BLACK HILLS CORP /SD/
Form DEF 14A
April 13, 2010

Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

Black Hills Corporation

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

BLACK HILLS CORPORATION

Notice of 2010
Annual Meeting of Shareholders
and Proxy Statement

Table of Contents

BLACK HILLS CORPORATION

625 Ninth Street
Rapid City, South Dakota 57701

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
MAY 25, 2010

April 13, 2010

Dear Shareholder:

You are invited to attend the annual meeting of shareholders of Black Hills Corporation to be held on Tuesday, May 25, 2010 at 9:30 a.m., local time, at the Dahl Arts Center, 713 Seventh Street, Rapid City, South Dakota. The purpose of our annual meeting is to consider and take action on the following:

1. Election of three directors in Class I: Jack W. Eugster, Gary L. Pechota and Thomas J. Zeller.

2. Ratification of Deloitte & Touche LLP to serve as our independent registered public accounting firm for the year 2010.

3. Authorization to amend the Black Hills Corporation 2005 Omnibus Incentive Plan to (i) increase the number of shares of common stock reserved for issuance under the Plan by 500,000 shares, and (ii) the renewal of the material terms of the performance-based goals under the Plan.

4. Any other business that properly comes before the annual meeting.

The enclosed proxy statement discusses the important matters to be considered at this year's meeting. Our common shareholders of record as of April 6, 2010 can vote at the annual meeting.

Your vote is very important. You may vote your shares by telephone, by the Internet or by returning the enclosed proxy. If you own shares of common stock other than the shares shown on the enclosed proxy, you will receive a proxy in a separate envelope for each such holding. Please vote each proxy received. To make sure that your vote is counted if voting by mail, you should allow enough time for the postal service to deliver your proxy before the meeting.

Sincerely,

ROXANN R. BASHAM
Vice President Governance and
Corporate Secretary

Table of Contents

BLACK HILLS CORPORATION

625 Ninth Street
Rapid City, South Dakota 57701

PROXY STATEMENT

A proxy in the accompanying form is solicited by the Board of Directors of Black Hills Corporation, a South Dakota corporation, to be voted at the annual meeting of our shareholders to be held Tuesday, May 25, 2010, and at any adjournment of the annual meeting.

The enclosed form of proxy, when executed and returned, will be voted as set forth therein. Any shareholder signing a proxy has the power to revoke the proxy in writing, addressed to our secretary, or in person at the meeting at any time before the proxy is exercised.

We will bear all costs of the solicitation. In addition to solicitation by mail, our officers and employees may solicit proxies by telephone, fax, or in person. We have retained Georgeson Inc. to assist us in the solicitation of proxies at an anticipated cost of $7,000 plus out-of-pocket expenses. Also, we will, upon request, reimburse brokers or other persons holding stock in their names or in the names of their nominees for reasonable expenses in forwarding proxies and proxy materials to the beneficial owners of stock.

This proxy statement and the accompanying form of proxy are to be first mailed on or about April 13, 2010. Our 2009 annual report to shareholders is being mailed to shareholders with this proxy statement.

VOTING RIGHTS AND PRINCIPAL HOLDERS

Only our shareholders of record at the close of business on April 6, 2010, will be entitled to vote at the meeting. Our outstanding voting stock as of such record date consisted of 39,173,784 shares of our common stock.

Each outstanding share of our common stock is entitled to one vote. Cumulative voting is permitted in the election of our Board of Directors. Each share is entitled to three votes, one each for the election of three directors, and the three votes may be cast for a single person or may be distributed among two or three persons.

TABLE OF CONTENTS

Table of Contents

COMMONLY ASKED QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING PROCESS

Q: Who is soliciting my proxy?

A:

The Board of Directors of Black Hills Corporation.

Q: Where and when is the annual meeting?

A:

9:30 a.m., local time, May 25, 2010 at the Dahl Arts Center, 713 Seventh Street, Rapid City, South Dakota.

Q: What am I voting on?

A:

- Election of three directors in Class I: Jack W. Eugster, Gary L. Pechota and Thomas J. Zeller.
- Ratification of Deloitte & Touche LLP as our independent registered public accounting firm for 2010.
- Authorization to amend the Black Hills Corporation 2005 Omnibus Incentive Plan to (i) increase the number of shares of common stock reserved for issuance under the Plan by 500,000 shares, and (ii) the renewal of the material terms of the performance-based goals under the Plan.

Q: Who can vote?

A:

Holders of our common stock as of the close of business on the record date, April 6, 2010, can vote at our annual meeting. Each share of our common stock gets one vote. Cumulative voting is permitted in the election of directors. Each share is entitled to three votes, one each for the election of three directors, and the three votes may be cast for a single person or may be distributed among two or three persons.

Q: How do I vote?

A:

There are three ways to vote by proxy:

- by calling the toll free telephone number on the enclosed proxy;
- by using the Internet; or
- by returning the enclosed proxy in the envelope provided.

You *may* be able to vote by telephone or the Internet if your shares are held in the name of a bank or broker. If this is the case, you will need to follow their instructions.

If we receive your signed proxy before the annual meeting, we will vote your shares as you direct. You can specify on your proxy whether your shares should be voted for all, some or none of the nominees for directors. You can also specify whether you approve, disapprove or abstain from the other proposals.

If you do not mark any sections, your proxy card will be voted:

- in favor of the election of the directors named in Item 1; and in favor of Items 2 and 3.

Q: Who will count the vote?

A:

Representatives of Wells Fargo Bank, N.A. will count the votes and serve as judges of the election.

Table of Contents

Q: What constitutes a quorum?

A:

Shareholders representing at least 50 percent of our common stock issued and outstanding as of the record date must be present at the annual meeting, either in person or by proxy, for there to be a quorum. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs when a broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker or nominee does not have discretionary voting power and has not received instructions from the beneficial owner.

Q: What vote is needed for these proposals to be adopted?

A:

Item 1 Election of Directors. The affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. This means that the nominees with the largest number of votes "for" will be elected as directors, up to the maximum number of directors to be chosen at the election. A properly executed proxy marked "Withhold authority" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

Item 2 Ratification of Auditors. The appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year 2010 will be ratified if a majority of the shares represented at the meeting and entitled to vote on the item, vote in favor. A properly executed proxy marked "Abstain" with respect to the ratification of the appointment of Deloitte & Touche as our independent registered public accounting firm has the effect of a negative, or "no" vote.

Item 3 Amendment to the 2005 Omnibus Plan. The amendment to the 2005 Omnibus Incentive Plan and the renewal of the material terms of the performance-based goals requires the affirmative vote of the holders of a majority of the votes cast, provided that the total votes cast represent over 50 percent in interest of all securities entitled to vote on the Plan. In determining whether the number of votes cast represent more than 50 percent of the shares of common stock entitled to vote, abstentions will count as votes cast and broker non-votes will not count as votes cast.

Q: How will my shares be voted if they are held in a broker's name?

A:

If you hold your shares through an account with a bank or broker, the bank or broker may vote your shares on some matters even if you do not provide voting instructions. Brokerage firms have the authority under the New York Stock Exchange rules to vote shares on certain matters (such as the ratification of auditors) when their customers do not provide voting instructions. However, on other matters (such as the election of directors and the amendment to the 2005 Omnibus Incentive Plan), when the brokerage firm has not received voting instructions from its customers, the brokerage firm cannot vote the shares on that matter and a "broker non-vote" occurs. **Please note that the New York Stock Exchange rules have changed and an uncontested election of directors is no longer considered a routine matter. This means that brokers may not vote your shares on the election of directors if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.**

Q: What happens if I do not give my broker instructions?

A:

Absent your instructions, the broker will not be able to vote your shares for the election of directors and the amendment to the 2005 Omnibus Incentive Plan. Therefore, we urge you to instruct your broker in writing to vote shares held in street name.

Table of Contents

Q: Is cumulative voting permitted for the election of directors?

A:

In the election of directors, you may elect to cumulate your vote. Cumulative voting will allow you to allocate among the director nominees, as you see fit, the total number of votes equal to the number of director positions to be filled multiplied by the number of shares you hold. For example, if you own 100 shares of stock, and there are three directors to be elected at the annual meeting, you could allocate 300 "For" votes (three times 100) among as few or as many of the three nominees to be voted on at the annual meeting as you choose.

If you choose to cumulate your votes, you will need to submit a proxy card or a ballot and make an explicit statement of your intent to cumulate your votes, either by indicating in writing on the proxy card or by indicating in writing on your ballot when voting at the annual meeting. If you hold shares beneficially in street name and wish to cumulate votes, you should contact your broker, trustee or nominee.

Q: What should I do now?

A:

You should vote your shares by telephone, by the Internet or by returning your signed and dated proxy card in the enclosed envelope as soon as possible so that your shares will be represented at the annual meeting.

Q: Who conducts the proxy solicitation and how much will it cost?

A:

We are asking for your proxy for the annual meeting and will pay all the costs of asking for shareholder proxies. We have hired Georgeson Inc. to help us send out the proxy materials and ask for proxies. Georgeson Inc.'s fee for these services is anticipated to be $7,000, plus out-of-pocket expenses. We can ask for proxies through the mail or by telephone, fax, or in person. We can use our directors, officers and employees to ask for proxies. These people do not receive additional compensation for these services. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding solicitation material to the beneficial owners of our common stock.

Q: Can I revoke my proxy?

A:

Yes. You can change your vote in one of four ways at any time before your proxy is used. First, you can enter a new vote by telephone or Internet. Second, you can revoke your proxy by written notice. Third, you can send a later dated proxy changing your vote. Fourth, you can attend the meeting and vote in person.

Q: Who should I call with questions?

A:

If you have questions about the annual meeting, you should call Roxann R. Basham, Vice President Governance and Corporate Secretary, at (605) 721-1700.

Q: When are the shareholder proposals for the annual meeting held in 2011 due?

A:

In order to be considered for inclusion in our proxy materials, you must submit proposals for next year's annual meeting in writing to our Corporate Secretary at our executive offices at 625 Ninth Street, P.O. Box 1400, Rapid City, South Dakota 57709, prior to December 14, 2010.

A shareholder who intends to submit a proposal for consideration, but not for inclusion in our proxy materials, must provide written notice to our Corporate Secretary in accordance with Article I, Section 9 of our Bylaws. In general, our Bylaws provide that the written notice must be delivered not less than 90 days nor more than 120 days prior to the first anniversary date of the immediately preceding annual meeting of shareholders. Our 2010 annual meeting is scheduled for May 25, 2010. Ninety days prior to the first anniversary of this date will be February 24, 2011, and 120 days prior to the first anniversary of this date will be January 25, 2011.

Table of Contents

Proposal 1

ELECTION OF DIRECTORS

In accordance with our Bylaws and Article VI of our Articles of Incorporation, members of our Board of Directors are elected to three classes of staggered terms consisting of three years each. At this annual meeting of our shareholders, three directors will be elected to Class I of the Board of Directors to hold office for a term of three years until our annual meeting of shareholders in 2013, and until their respective successors shall be duly elected and qualified in accordance with the Company's Bylaws.

All three nominees for directors are presently members of our Board of Directors. The proxy attorneys will vote your stock for the election of the three nominees for directors, unless otherwise instructed. If, at the time of the meeting, any of such nominees shall be unable to serve in the capacity for which they are nominated or for good cause will not serve, an event which the Board of Directors does not anticipate, it is the intention of the persons designated as proxy attorneys to vote, at their discretion, for such nominees as the Governance Committee may recommend and the Board of Directors may propose to replace those who are unable to serve. The affirmative vote of a plurality of the votes cast at the meeting is required for the election of the nominees to the Board of Directors.

The following information, including principal occupation or employment for the past five or more years and a summary of each individual's experience, qualifications, attributes or skills that have led to the conclusion that each individual should serve as a director in light of our current business and structure, is furnished with respect to each nominee and each of the continuing members of the Board of Directors.

The Board of Directors recommends a vote *FOR* the election of the following nominees:

Class I Nominees for Election Until 2013 Annual Meeting

Jack W. Eugster, 64, has been a director of the Company since 2004.

Retired. Former Chairman, Chief Executive Officer and President of Musicland Stores, Inc., a retail music and home video company, from 1980 until his retirement in 2001. Currently Director of Donaldson Co., Inc. since 1993, Graco, Inc. since 2004 and Life Time Fitness, Inc. since 2009. Previously Director of Golf Galaxy, Inc. from 2000 to 2007 and Director of Shopko Stores, Inc. from 1991 to 2005, serving as Non-Executive Chairman from 2001 to 2005.

Mr. Eugster has been a director of several other public company and non-profit boards in addition to those identified above. He has experience as chairman and chief executive officer of a high-growth public company, and other extensive experience on public company boards, including service on the board of a regulated utility. His past experience lends special expertise relating to acquisitions, divestitures and finance. Mr. Eugster provides in-depth business, financial and strategic acumen that strengthens our Board's collective qualifications, skills and experience and enables him to be an effective Compensation Committee Chairman.

Gary L. Pechota, 60, has been a director of the Company since 2007.

President and Chief Executive Officer of DT-TRAK Consulting, Inc., a medical billing services company, since 2007. Retired from 2005 to 2007. Former Chief of Staff of the National Indian Gaming Commission from 2003 to 2005. Previously held executive positions in the cement industry, including serving as the chief executive officer of a publicly-traded company, and positions in finance and accounting. Currently Director of Insteel Industries, Inc. since 1998 and Texas Industries, Inc. since 2009.

Table of Contents

Mr. Pechota's background in finance and accounting provides the necessary expertise to serve on our Audit Committee. An enrolled member of the Rosebud Sioux Tribe, supports our Company's interest in promoting diverse perspectives, as well as expertise relating to our business interests on tribal lands. In addition, his experience as an executive leader at several companies, his public company board experience, and his knowledge of mining and extracting minerals and the associated environmental issues, strengthens our Board's collective qualifications, skills and experiences.

