

OTTER TAIL CORP
Form 10-Q
November 09, 2005

Table of Contents

**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 September 30, 2005

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 0-368
OTTER TAIL CORPORATION**

(Exact name of registrant as specified in its charter)

Minnesota

41-0462685

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES NO

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

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

October 31, 2005 29,347,813 Common Shares (\$5 par value)

OTTER TAIL CORPORATION
INDEX

	Page No.
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets – September 30, 2005 and December 31, 2004 (not audited)</u>	2 & 3
<u>Consolidated Statements of Income – Three and Nine Months Ended September 30, 2005 and 2004 (not audited)</u>	4
<u>Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2005 and 2004 (not audited)</u>	5
<u>Notes to Consolidated Financial Statements (not audited)</u>	6-20
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	20-38
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	38-41
<u>Item 4. Controls and Procedures</u>	41
<u>Part II. Other Information</u>	
<u>Item 6. Exhibits</u>	42
<u>Signatures</u>	42
<u>Certification of CEO Pursuant to Section 302</u>	
<u>Certification of CFO Pursuant to Section 302</u>	
<u>Certification of CEO Pursuant to Section 906</u>	
<u>Certification of CFO Pursuant to Section 906</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Otter Tail Corporation
Consolidated Balance Sheets**

(not audited)

-Assets-

	September 30, 2005	December 31, 2004
	(Thousands of dollars)	
Current assets		
Cash and cash equivalents	\$	\$
Accounts receivable:		
Trade net	121,822	116,141
Other	10,790	9,872
Inventories	83,361	72,504
Deferred income taxes	4,942	4,852
Accrued utility revenues	17,598	15,344
Costs and estimated earnings in excess of billings	18,103	18,145
Other	23,289	7,800
Assets of discontinued operations	4,817	30,937
Total current assets	284,722	275,595
Investments and other assets	38,406	42,650
Goodwill net	98,879	92,196
Other intangibles net	21,383	19,600
Deferred debits		
Unamortized debt expense and reacquisition premiums	6,597	7,291
Regulatory assets and other deferred debits	17,604	16,692
Total deferred debits	24,201	23,983
Plant		
Electric plant in service	898,665	890,200
Nonelectric operations	223,481	208,311
Total plant	1,122,146	1,098,511
Less accumulated depreciation and amortization	456,005	436,856
Plant net of accumulated depreciation and amortization	666,141	661,655
Construction work in progress	24,910	18,469
Net plant	691,051	680,124
Total	\$ 1,158,642	\$ 1,134,148

See accompanying notes to consolidated financial statements

- 2 -

Table of Contents

Otter Tail Corporation
Consolidated Balance Sheets
(not audited)
-Liabilities-

	September 30, 2005	December 31, 2004
	(Thousands of dollars)	
Current liabilities		
Short-term debt	\$ 33,000	\$ 39,950
Current maturities of long-term debt	4,493	6,016
Accounts payable	74,324	84,433
Accrued salaries and wages	17,949	17,330
Accrued federal and state income taxes	5,854	3,700
Other accrued taxes	10,802	11,391
Other accrued liabilities	17,123	10,417
Liabilities of discontinued operations	1,536	8,585
Total current liabilities	165,081	181,822
Pensions benefit liability	18,984	16,703
Other postretirement benefits liability	26,402	25,053
Other noncurrent liabilities	13,826	11,874
Deferred credits		
Deferred income taxes	122,376	121,301
Deferred investment tax credit	9,613	10,477
Regulatory liabilities	60,333	56,909
Other	3,135	1,662
Total deferred credits	195,457	190,349
Capitalization		
Long-term debt, net of current maturities	258,981	261,805
Class B stock options of subsidiary	1,258	1,832
Class B stock of subsidiary	745	
Cumulative preferred shares authorized 1,500,000 shares without par value; outstanding 2005 and 2004 155,000 shares	15,500	15,500
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;	146,651	144,885

