

TORO CO
Form DEF 14A
January 31, 2003

Table of Contents

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of

**the Securities Exchange Act of 1934
(Amendment No.)**

Filed by the Registrant X

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))

X Definitive Proxy Statement

O Definitive Additional Materials

O Soliciting Material Pursuant to O 240.14a-11(c) or O 240.14a-12

THE TORO COMPANY

(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):

X 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.

Edgar Filing: TORO CO - Form DEF 14A

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

The Toro Company

8111 Lyndale Avenue South, Bloomington, Minnesota 55420-1196

Telephone 952/888-8801

Kendrick B. Melrose

Chairman and CEO

January 31, 2003

Dear Fellow Stockholders:

I would like to thank you for your continued support through Toro's Fiscal 2002 and to invite you to join us for the Toro Annual Meeting of Stockholders to be held on Thursday, March 20, 2003 at our corporate offices. Details about the meeting, nominees for the Board of Directors and other matters to be acted on are presented in the Notice of Annual Meeting and Proxy Statement that follow.

In addition to Annual Meeting formalities, we will report to stockholders generally on Toro's business, and will be pleased to answer stockholders' questions relating to the Company. Refreshments will be served after the meeting.

We hope you plan to attend the Annual Meeting. Please exercise your right to vote by signing, dating and returning the enclosed proxy card or using the Internet or telephone voting described in the Proxy Statement, even if you plan to attend the meeting.

On behalf of your Toro Board of Directors and management, it is my pleasure to express our appreciation for your continued support.

Sincerely,

Kendrick B. Melrose

YOUR VOTE IS IMPORTANT. PLEASE SIGN AND RETURN THE ENCLOSED

**PROXY CARD OR VOTE BY INTERNET OR TELEPHONE AS SOON AS POSSIBLE. BY DOING
SO, YOU MAY SAVE THE COMPANY THE EXPENSE OF ADDITIONAL SOLICITATION.**

TABLE OF CONTENTS

PROXY STATEMENT

VOTING

STOCK OWNERSHIP

EXECUTIVE COMPENSATION SUMMARY COMPENSATION TABLE

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

STOCK OPTIONS

AGGREGATED OPTION EXERCISES IN FISCAL 2002 AND FISCAL YEAR-END OPTION
VALUES

LONG TERM INCENTIVE COMPENSATION

PERFORMANCE GRAPH

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

PROPOSAL TWO AMENDMENT AND RESTATEMENT OF RESTATED CERTIFICATE OF
INCORPORATION TO INCREASE AUTHORIZED COMMON STOCK

PROPOSAL THREE RATIFY SELECTION OF INDEPENDENT AUDITORS

OTHER INFORMATION

AUDIT COMMITTEE CHARTER

Table of Contents

NOTICE OF ANNUAL MEETING

The Toro Company 2003 Annual Meeting of Stockholders will be held on Thursday, March 20, 2003 at 3:00 p.m. C.S.T. at Toro's corporate offices at 8111 Lyndale Avenue South, Bloomington, Minnesota, for the following purposes:

1. Elect four directors, each to serve for a term of three years;
2. Approve amendment of Article IV, Section 1 of the Company's Restated Certificate of Incorporation to increase the total number of shares of capital stock which the Company shall have authority to issue from 36,850,000 to 51,850,000 and the total number of shares of Common Stock from 35,000,000 to 50,000,000, but the Section will otherwise remain unchanged;
3. Ratify the selection of independent auditors for the Company for Fiscal 2003 (the fiscal year ending October 31, 2003); and
4. Transact any other business properly brought before the Annual Meeting or any adjournment of the meeting.

Stockholders of record at the close of business on January 20, 2003 (the Record Date) will be entitled to vote at the meeting or at any adjournment of the meeting.

A stockholder list will be available at the Company's corporate offices beginning March 7, 2003 during normal business hours, for examination by any stockholder registered on the Company's Stock Ledger as of the Record Date, for any purpose germane to the Annual Meeting.