Thomas J. Zeller, 62, has been a director of the Company since 1997.

President, RESPEC, a technical consulting and services firm with expertise in engineering, information technologies, and water and natural resources specializing in emerging environmental protection protocols, since 1995.

Mr. Zeller is a Past Chairman of our Audit Committee. His industry experience at RESPEC relates to many of our Company's activities concerning technology, engineering and environmental matters. This expertise, in addition to his experience as an executive leader, provides valuable knowledge to our Board and strengthens its collective qualifications, skills and experiences relating to technical aspects of our Company operations and contract relationships.

Class II Directors with Terms Expiring at 2011 Annual Meeting

David R. Emery, 47, has been a director of the Company since 2004.

Chairman, President and Chief Executive Officer of Black Hills Corporation, since 2005. Formerly held various positions with Black Hills Corporation, including President and Chief Executive Officer, President and Chief Operating Officer Retail Business Segment and Vice President Fuel Resources. Mr. Emery has 20 years of experience with Black Hills Corporation. Prior to joining the Company, he served as a petroleum engineer for a large independent oil and gas company.

Mr. Emery is the only officer of the Company currently on our Board. With over 20 years of experience at our Company, he has a deep knowledge and understanding of each of our business units and related industries. An enrolled member of the Cheyenne River Sioux Tribe, supports our Company's interest in promoting diverse perspectives. He has demonstrated leadership abilities serving as our Chairman, President and Chief Executive Officer since 2005. His strategic capabilities, knowledge and industry expertise provide critical leadership to the Board.

Kay S. Jorgensen, 59, has been a director of the Company since 1992.

Owner and Chief Executive Officer of KSJ Enterprises, LLC, providing marketing and development services since 2006. Former owner and Chief Executive Officer, Jorgensen-Thompson Creative Broadcast Services, Inc., a radio broadcast services company, from 1997 to 2005.

Ms. Jorgensen previously served in the South Dakota State Legislature, as well as on various state and local boards and commissions. She served on the board of Wellmark, Inc. from 2002 to 2009, and on the board of Wellmark Blue Cross Blue Shield of South Dakota since 1999. Ms Jorgensen's experience in communications, marketing, regional politics, and healthcare contributes valuable insight into the political and regulatory concerns of the Company, and strengthens the Board's collective qualifications, skills and experiences, particularly relating to employee relations and benefit plans. Ms. Jorgensen has served as our Presiding Director since 2006.

Warren L. Robinson, 60, has been a director of the Company since 2007.

Retired. Former Executive Vice President, Treasurer and Chief Financial Officer of MDU Resources Group, Inc., a diversified energy and resources company, from 1992 to January 2006. Director of TMI Systems Design Corporation, a private manufacturer of laminate casework since 2006.

Table of Contents

Mr. Robinson has 29 years of experience in the utility industry, 18 of those years with MDU Resources Group. His industry experience at MDU included regulated utility finance and operations, and oil and gas exploration and production, two critical business segments for our Company. Mr. Robinson's service as a chief executive for accounting and finance activities relating to our industries provides the necessary financial reporting expertise to serve as Chairman of our Audit Committee. His experience as an executive financial leader at a publicly traded energy company provides our Board with current knowledge and understanding of the regulated business model, and unique challenges of the geographic and regulatory environment in which we operate.

John B. Vering, 60, has been a director of the Company since 2005.

Managing Director of Lone Mountain Investments, Inc., agricultural and oil and gas investments, since 2002. Partner in Vering Feed Yards LLC, a privately owned agricultural company, since March 2010. Previously held several executive positions in the oil and gas industry. Director of Broad Oak Energy, Inc., a privately held oil and gas exploration and production company, since 2006.

Mr. Vering has over 30 years of experience, including executive leadership, in the oil and gas industry. He served for 23 years with Union Pacific Resources Company in several positions, including Vice President of Canadian Operations. Mr. Vering is our only non-employee director with direct operating experience in oil and gas transportation, marketing, exploration and production, important business segments for our Company. His knowledge and understanding of the trans-national oil and gas business, and his executive leadership experience strengthens our Board's collective qualifications, skills and experiences.

Class III Directors with Terms Expiring at 2012 Annual Meeting

David C. Ebertz, 64, has been a director of the Company since 1998.

President, Dave Ebertz Risk Management Consulting, a firm specializing in insurance and risk management services for schools and public entities, since 2000. Previous experience in the insurance industry.

Mr. Ebertz resides in the Gillette, Wyoming area, the location of a substantial aggregation of our power generation assets and our coal mine. His service on various local and community boards provides insight into the political, business and regulatory concerns of Wyoming and the Northern Powder River Basin in particular. Mr. Ebertz' experience in insurance and risk management strengthens our Board's collective qualifications, skills and experiences relating to oversight of enterprise risk.

John R. Howard, 69, has been a director of the Company since 1977.

Retired. Former President, Industrial Products, Inc., an industrial parts distributor, providing equipment and supplies to the mining and manufacturing industries, from 1992 to 2003 and Special Projects Manager for Linweld, Inc. in Lincoln, Nebraska.

Mr. Howard is our longest serving board member, and currently is serving his last term as a director pursuant to the mandatory retirement age established in our Bylaws. His extensive experience with our Company included oversight of different management teams throughout a period of substantial growth and change in our industries. Mr. Howard's knowledge of our Company and industries strengthens our Board's collective qualifications, skills and experiences, particularly relating to corporate governance and strategic planning.

Stephen D. Newlin, 57, has been a director of the Company since 2004.

Chairman, President and Chief Executive Officer of PolyOne Corporation, a global provider of specialized polymer materials, services and solutions, since 2006. Former President, Industrial Sector, Ecolab, Inc., a global leader of services, specialty chemicals and equipment serving industrial and institutional clients, from 2003 to 2006. Served as President and a Director of Nalco Chemical Company, a manufacturer of specialty chemicals, services and systems, from 1998 to 2001 and Chief Operating Officer and Chairman from 2000 to 2001. Currently Director of Valspar Corporation since 2007.

Mr. Newlin has been a director of several other public company and non-profit boards in addition to those identified above. He has industry experience in chemicals, water treatment, power generation, mining, energy, petro-chemical and polymer compounds. Mr. Newlin's experience as an active chairman and chief executive officer of a public company and experience on other public company boards, provides an in-depth business, financial and strategic acumen that strengthens our Board's collective qualifications, skills and experience and enables him to be an effective Governance Committee Chairman.

CORPORATE GOVERNANCE

Corporate Governance Guidelines. Our Board of Directors has adopted corporate governance guidelines titled "Corporate Governance Guidelines of the Board of Directors" which set the tone for operation of our Board and assist the Board in fulfilling its obligations to shareholders and other constituencies. The guidelines lay the foundation for the Board's responsibilities, operations, leadership, organization and committee matters. The Governance Committee reviews the guidelines annually, and the guidelines may be amended at any time, upon recommendation by the Governance Committee and approval of the Board.

Board Independence. In accordance with New York Stock Exchange rules, the Board of Directors through its Governance Committee affirmatively determines the independence of each director and director nominee in accordance with guidelines it has adopted, which include all elements of independence set forth in the New York Stock Exchange listing standards. These guidelines are contained in our Policy for Director Independence, which can be found in the "Governance" section of our website (www.blackhillscorp.com/corpgov.htm). Based on these standards, the Governance Committee determined that each of the following non-employee directors is independent and has no relationship with the Company, except as a director and shareholder of the Company:

David C. Ebertz	Jack W. Eugster	John R. Howard
Kay S. Jorgensen	Stephen D. Newlin	Gary L. Pechota
Warren L. Robinson	John B. Vering	Thomas J. Zeller

In addition, based on such standards, the Governance Committee determined that Mr. Emery is not independent because he is our Chairman, President and Chief Executive Officer (the "CEO").

Board Leadership Structure. As noted above, our Board is currently comprised of nine independent directors and one employee director. Mr. Emery has served as our Chairman of the Board and CEO since 2005, and has been a member of our Board since 2004. Mr. Emery provides strategic, operational, and technical expertise and context for the matters considered by our Board. After considering alternative board leadership structures, our Board chose to retain the ability to balance an independent Board structure with the flexibility to appoint as Chairman a CEO-Director with knowledge of and experience in the operations of our Company. At this time, our Board believes that having a single person serve as Chairman and CEO provides unified and responsible leadership for our Company.

Our Board has been, and continues to value a high degree of Board independence. As a result, our corporate governance structure and practices promote a strong, independent Board, and include several independent oversight mechanisms, including only independent directors serving on our Audit, Compensation and Governance Committees and appointing a Presiding Director. Our Board believes these practices ensure that experienced and independent directors will continue to effectively oversee management and critical issues related to financial and operating plans, long-range strategic issues, enterprise risk and corporate integrity. All of our Board Committees may seek legal, financial or other expert advice from a source independent of management.

Our Board annually appoints a Presiding Director. Kay S. Jorgensen has served as our Presiding Director since May 2006. The responsibilities of Presiding Director, as provided in the Board's Governance Guidelines, are to chair executive sessions of the non-management directors and communicate the Board's annual evaluation of the CEO. The Presiding Director, together with the non-management directors, establishes the agenda for executive sessions, which are held at each regular Board meeting. The Presiding Director serves as a liaison between the non-management members of the Board and the CEO, and discusses, to the extent appropriate, matters raised by the non-management directors in executive session. The Presiding Director also presides over regular meetings of the Board in the absence of the Chairman. This leadership structure provides consistent and effective oversight of our management and our Company.

Risk Oversight. Our Board oversees an enterprise approach to risk management that supports the operational and strategic objectives of the Company. The Corporate Governance Guidelines of our Board of Directors provide that the Board will review major risks facing our Company and the options for risk mitigation presented by management. Our Board delegates oversight of certain risk considerations to its committees within each of their respective areas of responsibility; however, the full Board monitors risk relating to strategic planning and execution, as well as executive succession. Financial risk oversight falls within the purview of our Audit Committee. Our Compensation Committee oversees compensation and benefit plan risks. Each committee reports to the full Board.

Our Board reviews any material changes in the Company's key enterprise risk management issues with management at each quarterly Board meeting, following a presentation of quarterly financial results. In so doing, our Board seeks to ensure appropriate risk mitigation strategies are implemented by management on an ongoing basis. Operational and strategic plan presentations by management to our Board include consideration of the challenges and risks to our business. Our Board and management actively engage in discussions of these topics and utilize outside consultants as needed. Our Board oversees development of the Company's strategic plan risks as part of its annual strategic planning meeting. In addition, our Board receives environmental, safety, legal and compliance reports at least annually.

Our Audit Committee oversees management's strategy and performance relative to the significant financial risks of the Company. In consultation with management, the independent auditors and the internal auditors, the Audit Committee discusses the Company's risk assessment, risk management and credit policies, and reviews significant financial risk exposures along with steps management has taken to monitor, mitigate and report such exposures. At least twice a year, our Chief Risk Officer provides a Risk and Credit Report to the Audit Committee. The Company adopted Risk Policies and Procedures for our energy marketing operations that address governance, control infrastructure, authorized commodities and trading instruments, prohibited activities, employee conduct and other concerns. The Company also adopted a Credit Policy that establishes guidelines, controls and limits to manage and mitigate credit risk within risk tolerances established by the Committee. The Audit Committee reviews these policies as the Internal Audit Department regularly reports audit findings concerning compliance with these policies to them.

Our Compensation Committee adopted an executive compensation philosophy that provides the foundation for our executive compensation program. The executive compensation philosophy states that the executive pay program should be market-based and maintain an appropriate and competitive balance between fixed and variable pay elements, short- and long-term compensation and cash and stock-based compensation. The Committee establishes company-specific performance goals and potential incentive payouts for our executive officers to motivate and reward performance, consistent with the long-term success of the Company. The target compensation for our senior officers is heavily weighted in favor of long-term incentives, aligning performance incentives with long-term results for our shareholders. Our Compensation Committee also sets minimum performance thresholds and maximum payouts in the incentive programs, and maintains the discretion to reduce awards if excessive risk is taken. Stock ownership guidelines established for all our officers require our executives to hold 100 percent of all shares awarded to them until the ownership guidelines are achieved. Our Compensation Committee also instituted "claw-back" provisions in our incentive plans, which may require an executive to return incentives received, if the Committee determines, in its discretion, that the executive engaged in specified misconduct or wrongdoing.

Our management is responsible for day-to-day risk management. Reporting to the senior management team, our Treasury, Risk Management, Compliance and Internal Audit groups provide the primary monitoring and testing services in accordance with company-wide policies and procedures, and oversee the day-to-day risk management strategy for our ongoing businesses. Their oversight includes identifying, evaluating, and addressing potential risks that may exist at the enterprise, strategic, financial, operational, and compliance and reporting levels.

We believe this division of risk management responsibilities described above is an effective approach for addressing the risks facing our Company.

Director Nominees. The Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Committee regularly assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event vacancies are anticipated, or otherwise arise, the Committee considers various potential candidates for director. Board candidates are considered based upon various criteria, including diverse business, administrative and professional skills or experiences; an understanding of relevant industries, technologies and markets; financial literacy; independence status; the ability and willingness to contribute time and special competence to Board activities; personal integrity and independent judgment; and a commitment to enhancing shareholder value. The Committee considers these and other factors as it deems appropriate, given the needs of the Board and the Company. Our goal is a balanced and diverse Board, with members whose skills, background and experience are complementary and, together, cover the spectrum of areas that impact our business. The Committee considers candidates for Board membership suggested by a variety of sources, including current or past Board members, members of management and shareholders. There are no differences in the manner by which the Committee evaluates director candidates recommended by shareholders from those recommended by other sources. The Committee also retains a third-party executive search firm at times to identify candidates.

