Manufacturing segment is mostly due to a \$0.6 million increase in employee benefit expenses at BTD.

| Plastics | | | | |
|-------------------------------|--------------------|-----------|-------------|----------|
| (in thousands) | Three Months Ended | | | % Change |
| | March 31, | | | |
| | 2015 | 2014 | Change | |
| Operating Revenues | \$ 32,552 | \$ 40,483 | \$ (7,931) | (19.6) |
| Cost of Products Sold | 25,799 | 31,742 | (5,943) | (18.7) |
| Operating Expenses | 2,290 | 2,117 | 173 | 8.2 |
| Depreciation and Amortization | 848 | 853 | (5) | (0.6) |

Edgar Filing: Otter Tail Corp - Form 10-Q

| | | | | |
|------------------|----------|----------|-------------|---------|
| Operating Income | \$ 3,615 | \$ 5,771 | \$ (2,156) | (37.4) |
|------------------|----------|----------|-------------|---------|

The \$7.9 million decrease in Plastic segment revenues is the result of a 20.6% decrease in pounds of polyvinyl chloride (PVC) pipe sold due, in part, to delayed purchases related to falling resin prices, partially offset by a 1.3% increase in the price per pound of pipe sold. The decrease in sales was geographically dispersed with the most significant decreases occurring in Texas, Minnesota, North Dakota, Kansas and Arizona. The \$5.9 million decrease in costs of products sold is due to the decrease in sales volume, partially offset by a 2.4% increase in the cost per pound of pipe sold related to higher labor, benefit and fixed overhead costs per pound of PVC pipe produced and sold. A \$0.2 million increase in operating expenses was mainly related to an increase in wage and benefit costs.

Corporate

Corporate includes items such as corporate staff and overhead costs, the results of our captive insurance company and other items excluded from the measurement of operating segment performance. Corporate is not an operating segment. Rather it is added to operating segment totals to reconcile to totals on our consolidated statements of income.

| (in thousands) | Three Months Ended | | | Change | % Change |
|----------------------------------|--------------------|----------|----------|--------|-------------|
| | March 31, | | | | |
| | 2015 | 2014 | | | |
| Operating Expenses | \$ 4,252 | \$ 2,647 | \$ 1,605 | | 60.6 |
| Depreciation and Amortization | 31 | 31 | -- | | -- |

Corporate operating expenses increased \$1.6 million due to:

A \$1.0 million increase in health care related benefit costs.

A \$0.8 million increase in stock-based compensation incentive costs, mainly related to accelerated vesting for certain employees being eligible for retirement.

A \$0.4 million increase in costs related to leadership development and leadership succession.

offset by:

A net increase in corporate costs allocated to utility operations of approximately \$0.7 million related to the increase in corporate benefit and stock incentive costs and higher allocation rates resulting from recent divestitures of nonutility operations.

Interest Charges

The \$1.1 million increase in interest charges in the first three months of 2015 compared with the first three months of 2014 reflects:

a \$1.3 million increase in interest expense incurred in January and February of 2015 at OTP related to the February 27, 2014 issuance of \$60 million aggregate principal amount of OTP's 4.68% Series A Senior Unsecured Notes due February 27, 2029 and \$90 million aggregate principal amount of OTP's 5.47% Series B Senior Unsecured Notes due February 27, 2044.

offset by:

A \$0.2 million reduction in interest expense related to the February 27, 2014 repayment of OTP's \$40.9 million unsecured term loan under a Credit Agreement with JPMorgan Chase Bank, N.A., which bore interest at LIBOR plus 0.875% and a reduction in the daily average balance of short-term debt outstanding between quarters. OTP used a portion of the proceeds from the issuance of the Series A and B Senior Unsecured Notes referenced above to repay \$82.5 million of short-term debt then outstanding under the OTP Credit Agreement.

Other Income

The \$1.0 million decrease in other income in the three months ended March 31, 2015 compared with the three months ended March 31, 2014, reflects a \$0.8 million gain on the sale of an investment in tax-credit-qualified low income housing rental property in the first quarter of 2014 that was not duplicated in the first quarter of 2015 along with a \$0.2 million reduction in other income at OTP related to reductions in allowances for funds used during construction and other miscellaneous income.

Income Taxes – Continuing Operations

Income tax expense - continuing operations decreased \$4.5 million mainly as a result of a \$12.5 million decrease in income from continuing operations before income taxes between the first quarter of 2015 and the first quarter of 2014. The following table provides a reconciliation of income tax expense calculated at our net composite federal and state statutory rate on income from continuing operations before income taxes and income tax expense for continuing operations reported on our consolidated statements of income for the three month periods ended March 31, 2015 and 2014:

| (in thousands) | Three Months Ended March | | | | |
|--|--------------------------|--------|--------|--------|---|
| | 2015 | | 2014 | | |
| Income Before Income Taxes – Continuing Operations | \$ | 17,854 | \$ | 30,341 | |
| Tax Computed at Company’s Net Composite Federal and State Statutory Rate (39%) | | 6,963 | | 11,833 | |
| Increases (Decreases) in Tax from: | | | | | |
| Federal Production Tax Credits (PTCs) | (2,054 |) | (2,252 |) | |
| Section 199 Domestic Production Activities Deduction | (362 |) | (358 |) | |
| North Dakota Wind Tax Credit Amortization – Net of Federal Taxes | (212 |) | (212 |) | |
| Employee Stock Ownership Plan Dividend Deduction | (172 |) | (189 |) | |
| AFUDC Equity | (100 |) | (133 |) | |
| Corporate Owned Life Insurance | (80 |) | (112 |) | |
| Other Items – Net | 90 | | (15 |) | |
| Income Tax Expense – Continuing Operations | \$ | 4,073 | \$ | 8,562 | |
| Effective Income Tax Rate – Continuing Operations | | 22.8 | % | 28.2 | % |