Edgar Filing: OTTER TAIL CORP - Form 10-Q

outstanding 2005	29,330,191	and 2004	28,976,919		
Premium on common shares				94,779	87,865
Unearned compensation				(1,998)	(2,577)
Retained earnings				224,243	199,427
Accumulated other comprehensive loss				(1,267)	(390)
Total common equity				462,408	429,210
Total capitalization				738,892	708,347
Total				\$ 1,158,642	\$ 1,134,148

See accompanying notes to consolidated financial statements

- 3 -

Table of Contents

Otter Tail Corporation
Consolidated Statements of Income
(not audited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
	(In thousands, except share and per share amounts)		(In thousands, except share and per share amounts)	
Operating revenues	\$ 272,658	\$ 214,719	\$ 761,169	\$ 617,759
Operating expenses				
Production fuel	14,485	12,477	40,211	38,267
Purchased power system use	13,295	10,050	44,737	30,875
Electric operation and maintenance expenses	23,383	19,158	72,635	62,637
Cost of goods sold (excludes depreciation; included below)	147,196	118,690	410,872	332,648
Other nonelectric expenses	26,485	20,667	74,946	62,498
Goodwill impairment loss	1,003		1,003	
Depreciation and amortization	11,720	10,882	34,658	31,918
Property taxes electric operations	2,735	2,722	7,816	7,570
Total operating expenses	240,302	194,646	686,878	566,413
Operating income	32,356	20,073	74,291	51,346
Other income	1,073	114	1,482	880
Interest charges	4,657	4,582	14,064	13,291
Income from continuing operations before income taxes	28,772	15,605	61,709	38,935
Income taxes continuing operations	10,692	4,936	21,612	12,200
Income from continuing operations	18,080	10,669	40,097	26,735
Discontinued operations				
(Loss)/income from discontinued operations net of taxes of (\$334); \$234; (\$97) and \$387 for the respective periods	(504)	357	(156)	582
Net gain on disposition of discontinued operations net of taxes of \$17 and \$5,786 for the three and nine months ended September 30, 2005	27		9,937	
Net income from discontinued operations	(477)	357	9,781	582
Net income	17,603	11,026	49,878	27,317
Preferred dividend requirements	185	184	552	552

Edgar Filing: OTTER TAIL CORP - Form 10-Q

Earnings available for common shares	\$ 17,418	\$ 10,842	\$ 49,326	\$ 26,765
Basic earnings per common share:				
Continuing operations (net of preferred dividend requirement)	\$ 0.61	\$ 0.40	\$ 1.36	\$ 1.01
Discontinued operations	\$ (0.01)	\$ 0.02	\$ 0.33	\$ 0.02
	\$ 0.60	\$ 0.42	\$ 1.69	\$ 1.03
Diluted earnings per common share:				
Continuing operations (net of preferred dividend requirement)	\$ 0.61	\$ 0.40	\$ 1.35	\$ 1.01
Discontinued operations	\$ (0.02)	\$ 0.02	\$ 0.33	\$ 0.02
	\$ 0.59	\$ 0.42	\$ 1.68	\$ 1.03
Average number of common shares				
outstanding basic	29,245,640	26,010,252	29,176,625	25,898,244
Average number of common shares				
outstanding diluted	29,441,410	26,121,911	29,289,438	26,019,550
Dividends per common share	\$ 0.280	\$ 0.275	\$ 0.840	\$ 0.825