Shareholders who intend to nominate persons for election to the Board of Directors must provide timely written notice of the nomination in accordance with Article I, Section 9 of our Bylaws. Generally, our Corporate Secretary must receive the written notice at our executive offices at P.O. Box 1400, 625 Ninth Street, Rapid City, South Dakota, 57709, not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. The notice must set forth at a minimum the information set forth in Article I, Section 9 of our Bylaws, including the shareholder's identity and status, contingent ownership interests, description of any agreement made with others acting in concert with respect to the nomination, specific information about the nominee and supply certain representations by the nominee to the Company.

Communications with the Board. Shareholders and others interested in communicating directly with the Presiding Director, with the non-management directors as a group, or the Board of Directors may do so in writing to the Presiding Director, Black Hills Corporation, P.O. Box 1400, 625 Ninth Street, Rapid City, South Dakota, 57709.

Table of Contents

Corporate Governance Documents. The charters of the Audit, Compensation and Governance committees, as well as the Board's Corporate Governance Guidelines, Policy for Director Independence, Code of Business Conduct and the Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Corporate Controller, and certain other persons performing similar functions can be found in the "Governance" section of our website (www.blackhillscorp.com/corpgov.htm). Copies may also be obtained upon request from our Corporate Secretary. Please note that none of the information contained on our website is incorporated by reference in this proxy statement.

Certain Relationships and Related Party Transactions. We recognize related party transactions can present potential or actual conflicts of interest and create the appearance that decisions are based on considerations other than the best interests of the Company and our shareholders. Accordingly, as a general matter, it is our preference to avoid related party transactions. Nevertheless, we recognize that there are situations where related party transactions may be in, or may not be inconsistent with, the best interests of the Company and our shareholders, including but not limited to situations where we may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or when we provide products or services to related parties on an arm's length basis on terms comparable to those provided to unrelated third parties or on terms comparable to those provided to employees generally. Therefore, our Board of Directors has adopted a policy for the review of related party transactions. This policy requires directors and officers to promptly report to our Vice President Governance all proposed or existing transactions in which the Company and they, or persons related to them, are parties or participants. Our Vice President Governance presents to our Governance Committee those transactions that may require disclosure pursuant to Item 404 of Regulation S-K (typically, those transactions that exceed $120,000). Our Governance Committee reviews the material facts presented and either approves or disapproves entry into the transaction. In reviewing the transaction, the Governance Committee considers the following factors, among other factors it deems appropriate: (i) whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances; (ii) the extent of the related party's interest in the transaction; and (iii) the impact on a director's independence in the event the related party is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer.

We offer a relocation program through a third-party relocation company for employees who relocate at the Company's request and, in appropriate circumstances, to new employees who relocate in connection with their employment by the Company. We believe this program offers a valuable incentive to attract and retain key employees. Our program covers the cost of most of the reasonable expenses associated with relocation, including, but not limited to, disposition of current residence, home finding, temporary living and transportation and storage of household goods. For our executives, the relocation program includes a buyout provision for the pre-move residence. The relocation company manages the home sale process, including purchasing the home at either an appraised market value or at the value offered by a bona fide third-party purchaser and reselling the home. The Company is responsible for any costs associated with the subsequent maintenance and sale of the home, including the payment of a service fee to the relocation company. In November 2008, in connection with the hiring of Anthony Cleberg as our Executive Vice President and Chief Financial Officer ("CFO"), the relocation company purchased Mr. Cleberg's home for $627,500. The relocation company sold Mr. Cleberg's home in 2009 for $538,450. Robert A. Myers, our Senior Vice President of Human Resources since January 2009, has until December 31, 2011 to exercise the home buyout provisions of his relocation package.

Section 16(a) Beneficial Ownership Reporting Compliance. Based solely upon a review of our records and copies of reports on Form 3, 4 and 5 furnished to us, we believe that during and with respect to 2009, all persons subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, filed the required reports on a timely basis.

Table of Contents

MEETINGS AND COMMITTEES OF THE BOARD

The Board of Directors

Our directors review and approve our strategic plan and oversee management of the Company. Our Board of Directors held eight meetings during 2009. Directors' attendance at all Board and Committee meetings averaged 97 percent. During 2009, every director attended at least 75 percent of the combined total of Board meetings and Committee meetings on which the director served. Each regularly scheduled meeting of the Board includes an executive session of only non-management directors. We encourage our directors to attend the annual shareholders' meeting. All 10 directors were in attendance at the 2009 annual meeting of shareholders.

Committees of the Board

Our Board has three standing committees to facilitate and assist the Board in the execution of its responsibilities. The committees are currently the Audit Committee, the Compensation Committee and the Governance Committee. In accordance with the New York Stock Exchange listing standards and our Corporate Governance Guidelines, the Audit, Compensation and Governance Committees are comprised solely of non-employee, independent directors. Each committee operates under a charter which is available on our website at www.blackhillscorp.com/corpgov.htm and is also available in print to any shareholder who requests it. In addition, our Board creates special committees from time to time for specific purposes.

Members of the Committees are designated by our directors upon recommendation of the Governance Committee. The table below shows current membership for each of the Board committees.

Audit Committee	**Compensation Committee**	**Governance Committee**
John R. Howard	David C. Ebertz	David C. Ebertz
Gary L. Pechota	Jack W. Eugster*	Jack W. Eugster
Warren L. Robinson*	Kay S. Jorgensen	Kay S. Jorgensen
John B. Vering	Stephen D. Newlin	Stephen D. Newlin*
	Thomas J. Zeller	John B. Vering

* Committee Chairperson

Audit Committee. The Audit Committee held seven meetings in 2009. The Audit Committee's responsibilities, discussed in detail in its charter include, among other duties, the responsibility to:

- assist the Board in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices;
- monitor the integrity of our financial reporting process, systems of internal controls and disclosure controls regarding finance, accounting and legal compliance;
- review areas of potential significant financial risk to the Company;
- review consolidated financial statements and disclosures;
- appoint an independent registered public accounting firm for ratification by our shareholders;

monitor the independence and performance of our independent registered public accountants and internal auditing department;

pre-approve all audit and non-audit services provided by our independent registered public accountants;

Table of Contents

- review the scope and results of the annual audit including reports and recommendations of our independent registered public accountants;
- review the internal audit plan, results of internal audit work and monitor compliance with our Code of Conduct; and
- periodically meet with our internal audit group, management, and independent registered public accounting firm.

In accordance with the rules of the NYSE, all of the members of the Audit Committee are financially literate. In addition, the Board determined that Messrs. Howard, Pechota, Robinson and Vering each have the requisite attributes of an "audit committee financial expert" as provided in regulations promulgated by the Securities and Exchange Commission, and that such attributes were acquired through relevant education and/or experience.

Compensation Committee. The Compensation Committee held five meetings in 2009. The Compensation Committee's responsibilities, discussed in detail in its charter include, among other duties, the responsibility to:

- discharge the Board of Director's responsibilities related to executive and director compensation philosophy, policies and programs;
- perform functions required by the Board of Directors in the administration of all federal and state statutes relating to employment and compensation;
- consider and recommend for approval by the Board all executive compensation programs including executive benefit programs and stock ownership plans; and
- promote an executive compensation program that supports the overall objective of enhancing shareholder value.

The Compensation Committee has authority under its charter to retain and terminate compensation consultants, outside counsel and other advisors as the Committee may deem appropriate in its sole discretion. The Committee has sole authority to approve related fees and retention terms. The Committee may delegate any of its responsibilities to subcommittees as the Committee may deem appropriate in its sole discretion. The Committee engaged Towers Perrin (now known as Towers Watson following the merger of Towers Perrin and Watson Wyatt), an independent consulting firm, to conduct an annual review of its 2009 total compensation program for executive officers and non-employee directors and to assist in the redesign of our defined benefit pension plan to a defined contribution plan for all eligible employees. In addition, Towers Perrin was engaged by management to provide certain other services, including the consolidation of salary grades and incentive integration for non-executive level positions. Management discussed with the Committee the other work to be performed by Towers Perrin. The following table sets forth the aggregate fees for services provided to us in 2009 by Towers Perrin.

Executive and Director Compensation		$ 118,400
Other Services		
Retirement Plan Changes	$ 472,300	
Consolidation of Non-Executive Salary Grades	184,000	
Incentive Integration for Non-Executive Level Positions	102,600	
Other Miscellaneous Services	39,500	
		798,400
Total Fees		$ 916,800

Table of Contents

The Committee annually evaluates the CEO's performance in light of established goals and objectives, with input from the other independent directors. Based upon the Committee's evaluation and recommendation, the independent directors of the Board set the CEO's annual compensation, including salary, bonus, incentive and equity compensation and perquisites.

The CEO annually reviews the performance of each of our senior officers. He presents a summary of his evaluations of all of our senior officers to the Committee and thoroughly reviews the Chief Operating Officer Utilities (the "COO-Utilities,") the Chief Operating Officer Non-regulated Energy Group (the "COO-Non-regulated Energy") and the CFO evaluations with the Committee. Based upon the Committee's review and recommendation, the Board of Directors sets the annual compensation of the COO-Utilities, COO-Non-regulated Energy and CFO, including salary, bonus, incentive and equity compensation and perquisites.

The CEO also provides oversight of management's evaluations of our other officers. Senior officers assess performance of all officers reporting to them. Based upon these performance reviews, market analysis conducted by the compensation consultant and discussions with our Chief Human Resources Officer and Human Resources department staff, the CEO recommends the compensation of the officers to the Committee. The Committee may exercise its discretion in modifying any of the recommended compensation and award levels in its review and approval process.

More information describing the Compensation Committee's processes and procedures for considering and determining executive compensation, including the role of our CEO and consultants in determining or recommending the amount or form of executive compensation, is included in the Compensation Discussion and Analysis.

In setting non-employee director compensation, the Compensation Committee recommends the form and amount of compensation to the Board of Directors and the Board of Directors makes the final determination. In considering and recommending the compensation of non-employee directors, the Compensation Committee considers such factors as it deems appropriate, including historical compensation information, level of compensation necessary to attract and retain non-employee directors meeting our desired qualifications and market data. In the review of director compensation for 2009, the Compensation Committee retained Towers Perrin to provide market information on non-employee director compensation, including annual board and committee retainers, board and committee meeting fees, committee chairperson fees, number of Board meetings and stock based compensation.

Compensation Committee Interlocks and Insider Participation. The Compensation Committee is comprised entirely of independent directors.

Governance Committee. The Governance Committee held three meetings in 2009. The Governance Committee's responsibilities, discussed in detail in its charter include, among other duties, the responsibility to:

- assess the size of the Board and membership needs and qualifications for Board membership;
- recruit and recommend prospective directors to the Board to fill vacancies;
- consider and recommend existing Board members to be renominated at our annual meeting of shareholders;
- establish and review guidelines for corporate governance;
- recommend to the Board committee membership and the chairpersons of the committees;
- nominate an independent director to serve as a Presiding Director;
- review the independence of each director and director nominee;

Table of Contents

administer an annual evaluation of the performance of the Board and facilitate an annual assessment of each committee; and

ensure that the Board oversees the evaluation and succession planning of management.

DIRECTOR COMPENSATION

Director Fees

In 2009, our non-employee director compensation was as follows:

an annual cash retainer of $36,000, paid on a monthly basis;

common stock equivalents equal to $50,000 per year, paid on a quarterly basis;

dividend equivalents on the common stock equivalents equal to the same dividend rate our shareholders receive; and

a meeting fee of $1,250 for each board and committee meeting attended, provided such committee meetings are substantive in nature and content.

In addition, our Presiding Director and Committee Chairpersons received the following additional compensation:

Presiding Director an annual fee of $15,000;

Audit Committee Chairperson an annual fee of $10,000; and

Compensation and Governance Committee Chairpersons annual fees of $6,000.

Director Stock Ownership Guidelines

Members of our Board of Directors are required to beneficially own 500 shares of common stock when they are initially elected a director and to apply at least 50 percent of his or her annual cash retainer toward the purchase of additional shares until the director has accumulated at least 7,500 shares of common stock. All of our directors have currently met their stock ownership guidelines.

Table of Contents

Director Total Compensation for 2009 and Common Stock Equivalents Outstanding as of December 31, 2009(1)

Name(2)	Fees Earned or Paid in Cash	Stock Awards(3)	Total	Number of Common Stock Equivalents Outstanding at December 31, 2009(4)
David C. Ebertz	$ 62,250	$ 50,000	$ 112,250	9,807
Jack W. Eugster	$ 69,500	$ 50,000	$ 119,500	7,079
John R. Howard	$ 65,750	$ 50,000	$ 115,750	16,299
Kay S. Jorgensen	$ 76,000	$ 50,000	$ 126,000	11,795
Stephen D. Newlin	$ 66,000	$ 50,000	$ 116,000	7,289
Gary L. Pechota	$ 59,750	$ 50,000	$ 109,750	4,564
Warren L. Robinson	$ 73,500	$ 50,000	$ 123,500	4,731
John B. Vering	$ 69,750	$ 50,000	$ 119,750	6,470
Thomas J. Zeller	$ 66,000	$ 50,000	$ 116,000	10,199

(1) Our directors did not receive any option awards, non-equity incentive plan compensation, pension benefits or perquisites in 2009.

(2) Mr. Emery, our CEO, is not included in this table as he is an employee of the Company and thus receives no compensation for his services as a director. Mr. Emery's compensation received as an employee is shown in the Summary Compensation Table for our Named Executive Officers.

(3) Each non-employee director received a quarterly award of common stock equivalents with a grant date fair value of $12,500 a quarter or $50,000 a year.