Federal PTCs are recognized as wind energy is generated based on a per kwh rate prescribed in applicable federal statutes. OTP’s kwh generation from its wind turbines eligible for PTCs decreased 9.1% due to icing, scheduled repairs and lower average wind speed in the three months ended March 31, 2015 compared with the three months ended March 31, 2014. North Dakota wind energy credits are based on dollars invested in qualifying facilities and are being recognized on a straight-line basis over 25 years.

Discontinued Operations

In 2014 we entered into signed letters of intent to sell our two construction companies that made up our Construction segment. On April 30, 2015 we sold Foley Company (Foley), our former water, wastewater, power and industrial construction contractor for \$12.0 million in cash plus adjustments for working capital and other related items to be determined within 120 days of closing. Although the net carrying value of Foley had been adjusted to its indicated fair value through goodwill impairment charges recorded prior to the sale based on acceptance of the buyer’s offering price, the final proceeds and loss on sale will not be known until the adjustments for working capital and other related items have been determined. On February 28, 2015 we sold the assets of our former energy and electrical construction contractor (AEV, Inc.) in exchange for \$22.3 million in cash plus an estimated \$0.9 million in adjustments for working capital and fixed assets to be determined within 90 days of closing. We recorded an estimated \$7.2 million net-of-tax gain on the sale of AEV, Inc. On February 8, 2013 we completed the sale of substantially all the assets of our former waterfront equipment manufacturing company previously included in the our Manufacturing segment. On November 30, 2012 we completed the sale of the assets of our former wind tower manufacturing company. The following summary presentations of the results of discontinued operations for the three-month periods ended March

Edgar Filing: Otter Tail Corp - Form 10-Q

31, 2015 and 2014, include the operating results of Foley, AEV, Inc. and residual expenses from our former wind tower and waterfront equipment manufacturers:

| (in thousands) | For the Three Months Ended | |
|-----------------------------------|----------------------------|-----------|
| | March 31, | |
| | 2015 | 2014 |
| Operating Revenues | \$ 18,724 | \$ 25,506 |
| Operating Expenses | 22,141 | 26,368 |
| Goodwill Impairment Charge | 1,000 | -- |
| Operating Loss | (4,417) | (862) |
| Other (Deductions) Income | (31) | 288 |
| Income Tax Benefit | (1,376) | (225) |
| Net Loss from Operations | (3,072) | (349) |
| Gain on Disposition Before Taxes | 12,042 | -- |
| Income Tax Expense on Disposition | 4,816 | -- |
| Net Gain on Disposition | 7,226 | -- |
| Net Income (Loss) | \$ 4,154 | \$ (349) |

FINANCIAL POSITION

The following table presents the status of our lines of credit as of March 31, 2015 and December 31, 2014:

| (in thousands) | Line Limit | In Use on March 31, 2015 | Restricted due to Outstanding Letters of Credit | Available on March 31, 2015 | Available on December 31, 2014 |
|---|------------|--------------------------------|---|-----------------------------------|--------------------------------------|
| Otter Tail Corporation Credit Agreement | \$ 150,000 | \$ 40,846 | \$ 195 | \$ 108,959 | \$ 138,872 |
| OTP Credit Agreement | 170,000 | 7,806 | 560 | 161,634 | 169,440 |
| Total | \$ 320,000 | \$ 48,652 | \$ 755 | \$ 270,593 | \$ 308,312 |

We believe we have the necessary liquidity to effectively conduct business operations for an extended period if needed. Our balance sheet is strong and we are in compliance with our debt covenants. Financial flexibility is provided by operating cash flows, unused lines of credit, strong financial coverages, investment grade credit ratings and alternative financing arrangements such as leasing.

We believe our financial condition is strong and our cash, other liquid assets, operating cash flows, existing lines of credit, access to capital markets and borrowing ability because of investment-grade credit ratings, when taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to expansion of existing businesses and development of new projects.

Equity or debt financing will be required in the period 2015 through 2019 given the expansion plans related to our Electric segment to fund construction of new rate base investments. Also, such financing will be required should we decide to reduce borrowings under our lines of credit or refund or retire early any of our presently outstanding debt, to complete acquisitions or for other corporate purposes. Our operating cash flow and access to capital markets can be impacted by macroeconomic factors outside our control. In addition, our borrowing costs can be impacted by changing interest rates on short-term and long-term debt and ratings assigned to us by independent rating agencies, which in part are based on certain credit measures such as interest coverage and leverage ratios.

The determination of the amount of future cash dividends to be declared and paid will depend on, among other things, our financial condition, improvement in earnings per share, cash flows from operations, the level of our capital expenditures and our future business prospects. As a result of certain statutory limitations or regulatory or financing agreements, restrictions could occur on the amount of distributions allowed to be made by our subsidiaries. See note 8 to consolidated financial statements for more information. The decision to declare a dividend is reviewed quarterly by the board of directors. On February 3, 2015 our board of directors increased the quarterly dividend from \$0.3025 to \$0.3075 per common share.