See accompanying notes to consolidated financial statements

- 4 -

Table of Contents

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

	Nine months ended	
	September 30,	
	2005	2004
	(Thousands of dollars)	
Cash flows from operating activities		
Net income	\$ 49,878	\$ 27,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain from sale of discontinued operations	(9,937)	
Loss /(income) from discontinued operations	156	(582)
Depreciation and amortization	34,658	31,918
Deferred investment tax credit	(864)	(864)
Deferred income taxes	(1,854)	2,548
Change in deferred debits and other assets	4,313	460
Discretionary contribution to pension plan	(4,000)	(4,000)
Change in noncurrent liabilities and deferred credits	4,466	3,767
Allowance for equity (other) funds used during construction	(601)	(573)
Change in derivatives net of regulatory deferral	(2,766)	1,756
Other net	2,234	1,399
Cash (used for) provided by current assets and current liabilities:		
Change in receivables	(5,962)	1,030
Change in inventories	(7,682)	(6,815)
Change in other current assets	(9,344)	(13,781)
Change in payables and other current liabilities	(9,771)	(18,240)
Change in interest and income taxes payable	(4,175)	4,169
Net cash provided by continuing operations	38,749	29,509
Net cash provided by discontinued operations	3,493	2,336
Net cash provided by operating activities	42,242	31,845
Cash flows from investing activities		
Capital expenditures	(42,150)	(34,183)
Proceeds from disposal of noncurrent assets	3,923	3,406
Acquisitions net of cash acquired	(11,223)	(69,069)
Increases in other investments	3,369	(8,483)
Net cash used in investing activities continuing operations	(46,081)	(108,329)
Net proceeds from the sales of discontinued operations	33,685	
Net cash provided by (used in) investing activities discontinued operations	559	(592)
Net cash used in investing activities	(11,837)	(108,921)
Cash flows from financing activities		

Edgar Filing: OTTER TAIL CORP - Form 10-Q

Change in checks written in excess of cash	1,970	5,685
Net short-term borrowings	(6,950)	85,757
Proceeds from issuance of common stock, net of issuance expenses	8,266	7,796
Payments for retirement of common stock	(365)	(349)
Proceeds from issuance of long-term debt, net of issuance expenses	339	540
Payments for retirement of long-term debt	(5,304)	(6,431)
Dividends paid and other distributions	(25,060)	(21,910)
Net cash (used in) provided by financing activities – continuing operations	(27,104)	71,088
Net cash used in financing activities – discontinued operations	(2,996)	(1,801)
Net cash (used in) provided by financing activities	(30,100)	69,287
Effect of foreign exchange rate fluctuations on cash	(305)	79
Net change in cash and cash equivalents		(7,710)
Cash and cash equivalents at beginning of period		7,710
Cash and cash equivalents at end of period	\$	\$
Supplemental cash flow information		
Cash paid during the year from continuing operations for:		
Interest (net of amount capitalized)	\$ 11,354	\$ 9,844
Income taxes	\$ 26,740	\$ 8,557
Cash paid during the year from discontinued operations for:		
Interest (net of amount capitalized)	\$ 85	\$ 85
Income taxes	\$ 2,178	\$ 467

See accompanying notes to consolidated financial statements

- 5 -

Table of Contents

OTTER TAIL CORPORATION
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 results of operations for the periods presented. The consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes as of and for the years ended December 31, 2004, 2003 and 2002 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. Because of seasonal and other factors, the earnings for the three and nine-month periods ended September 30, 2005 should not be taken as an indication of earnings for all or any part of the balance of the year.

Acquisitions

On January 3, 2005 the Company's wholly-owned subsidiary, BTD Manufacturing, Inc. (BTD), acquired the assets of Performance Tool & Die, Inc. (Performance Tool) of Lakeville, Minnesota, for \$4.1 million in cash. Performance Tool specializes in manufacturing mid to large progressive dies for customers throughout the Midwest, East and West Coasts, and the southern United States. Performance Tool's revenues for the year ended December 31, 2004 were \$4.1 million. The Company expects this acquisition to provide expanded growth opportunities for both BTD and Performance Tool.

Also, on January 3, 2005 the Company's wholly-owned subsidiary, ShoreMaster, Inc. (ShoreMaster), acquired the common stock of Shoreline Industries, Inc. (Shoreline), of Pine River, Minnesota, and associated assets for \$2.4 million in cash. Shoreline is a manufacturer of boatlift motors and other accessories for lifts and docks with sales throughout the United States, but primarily in Minnesota and Wisconsin. Shoreline's revenues for the year ended December 31, 2004 were \$2.1 million. The acquisition of Shoreline secures a source of components and expands potential markets for ShoreMaster products.