(4) The common stock equivalents are fully vested in that they are not subject to forfeiture; however, the shares are not issued until after the director ends his or her service on the Board. The common stock equivalents are payable in stock or cash or can be deferred further at the election of the director.

Table of Contents

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL SHAREHOLDERS

The following tables set forth the beneficial ownership of our common stock as of March 31, 2010 for each director, each executive officer named in the Summary Compensation Table, all of our directors and executive officers as a group, and each person or entity known by us to beneficially own more than five percent of our outstanding shares of common stock. Beneficial ownership includes shares a director or executive officer has the power to vote or transfer, and stock options that are exercisable currently or within 60 days of March 31, 2010.

Except as otherwise indicated by footnote below, we believe that each individual or entity named has sole investment and voting power with respect to the shares of common stock indicated as beneficially owned by that individual or entity.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned(1)	Options Exercisable Within 60 Days	Directors Common Stock Equivalents(2)	Total	Percentage(3)
Directors and Named Executive Officers					
Anthony S. Cleberg(4)	23,445			23,445	*
David C. Ebertz	6,596		10,387	16,983	*
David R. Emery(5)	102,173	30,882		133,055	*
Jack W. Eugster	9,000		7,624	16,624	*
Linden R. Evans	41,658	10,000		51,658	*
John R. Howard	16,864		16,962	33,826	*
Kay S. Jorgensen	7,615		12,400	20,015	*
Robert A. Myers	10,129			10,129	*
Stephen D. Newlin	2,605		7,837	10,442	*
Thomas M. Ohlmacher	56,727	2,500		59,227	*
Gary L. Pechota	4,085		5,077	9,162	*
Warren L. Robinson(6)	4,589		5,246	9,835	*
John B. Vering(7)	2,728		7,007	9,735	*
Thomas J. Zeller(8)	5,909		10,784	16,693	*
All directors and executive officers as a group (23 persons)	429,314	117,786	83,324	630,424	1.6%

* Represents less than one percent of the common stock outstanding.

(1) Includes restricted stock held by the following executive officers for which they have voting power but not investment power and stock underlying restricted stock units the executive officers have the right to acquire within 60 days as to which they have no current voting or investment power: Mr. Cleberg 13,978 shares; Mr. Emery 27,226 shares; Mr. Evans 15,917 shares; Mr. Myers 7,932 shares; Mr. Ohlmacher 10,314 shares and 32,157 restricted stock units; and all directors and executive officers as a group 125,513 shares and 32,157 restricted stock units.

(2) Represents common stock allocated to the directors' accounts in the directors' stock based compensation plan, of which there are no voting rights.

(3) Shares of common stock which were not outstanding but could be acquired by a person upon exercise of an option within 60 days of March 31, 2010, are deemed outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by such person. Such shares, however, are not deemed to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other person.

Table of Contents

(4) Includes 140 shares owned by Mr. Cleberg's spouse and 2,046 shares owned by the Fern Wagner Revocable Living Trust of which Mr. Cleberg is the Trustee.

(5) Includes 73,399 shares owned jointly with Mr. Emery's spouse as to which he shares voting and investment authority and 4,500 shares that are pledged as security on a personal bank loan.

(6) Includes 500 shares owned by Mr. Robinson's spouse.

(7) Includes 2,000 shares owned jointly with Mr. Vering's spouse as to which he shares voting and investment authority.

(8) Includes 225 shares owned jointly with Mr. Zeller's spouse as to which he shares voting and investment authority.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage
Five Percent Shareholders		
BlackRock, Inc.(1) 40 East 52nd Street New York, NY 10022	4,082,131	10.4%
Dos Mil Doscientos Uno, Ltd.(2) Ronda Universitat, 31 1-1 Barcelona, Spain 08007	2,373,380	6.1%
State Street Corporation(3) One Lincoln Street Boston, MA 02111	2,984,575	7.6%
T. Rowe Price Associates, Inc.(4) 100 East Pratt Street Baltimore, MD 21202	2,405,507	6.1%

(1) Information is as of December 31, 2009, and is based on a Schedule 13G filed on January 8, 2010.

(2) Information is as of December 31, 2009, and is based on a Schedule 13G filed on January 27, 2010.

(3) Information is as of December 31, 2009, and is based on a Schedule 13G filed on February 12, 2010.

(4) Information is as of December 31, 2009, and is based on a Schedule 13G filed on February 12, 2010 represents shares owned by various individual and institutional investors which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

Table of Contents

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis seeks to provide shareholders with a better understanding of our compensation philosophy, core principles and decision-making process. It explains the compensation-related actions taken with respect to 2009 compensation for our executive officers included in the Summary Compensation Table (our "Named Executive Officers"). Our Named Executive Officers, based on 2009 positions and compensation levels, are:

- David R. Emery, CEO;
- Anthony S. Cleberg, CFO;
- Thomas M. Ohlmacher, COO Non-regulated Energy;
- Linden R. Evans, COO Utilities; and
- Robert A. Myers, Sr. Vice President Human Resources.

The Compensation Committee of the Board of Directors (the "Committee," for purposes of this Compensation Discussion and Analysis) is composed entirely of independent directors and is responsible for approving and overseeing our executive compensation philosophy, policies and programs. The Committee has a written executive compensation philosophy which details the objectives of our executive compensation program. The Committee begins its executive compensation review process each year by discussing and updating, if appropriate, its compensation philosophy.

Compensation Program Objectives. Our long-term success depends on our operational excellence, providing reliable products and services to our customers and investing wisely for present and future shareholder return. To consistently achieve these outcomes, in turn, depends on our ability to attract, motivate, and retain highly talented professionals. For these reasons, the Committee seeks to promote an executive compensation program that supports the overall objective of enhancing shareholder value and is based on principles designed to:

- attract, retain and encourage the development of highly qualified and motivated executives;
- provide compensation that is competitive;
- promote the relationship between pay and performance;
- promote overall corporate performance that is linked to the interests of our shareholders; and
- recognize and reward outstanding performance.

Overall, our goal is to provide total direct compensation (the sum of base salary, annual bonus and long-term incentives) at the median of the appropriate market when our operating results approximate average performance in relation to our peers. An individual executive's compensation may vary from the median based on such factors as individual skills, experience, contribution and performance, historic compensation, internal equity, retention concerns and other factors relevant to the individual executive. Our executives' actual direct compensation should vary significantly based on these factors and based on how actual performance varies from average or target results.

Our executive compensation is designed to maintain an appropriate and competitive balance between fixed and variable pay components, short- and long-term compensation, and cash as well as stock-based compensation. We believe that the performance basis for determining compensation should differ by each reward component base salary, annual bonus and long-term incentives.

Table of Contents

Incentive measures (short- and long-term) should emphasize objective, quantitative operating measures. The Committee retains the discretion to positively or negatively adjust incentive payments based on their subjective evaluation of performance, including the materiality of certain extraordinary events.

Setting Executive Compensation

Based upon this compensation philosophy, the Committee structures our executive compensation to motivate our officers to achieve specified business goals and to reward them for achieving such goals. The key steps the Committee follows in setting executive compensation are to:

- analyze executive compensation market data to ensure market competitiveness;
- review the components of executive compensation, including base salary, annual incentive, long-term incentive, retirement and other benefits;
- review total compensation mix and structure; and
- review executive officer performance, responsibilities, experience and other factors cited above, to determine individual compensation levels.

Market Compensation Analysis

The market for our senior executive talent is national in scope and is not focused on any one geographic location, area or region of the country. As such, our executive compensation should be competitive with the national market for senior executives. It should also reflect the executive's responsibilities and duties and align with the pay of executives at companies or business units of comparable size and complexity. The Committee gathers market information for our corporate executives from the utility and energy industry, recognizing the significant impact of our regulated utility operations on overall company strategy and performance.

The Committee selects and retains the services of an independent consulting firm to:

- provide information regarding practices and trends in compensation programs;
- review and evaluate our compensation program as compared to compensation practices of other companies with similar characteristics, including size and type of business;
- review and assist with the establishment of a peer group of companies; and
- provide a compensation analysis of the executive positions.

The Committee used the services of Towers Perrin for evaluating 2009 compensation. Towers Perrin gathered data from nationally recognized survey providers, as well as specific peer companies through public filings, which included:

- Towers Perrin's 2008 Compensation Data Bank;
- Towers Perrin's Energy Marketing & Trading Survey; and

25 peer companies representing the energy and utility industry.

The 25 peer companies ranged in revenue size from approximately $850 million to nearly $4 billion with the median at $1.5 billion. The survey data were adjusted for our size using a statistical technique known as single regression analysis. The peer group that the Committee chose for the January 1, 2009 to December 31, 2011 Performance Period of our Performance Share Program, disclosed under

Table of Contents

Long-Term Incentive Performance Shares, is included in the 25 peer companies used for this compensation analysis. The 25 peer companies include:

AGL Resources Inc.	Laclede Group, Inc.	Portland General Electric Company
ALLETE Inc.	MDU Resources Group, Inc.	Puget Energy, Inc.
Avista Corp	National Fuel Gas Co.	South Jersey Industries Inc.
CH Energy Group Inc.	Nicor Inc.	UIL Holdings Corporation
Cleco Corporation	Northwest Natural Gas Co.	UniSource Energy Corporation
DPL Inc.	NorthWestern Corporation	Vectren Corporation
Equitable Resources Inc.	Otter Tail Corporation	Westar Energy, Inc.
Great Plains Energy Incorporated	PNM Resources, Inc.	WGL Holdings, Inc.
IDACORP, Inc.		

The salary surveys are one of several inputs into the Committee's decisions regarding appropriate compensation levels. Other factors include company performance, individual performance and experience, the level and nature of the executive's responsibilities, and discussions with the CEO, Chief Human Resources Officer and Human Resources department staff.

Components of Executive Compensation

The components of our executive compensation program consist of a base salary, an annual incentive plan, and a long-term incentive award program. In addition, we provide income for our officers' retirement and other benefits.

An important component of the total compensation is derived from incentive compensation. Incentive compensation is intended to motivate and encourage our executives to drive performance and achieve superior results for our shareholders. The Committee reviews information provided by the compensation consultant to determine the appropriate level and mix of incentive compensation. Actual income in the form of incentive compensation is realized by the executive as a result of achieving Company goals and overall stock performance. The Committee believes that a significant portion of total target compensation should be comprised of incentive compensation. In order to reward long-term growth as well as short-term results, the Committee establishes incentive targets that emphasize long-term compensation at a greater level than short-term compensation.

The Committee annually reviews tally sheets on all components of each executive officer's compensation, including salary, bonus, equity and other long-term incentive compensation values granted, the actual value realized from stock option exercises and restricted stock and restricted stock units vested, the value of all perquisites and other personal benefits, and the projected annual benefit under our Pension and Pension Equalization Plans. The Committee uses the tally sheets as a resource that summarizes all elements of actual and potential future compensation of our officers, facilitating the Committee's analysis of both the individual elements of compensation as well as the total aggregate amount of actual and projected compensation and internal pay relationships between the officer positions. Upon completing its review of the tally sheets, the Committee concluded that both the annual compensation and the compensation mix were consistent with the Committee's expectations.

Table of Contents

The components of total target compensation in 2009 were as follows:

	Base Salary	Annual Incentive	Long-Term Incentive
David R. Emery, CEO	35%	25%	40%
Anthony S. Cleberg, CFO	42%	19%	39%
Thomas M. Ohlmacher, COO Non-regulated Energy	39%	19%	42%
Linden R. Evans, COO Utilities	35%	17%	48%*
Robert A. Myers, Sr. Vice President Human Resources	49%	20%	31%

* Mr. Evans long-term incentive as a percentage of total compensation is higher than normally would be seen. See the explanation for this aberration in the section entitled Long-Term Incentive.

The total target compensation in 2009 for the named executive officers was at a combined average of 95 percent of the median of the market.

Base Salary. Base salaries for all officers are reviewed annually. We also adjust the base salary of our executives at the time of a promotion or change in job responsibility, as appropriate. The base salary component is compared to the median of the market data provided by the compensation consultant. The actual base salary of each officer is determined by the executive's performance, the experience level of the officer, the executive's current position in a market-based salary range, and internal pay relationships. Evaluation of base salary adjustments for 2009 occurred in December 2008 and in January 2009. As a result of the economic downturn at the time and the uncertainty in when market conditions would improve, the Committee did not increase the base salaries of our officers in 2009.

Annual Incentive. Our annual Short-Term Incentive Plan is designed to recognize and reward the contributions of individual executives as well as the contributions that group performance makes to overall corporate success. The program's goal for our corporate officers is based on earnings per share targets in order to closely align interests with shareholders and to foster teamwork and cooperation within the officer team. The annual incentive, after applicable tax withholding, is distributed to the officer in the form of 50 percent stock and 50 percent cash, unless the officer has met his or her stock ownership guideline, in which case he or she may elect to receive the total award in cash, after deductions and applicable tax withholding. Target award levels are established as a percentage of each participant's base salary. A target award is comparable to the average annual incentive payout award of the comparator group at the 50^{th} percentile level. The actual annual payout will vary, based on performance, between zero and 200 percent of the individual executive's short-term incentive target award level.

The Committee approves the target level for each officer in January, which is applicable to performance in the plan year. Target levels are derived in part from competitive data provided by the compensation consultant and in part by the Committee's judgment regarding internal equity, retention and an individual executive's expected contribution to the achievement of the Company's strategic objectives. The target levels for the positions held by our Named Executive Officers in 2009 are shown below.

CEO	70%
COO Non-regulated Energy	50%
COO Utilities	50%
CFO	45%
Sr. Vice President Human Resources	40%

Table of Contents

The threshold, target and maximum payout levels for our Named Executive Officers under the 2009 Short-Term Incentive Plan are shown in the Grants of Plan Based Awards in 2009 table under the heading "Estimated Possible Payouts Under Non-Equity Incentive Plan Awards."