Cash used in operating activities of continuing operations was \$2.1 million for the three months ended March 31, 2015 compared with \$12.2 million for the three months ended March 31, 2014. The main contributing factor to the \$10.1 million reduction in cash used in operating activities was a \$10.0 million decrease in discretionary contributions to our pension plan between the quarters. An \$8.0 million decrease in net income from continuing operations was mostly offset by a \$6.8 million reduction in cash used for working capital items between the quarters. In the Plastics segment net cash used for accounts receivable and inventory decreased \$16.0 million in the first quarter of 2015 compared with the first quarter of 2014, which corresponds with lower production and a 20.6% reduction in sales volume between the quarters. The \$16.0 million decrease in cash used for accounts receivable and inventory buildup was partially offset by a \$12.2 million increase in cash used for accounts payable in the Plastics segment, which is

also related to a decrease in production activity in the first quarter of 2015 compared to more sustained levels of production in the first quarter of 2014.

In continuing operations, net cash used in investing activities was \$37.9 million for the three months ended March 31, 2015 compared with \$37.5 million for the three months ended March 31, 2014. A \$2.5 million increase in cash used for investments between quarters was mostly offset by a \$1.6 million decrease in cash used for capital expenditures. The increase in cash used for investments between the quarters mainly reflects the deposit of \$2.0 million in proceeds from the sale of the assets of AEV, Inc. in the first quarter of 2015 into an escrow account. The \$1.6 million decrease in cash used for capital expenditures includes a \$6.4 million decrease in cash used for capital expenditures in our Electric segment, as work was completed on two major transmission line projects in 2015 and work begins to wind down on the Big Stone Plant AQCS, offset by a \$4.5 million increase in capital expenditures at BTD as it moves forward with its project to expand and realign its Minnesota production and warehouse facilities, which was initiated in the fourth quarter of 2014.

First quarter 2015 investing activities of discontinued operations includes \$21.3 million in cash proceeds from the sale of the assets of AEV, Inc., partially offset by \$1.8 million in cash used in investing activities of discontinued operations, mainly related to the purchase, by AEV, Inc., of assets being leased under operating leases prior to the assets being sold.

Net cash provided by financing activities was \$28.5 million for the three months ended March 31, 2015 compared with \$61.7 million for the three months ended March 31, 2014. Net cash provided by financing activities in the first quarter of 2015 includes \$37.8 million in short-term borrowings used, in part, to fund capital expenditures, offset by \$11.5 million in common stock dividend payments. Net cash provided by financing activities in the first quarter of 2014 mainly reflects the issuance by OTP of \$150 million in privately placed unsecured notes in two series on February 27, 2014, and the use of a portion of the proceeds of the notes to retire OTP's \$40.9 million unsecured term loan and to repay short-term debt outstanding under the OTP Credit Agreement which was being used to finance OTP's construction activities. First quarter 2014 financing activities also reflect the payment of \$11.0 million in common stock dividends, OTP's repayment of \$51.2 million in short-term debt outstanding under the OTP Credit Agreement on December 31, 2013 and the borrowing of \$11.9 million under the Otter Tail Corporation Credit Agreement to fund the working capital needs of our manufacturing and infrastructure companies.

CAPITAL REQUIREMENTS

2015-2019 Capital Expenditures

The following table shows our 2014 capital expenditures and 2015 through 2019 anticipated capital expenditures and electric utility average rate base:

| (in millions) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------|-------|---------|---------|---------|---------|
| Capital Expenditures: | | | | | | |
| Electric Segment: | | | | | | |
| Transmission | | \$55 | \$90 | \$56 | \$58 | \$40 |
| Environmental | | 56 | 3 | -- | -- | -- |
| Other | | 40 | 42 | 39 | 79 | 107 |
| Total Electric Segment | \$149 | \$151 | \$135 | \$95 | \$137 | \$147 |
| Manufacturing and Plastics Segments | 15 | 32 | 16 | 19 | 27 | 16 |
| Total Capital Expenditures | \$164 | \$183 | \$151 | \$114 | \$164 | \$163 |
| Total Electric Utility Average Rate Base | | \$957 | \$1,017 | \$1,070 | \$1,118 | \$1,196 |

Execution on the currently anticipated electric utility capital expenditure plan is expected to grow rate base and be a key driver in increasing utility earnings over the 2015 through 2019 timeframe.

Contractual Obligations

Our contractual obligations reported in the table on page 51 of our Annual Report on Form 10-K for the year ended December 31, 2014 increased \$15.7 million in the first quarter of 2015. Our purchase obligations under coal contract commitments increased \$1.3 million for 2015 and \$8.7 million for 2016 and 2017 as a result of OTP entering into a contract in the first quarter of 2015 for the purchase of coal to meet a portion of Big Stone Plant's future coal requirements. Our obligations related to capacity and energy requirements increased \$2.9 million for 2015 as a result of OTP entering into an energy purchase agreement in the first quarter of 2015 for the purchase of electricity in April, May and June of 2015 to make up for reduced generation at Coyote Station. Our operating lease obligations increased

\$0.7 million in 2015, \$1.9 million in 2016 and 2017 and \$0.2 million in 2018 as a result of OTP entering into an agreement in April 2015 to extend the term of its lease of rail cars used for the transport of coal to Hoot Lake Plant by 36 months, beginning April 1, 2015.