On May 31, 2005 ShoreMaster acquired the assets of Southeast Floating Docks, Inc., of St. Augustine, Florida for \$4.0 million in cash. Southeast Floating Docks is a leading manufacturer of concrete floating dock systems for marinas. They have designed custom floating systems and conducted installations mainly in the southeast United States and the Caribbean. Southeast Floating Docks had revenues of \$4.5 million in 2004. This acquisition enables ShoreMaster to offer a wider range of products to its customers and expands its geographic reach in the southeast region of the United States.

Disclosure of pro forma information related to the results of operations of the acquired entities for the periods presented in this report is not required due to immateriality.

Table of Contents

Below, are condensed balance sheets, at the date of the business combinations, disclosing the preliminary allocation of the purchase price assigned to each major asset and liability category of the acquired companies:

(in thousands)	Performance Tool	Shoreline Industries	Southeast Floating Docks
Assets			
Current assets	\$ 748	\$ 457	\$ 2,437
Plant	1,396	260	415
Goodwill	1,794	1,509	2,804
Other intangible assets	800	557	1,150
Total assets	\$ 4,738	\$ 2,783	\$ 6,806
Liabilities and equity			
Current liabilities	\$ 324	\$ 86	\$ 318
Deferred revenue			2,520
Deferred income taxes		295	
Long-term debt	298		
Total liabilities	\$ 622	\$ 381	\$ 2,838
Cash paid	\$ 4,116	\$ 2,402	\$ 3,968

Goodwill and other intangible assets related to the Performance Tool acquisition are deductible for income tax purposes over 15 years. Other intangible assets related to the Performance Tool acquisition includes \$239,000 for a nonamortizable trade name and \$561,000 in other intangible assets being amortized over 3 to 15 years for book purposes. Goodwill and other intangible assets related to the Shoreline acquisition are not deductible for income tax purposes, except for a \$171,000 noncompete agreement being amortized over 15 years for income tax purposes. Other intangible assets related to the Shoreline acquisition includes \$149,000 for a nonamortizable brand name and \$408,000 in other intangible assets being amortized over 5 to 20 years for book purposes. Goodwill and other intangible assets related to the Southeast Floating Docks acquisition are deductible for income tax purposes over 15 years. Other intangible assets related to the Southeast Floating Docks acquisition includes \$1,000,000 for a nonamortizable brand name.

Revenue Recognition

Due to the diverse business operations of the Company, revenue recognition depends on the product produced or sold. 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 and determinable. In cases where significant obligations remain after delivery, revenue is deferred until such obligations are fulfilled. Provisions for sale returns and warranty costs are recorded at the time of sale based on historical information and current trends. Amounts received in advance under customer service contracts are deferred and recognized on a straight-line basis over the contract period. In the case of derivative instruments, such as the electric utility's forward energy contracts and the energy services company's forward natural gas swap transactions, the Company recognizes gains and losses based on changes in the fair market value of derivative instruments over the period held, and also when realized on settlement, on a net basis in revenue in a manner prescribed by Emerging Issues Task Force (EITF) Issue 03-11. Gains and losses subject to regulatory treatment on forward energy contracts are deferred and recognized on a net basis in revenue in the period in which the contract settles.

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

Table of Contents

Some of the operating businesses enter into fixed-price construction contracts. Revenues under these contracts are primarily recognized on a percentage-of-completion basis. The method used to determine the percentage of completion is based on the ratio of labor costs incurred to total estimated labor costs at the Company's wind tower manufacturer, square footage completed to total bid square footage for certain floating dock projects and costs incurred to total estimated costs on all other construction projects. The following summarizes costs incurred, billings and estimated earnings recognized on uncompleted contracts:

(in thousands)	September 30, 2005	December 31, 2004
Costs incurred on uncompleted contracts	\$ 156,247	\$ 99,213
Less billings to date	(161,826)	(96,413)
Plus estimated earnings recognized	17,000	12,469
	\$ 11,421	\$ 15,269