Early in the first quarter, the Committee meets to establish the goals for the current plan year, to evaluate actual performance in relation to the prior year's targets and to approve the actual payment of awards related to the prior plan year. The Committee reserves the discretion to adjust any award, and will review and take into account individual performance, level of contribution, and the accomplishment of specific project goals that were initiated throughout the plan year.

Consistent with 2008, the Committee selected a composite earnings per share goal for the 2009 corporate goal that is weighted 80 percent on non-energy marketing earnings per share and 20 percent on energy marketing earnings per share. The Committee chose this weighted methodology because it addresses the volatility of our energy marketing segment's earnings and the potential for this volatility to disproportionately influence bonus outcomes for participants in the annual Short-Term Incentive Plan, both positively and negatively. It also continues to meet the objectives of the plan including:

- aligning the interests of the plan participants and the shareholders with a corporate-wide component;
- motivating employees and supporting the corporate compensation philosophy;
- being easily understood and easily communicated to ensure "buy-in" from the participants; and
- by meeting the performance objectives of the plan, an average payout equal to market competitive levels can be attained over time.

The Committee approved the goals for the 2009 plan year for the corporate officers as follows:

Threshold	**Non-energy Marketing Earnings Per Share Goal**	**Energy Marketing Earnings Per Share Goal**	**Payout % of Target**
Minimum	$ 1.386	$ 0.495	30%
Target	$ 1.540	$ 0.550	100%
Maximum	$ 1.771	$ 0.633	200%

The target earnings per share goal for 2009 was equal to budgeted earnings per share. On January 27, 2010, the Committee approved a payout of 56 percent of target under the 2009 Short-Term Incentive Plan comprised of a 56 percent payout from non-energy marketing earnings and no payout from energy marketing earnings. The actual consolidated non-energy marketing earnings for 2009 were $2.15 per share. After adjusting the earnings for the non-cash, mark-to-market gain on the forward interest rate swaps, the gain on the sale of a 23.5 percent interest in Wygen I, and the impact of the non-cash ceiling test write-down of oil and gas assets, adjusted non-energy marketing earnings were $1.47 per share. This resulted in a payout of 69.9 percent of target for the non-energy marketing earnings goal. Energy marketing had a net loss of approximately $0.04 per share in 2009, resulting in no payout for the energy marketing earnings goal. The 2009 award, after applicable tax withholding, was distributed in the form of 50 percent stock and 50 percent cash for Messrs. Cleberg and Myers. Messrs. Emery, Ohlmacher and Evans had met their stock ownership guidelines and elected to receive

Table of Contents

their 2009 award in the form of 100 percent cash. Awards for corporate officers under the annual Short-Term Incentive Plan have varied significantly over the last five years as shown below.

Plan Year	Payout % of Target
2009	56%
2008	52%
2007	200%
2006	150%
2005	100%

Actual awards made to each of our Named Executive Officers under the annual Short-Term Incentive Plans for 2009 are included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

Long-Term Incentive. Long-term incentive compensation is comprised of grants made by the Committee under our 2005 Omnibus Incentive Plan ("Omnibus Incentive Plan") which was previously approved by our shareholders. Long-term incentive compensation is intended to:

- promote corporate goals by linking the personal interests of participants to those of our shareholders;
- provide participants with an incentive for excellence in individual performance;
- promote teamwork among participants; and
- provide flexibility in our effort to motivate, retain, and attract the services of participants who make significant contributions to our success by allowing participants to share in such success.

The Committee oversees the administration of the Omnibus Incentive Plan with full power and authority to determine when and to whom awards will be granted, along with the type, amount and other terms and conditions of each award. The long-term incentive compensation component is currently composed of restricted stock (or restricted stock units) and performance shares. The Committee chose these components because they believe that executive compensation tied to stock price appreciation and total shareholder return is an effective way to align the interests of management with those of our shareholders. The Committee selected total shareholder return as the performance goal for the performance shares because it believes executive pay under a long-term, capital accumulation program such as this should mirror our performance in shareholder return as compared to our peer group of companies. None of our Named Executive Officers have received stock option grants since 2003.

The value of long-term incentives awarded is based primarily on competitive market-based data presented by the compensation consultant to the Committee, the impact each position has on our shareholder return and internal pay relationships. The Committee approved the target long-term incentive compensation level for each officer in December 2008, which was awarded in January 2009.

Long-term incentive compensation approved for the 2009 plan year for our Named Executive Officers is shown in the table below.

	Long-Term Incentive Value	Percentage of Base Salary
David R. Emery, CEO	$ 630,000	112%
Anthony S. Cleberg, CFO	$ 300,000	95%
Thomas M. Ohlmacher, COO Non-regulated Energy	$ 380,000	108%
Linden R. Evans, COO Utilities	$ 380,000	139%
Robert A. Myers, Sr. Vice President Human Resources	$ 175,000	64%

Table of Contents

The variance in percentage of base salary for the long-term incentive value of the Named Executive Officers reflects our philosophy that the CEO, CFO and COOs should have more of their total compensation at risk because they hold positions that have a greater impact on our long-term results. The long-term incentive value for these positions normally is in the range of 95 percent to 115 percent of base salary. Mr. Evans' long-term incentive value in 2009 was a larger percentage of base salary than would normally be seen. This is due to the impacts of the acquisition of the utility properties on his job responsibilities. The acquisition more than doubled our utility assets from $830 million to $2.2 billion and increased the number of state jurisdictions of our utility properties from three to seven. As a result, the Committee chose to increase his long-term incentive value while making no change to his base salary due to the economic downturn and uncertainty in market conditions at the time.

Restricted stock (or restricted stock units) is used to deliver 50 percent of the long-term incentive award amounts, with the remaining 50 percent delivered in the form of performance shares. The actual shares of restricted stock and performance shares granted in 2009 are reflected in the tables in the *Restricted Stock and Restricted Stock Units* and *Performance Shares* sections that follow.

Restricted Stock and Restricted Stock Units. Restricted stock and restricted stock units vest one-third each year over a three-year period, and automatically vest in their entirety upon death, disability or a change in control. Dividends are paid on the restricted shares and dividend equivalents accrue on restricted stock units. Unvested restricted stock or units are forfeited if an officer's employment is terminated for any reason other than death, disability or in the event of a change in control. Corporate officers may elect to receive the award in the form of restricted stock, or to defer the payment under the Nonqualified Deferred Compensation Plan, in the form of restricted stock units. The number of shares awarded in 2009 for each of our Named Executive Officers is shown below and is included in the Grants of Plan Based Awards in 2009 table under the heading "All Other Stock Awards: Number of Shares of Stock or Units" and "Grant Date Fair Value of Stock Awards."

David R. Emery, CEO	11,543
Anthony S. Cleberg, CFO	5,497
Thomas M. Ohlmacher, COO Non-regulated Energy	6,962
Linden R. Evans, COO Utilities	6,962
Robert A. Myers, Sr. Vice President Human Resources	3,206

Performance Shares. Participants are awarded a target number of performance shares based upon the value of the individual performance share component approved by the Committee, divided by the Beginning Stock Price. The Beginning Stock Price, as defined under the Performance Plan, is the average of the closing price of our common stock for the 20 trading days immediately preceding the beginning of the plan period. Entitlement to performance shares is based on our total shareholder return over designated performance periods, as measured against our peer group. In addition, in order for any performance shares to be awarded, our stock price must also increase during the performance period from the Beginning Stock Price. The final value of the performance shares is based upon the number of shares of common stock that are ultimately granted, based upon our performance in relation to the performance criteria. At the end of each respective performance period, actual awards may range from 0 percent to 175 percent of the target share amounts plus accrued dividends. A 100 percent payout of the target shares occurs if our total shareholder return exceeds the 50^{th} percentile of the peer group. A zero percent payout occurs if we are below the 40^{th} percentile and a maximum payout of 175 percent occurs if we perform at the 80^{th} percentile or above. The performance awards and dividend equivalents, if earned, are paid in 50 percent cash and 50 percent common stock. All payroll deductions and applicable tax withholding related to the award are withheld from the cash portion. Performance share target grant values are approved in the December/January timeframe for a three-year performance period beginning January 1.

Table of Contents

Our peer group is comprised of the following companies for the performance period that ended in 2009:

Alliant Energy Corporation	IDACORP, Inc.	OGE Energy Corporation
DPL Inc.	Integrys Energy Group, Inc.	Pepco Holdings Inc.
Great Plains Energy Incorporated	Northeast Utilities	PNM Resources Inc.
Hawaiian Electrics Inds.	NStar	Wisconsin Energy Corp.

This peer group was originally identified as the companies in the S&P MidCap Electric Utilities Index; however because of re-categorizing of companies in the index by S&P from time to time, the companies in the peer group must be tracked individually.

The Committee changed our peer group beginning with the January 1, 2008 to December 31, 2010 Performance Period, recognizing a peer group that is more reflective of Black Hills Corporation upon the closing of the acquisition of Aquila's electric utility in Colorado and its gas utilities in Colorado, Kansas, Nebraska and Iowa. The peer group for the performance periods that end in 2010 and 2011 is comprised of the following companies:

AGL Resources Inc.	IDACORP, Inc.	NV Energy, Inc.
ALLETE Inc.	MDU Resources Group, Inc.	UIL Holdings Corporation
Avista Corp	NorthWestern Corporation	UniSource Energy Corporation
CH Energy Group Inc.	Otter Tail Corporation	Vectren Corporation
Cleco Corporation	PNM Resources, Inc.	Westar Energy, Inc.
DPL Inc.	Portland General Electric Company	WGL Holdings, Inc.
Great Plains Energy Incorporated		

Each performance share period extends for three years. For the recently completed performance period, January 1, 2007 to December 31, 2009, our total shareholder return was negative 17 percent, which ranked at the 23rd percentile of our peer group, resulting in no payout. The continued collapse of oil and gas prices in the second half of 2008 and through 2009, combined with the effects of the global credit crisis created significant negative impacts on our overall financial performance in 2008 and 2009.

Actual awards for the corporate officers under the Performance Share Plan over the last five years have varied significantly based on the Company's performance in relation to its peer group as shown below.

Performance Period	**Payout % of Target**
January 1, 2007 to December 31, 2009	0
January 1, 2006 to December 31, 2008	0
January 1, 2005 to December 31, 2007	175
March 1, 2004 to December 31, 2006	37
March 1, 2004 to December 31, 2005	175

Table of Contents

Target shares for each of our Named Executive Officers for the outstanding performance periods are as follows:

	January 1, 2008 to December 31, 2010 Performance Period	January 1, 2009 to December 31, 2011 Performance Period	January 1, 2010 to December 31, 2012 Performance Period
David R. Emery	6,900	12,319	11,982
Anthony S. Cleberg	NA	5,866	5,706
Thomas M. Ohlmacher	4,370	7,431	7,227
Linden R. Evans	2,748	7,431	7,227
Robert A. Myers	NA	3,422	3,328

Actual payouts, if any, will be determined based upon the total shareholder return for the plan period in comparison to the peer group.

Hiring Inducement

As part of Mr. Myers compensation package when he joined the Company as Senior Vice President Human Resources, the Committee awarded him $100,000 of restricted stock (3,664 restricted shares) that vests one-third each year over a three-year period. These shares are in addition to the restricted shares awarded as part of his long-term incentive and disclosed under *Long-Term Incentive* and *Restricted Stock and Restricted Stock Units* above.

Performance Evaluation

Role of Executive Officers in Compensation Decisions. The CEO annually reviews the performance of each of our senior officers. He presents a summary of his evaluation of all of our senior officers to the Committee and thoroughly reviews the COO Utilities, COO Non-regulated Energy and CFO evaluations with the Committee. Based upon these performance reviews, market analysis conducted by compensation consultants and discussions with our Chief Human Resources Officer and Human Resources department staff, the CEO recommends the compensation for this group of officers to the Committee. The Committee may exercise its discretion in modifying any of the recommended compensation and award levels in its review and approval process.

Role of the Committee and Board in Setting Executive Compensation. At the beginning of each year, the Committee reviews and establishes the corporation's financial targets and the CEO's goals and objectives for the year. At the end of each year the Committee evaluates the CEO's performance in light of established goals and objectives, with input from the other independent directors. Based upon the Committee's evaluation and recommendation, the independent directors of the Board set the CEO's annual compensation, including salary, bonus, incentive and equity compensation and perquisites.

The Committee reviews the CEO's evaluation of the performance of the COO Utilities, COO Non-regulated Energy and the CFO in light of established goals and objectives. Based upon the Committee's review and recommendation, the Board of Directors sets the annual compensation of the COO Utilities, COO Non-regulated Energy and CFO, including salary, bonus, incentive and equity compensation and perquisites. The Committee also reviews and approves the CEO's recommendations for compensation of our other corporate officers and business unit leaders. The Committee is required to approve all decisions regarding equity awards to our officers.

Stock Ownership Guidelines

The Committee has implemented stock ownership guidelines that apply to all officers based upon their level of responsibility. We believe it is important for our officers to hold a significant amount of our common stock to further align their performance with the interest of our shareholders. A "retention ratio" approach to stock ownership is incorporated into the guidelines. This approach requires officers to retain 100 percent of all shares owned, including shares awarded through our incentive plans (net of share withholding for taxes and in the case of cashless stock option exercises, net of the exercise price and withholding for taxes) until specific ownership goals are achieved. Ownership guidelines are denominated in share amounts which approximate a multiple of base pay.

The ownership guidelines by officer level are as follows:

Officer Level	Ownership Guideline (# of Shares)
CEO	90,000
COOs and CFO	40,000
Vice President and General Manager of Energy Marketing	40,000
Other Senior Executive Officers	25,000
Other Corporate Officers and Business Unit Leaders	10,000
Other Subsidiary Officers	5,000

The ownership guidelines and current stock ownership of our Named Executive Officers are shown below.