CAPITAL RESOURCES

On May 11, 2012 we filed a shelf registration statement with the Securities and Exchange Commission (SEC) under which we may offer for sale, from time to time, either separately or together in any combination, equity, debt or other securities described in the shelf registration statement, which expires on May 10, 2015. On May 14, 2012, we entered into a Distribution Agreement with J.P. Morgan Securities (JPMS) under which we may offer and sell our common shares from time to time through JPMS, as our distribution agent, up to an aggregate sales price of \$75 million. In the first quarter of 2015 we received proceeds of \$1,223,000 net of \$25,000 paid to JPMS from the issuance of 38,160 common shares under this program. We are in the process of preparing to file a new shelf registration statement with the SEC and entering into a new Distribution Agreement with JPMS in May 2015.

Short-Term Debt

The following table presents the status of our lines of credit as of March 31, 2015 and December 31, 2014:

| (in thousands) | Line Limit | In Use on March 31, 2015 | Restricted due to Outstanding Letters of Credit | Available on March 31, 2015 | Available on December 31, 2014 |
|---|------------|-----------------------------|--|-----------------------------------|---|
| Otter Tail Corporation Credit Agreement | \$ 150,000 | \$ 40,846 | \$ 195 | \$ 108,959 | \$ 138,872 |
| OTP Credit Agreement | 170,000 | 7,806 | 560 | 161,634 | 169,440 |
| Total | \$ 320,000 | \$ 48,652 | \$ 755 | \$ 270,593 | \$ 308,312 |

On October 29, 2012 we entered into a Third Amended and Restated Credit Agreement (the Otter Tail Corporation Credit Agreement), which is an unsecured \$150 million revolving credit facility that may be increased to \$250 million on the terms and subject to the conditions described in the Otter Tail Corporation Credit Agreement. On November 3, 2014 the Otter Tail Corporation Credit Agreement was amended to extend its expiration date by one year from October 29, 2018 to October 29, 2019. We can draw on this credit facility to refinance certain indebtedness and support our operations and the operations of our subsidiaries. Borrowings under the Otter Tail Corporation Credit Agreement bear interest at LIBOR plus 1.75%, subject to adjustment based on our senior unsecured credit ratings. We are required to pay commitment fees based on the average daily unused amount available to be drawn under the revolving credit facility. The Otter Tail Corporation Credit Agreement contains a number of restrictions on us and the businesses of the Company's wholly owned subsidiary, Varistar Corporation, and its subsidiaries, including restrictions on our and their ability to merge, sell assets, make investments, create or incur liens on assets, guarantee the obligations of certain other parties and engage in transactions with related parties. The Otter Tail Corporation Credit Agreement also contains affirmative covenants and events of default, and financial covenants as described below under the heading "Financial Covenants." The Otter Tail Corporation Credit Agreement does not include provisions for the termination of the agreement or the acceleration of repayment of amounts outstanding due to changes in our credit ratings. Our obligations under the Otter Tail Corporation Credit Agreement are guaranteed by certain of our subsidiaries. Outstanding letters of credit issued by us under the Otter Tail Corporation Credit Agreement can reduce the amount available for borrowing under the line by up to \$40 million.

On October 29, 2012 OTP entered into a Second Amended and Restated Credit Agreement (the OTP Credit Agreement), providing for an unsecured \$170 million revolving credit facility that may be increased to \$250 million on the terms and subject to the conditions described in the OTP Credit Agreement. On November 3, 2014 the OTP Credit Agreement was amended to extend its expiration date by one year from October 29, 2018 to October 29, 2019.

OTP can draw on this credit facility to support the working capital needs and other capital requirements of its operations, including letters of credit in an aggregate amount not to exceed \$50 million outstanding at any time. Borrowings under this line of credit bear interest at LIBOR plus 1.25%, subject to adjustment based on the ratings of OTP's senior unsecured debt. OTP is required to pay commitment fees based on the average daily unused amount available to be drawn under the revolving credit facility. The OTP Credit Agreement contains a number of restrictions on the business of OTP, including restrictions on its ability to merge, sell assets, make investments, create or incur liens on assets, guarantee the obligations of any other party, and engage in transactions with related parties. The OTP Credit Agreement also contains affirmative covenants and events of default, and financial covenants as described below under the heading "Financial Covenants." The OTP Credit Agreement does not include provisions for the termination of the agreement or the acceleration of repayment of amounts outstanding due to changes in OTP's credit ratings. OTP's obligations under the OTP Credit Agreement are not guaranteed by any other party.

Long-Term Debt

2013 Note Purchase Agreement

On August 14, 2013 OTP entered into a Note Purchase Agreement (the 2013 Note Purchase Agreement) with the Purchasers named therein, pursuant to which OTP agreed to issue to the Purchasers, in a private placement transaction, \$60 million aggregate principal amount of OTP's 4.68% Series A Senior Unsecured Notes due February 27, 2029 (the Series A Notes) and \$90 million aggregate principal amount of OTP's 5.47% Series B Senior Unsecured Notes due February 27, 2044 (the Series B Notes and, together with the Series A Notes, the Notes). On February 27, 2014 OTP issued all \$150 million aggregate principal amount of the Notes. OTP used a portion of the proceeds of the Notes to retire its \$40.9 million term loan under a Credit Agreement with JPMorgan Chase Bank, N.A. and to repay \$82.5 million of short-term debt then outstanding under the OTP Credit Agreement. Remaining proceeds of the Notes were used to fund OTP construction program expenditures.