Since a majority of the outstanding shares of the Company's Common Stock must be represented either in person or by proxy to constitute a quorum for the conduct of business, **PLEASE PROMPTLY SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD OR VOTE BY INTERNET OR TELEPHONE.**

January 31, 2003

BY ORDER OF THE BOARD OF DIRECTORS

J. LAWRENCE MCINTYRE
Vice President, Secretary and
General Counsel

Table of Contents

THE TORO COMPANY

8111 Lyndale Avenue South
Bloomington, MN 55420-1196

PROXY STATEMENT

The Toro Company Board of Directors is soliciting your proxy for use at the 2003 Annual Meeting of Stockholders on Thursday, March 20, 2003. This Notice, Proxy Statement and enclosed form of proxy will be mailed to stockholders beginning Friday, January 31, 2003.

VOTING

Who Can Vote

Only stockholders of record at the close of business on January 20, 2003 will be entitled to notice of and to vote at the Annual Meeting or any adjournment of the meeting. On that date, Toro had 12,470,919 shares of Common Stock outstanding. Each share of Toro Common Stock you own entitles you to one vote.

Dividend Reinvestment Plan Shares. If you are a participant in Toro's Dividend Reinvestment Plan, the number shown on the enclosed proxy card includes shares held for your account in that plan.

Employee Benefit Plan Shares. If you are a participant in a Company employee benefit plan that allows participant-directed voting of Common Stock held in that plan, the number shown on the enclosed proxy card includes shares you hold in that plan, as well as shares you own of record, if any. The trustee for each plan will cause votes to be cast confidentially in accordance with your instructions. Plan shares not voted by participants will be voted by the trustee in the same proportion as the votes actually cast by participants, in accordance with the terms of the respective plan.

How You Can Vote

If you are a stockholder whose shares are registered in your name, you may vote your shares by one of the three following methods:

Vote by Internet, by going to the web address <http://www.eproxy.com/ttc/> and following the instructions for Internet voting shown on the enclosed proxy card.

Vote by Telephone, by dialing 1-800-240-6326 and following the instructions for telephone voting shown on the enclosed proxy card.

Vote by Proxy Card, by completing, signing, dating and mailing the enclosed proxy card in the envelope provided. If you vote by Internet or telephone, please do not mail your proxy card.

If your shares are held in street name (through a broker, bank or other nominee), you may receive a separate voting instruction form with this Proxy Statement, or you may need to contact your broker, bank or other nominee to determine whether you will be able to vote electronically using the Internet or telephone.

If you return your signed proxy card or use Internet or telephone voting before the Annual Meeting, the named proxies will vote your shares as you direct. You have three choices on each matter to be voted on. For the election of directors, you may (1) vote **FOR** all of the nominees, (2) **WITHHOLD** your vote from all nominees or (3) **WITHHOLD** your vote from nominees you designate. See Proposal One Election of Directors. For each of the other proposals, you may vote **FOR**, **AGAINST** or **ABSTAIN** from voting.

If you send in your proxy card or use Internet or telephone voting, but do not specify how you want to vote your shares, we will vote them FOR the election of all nominees for director as described under Proposal

Table of Contents

One Election of Directors, FOR Proposal Two Amendment and Restatement of Restated Certificate of Incorporation to Increase Authorized Common Stock and FOR Proposal Three Ratify Selection of Independent Auditors.

How You May Revoke or Change Your Vote

If you are a stockholder whose shares are registered in your name, you may revoke your proxy at any time before it is voted by one of the following methods:

Submitting another proper proxy with a more recent date than that of the proxy first given by (1) following the telephone voting instructions or (2) following the Internet voting instructions or (3) completing, signing, dating and returning a proxy card to the Company.

Sending written notice of revocation to the Company's Corporate Secretary.

Attending the Annual Meeting and voting by ballot.

If you hold your shares through a broker, bank or other nominee, you may revoke your proxy by following instructions provided by your broker, bank or nominee.