Officer Level	Ownership Guideline (# of Shares)	Actual Ownership (# of Shares)	Years in Position
David R. Emery, CEO	90,000	102,173	6
Anthony S. Cleberg, CFO	40,000	23,445	1.5
Thomas M. Ohlmacher, COO Non-regulated Energy	40,000	56,727	8
Linden R. Evans, COO Utilities	40,000	41,658	5
Robert A. Myers Senior Vice President Human Resources	25,000	10,129	1

2009 Benefits

Perquisites and Other Personal Benefits. We provide a limited number of market-based perquisites to our executive officers, including personal use of a Company vehicle. The total value of these perquisites in 2009 did not exceed $9,000 for any one of our Named Executive Officers. In addition, Messrs. Cleberg and Myers also received moving expenses associated with their relocations. The specific amounts attributable to perquisites for 2009 are disclosed in the Summary Compensation Table. The Committee periodically reviews the perquisites and other personal benefits provided to our executive officers and believes the current perquisites are reasonable and consistent with our overall compensation program.

Retirement and Other Benefits. We maintain a variety of employee benefit plans and programs in which our executive officers may participate, including a 401(k) Retirement Savings Plan, a Qualified Defined Benefit Pension Plan (the "Pension Plan"), Nonqualified Pension Plans and a Nonqualified Deferred Compensation Plan. The Nonqualified Pension Plans include our Grandfathered Pension Equalization Plan, 2005 Pension Equalization Plan, 2007 Pension Equalization Plan and Pension Restoration Plan. We believe it is important to provide post-employment benefits to our executive officers and the benefits we provide approximate retirement benefits paid by other employers to executives in similar executive positions. The Committee periodically reviews the benefits provided with assistance from its compensation consultant to maintain a market-based benefits package.

Table of Contents

The Black Hills Corporation 401(k) Retirement Savings Plan is offered to all eligible employees of the Company and its subsidiaries. The separate 401(k) plans covering employees of Cheyenne Light, Fuel and Power and Black Hills Energy were merged into the Black Hills Corporation 401(k) Retirement Savings Plan in October 2009. All of our Named Executive Officers are participants in the Black Hills Corporation 401(k) Retirement Savings Plan. Participants may elect to invest up to 50 percent of their eligible compensation on a pre-tax and/or after-tax basis up to maximum amounts established by the Internal Revenue Service. In 2009, the Black Hills Corporation 401(k) Plan provided a matching contribution of 100 percent of the employee's annual tax-deferred contribution up to a maximum of 3 or 6 percent of eligible compensation, depending on work location. Matching contributions vest at 20 percent per year and are fully vested when the participant has five years of service with the Company. The annual contribution for our Named Executive Officers ranged from $7,350 to $14,596 in 2009. The matching contribution is included as "All Other Compensation" in the Summary Compensation Table.

The Pension Plan covers the employees of Black Hills Corporation and a number of its subsidiary companies. Cheyenne Light, Fuel and Power and Black Hills Energy have their own plans. The Pension Plan is a qualified defined benefit pension plan that provides benefits at retirement based on length of employment service and certain average compensation levels during the highest five consecutive years of the last ten years of service. Our employees do not contribute to the plans. Each of our Named Executive Officers except Mr. Myers are participants in the Pension Plan and none of our Named Executive Officers have been granted additional years of credited service. Mr. Myers did not meet the eligibility requirements to be a participant prior to the effective date of the 2010 benefit changes discussed below.

The Pension Plan is limited by the Internal Revenue Code in the amount of annual payments received under the plan ($195,000 in 2009) and in the amount of compensation that can be taken into account in determining contributions and benefits ($245,000 in 2009). Because of these limitations we also have the Nonqualified Pension Plans. Messrs. Emery and Ohlmacher are participants in the Grandfathered Pension Equalization Plan and the 2005 Pension Equalization Plan. Messrs. Cleberg, Evans and Myers were participants in the 2007 Pension Equalization Plan. All of the Named Executive Officers are participants in the Pension Restoration Plan. The level of retirement benefits provided by the Nonqualified Plans for each of our Named Executive Officers is reflected in the Pension Benefits for 2009 table and explained in more detail in the accompanying narrative.

2010 Benefit Changes

Effective January 1, 2010, the Company adopted a defined contribution plan design as our primary retirement plan and amended our Pension Plan for all eligible employees to incorporate a partial freeze in which the accrual of benefits cease for certain participants while other participants were allowed an election to continue to accrue benefits. Employees eligible to elect continued participation were those employees who were at least 45 years old and had at least 10 years of eligible service with the Company as of January 1, 2010. Messrs. Emery and Ohlmacher met the age and years of service requirement and elected to stay with the existing plans.

As a result of the change in the Pension Plan, the benefits for certain officers (including Messrs. Cleberg, Evans and Myers) under the non-qualified pension restoration plans were significantly reduced because the non-qualified benefit calculations were linked to the benefits earned in the Pension Plan. To overcome this deficit, the Committee eliminated the 2007 Pension Equalization Plan and amended the Non-Qualified Deferred Compensation Plan to provide non-elective non-qualified restoration benefits to those affected officers who were not eligible to continue accruing benefits under the Pension Plan and associated non-qualified pension restoration plan. The amended Non-Qualified Deferred Compensation Plan provides the affected officers with non-elective supplemental matching contributions equal to 6 percent of eligible compensation in excess of the Internal Revenue Code limit

Table of Contents

plus matching contributions, if any, lost under the 401(k) Retirement Savings Plan due to nondiscrimination test results and provides non-elective supplemental points-based contributions that cannot be made to the 401(k) Retirement Savings Plan due to the Internal Revenue Code limit. It also provides supplemental target contributions equal to a percentage of compensation that may differ by executive, based on the executive's current age and length of service with the Company, as determined by the Plan's actuary.

Change in Control Payments

Our Named Executive Officers may also receive severance benefits in the event of a change in control. Change in control agreements are common among our peer group and the Committee and our Board of Directors believe providing these agreements to our corporate officers protect our shareholder interests in the event of a change in control by helping assure management focus and continuity. Our change in control agreements have expiration dates and our Board of Directors conducts a thorough review of the change in control agreements at each renewal period. Our current change in control agreements expire June 1, 2011. In general, our change in control agreements provide a severance payment of up to 2.99 times average compensation for our CEO, and up to two times average compensation for our other corporate officers. The change in control agreements contain a "double trigger," providing benefits in association with a change in control only upon:

(i) termination of employment other than by death, disability or by the Company for cause, or

(ii) a termination by the employee for good reason.

See the Potential Payments Upon Termination or Change in Control table and the accompanying narrative for more information regarding our change in control agreements and estimated payments associated with a change in control.

Tax and Accounting Implications

Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended, limits the tax deductibility by a corporation of compensation in excess of $1 million paid to its CEO and any of its four most highly compensated executive officers. Compensation which qualifies as "performance-based" is excluded from the $1 million limit, if, among other requirements, the compensation is payable only upon attainment of pre-established, objective performance goals under a plan approved by the corporation's shareholders. As a result, the Compensation Committee has designed a large share of our incentive compensation for our Named Executive Officers to qualify for the exemption of "performance-based" compensation from the deductibility limit. However, the Compensation Committee does have the discretion to design and use compensation elements that may not be deductible under Section 162(m) if it determines those elements are in line with competitive practice, our compensation philosophy, and our best interests. We believe the compensation paid to our Named Executive Officers in 2009 is fully deductible.

Clawback Policy

We have a policy that if an accounting restatement occurs after incentive payments have been made, due to the results of misconduct associated with financial reporting, the Committee will seek repayment of the incentive compensation from our CEO and CFO and has the discretion to request repayment of incentive compensation from our other officers, taking into consideration the individual roles and responsibilities prompting the restatement.

In addition, effective with 2009 award agreements for restricted stock and target performance shares we have included clawback provisions whereby the participant may be required to repay all income or gains previously realized in respect of such awards if their employment is terminated for cause, or within one year following termination of employment, the Board determines that the participant engaged in conduct prior to their termination that would have constituted the basis for a termination of employment for cause.

2010 Compensation Actions

The Committee and the Board of Directors did not increase the base salaries of our officers for 2009, due to the difficult external economic conditions and uncertainties that existed last year. While present conditions are still challenging, the Committee and the Board recognized that 15 of 19 corporate officers and business unit leaders had not received a base salary increase in 27 months and determined that measured and specific actions to support the Company's future plans and long-term goals were necessary. Therefore, the Committee and the Board increased base salaries for some, but not all executives, by market competitive rates, effective April 2010. Additionally, they established short-term and long-term incentive levels for our officers based on a structure similar to that used for the 2009 awards. Establishing the opportunity for our executives to earn incentive compensation if performance objectives are achieved, links the personal interests of our officers with those of our shareholders during these challenging economic times.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Jack W. Eugster, Chairperson
David C. Ebertz
Kay S. Jorgensen
Stephen D. Newlin
Thomas J. Zeller

Table of Contents

SUMMARY COMPENSATION TABLE

The following table sets forth the total compensation paid or earned by each of our Named Executive Officers for the fiscal years ended December 31, 2009, 2008 and 2007. We have no employment agreements with our Named Executive Officers. Messrs. Cleberg and Myers joined us on July 16, 2008 and January 1, 2009, respectively.

Name and Principal Position	Year	Salary	Stock Awards(1)	Non-Equity Incentive Plan Compensation(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(3)	All Other Compensation(4)	Total
David R. Emery	2009	$ 564,000	$ 674,723	$ 221,088	$ 361,799	$ 51,990	$ 1,873,600
Chairman, President	2008	$ 563,269	$ 867,400	$ 205,296	$ 549,730	$ 42,293	$ 2,227,988
and Chief Executive Officer	2007	$ 544,231	$ 578,930	$ 763,000	$ 312,524	$ 36,583	$ 2,235,268
Anthony S. Cleberg	2009	$ 315,000	$ 321,300	$ 79,380	$ 102,058	$ 198,778	$ 1,016,516
Executive Vice President and Chief Financial Officer	2008	$ 130,846	$ 225,000	$ 34,020	$ 3,645	$ 25,911	$ 419,422
Thomas M. Ohlmacher	2009	$ 351,000	$ 406,978	$ 98,280	$ 312,019	$ 35,125	$ 1,203,402
President and Chief	2008	$ 350,600	$ 466,020	$ 91,260	$ 292,809	$ 28,915	$ 1,229,604
Operating Officer Non-regulated Energy	2007	$ 340,600	$ 366,659	$ 340,600	$ 13,645	$ 26,103	$ 1,087,607
Linden R. Evans	2009	$ 274,000	$ 406,978	$ 76,720	$ 102,553	$ 29,086	$ 889,337
President and Chief	2008	$ 273,212	$ 395,908	$ 71,240	$ 125,292	$ 24,421	$ 890,073
Operating Officer Utilities	2007	$ 253,035	$ 230,621	$ 253,500	$ 53,952	$ 20,166	$ 811,274
Robert A. Myers Senior Vice President Human Resources	2009	$ 261,322	$ 287,404	$ 61,600	$ 28,938	$ 101,990	$ 741,254

(1) Stock Awards represent the grant date fair value related to restricted stock, restricted stock units and performance shares that have been granted as a component of Long-Term Incentive Compensation. The grant date fair value is computed in accordance with the provisions of accounting standards for stock compensation. Assumptions used in the calculation of these amounts are included in Note 11 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2009. The amount included for performance shares is based on the level the award is expected to payout. If the award were based

Table of Contents

on the maximum payout level, the amounts for the Stock Awards column would be increased to the following amounts:

	2009	2008	2007
David R. Emery	$ 944,509	$ 1,105,450	$ 788,127
Anthony S. Cleberg	$ 449,766	$ 225,000	NA
Thomas M. Ohlmacher	$ 569,717	$ 616,785	$ 499,153
Linden R. Evans	$ 569,717	$ 490,714	$ 313,961
Robert A. Myers	$ 362,347	NA	NA

SEC Rule Change Impact Note: Under generally accepted accounting principles, compensation expense with respect to stock awards granted to our employees is generally recognized over the vesting periods applicable to the awards. The SEC's disclosure rules previously required that we present stock award information for 2008 and 2007 based on the amount recognized during the corresponding year for financial statement reporting purposes with respect to theses awards (which meant, in effect, that in any given year we could recognize for financial statement reporting purposes amounts with respect to grants made in that year as well as with respect to grants from past years that vested in or were still vesting during that year). However, the recent changes in the SEC disclosure rules require that we now present the stock award amounts in the applicable columns of the table above with respect to 2008 and 2007 on a similar basis as the 2009 presentation using the grant date fair value of the awards granted during the corresponding year (regardless of the period over which the awards are scheduled to vest). Since this requirement differs from the SEC's past disclosure rules, the amounts reported in the table above for stock awards in 2008 and 2007 differ from the amounts previously reported in our Summary Compensation Table for these years. As a result, to the extent applicable, each named executive officer's total compensation amount for 2008 and 2007 also differ from the amounts previously reported in our Summary Compensation Table for these years.

(2)

Non-Equity Incentive Plan Compensation represents amounts earned under the Short-Term Annual Incentive Plan. The Compensation Committee approved the payout of the 2009 awards at its January 27, 2010, meeting and the awards were paid on March 5, 2010.

(3)

Change in Pension Value and Nonqualified Deferred Compensation Earnings represents the increase in actuarial value of the Defined Benefit Pension Plan, Pension Restoration Benefit ("PRB") and Pension Equalization Plans ("PEP") for the respective year. The amounts for 2008 were annualized due to the change in FAS 87 measurement date. The change in present value of the accumulated benefit from September 30, 2007 to December 31, 2008 has been multiplied by 12/15ths to determine a twelve month value (except for Mr. Cleberg who did not accrue benefits for the entire 15 month period).