The 2013 Note Purchase Agreement states that OTP may prepay all or any part of the Notes (in an amount not less than 10% of the aggregate principal amount of the Notes 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, provided that if no default or event of default under the 2013 Note Purchase Agreement exists, any optional prepayment made by OTP of (i) all of the Series A Notes then outstanding on or after November 27, 2028 or (ii) all of the Series B Notes then outstanding on or after November 27, 2043, will be made at 100% of the principal prepaid but without any make-whole amount. In addition, the 2013 Note Purchase Agreement states OTP must offer to prepay all of the outstanding Notes at 100% of the principal amount together with unpaid accrued interest in the event of a change of control of OTP.

The 2013 Note Purchase Agreement contains a number of restrictions on the business of OTP, including restrictions on OTP's ability to merge, sell assets, create or incur liens on assets, guarantee the obligations of any other party, and engage in transactions with related parties. The 2013 Note Purchase Agreement also contains affirmative covenants and events of default, as well as certain financial covenants as described below under the heading "Financial Covenants." The 2013 Note Purchase Agreement does not include provisions for the termination of the agreement or the acceleration of repayment of amounts outstanding due to changes in OTP's credit ratings. The 2013 Note Purchase Agreement includes a "most favored lender" provision generally requiring that in the event OTP's existing credit agreement or any renewal, extension or replacement thereof, at any time contains any financial covenant or other provision providing for limitations on interest expense and such a covenant is not contained in the 2013 Note Purchase Agreement under substantially similar terms or would be more beneficial to the holders of the Notes than any analogous provision contained in the 2013 Note Purchase Agreement (an "Additional Covenant"), then unless waived by the Required Holders (as defined in the 2013 Note Purchase Agreement), the Additional Covenant will be deemed to be incorporated into the 2013 Note Purchase Agreement. The 2013 Note Purchase Agreement also provides for the amendment, modification or deletion of an Additional Covenant if such Additional Covenant is amended or modified under or deleted from the OTP credit agreement, provided that no default or event of default has occurred and is continuing.

2007 and 2011 Note Purchase Agreements

On December 1, 2011, OTP issued \$140 million aggregate principal amount of its 4.63% Senior Unsecured Notes due December 1, 2021 pursuant to a Note Purchase Agreement dated as of July 29, 2011 (2011 Note Purchase Agreement). OTP also has outstanding its \$155 million senior unsecured notes issued in four series consisting of \$33 million aggregate principal amount of 5.95% Senior Unsecured Notes, Series A, due 2017; \$30 million aggregate principal amount of 6.15% Senior Unsecured Notes, Series B, due 2022; \$42 million aggregate principal amount of 6.37% Senior Unsecured Notes, Series C, due 2027; and \$50 million aggregate principal amount of 6.47% Senior Unsecured Notes, Series D, due 2037 (collectively, the 2007 Notes). The 2007 Notes were issued pursuant to a Note

Purchase Agreement dated as of August 20, 2007 (the 2007 Note Purchase Agreement).

The 2011 Note Purchase Agreement and the 2007 Note Purchase Agreement each states that OTP may prepay all or any part of the notes issued thereunder (in an amount not less than 10% of the aggregate principal amount of the notes 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 2011 Note Purchase Agreement states in the event of a transfer of utility assets put event, the noteholders thereunder have the right to require OTP to repurchase the notes held by them in full, together with accrued interest and a make-whole amount, on the terms and conditions specified in the 2011 Note Purchase Agreement. The 2011 Note Purchase Agreement and the 2007 Note Purchase Agreement each also states that OTP must offer to prepay all of the outstanding notes issued thereunder at 100% of the principal amount together with unpaid accrued interest in the event of a change of control of OTP. The note purchase agreements contain a number of restrictions on OTP, including restrictions on OTP's ability to merge, sell assets, create or incur liens on assets, guarantee the obligations of any other party, and engage in transactions with related parties. The note purchase agreements also include affirmative covenants and events of default, and certain financial covenants as described below under the heading "Financial Covenants."

Financial Covenants

We were in compliance with the financial covenants in our debt agreements as of March 31, 2015.

No Credit or Note Purchase Agreement contains any provisions that would trigger an acceleration of the related debt as a result of changes in the credit rating levels assigned to the related obligor by rating agencies.

Our borrowing agreements are subject to certain financial covenants. Specifically:

Under the Otter Tail Corporation Credit Agreement, we may not permit the ratio of our Interest-bearing Debt to Total Capitalization to be greater than 0.60 to 1.00 or permit our Interest and Dividend Coverage Ratio to be less than 1.50 to 1.00 (each measured on a consolidated basis), as provided in the Otter Tail Corporation Credit Agreement. As of March 31, 2015 our Interest and Dividend Coverage Ratio calculated under the requirements of the Otter Tail Corporation Credit Agreement was 3.24 to 1.00.

Under the OTP Credit Agreement, OTP may not permit the ratio of its Interest-bearing Debt to Total Capitalization to be greater than 0.60 to 1.00.

Under the 2007 Note Purchase Agreement and 2011 Note Purchase Agreement, OTP may not permit the ratio of its Consolidated Debt to Total Capitalization to be greater than 0.60 to 1.00 or permit its Interest and Dividend Coverage Ratio to be less than 1.50 to 1.00, in each case as provided in the related borrowing agreement, and OTP may not permit its Priority Debt to exceed 20% of its Total Capitalization, as provided in the related agreement. As of March 31, 2015 OTP's Interest and Dividend Coverage Ratio and Interest Charges Coverage Ratio, calculated under the requirements of the 2007 Note Purchase Agreement and 2011 Note Purchase Agreement, was 3.04 to 1.00.