Quorum and Vote Requirements

A majority of the outstanding shares of Common Stock must be present in person or by proxy in order to have a quorum to conduct business at the Annual Meeting. Shares represented by proxies marked Abstain or Withheld and broker non-votes are counted in determining whether a quorum is present. A broker non-vote is a proxy submitted by a broker that does not indicate a vote for some or all of the proposals because the broker does not have discretionary voting authority on some types of proposals and has not received instructions from its client as to how to vote on a particular proposal.

The affirmative vote of a plurality of shares of Common Stock present in person or represented by proxy at the meeting is required for the election of directors. This means that a director nominee with the most votes for a particular slot is elected for that slot. Only votes For and Withheld affect the outcome. The affirmative vote of the holders of a majority of all outstanding shares of Common Stock is required for adoption of Item 2. Other matters, including ratification of the selection of independent auditors, will be decided by the affirmative vote of a majority of the shares present in person or represented by proxy. Under New York Stock Exchange rules, if your shares are held in Street Name, the broker is permitted to vote your shares on the election of directors as well as on Items 2 and 3. While Broker non-votes are generally not counted, but abstentions and withheld votes are counted, in determining the total number of votes cast on a proposal. Broker non-votes will not affect this year's voting because New York Stock Exchange rules allow discretionary voting on all proposals before the meeting. An abstention or withheld vote has the effect of a negative vote.

Procedures at the Annual Meeting

The presiding officer at the meeting will determine how business at the Annual Meeting will be conducted. Only matters brought before the Annual Meeting in accordance with the Company's Bylaws will be considered.

Only a natural person present at the Annual Meeting who either is a Toro stockholder or is acting on behalf of a stockholder may make a motion or second a motion. A person acting on behalf of a stockholder must present a written statement executed by the stockholder or the duly authorized representative of the stockholder on whose behalf the person purports to act.

Table of Contents**STOCK OWNERSHIP**

The following table shows how much Toro Common Stock each of the directors and nominees, the Chief Executive Officer and the four other most highly compensated executive officers named in the Summary Compensation Table (named executive officers) beneficially owned as of January 20, 2003. The table also shows beneficial ownership by all directors and executive officers as a group, including the named executive officers.

	Name of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent Of Class(2)
Common Stock	Barclays Global Investors, N.A. and its subsidiary, Barclays Global Fund Advisors 45 Fremont Street, 17 th Fl San Francisco, CA	790,944(3)	6.3%
Common Stock	Ronald O. Baukol	11,547(4)(5)	*
	Robert C. Buhrmaster	10,305(4)(5)	*
	Winslow H. Buxton	11,191(4)(5)(6)	*
	Janet K. Cooper	11,852(4)(5)	*
	Timothy A. Ford	28,473(4)	*
	Katherine J. Harless	2,733(4)(5)	*
	Michael J. Hoffman	74,602(4)(7)	*
	William D. Hughes	5,581(4)	*
	Kendrick B. Melrose	532,901(4)(5)(6)(8)	4.3%
	Robert H. Nassau	7,585(4)(5)	*
	Dale R. Olseth	19,013(4)(5)	*
	Gregg W. Steinhafel	11,151(4)(5)	*
	Christopher A. Twomey	9,603(4)(5)	*
	Edwin H. Wingate	13,545(4)(5)(6)	*
	Stephen P. Wolfe	106,526(4)(5)(6)	*
Common Stock	All directors and executive officers As a group (22)	1,163,352(4)(5)(6)(7)(8)	9.3%

* Less than 1% of the outstanding shares of Common Stock.