The PEP is offered through the Grandfathered Pension Equalization Plan ("Grandfathered PEP"), 2005 Pension Equalization Plan ("2005 PEP") and 2007 Pension Equalization Plan ("2007 PEP"). No Named Executive Officer received preferential or above-market earnings on nonqualified deferred compensation. The value attributed from each plan to each Named Executive Officer is shown in the table below. Mr. Evans was not a participant in the PRB in 2007. Messrs. Cleberg and Myers did not meet the one year service requirement to be in the Defined Benefit Plan in 2008 and 2009, respectively. Messrs. Emery and Ohlmacher are participants in the Grandfathered

Table of Contents

PEP and 2005 PEP. Messrs. Cleberg, Evans and Myers are the only Named Executive Officers participating in the 2007 PEP.

	Year	Defined Benefit Plan	PRB	PEP	Total Change in Pension Value
David R. Emery	2009	$ 43,690	$ 167,024	$ 151,085	$ 361,799
	2008	$ 33,858	$ 264,299	$ 251,573	$ 549,730
	2007	$ 6,366	$ 159,889	$ 146,269	$ 312,524
Anthony S. Cleberg	2009	$ 36,790	$ 12,762	$ 52,506	$ 102,058
	2008		$ 3,645		$ 3,645
Thomas M. Ohlmacher	2009	$ 131,901	$ 96,327	$ 83,791	$ 312,019
	2008	$ 101,389	$ 109,258	$ 82,162	$ 292,809
	2007	$ 36,675	$ (18,858)	$ (4,172)	$ 13,645
Linden R. Evans	2009	$ 25,375	$ 24,629	$ 52,549	$ 102,553
	2008	$ 19,368	$ 48,132	$ 57,792	$ 125,292
	2007	$ 14,958		$ 38,994	$ 53,952
Robert A. Myers	2009			$ 28,938	$ 28,938

(4)

All Other Compensation includes amounts allocated under the 401(k) match, dividends received on restricted stock and unvested restricted stock units and perquisites. Perquisites provided to our Named Executive Officers include personal use of a Company vehicle for each year and financial planning services in 2007 and 2008. Mr. Cleberg's 2008 and 2009 perquisites also include temporary living, travel and other relocation expenses, including an $89,050 loss on the sale of his home in 2009. Mr. Myers' 2009 perquisites also include temporary living, travel and relocation expenses.

	Year	401(k) Match	Dividends on Restricted Stock/Units	Relocation Expense Perquisites	Other Perquisites	Total Other Compensation
David R. Emery	2009	$ 7,350	$ 36,082		$ 8,558	$ 51,990
Anthony S. Cleberg	2009	$ 7,350	$ 15,913	$ 168,358	$ 7,157	$ 198,778
Thomas M. Ohlmacher	2009	$ 7,350	$ 19,313		$ 8,462	$ 35,125
Linden R. Evans	2009	$ 7,350	$ 19,521		$ 2,215	$ 29,086
Robert A. Myers	2009	$ 14,596	$ 9,755	$ 69,202	$ 8,437	$ 101,990

Table of Contents

GRANTS OF PLAN BASED AWARDS IN 2009(1)

Name	Grant Date	Date of Compensation Committee Action	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2) Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards(3) Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units(4) (#)	Grant Date Fair Value of Stock Awards(5) ($)
David R. Emery			$ 118,440	$ 394,800	$ 789,600					
	1/01/09	12/08/08				6,160	12,319	21,558		$ 359,715
	1/02/09	12/08/08							11,543	$ 315,008
Anthony S. Cleberg			$ 42,525	$ 141,750	$ 283,500					
	1/01/09	12/08/08				2,933	5,866	10,266		$ 171,287
	1/02/09	12/08/08							5,497	$ 150,013
Thomas M. Ohlmacher			$ 52,650	$ 175,500	$ 351,000					
	1/01/09	12/08/08				3,716	7,431	13,004		$ 216,985
	1/02/09	12/08/08							6,962	$ 189,993
Linden R. Evans			$ 41,100	$ 137,000	$ 274,000					
	1/01/09	12/08/08				3,716	7,431	13,004		$ 216,985
	1/02/09	12/08/08							6,962	$ 189,993
Robert A. Myers			$ 33,000	$ 110,000	$ 220,000					
	1/01/09	12/08/08				1,711	3,422	5,989		$ 99,922
	1/02/09	12/08/08							6,870	$ 187,482

(1) No stock options were granted to our Named Executive Officers in 2009.

(2) The columns under "Estimated Possible Payouts Under Non-Equity Incentive Plan Awards" show the range of payouts for 2009 performance under our annual Short-Term Incentive Plan as described in the Compensation Discussion and Analysis under the section titled "Annual Incentive." If the performance criteria are met, payouts can range from 30 percent of target at the threshold level to 200 percent of target at the maximum level. The 2010 bonus payment for 2009 performance has been made based on achieving the criteria described in the Compensation Discussion and Analysis, at 56 percent of target, and is shown in the Summary Compensation Table in the column titled "Non-Equity Incentive Plan Compensation."

(3) The columns under "Estimated Future Payouts Under Equity Incentive Plan Awards" show the range of payouts (in shares of stock) for the January 1, 2009 to December 31, 2011 performance period as described in the Compensation Discussion and Analysis under the section titled "Long-Term Incentive *Performance Shares*." If the performance criteria are met, payouts can range from 50 percent of target to 175 percent of target. If a participant retires, suffers a disability or dies during the performance period, the participant or the participant's estate is entitled to that portion of the number of performance shares as such participant would have been entitled to had he or she remained employed, prorated for the number of months served. Performance shares are forfeited if employment is terminated for any other reason. During the performance period, dividends and other distributions paid with respect to the shares of common stock shall accrue for the benefit of the participant and are paid out at the end of the performance period.

(4) The column "All Other Stock Awards" reflects the number of shares of restricted stock granted on January 2, 2009 under our 2005 Omnibus Incentive Plan. The restricted stock vests one-third a year over a three-year period, and automatically vests upon death, disability or a change in control. Unvested restricted stock is forfeited if employment is terminated for any other reason. Dividends are paid on the restricted shares and the dividends that were paid in 2009 are included in the column titled "All Other Compensation" in the Summary Compensation Table.

(5) The column "Grant Date Fair Value of Stock Awards" reflects the grant date fair value of each equity award computed in accordance with the provisions of accounting standards for stock compensation. The grant date fair value for the performance shares was $29.20 per share and was calculated using a Monte Carlo simulation model. Assumptions used in the calculation are included in Note 11 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2009. The grant date fair value for the restricted stock was $27.29 per share for the January 2, 2009 grant which was the market value of our common stock on the date of grant as reported on the New York

Stock Exchange.

Table of Contents

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2009(1)

	Option Awards			Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested(2) (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(2) (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
David R. Emery	5,000	$ 55.36	5/30/11	24,142	$ 642,901	9,610	$ 255,901
	4,595	$ 35.10	4/23/12				
	7,500	$ 27.49	3/31/13				
	13,787	$ 28.09	5/15/13				
Anthony S. Cleberg				10,065	$ 268,031	2,933	$ 78,106
Thomas M. Ohlmacher	2,500	$ 55.36	5/30/11	13,221	$ 352,075	5,901	$ 157,130
Linden R. Evans	2,000	$ 32.34	6/17/12	12,987	$ 345,844	5,090	$ 135,533
	3,000	$ 25.16	12/10/12				
	5,000	$ 29.83	12/31/13				
Robert A. Myers				6,871	$ 182,975	1,711	$ 45,564

(1) There were no unexercisable stock options or unexercised unearned options under equity incentive plans outstanding at December 31, 2009 for our Named Executive Officers.

(2) Vesting dates for restricted stock, restricted stock units and performance shares are shown in the table below. The performance shares shown with a vesting date of December 31, 2009, reflect no payout for the performance period ended December 31, 2009. On January 27, 2010 the Compensation Committee confirmed that the

Table of Contents

performance criteria were not met and there would be no payout. Performance shares with a vesting date of December 31, 2010 and 2011 are shown at the threshold payout level.

	Unvested Restricted Stock and Restricted Stock Units		Unvested and Unearned Performance Shares	
Name	# of Shares	Vesting Date	# of Shares	Vesting Date
David R. Emery	3,848	1/02/10		12/31/09
	2,390	1/04/10	3,450	12/31/10
	2,742	1/05/10	6,160	12/31/11
	2,538	8/13/10		
	3,848	1/02/11		
	2,390	1/04/11		
	2,538	8/13/11		
	3,848	1/02/12		
Anthony S. Cleberg	1,832	1/02/10	2,933	12/31/11
	2,284	8/13/10		
	1,832	1/02/11		
	2,284	8/13/11		
	1,833	1/02/12		
Thomas M. Ohlmacher	2,321	1/02/10		12/31/09
	1,514	1/04/10	2,185	12/31/10
	1,707	1/05/10	3,716	12/31/11
	761	8/13/10		
	2,321	1/02/11		
	1,514	1/04/11		
	762	8/13/11		
	2,321	1/02/12		
Linden R. Evans	2,321	1/02/10		12/31/09
	952	1/04/10	1,374	12/31/10
	1,074	1/05/10	3,716	12/31/11
	1,523	8/13/10		
	2,321	1/02/11		
	952	1/04/11		
	1,523	8/13/11		
	2,321	1/02/12		
Robert A. Myers	2,290	1/02/10	1,711	12/31/11
	2,290	1/02/11		
	2,291	1/02/12		

OPTION EXERCISES AND STOCK VESTED DURING 2009

	Option Awards		Stock Awards(1)	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
David R. Emery	30,000	$ 121,989	10,134	$ 274,694
Anthony S. Cleberg			2,283	$ 60,477
Thomas M. Ohlmacher			5,766	$ 156,847
Linden R. Evans			4,674	$ 126,400
Robert A. Myers				

(1) Reflect restricted stock that vested in 2009.

36

Table of Contents

PENSION BENEFITS FOR 2009

Pension benefits for our Named Executive Officers in 2009 were comprised of a qualified defined benefit pension, a nonqualified pension restoration benefit and a supplemental pension benefit. None of our Named Executive Officers received any pension benefit payments during the fiscal year ended December 31, 2009.

Name	Plan Name	Number of Years of Credited Service(1) (#)	Present Value of Accumulated Benefit(2) ($)
David R. Emery	Defined Benefit Pension Plan	20.33	$ 280,409
	Pension Restoration Benefit	20.33	$ 920,305
	Grandfathered Pension Equalization Plan	10.00	$ 382,745
	2005 Pension Equalization Plan	15.00	$ 720,476
Anthony S. Cleberg	Defined Benefit Pension Plan	1.42	$ 36,790
	Pension Restoration Benefit	1.42	$ 16,407
	2007 Pension Equalization Plan	1.00	$ 52,506
Thomas M. Ohlmacher	Defined Benefit Pension Plan	35.50	$ 1,010,820
	Pension Restoration Benefit	35.50	$ 1,434,642
	Grandfathered Pension Equalization Plan	13.00	$ 1,166,698
	2005 Pension Equalization Plan	18.00	$ 78,336
Linden R. Evans	Defined Benefit Pension Plan	8.58	$ 107,784
	Pension Restoration Benefit	8.58	$ 84,794
	2007 Pension Equalization Plan	5.00	$ 163,783
Robert A. Myers	Defined Benefit Pension Plan		
	Pension Restoration Benefit		
	2007 Pension Equalization Plan	1.00	$ 28,938

(1) The number of years of credited service represents the number of years used in determining the benefit for each plan. The Pension Equalization Plans are not directly tied to service but rather the number of years of participation in the plan.

(2) The present value of accumulated benefits was calculated assuming benefits commence at age 62 and using the discount rate, mortality rate and assumed payment form assumptions consistent with those disclosed in Note 18 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2009.

Defined Benefit Pension Plan

We have a Defined Benefit Retirement Plan, a qualified pension plan, in which all of our Named Executive Officers, excluding Mr. Myers, are included. Participants become eligible for the benefit when they have been employed by us for at least one year and are at least 21 years of age. Mr. Myers did not meet the one year service requirement as of December 31, 2009. The plan provides benefits at retirement based on length of employment service and average compensation levels during the highest five consecutive years of the last ten years of service. For purposes of the benefit calculation, earnings include wages and other cash compensation received from the Company, including any bonus, commission, unused paid time off or incentive compensation. It also includes any elective before-tax contributions made by the employee to a Company sponsored cafeteria plan or 401(k) plan. However, it does not include any expense reimbursements, taxable fringe benefits, moving expenses or moving/relocation allowances, nonqualified deferred compensation, non-cash incentives, stock options and any payments of long-term incentive compensation such as restricted stock or payments under performance

share plans. The Internal Revenue Code places maximum limitations on the amount of compensation that may be recognized when determining benefits of qualified pension plans. In 2009, the maximum amount of compensation that could be recognized when determining compensation was $245,000 (called "covered compensation").

The benefit formula for the Named Executive Officers is the sum of (a) and (b) below.

(a) Credited Service after January 31, 2000

0.9% of average earnings (up to covered compensation), multiplied by credited service after January 31, 2000 minus the number of years of credited service before January 31, 2000	Plus	1.3% of average earnings in excess of covered compensation, multiplied by credited service after January 31, 2000 minus the number of years of credited service before January 31, 2000

Plus

(b) Credited Service before January 31, 2000

1.2% of average earnings (up to covered compensation), multiplied by credited service before January 31, 2000	Plus	1.6% of average earnings in excess of covered compensation, multiplied by credited service before January 31, 2000

Pension benefits are not reduced for social security benefits. The Internal Revenue Code places maximum limitations on annual benefit amounts that can be paid under qualified pension plans. In 2009, the maximum benefit payable under qualified pension plans was $195,000. Accrued benefits become 100 percent vested after an employee completes five years of service. None of our Named Executive Officers have been credited with extra years of credited service under the plan.