Under the 2013 Note Purchase Agreement, OTP may not permit its Interest-bearing Debt to exceed 60% of Total Capitalization and may not permit its Priority Indebtedness to exceed 20% of its Total Capitalization, each as provided in the 2013 Note Purchase Agreement.

As of March 31, 2015 our ratio of interest-bearing debt to total capitalization was 0.48 to 1.00 on a consolidated basis and 0.49 to 1.00 for OTP.

OFF-BALANCE-SHEET ARRANGEMENTS

We and our subsidiary companies have outstanding letters of credit totaling \$6.0 million, but our line of credit borrowing limits are only restricted by \$0.8 million of the outstanding letters of credit. We do not have any other off-balance-sheet arrangements or any relationships with unconsolidated entities or financial partnerships. These entities are often referred to as structured finance special purpose entities or variable interest entities, which are established for the purpose of facilitating off-balance-sheet arrangements or for other contractually narrow or limited purposes. We are not exposed to any financing, liquidity, market or credit risk that could arise if we had such relationships.

2015 BUSINESS OUTLOOK

We are revising our consolidated diluted earnings per share guidance for 2015 to be in the range of \$1.50 to \$1.65 from our previously announced range of \$1.65 to \$1.80. This updated guidance reflects the current mix of businesses owned by us. It considers the cyclical nature of some of our businesses and reflects challenges, as well as our plans

and strategies for improving future operating results.

Segment components of our 2014 diluted earnings per share and 2015 diluted earnings per share guidance range for continuing operations are as follows:

| | 2014 | 2015 Guidance February 9, 2015 | | 2015 Guidance Revised May 4, 2015 | |
|-------------------------------|------------|-----------------------------------|------------|--------------------------------------|------------|
| | | Low | High | Low | High |
| Diluted Earnings Per Share | | | | | |
| Electric | \$ 1.19 | \$ 1.26 | \$ 1.29 | \$ 1.23 | \$ 1.26 |
| Manufacturing | \$ 0.25 | \$ 0.37 | \$ 0.41 | \$ 0.21 | \$ 0.25 |
| Plastics | \$ 0.33 | \$ 0.25 | \$ 0.29 | \$ 0.29 | \$ 0.33 |
| Corporate | \$ (0.22) | \$ (0.23) | \$ (0.19) | \$ (0.23) | \$ (0.19) |
| Total – Continuing Operations | \$ 1.55 | \$ 1.65 | \$ 1.80 | \$ 1.50 | \$ 1.65 |
| Expected Return on Equity | | | | 9.5 % | 10.4 % |

Contributing to our updated earnings guidance for 2015 are the following items:

We expect 2015 net income for our Electric segment to decrease from our previously issued guidance primarily as a result of the lower than expected first quarter earnings, driven in part by warmer than normal weather, but also due to higher than expected claim costs and more participants associated with the long-term disability plans and an increase in coal plant reagent costs that were determined unrecoverable under rider by the Minnesota Public Utilities Commission in March 2015.

Other items affecting our 2015 Electric segment earnings guidance compared with 2014 earnings include:

Rider recovery increases, including environmental riders in Minnesota, North Dakota and South Dakota related to the Big Stone AQCS environmental upgrades while under construction.

Expected increases in sales to pipeline and commercial customers.

A decrease in plant maintenance costs, as unanticipated maintenance issues encountered during the 2014 Hoot Lake shutdown are not expected to occur in 2015.

offset by:

A decrease in transmission revenues for a potential reduction in the rate of return on equity granted by the Federal Energy Regulatory Commission under the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff.

An increase in pension costs as a result of an increase in projected benefit obligations based on a decrease in the discount rate from 5.30% to 4.35% and adoption of new mortality tables which have longer life expectancy assumptions.

Higher depreciation and property tax expense due to increased investment in transmission, generation, distribution and general plant placed in service in 2014 and 2015.

Higher short-term interest costs as major projects continue to be funded.

We are lowering our previous 2015 net income guidance from our Manufacturing segment due to:

A softness in the agriculture, energy, mining and oil and gas equipment end markets served by BTD's customers, declining commodity prices for scrap, increased costs of manufacturing due to lower productivity and increased severance costs relating to workforce reductions at BTD's manufacturing plants.

While we are lowering our guidance based on revised expectations for BTD, we expect earnings from T.O. Plastics to be better than projected in our original guidance based on an expected increase in sales of custom products.

Backlog for the manufacturing companies of approximately \$106 million for 2015 compared with \$115 million one year ago.

We are increasing our 2015 net income guidance from our Plastics segment due to lower than expected increases in raw material costs which will result in higher operating margins than originally projected. Sales volumes are

expected to be slightly lower than 2014 levels.

Corporate costs are still expected to be flat in 2015 compared with 2014.

Critical Accounting Policies Involving Significant Estimates

The discussion and analysis of the financial statements and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

We use estimates based on the best information available in recording transactions and balances resulting from business operations. Estimates are used for such items as depreciable lives, asset impairment evaluations, tax provisions, collectability of trade accounts receivable, self-insurance programs, unbilled electric revenues, accrued renewable resource, transmission, and environmental cost recovery rider revenues, valuations of forward energy contracts, percentage-of-completion, warranty and actuarially determined benefits costs and liabilities. As better information becomes available or actual amounts are known, estimates are revised. Operating results can be affected by revised estimates. Actual results may differ from these estimates under different assumptions or conditions. Management has discussed the application of these critical accounting policies and the development of these estimates with the Audit Committee of the board of directors. A discussion of critical accounting policies is included under the caption "Critical Accounting Policies Involving Significant Estimates" on pages 56 through 60 of our Annual Report on Form 10-K for the year ended December 31, 2014. There were no material changes in critical accounting policies or estimates during the quarter ended March 31, 2015.