- (1) Shares are deemed to be beneficially owned by a person if such person, directly or indirectly, has or shares (i) the power to vote or to direct the voting of such shares or (ii) the power to dispose or direct the disposition of such shares. In addition, beneficial ownership includes shares that such person has the right to acquire within 60 days.
- (2) Common Stock units that are subject to vesting requirements are not included for the purpose of calculating Percent of Class amounts.
- (3) Barclays Global Investors, N.A., a bank, has filed a Form 13G reflecting beneficial ownership of 683,039 shares of Toro Common Stock with sole voting power and sole dispositive power with respect to all of these shares. In addition, its subsidiary, Barclays Global Fund Advisors has sole voting power and sole dispositive power with respect to 107,905 shares. The information is as of February 12, 2002, the date of the most recent report on Form 13G received by the Company.
- (4) Includes shares held of record, shares that may be acquired upon exercise of stock options within 60 days and shares allocated to executive officers under The Toro Company Investment, Savings and Employee Stock Ownership Plan. Stock options exercisable within 60 days for each of the named directors and executive officers are as follows: Mr. Baukol 6,000 shares, Mr. Buhrmaster 6,000 shares, Mr. Buxton 6,000 shares, Ms. Cooper 5,000 shares, Ms. Harless 2,000 shares, Mr. Nassau 3,000 shares, Mr. Olseth 6,000 shares, Mr. Steinhafel 5,000 shares, Mr. Twomey 6,000 shares, Mr. Wingate 6,000 shares, Mr. Melrose 229,000 shares, Mr. Wolfe 62,300 shares, Mr. Hoffman 42,600 shares, Mr. Ford 23,000 shares, Mr. Hughes 5,000 shares, and all directors and executive officers as a group 580,843 shares.

Table of Contents

- (5) Includes Common Stock units credited under The Toro Company Deferred Compensation Plan for Non-Employee Directors and Common Stock units credited under The Toro Company Deferred Compensation Plan for Officers (Officers Deferred Plan). Aggregate units credited for each of the nonemployee directors at January 20, 2003 were as follows: Mr. Baukol 949 units, Mr. Buhmaster 949 units, Mr. Buxton 511 units, Ms. Cooper 2,264 units, Ms. Harless 733 units, Mr. Nassau 3,506 units, Mr. Olseth 3,506 units, Mr. Steinhafel 292 units, Mr. Twomey 511 units and Mr. Wingate 3,506 units. Aggregate units credited for each of the named executive officers at January 20, 2003 were as follows: Mr. Melrose 119,336 units and Mr. Wolfe 34,183 units. All directors and executive officers as a group 254,324 units. Some of the units are subject to forfeiture until vested. See Compensation Committee Report
- (6) Includes shares held in trusts for estate planning purposes as follows: 4,180 for Mr. Buxton and his spouse, 4,039 for Mr. Wingate, 10,504 for Mr. Wolfe and 28,535 shares for all directors and executive officers as a group, including spouses. The amount shown for Mr. Melrose includes 226 shares held of record by Mr. Melrose as custodian for minor children under the Minnesota Uniform Transfer to Minors Act.
- (7) Includes restricted stock in the amount of 2,091 shares issued as Matching Shares in connection with Annual Management Incentive Plan II (Annual Incentive Plan) Stock Retention Awards, of which 1,314 Matching Shares remain subject to forfeiture until vested. Also includes 2,200 shares of restricted stock that vested on October 31, 2002.
- (8) Includes restricted stock in the amount of 12,227 shares in connection with the Chief Executive Officer Succession Incentive Agreement, which are subject to forfeiture until vested.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The rules of the Securities and Exchange Commission require us to disclose the identity of directors, executive officers and beneficial owners of more than 10% of the Common Stock of Toro who did not file on a timely basis reports required by Section 16 of the Securities Exchange Act of 1934. Based solely on review of copies of those reports received by us, or written representations from reporting persons that no Form 5 reports were required for them, we believe that all directors, executive officers and greater than 10% owners complied with all filing requirements applicable to them during Fiscal 2002, except that a Form 4 report with respect to one transaction was inadvertently filed late on behalf of Edwin H. Wingate, a director of the Company.