Normal retirement is defined as age 65 under the plan, however a participant may begin taking unreduced benefits at age 62 with five years of service. Participants who have completed at least five years of credited service can retire and receive defined benefit pension benefits as early as age 55, however the retirement benefit will be reduced by five percent for each year of retirement before age 62. For example, a participant with at least five years of credited service may retire at age 55 and receive a pension benefit equal to 65 percent of the normal retirement benefit. Mr. Ohlmacher is currently age 58 and is entitled to early retirement benefits under this provision.

If a participant is vested and leaves the Company before reaching his or her earliest retirement date, he or she may begin receiving the full value of his or her vested benefit at age 65 or can receive a reduced benefit as early as age 55 if he or she has at least five years of credited service when he or she leaves employment of the Company. The benefit will be reduced by five percent for each year he or she begins receiving benefits prior to age 65. For example, a participant who leaves the Company before reaching age 55 with at least five years of credited service may begin receiving benefits at age 55 equal to 50 percent of the normal retirement benefit and may begin receiving retirement benefits at age 65 on an unreduced basis.

If a participant is single, the benefit is paid as a life annuity. If a participant is married, the benefit is paid as a joint and 50 percent survivor annuity unless an optional form of payment is chosen.

Our employees do not contribute to the plan. The amount of the annual contribution by us to the plan is based on an actuarial determination.

Effective January 1, 2010, the Company adopted a defined contribution plan design as our primary retirement plan and amended our Defined Benefit Pension Plan for all eligible employees to incorporate a partial freeze in which the accrual of benefits cease for certain participants while other participants were allowed an election to continue to accrue benefits. Employees eligible to elect continued participation were those employees who were at least 45 years old and had at least 10 years of eligible service with the Company as of January 1, 2010. Messrs. Emery and Ohlmacher met the age and years of service requirement and elected to continue with the existing plan.

Participants who did not meet the age and years of service requirement as of January 1, 2010, had their pension benefit frozen as of December 31, 2009 and effective January 1, 2010 began to receive an additional age and service points-based employer contribution under the 401(k) retirement savings plan. Messrs. Cleberg, Evans and Myers had their pension benefits frozen as of December 31, 2009, and began receiving the additional age and service points-based employer contribution effective January 1, 2010.

Pension Equalization Plans and Pension Restoration Benefit

We also have a Grandfathered Pension Equalization Plan, a 2005 Pension Equalization Plan, a 2007 Pension Equalization Plan and a Pension Restoration Benefit, nonqualified supplemental plans, in which benefits are not tax deductible until paid. The plans are designed to provide the higher paid executive employee a retirement benefit which, when added to social security benefits and the pension to be received under the Defined Benefit Pension Plan, will approximate retirement benefits being paid by other employers to their employees in similar executive positions. The employee's pension from the qualified pension plan is limited by the Internal Revenue Code. The 2009 limit was set at $195,000 annually and the compensation taken into account in determining contributions and benefits could not exceed $245,000 and could not include nonqualified deferred compensation. The amount of deferred compensation paid under nonqualified plans is not subject to these limits.

As a result of the change in the Defined Benefit Pension Plan effective January 1, 2010, the benefits for certain officers (including Messrs. Cleberg, Evans and Myers) under the non-qualified pension restoration plans were significantly reduced because the non-qualified benefit calculations were linked to the benefits earned in the Defined Benefit Pension Plan. As a result of those amendments, effective January 1, 2010, the Compensation Committee eliminated the 2007 Pension Equalization Plan and amended the Non-Qualified Deferred Compensation Plan to provide non-elective non-qualified restoration benefits to those affected officers who were not eligible to continue accruing benefits under the Defined Benefit Pension Plan and associated non-qualified pension restoration plan. The amended Non-Qualified Deferred Compensation Plan provides the affected officers with non-elective supplemental matching contributions equal to 6 percent of eligible compensation in excess of the Internal Revenue Code limit plus matching contributions, if any, lost under the 401(k) Retirement Savings Plan due to nondiscrimination test results and provides non-elective supplemental age and service points-based contributions that cannot be made to the 401(k) Retirement Savings Plan due to the Internal Revenue Code limit. It also provides supplemental target contributions equal to a percentage of compensation that may differ by executive, based on the executive's current age and length of service with the Company, as determined by the plans' actuary.

Grandfathered Pension Equalization Plan and 2005 Pension Equalization Plan. The Grandfathered Pension Equalization Plan and the 2005 Pension Equalization Plan are bifurcated plans from the Original Pension Equalization Plan. The Grandfathered Pension Equalization Plan provides the pension equalization benefits to each participant who had earned and vested benefits under the Original Plan before January 1, 2005, and are not subject to the provisions of Section 409A of the Internal Revenue Code. The 2005 Pension Equalization Plan provides the pension equalization benefits to each participant that were earned and vested on or after January 1, 2005, and are subject to the provisions of Section 409A.

A participant under the Grandfathered and 2005 Pension Equalization Plans does not qualify for benefits until the benefits become vested under the following vesting schedule. The vesting is based on years of employment under the plan, not total years of service with the Company. No credit for past service is granted under the Grandfathered and 2005 Pension Equalization Plans.

Years of Plan Participation	% of Benefit Vested	Years of Plan Participation	% of Benefit Vested
Less than 3 years	0%	6 years but less than 7	65%
3 years but less than 4	20%	7 years but less than 8	80%
4 years but less than 5	35%	8 or more years	100%
5 years but less than 6	50%		

The annual benefit is 25 percent of the employee's average earnings, if salary was less than two times the Social Security Wage Base, or 30 percent, if salary was more than two times the Social Security Wage Base, multiplied by the vesting percentage. Average earnings are normally an employee's average earnings for the five highest consecutive full years of employment during the ten full years of employment immediately preceding the year of calculation. The annual benefit is paid on a monthly basis for 15 years to each participating employee and, if deceased, to the employee's designated beneficiary or estate, commencing at the earliest of death or when the employee is both retired and 62 years of age or more. A participant with vested benefits who is 55 years of age or older and no longer an employee of the Company may elect to be paid benefits beginning at age 55 or older, subject to a discount of such benefits according to the following schedule.

Age at Start of Payments	% of Benefit Payable	Age at Start of Payments	% of Benefit Payable
61	93.0%	57	69.7%
60	86.5%	56	64.8%
59	80.5%	55	60.3%
58	74.9%		

Participants in the Grandfathered and 2005 Pension Equalization Plans were designated by our Board of Directors upon recommendation of the Chief Executive Officer. Messrs. Emery and Ohlmacher are participants in the Grandfathered and 2005 Pension Equalization Plans. These plans have been frozen to new participants since 2002.

2007 Pension Equalization Plan. In 2007, the Board of Directors approved the 2007 Pension Equalization Plan and designated the corporate officers, including Mr. Evans, who were not participants in the Original Pension Equalization Plan as participants in the 2007 Pension Equalization Plan. The participants were given years of credited service equal to the number of years they served as a corporate officer. Mr. Evans received two years of credited service. Messrs. Cleberg and Myers were named participants in the 2007 Pension Equalization Plan effective with their employment with the Company in 2008 and 2009, respectively. Messrs. Cleberg and Myers did not receive any years of credited service. As discussed above, the 2007 Pension Equalization Plan was eliminated effective January 1, 2010. The annual benefit was 2 percent of the employee's average earnings multiplied by the participant's years of service as an officer (up to a maximum of 15 years) and the vesting percentage.

Pension Restoration Benefit. In the event that at the time of a participant's retirement, the participant's salary level exceeds the qualified pension plan annual compensation limitation ($245,000 in 2009) or includes nonqualified deferred compensation, then the participant shall receive an additional benefit, called a "Pension Restoration Benefit," which is measured by the difference between (i) the monthly benefit which would have been provided to the participant under the Defined Benefit Pension Plan as if there were no annual compensation limitation and no exclusion on nonqualified deferred compensation, and (ii) the monthly benefit to be provided to the participant under the Defined Benefit Pension Plan. The Pension Restoration Benefit applies to participants in the Pension Equalization Plans.

Table of Contents

NONQUALIFIED DEFERRED COMPENSATION FOR 2009

We have a Nonqualified Deferred Compensation Plan for a select group of management or highly compensated employees. A summary of the activity in the plan and the aggregate balance as of December 31, 2009 for our Named Executive Officers are shown in the following table. Our Named Executive Officers received no withdrawals or distributions from the plan in 2009.

Name	Executive Contributions in Last Fiscal Year(1)	Company Contributions in Last Fiscal Year(2)	Aggregate Earnings in Last Fiscal Year(3)	Aggregate Balance at Last Fiscal Year End(4)
David R. Emery				
Anthony S. Cleberg				
Thomas M. Ohlmacher	$ 52,650	$ 189,993	$ 49,481	$ 1,040,936
Linden R. Evans				
Robert A. Myers				

(1) Mr. Ohlmacher's contributions of $52,650 are included in the Salary column of the Summary Compensation Table.

(2) The Company's contribution of $189,993 represent restricted stock units that were granted on January 2, 2009. This amount is included in the Stock Awards column of the Summary Compensation Table and is also included in the Grants of Plan Based Awards in 2009 table.

(3) Mr. Ohlmacher's earnings include $9,886 for dividend equivalents earned on unvested restricted stock units that is included in the All Other Compensation column of the Summary Compensation Table.

(4) Mr. Ohlmacher's aggregate balance at December 31, 2009 includes $252,529 which is also included in the Summary Compensation Table as 2009 compensation. The balance does not include any amounts that were reported in the Summary Compensation Table as 2008 and 2007 compensation.

Eligibility to participate in the plan is determined by the Compensation Committee and currently consists of only corporate officers. Eligible employees may elect to defer up to 50 percent of their base salary, up to 100 percent of their annual Short-Term Incentive Plan award, including Company stock, and elect to defer restricted stock grants in the form of restricted stock units. The deferrals are deposited into a trust account where the participants may direct the investment of the deferrals (except for Company stock and restricted stock unit deferrals) as allowed by the plan. The investment options are the same as those offered to all employees in the 401(k) Retirement Savings Plan except for a fixed rate option which was set at 5.22 percent in 2009. Investment earnings are credited to the participants' accounts. Upon retirement, we will distribute the account balance to the participant according to the distribution election filed with the Compensation Committee. The participants may elect either a lump sum payment to be paid within 30 days of retirement (requires a six month deferral for benefits not vested as of December 31, 2004), or annual or monthly installments over a period of years designated by the participant, but not to exceed 15 years.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The following table describes the potential payments and benefits under our compensation and benefit plans and arrangements to which our Named Executive Officers would be entitled upon termination of employment. Except for (i) certain terminations following a change in control ("CIC") of the Company, as described below, (ii) pro-rata payout of incentive compensation and the acceleration of vesting of equity awards upon retirement, death or disability, and (iii) certain pension and nonqualified deferred compensation arrangements described under Pension Benefits for 2009 and Nonqualified Deferred Compensation for 2009 above, there are no agreements, arrangements or plans

Table of Contents

that entitle the Named Executive Officers to severance, perquisites, or other enhanced benefits upon termination of their employment. Any agreement to provide such other payments or benefits to a terminating executive officer would be in the discretion of the Compensation Committee.

The amounts shown below assume that such termination was effective as of December 31, 2009, and thus include estimates of the amounts which would be paid out to our Named Executive Officers upon their termination. The table does not include amounts such as base salary, short-term incentives and stock awards which the Named Executive Officers earned due to employment through December 31, 2009 and distributions of vested benefits such as those described under Pension Benefits for 2009, Nonqualified Deferred Compensation for 2009 and vested stock options listed in the Outstanding Equity Awards at Fiscal Year-End 2009 tables. The table also does not include a value for outplacement services because this would be a diminimus amount. The actual amounts to be paid out can only be determined at the time of such Named Executive Officer's separation from the Company.

	Cash Severance Payment	Incremental Pension Benefit (present value)(2)	Continuation of Medical/ Welfare Benefits (present value)(3)	Acceleration of Equity Awards(4)	Excise Tax and Gross-up(5)	Total Termination Benefits
David R. Emery						
Retirement				$ 141,291		$ 141,291
Death or disability				$ 711,173		$ 711,173
Involuntary termination						
CIC				$ 642,901		$ 642,901
Involuntary or good reason termination after CIC(1)	$ 2,866,812	$ 401,700	$ 277,500	$ 642,901		$ 4,188,913
Anthony S. Cleberg						
Retirement				$ 32,509		$ 32,509
Death or disability				$ 300,540		$ 300,540
Involuntary termination						
CIC				$ 268,031		$ 268,031
Involuntary or good reason termination after CIC(1)	$ 913,500		$ 103,400	$ 268,031	$ 371,368	$ 1,656,299
Thomas M. Ohlmacher						
Retirement				$ 86,640		$ 86,640
Death or disability				$ 393,258		$ 393,258
Involuntary termination						
CIC				$ 352,075		$ 352,075
Involuntary or good reason termination after CIC(1)	$ 1,053,000	$ 415,800	$ 20,900	$ 352,075		$ 1,841,775
Linden R. Evans						
Retirement				$ 69,783		$ 69,783
Death or disability				$ 387,026		$ 387,026
Involuntary termination						
CIC				$ 345,844		$ 345,844
Involuntary or good reason termination after CIC(1)	$ 822,000	$ 63,900	$ 231,700	$ 345,844		$ 1,463,444
Robert A. Myers						
Retirement				$ 18,965		$ 18,965
Death or disability				$ 201,939		$ 201,939