Forward Looking Information - Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 (the Act), we have filed cautionary statements identifying important factors that could cause our actual results to differ materially from those discussed in forward-looking statements made by or on behalf of the Company. When used in this Form 10-Q and in future filings by the Company with the Securities and Exchange Commission, in our press releases and in oral statements, words such as “may”, “will”, “expect”, “anticipate”, “continue”, “estimate”, “project”, “believes” or similar expressions are intended to identify forward-looking statements within the meaning of the Act and are included, along with this statement, for purposes of complying with the safe harbor provision of the Act. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among other factors, the risks and uncertainties described in the section entitled “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as well as the various factors described below:

Federal and state environmental regulation could require us to incur substantial capital expenditures and increased operating costs.

Volatile financial markets and changes in our debt ratings could restrict our ability to access capital and could increase borrowing costs and pension plan and postretirement health care expenses.

We rely on access to both short- and long-term capital markets as a source of liquidity for capital requirements not satisfied by cash flows from operations. If we are not able to access capital at competitive rates, our ability to implement our business plans may be adversely affected.

Disruptions, uncertainty or volatility in the financial markets can also adversely impact our results of operations, the ability of our customers to finance purchases of goods and services, and our financial condition, as well as exert downward pressure on stock prices and/or limit our ability to sustain our current common stock dividend level.

We made a \$10.0 million discretionary contribution to our defined benefit pension plan in January 2015. We could be required to contribute additional capital to the pension plan in the future if the market value of pension plan assets significantly declines, plan assets do not earn in line with our long-term rate of return assumptions or relief under the Pension Protection Act is no longer granted.

Any significant impairment of our goodwill would cause a decrease in our asset values and a reduction in our net operating income.

Declines in projected operating cash flows at any of our reporting units may result in goodwill impairments that could adversely affect our results of operations and financial position, as well as financing agreement covenants.

The inability of our subsidiaries to provide sufficient earnings and cash flows to allow us to meet our financial obligations and debt covenants and pay dividends to our shareholders could have an adverse effect on us.

Economic conditions could negatively impact our businesses.

If we are unable to achieve the organic growth we expect, our financial performance may be adversely affected.

Our plans to grow and realign our business mix through capital projects, acquisitions and dispositions may not be successful, which could result in poor financial performance.

We may, from time to time, sell assets to provide capital to fund investments in our electric utility business or for other corporate purposes, which could result in the recognition of a loss on the sale of any assets sold and other potential liabilities. The sale of any of our businesses could expose us to additional risks associated with indemnification obligations under the applicable sales agreements and any related disputes.

Our plans to grow and operate our nonutility businesses could be limited by state law.

Significant warranty claims and remediation costs in excess of amounts normally reserved for such items could adversely affect our results of operations and financial condition.

We are subject to risks associated with energy markets.

We are subject to risks and uncertainties related to the timing and recovery of deferred tax assets which could have a negative impact on our net income in future periods.

We rely on our information systems to conduct our business and failure to protect these systems against security breaches or cyber-attacks could adversely affect our business and results of operations. Additionally, if these systems fail or become unavailable for any significant period of time, our business could be harmed.

We may experience fluctuations in revenues and expenses related to our electric operations, which may cause our financial results to fluctuate and could impair our ability to make distributions to our shareholders or scheduled payments on our debt obligations, or to meet covenants under our borrowing agreements.

Actions by the regulators of our electric operations could result in rate reductions, lower revenues and earnings or delays in recovering capital expenditures.

OTP's electric generating facilities are subject to operational risks that could result in unscheduled plant outages, unanticipated operation and maintenance expenses and increased power purchase costs.

Changes to regulation of generating plant emissions, including but not limited to carbon dioxide emissions, could affect OTP's operating costs and the costs of supplying electricity to its customers.

Competition from foreign and domestic manufacturers, the price and availability of raw materials and general economic conditions could affect the revenues and earnings of our manufacturing businesses.

Our Plastics segment is highly dependent on a limited number of vendors for PVC resin, many of which are located in the Gulf Coast region of the United States, and a limited supply of resin. The loss of a key vendor, or an interruption or delay in the supply of PVC resin, could result in reduced sales or increased costs for this segment.

Our plastic pipe companies compete against a large number of other manufacturers of PVC pipe and manufacturers of alternative products. Customers may not distinguish the pipe companies' products from those of its competitors.

Changes in PVC resin prices can negatively impact PVC pipe prices, profit margins on PVC pipe sales and the value of PVC pipe held in inventory.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At March 31, 2015 we had exposure to market risk associated with interest rates because we had \$40.8 million in short-term debt outstanding subject to variable interest rates that are indexed to LIBOR plus 1.75% under our \$150 million revolving credit facility, and OTP had \$7.8 million in short-term debt outstanding subject to variable interest rates indexed to LIBOR plus 1.25% under its \$170 million revolving credit facility.

All of our consolidated long-term debt outstanding on March 31, 2015 has fixed interest rates. We manage our interest rate risk through the issuance of fixed-rate debt with varying maturities, through economic refunding of debt through optional refundings, limiting the amount of variable interest rate debt, and the utilization of short-term borrowings to allow flexibility in the timing and placement of long-term debt.