PROPOSAL ONE

ELECTION OF DIRECTORS

Under Toro's Restated Certificate of Incorporation, the Toro Board of Directors may be comprised of between eight and eleven directors. The Board has fixed the number of directors at eleven. The maximum and minimum number of directors can be changed only by amendment of the Restated Certificate of Incorporation approved by the affirmative vote of 80% of the outstanding shares of Toro Common Stock. The Board is divided into three classes, with each class elected in a different year for a term of three years. The four nominees for election at the 2003 Annual Meeting Janet K. Cooper, Kendrick B. Melrose, Gregg W. Steinhafel and Edwin H. Wingate have consented to serve if elected. If any nominee is unable to stand for election, the Board may, by resolution, designate a substitute.

The Board held six meetings during Fiscal 2002. Each incumbent director attended at least 75% of the aggregate total number of meetings held by the Board and all committees on which he or she served.

The following information with respect to business experience of nominees for election to the Board and the continuing directors has been furnished by the respective directors or nominees or obtained from the records of the Company.

Table of Contents

Nominees for Election to Board of Directors (Term ending after Fiscal 2005)

Janet K. Cooper, age 49. Senior Vice President and Treasurer since September 2002 of Qwest Communications International Inc. (Qwest), Denver, Colorado (telecommunications). From January 2001 to June 2002 she served as Chief Financial Officer and Senior Vice President of Finance and Administration of McDATA Corporation, Broomfield, Colorado. From July 2000 to January 2001 she was Senior Vice President, Finance, Qwest. She served in several executive positions with U S West, Inc., including from June 1999 to June 2000, Vice President Finance and Controller, from February 1999 to June 1999, Vice President Treasurer and Controller, and from May 1998 to February 1999, Vice President Treasurer. She previously was employed by The Quaker Oats Company and served as Vice President, Treasurer and Tax from July 1997 to May 1998 and Vice President and Treasurer from July 1992 to July 1997. First elected to the Toro Board in 1994, she is Chair of the Audit Committee and a member of the Compensation Committee. Ms. Cooper is a director of Lennox International Inc.

Kendrick B. Melrose, age 62. Chairman of Toro since December 1987 and Chief Executive Officer of Toro since December 1983. Employed by Toro since 1970. First elected to the Toro Board in 1981. Mr. Melrose is also Chair of the Executive Committee. Mr. Melrose is a director of SurModics, Inc. and Donaldson Company, Inc.

Gregg W. Steinhafel, age 48. President since August 1999, Target Stores, a division of Target Corporation, Minneapolis, Minnesota (retailing). Served as Executive Vice President Merchandising from July 1994 to July 1999. First elected to the Toro Board in 1999, he is a member of the Audit Committee and the Executive Committee.

Edwin H. Wingate, age 70. Retired. From June 1980 through August 1997 served as Senior Vice President Personnel, Dayton Hudson Corporation, Minneapolis, Minnesota (retailing). First elected to the Toro Board in 1989, he is Chair of the Nominating and Governance Committee and a member of the Audit Committee.

Members of Board of Directors Continuing in Office (Term ending after Fiscal 2003)

Robert C. Buhrmaster, age 55. Chairman since February 1998 and Chief Executive Officer and President since May 1994, Jostens, Inc., Minneapolis, Minnesota (consumer manufacturing). First elected to the Toro Board in 1996, he is a member of the Audit Committee, Executive Committee and the Nominating and Governance Committee.

Winslow H. Buxton, age 63. Retired. From January 1993 through April 2002 served as Chairman of the Board of Directors, Pentair, Inc., Saint Paul, Minnesota (diversified manufacturing). Served as Chief Executive Officer from August 1992 through December 2000. From August 1992 to December 1999 he also served as President. First elected to the Toro Board in 1998, he is a member of the Audit Committee, Executive Committee and the Nominating and Governance Committee. Mr. Buxton is a director of Bemis Company, Inc.