We have not used interest rate swaps to manage net exposure to interest rate changes related to our portfolio of borrowings. We maintain a ratio of fixed-rate debt to total debt within a certain range. It is our policy to enter into interest rate transactions and other financial instruments only to the extent considered necessary to meet our stated objectives. We do not enter into interest rate transactions for speculative or trading purposes.

The companies in our Manufacturing segment are exposed to market risk related to changes in commodity prices for steel, aluminum and polystyrene (PS) and other plastics resins. The price and availability of these raw materials could affect the revenues and earnings of our Manufacturing segment.

The plastics companies are exposed to market risk related to changes in commodity prices for PVC resins, the raw material used to manufacture PVC pipe. The PVC pipe industry is highly sensitive to commodity raw material pricing volatility. Historically, when resin prices are rising or stable, sales volume has been higher and when resin prices are falling, sales volume has been lower. Operating income may decline when the supply of PVC pipe increases faster than demand. Due to the commodity nature of PVC resin and the dynamic supply and demand factors worldwide, it is very difficult to predict gross margin percentages or to assume that historical trends will continue.

We have in place an energy risk management policy with a goal to manage, through the use of defined risk management practices, price risk and credit risk associated with wholesale power sales. We have established guidelines and limits to manage credit risk associated with wholesale power and capacity sales. Specific limits are determined by a counterparty's financial strength. Counterparties with investment grade credit ratings have minimum credit ratings of BBB- (Standard & Poor's), Baa3 (Moody's) or BBB- (Fitch). OTP had no exposure at March 31, 2015 to counterparties with investment grade or below investment grade credit ratings with respect to any of its forward energy contracts.

Item 4. Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of March 31, 2015, the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2015.

During the fiscal quarter ended March 31, 2015, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is the subject of various pending or threatened legal actions and proceedings in the ordinary course of its business. Such matters are subject to many uncertainties and to outcomes that are not predictable with assurance. The Company records a liability in its consolidated financial statements for costs related to claims, including future legal costs, settlements and judgments, where it has assessed that a loss is probable and an amount can be reasonably estimated. The Company believes the final resolution of currently pending or threatened legal actions and proceedings, either individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

There has been no material change in the risk factors set forth under Part I, Item 1A, "Risk Factors" on pages 27 through 33 of the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company does not have a publicly announced stock repurchase program. The following table shows common shares that were surrendered to the Company by employees to pay taxes in connection with shares issued for incentive awards in February 2015 under the Company's 1999 Stock Incentive Plan:

| Calendar Month | Total Number of Shares Purchased | Average Price Paid per Share |
|----------------|-------------------------------------|---------------------------------|
| January 2015 | -- | -- |
| February 2015 | 39,131 | \$ 31.675 |
| March 2015 | -- | -- |
| Total | 39,131 | |

Item 6. Exhibits

- 10.1 Form of 2015 Performance Award Agreement (Executives) (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.2 Form of 2015 Performance Award Agreement (Legacy) (incorporated by reference to Exhibit 10.2 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.3 Form of 2014 Restricted Stock Unit Award Agreement (Executives) (incorporated by reference to Exhibit 10.3 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.4 Form of 2015 Restricted Stock Unit Award Agreement (Legacy) (incorporated by reference to Exhibit 10.4 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.5 Otter Tail Corporation Executive Restoration Plus Plan, as Amended and Restated (incorporated by reference to Exhibit 10.5 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.6 Second Amendment to Lignite Sales Agreement dated as of March 16, 2015 among Otter Tail Power Company, Northern Municipal Power Agency, Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc., NorthWestern Corporation and Coyote Creek Mining Company, L.L.C. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by Otter Tail Corporation on March 18, 2015).
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Financial statements from the Quarterly Report on Form 10-Q of Otter Tail Corporation for the quarter ended March 31, 2015, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows and (v) the Condensed Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OTTER TAIL CORPORATION

By: /s/ Kevin G. Moug
Kevin G. Moug
Chief Financial Officer
(Chief Financial Officer/Authorized Officer)

Dated: May 8, 2015

47

EXHIBIT INDEX

Exhibit Number Description

- 10.1 Form of 2015 Performance Award Agreement (Executives) (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.2 Form of 2015 Performance Award Agreement (Legacy) (incorporated by reference to Exhibit 10.2 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.3 Form of 2014 Restricted Stock Unit Award Agreement (Executives) (incorporated by reference to Exhibit 10.3 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.4 Form of 2015 Restricted Stock Unit Award Agreement (Legacy) (incorporated by reference to Exhibit 10.4 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.5 Otter Tail Corporation Executive Restoration Plus Plan, as Amended and Restated (incorporated by reference to Exhibit 10.5 to the Form 8-K filed by Otter Tail Corporation on February 11, 2015).
- 10.6 Second Amendment to Lignite Sales Agreement dated as of March 16, 2015 among Otter Tail Power Company, Northern Municipal Power Agency, Montana-Dakota Utilities Co., a division of MDU Resources Group, Inc., NorthWestern Corporation and Coyote Creek Mining Company, L.L.C. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by Otter Tail Corporation on March 18, 2015).
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Financial statements from the Quarterly Report on Form 10-Q of Otter Tail Corporation for the quarter ended March 31, 2015, formatted in Extensible Business Reporting Language: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows and (v) the Condensed Notes to Consolidated Financial Statements.