Robert H. Nassau, age 61. Owner since February 2000, Nasly Inc., Lahaina, Hawaii (food, beverage and entertainment). From January 1997 to August 1999, he served as President and Chief Executive Officer, St. Raymond Wood Products Holding Limited. First elected to the Toro Board in 1988, he is a member of the Compensation Committee and the Nominating and Governance Committee.

Christopher A. Twomey, age 54. President and Chief Executive Officer since February 1986, Arctic Cat Inc., Thief River Falls, Minnesota (recreational vehicle manufacturer). Served as an executive officer in various capacities since 1983. First elected to the Toro Board in 1998, he is a member of the Compensation Committee and the Nominating and Governance Committee. Mr. Twomey is a director of Arctic Cat Inc.

Members of Board of Directors Continuing in Office (Term ending after Fiscal 2004)

Ronald O. Baukol, age 65. Retired. From May 1995 through February 2002 served as Executive Vice President, International Operations, Minnesota Mining and Manufacturing Company (3M), Saint Paul,

Table of Contents

Minnesota (manufacturing). Served as Vice President, Asia Pacific, Canada and Latin America from February 1994 to April 1995. First elected to the Toro Board in 1995, he is a member of the Executive Committee, the Compensation Committee and the Nominating and Governance Committee. Mr. Baukol is a director of Graco Inc.

Katherine J. Harless, age 51. President since June 2000, Verizon Information Services, Inc., Dallas, Texas (publisher). From July 1996 to August 2000, she served as President, GTE Airfone, Inc., and from May 1994 to July 1996, as regional president, GTE Corporation, Texas and New Mexico. First elected to the Toro Board in 2000, she is a member of the Compensation Committee and the Nominating and Governance Committee.

Dale R. Olseth, age 72. Chairman of the Board and Chief Executive Officer since November 1986, SurModics, Inc., Eden Prairie, Minnesota (surface modification). He also served as President of SurModics, Inc. from November 1996 to July 1998. First elected to the Toro Board in 1980, he is Chair of the Compensation Committee and a member of the Executive Committee. Mr. Olseth is a director of SurModics, Inc.

The Board of Directors unanimously recommends a vote FOR the election of all nominees for director.

To assist in carrying out its duties, the Board has delegated certain authority to the following four standing committees:

Executive Committee. The Executive Committee may exercise all of the powers and authority of the Board, including the power to declare dividends on Toro Common Stock, during intervals between meetings of the Board. No meetings of the committee were held during Fiscal 2002.

Audit Committee. The Audit Committee assists the Board in fulfilling its responsibility to stockholders to assure the quality and integrity of the Company's financial reports and accounting and reporting practices. A member may not be an employee of the Company and must have no relationship to the Company that would interfere with a director's independence from management and the Company, including independence within the meaning of applicable New York Stock Exchange listing standards. Such a director is called an "outside director". All members must be financially literate under recently revised New York Stock Exchange listing standards, and at least one member must have such accounting or related financial management expertise as to be considered a "financial expert" under rules of the Securities and Exchange Commission. The Board has determined that Audit Committee Chair Janet K. Cooper meets the definition of "financial expert" as a result of her experience in senior corporate executive positions with financial oversight responsibilities, including Senior Vice President and Treasurer of Qwest, and Chief Financial Officer and Senior Vice President of Finance and Administration of McDATA Corporation, as well as other finance positions with Qwest, US West, Inc. and The Quaker Oats Company.

The committee's duties include reviewing the qualifications, independence and performance of the Company's independent public accountants; reviewing the scope, magnitude and budgets of all examinations of the Company's financial statements by the auditors; reviewing general policies and procedures with respect to accounting and financial matters and internal controls; reviewing and approving of the cost and types of audit and nonaudit services performed by independent public accountants; meeting with independent public accountants not less than once a year without Company representatives to discuss internal controls and accuracy and completeness of the financial statements; reviewing the Company's Code of Conduct and monitoring compliance; receiving analyses and comments regarding accounting pronouncements; reviewing results of audits with the independent public accountants and management with a focus on difficulties encountered, material errors or irregularities, weaknesses in internal accounting controls and similar issues; and notifying the Board of major problems or deficiencies discovered with respect to its duties.

Additional information regarding the Audit Committee and the Company's independent auditors is disclosed under the Audit Committee Report and Proposal Three. The Audit Committee met three times during Fiscal 2002. At one of these meetings the Committee met in private session with management and at one meeting, met in private session with the Company's internal auditor.

Table of Contents

Compensation Committee. All members of the Compensation Committee must be outside directors. This committee's functions include study and analysis of, and making recommendations to the Board concerning, specific and general matters of management compensation; periodic review of management compensation policies and practices, incentive compensation plans and officer salary adjustments; making incentive compensation awards and setting base salaries for officers referred to in Section 162(m) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code); and administrative oversight of stock option plans and other incentive and compensation plans. Two meetings of the committee were held during Fiscal 2002.

Nominating and Governance Committee. All members of this committee are outside directors. This committee's functions include determining an appropriate size and composition of the Board; considering qualifications of prospective Board member candidates; conducting research to identify and recommend nomination of suitable candidates who are willing to serve as members of the Board; reviewing the experience, background, interests, ability and availability of prospective nominees to meet time commitments of the Board and committee responsibilities; consideration of nominees recommended by stockholders who comply with the procedures set forth in the Company's Bylaws, described on page 21; and determining whether any prospective member of the Board has any economic or familial relationship with the Company or its directors or employees which may impair the individual's suitability for such service. The committee also has responsibility to monitor current members of the Board in light of the same guidelines used to select candidates, and to direct the activities of the Board and management in matters of corporate governance. One meeting of the committee was held during Fiscal 2002.

The Audit Committee Report that follows, the Compensation Committee Report on page 16 and the Performance Graph on page 15 shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934, or to the liabilities of Section 18 of that act. Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings, including this Proxy Statement, in whole or in part, neither of the reports nor the Performance Graph shall be incorporated by reference into any such filings.

Audit Committee Report

This report is furnished by the Audit Committee of the Toro Board of Directors with respect to Toro's financial statements for Fiscal 2002.

The Committee operates pursuant to a written charter first adopted by the Board on October 11, 1988 and amended three times since on May 13, 1999, May 18, 2000 and September 19, 2002. A copy of the charter as amended on September 19, 2002 is the Appendix to this proxy statement.

Toro management is responsible for the preparation and presentation of complete and accurate financial statements. The independent auditors, KPMG LLP, are responsible for performing an independent audit of the Company's financial statements in accordance with generally accepted auditing standards and for issuing a report on their audit.

In performing its oversight role, the Audit Committee has reviewed and discussed with management of the Company the Company's audited financial statements for Fiscal 2002. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee has also discussed with KPMG LLP, the Company's independent auditors for Fiscal 2002, the matters required to be discussed by Statement on Auditing Standards 61, Communication with Audit Committees (Codification of Statements on Auditing Standards, AU 380), as in effect for the Company's Fiscal 2002. The Audit Committee has received the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) as in effect for the Company's Fiscal 2002. The Committee has also considered whether the provision of nonaudit services by the independent auditors is compatible with maintaining the auditors' independence and has discussed with KPMG LLP the auditors

Table of Contents

independence. The Committee concluded that the independent auditors are independent from the Company and its management.

Based on the review and discussions referred to in the foregoing paragraph, and subject to the limitations on the role and responsibilities of the Committee in the charter, the Audit Committee recommended to the Board of Directors of the Company that the Company's audited financial statements for Fiscal 2002 be included in its Annual Report on Form 10-K for the fiscal year ended October 31, 2002, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Janet K. Cooper, Chair
Robert C. Buhmaster
Winslow H. Buxton
Gregg W. Steinhafel
Christopher A. Twomey
Edwin H. Wingate

Board Compensation

Fees. Compensation for Toro directors who are not employees of the Company attempts to link a director's compensation with stockholder interests. The compensation therefore includes stock components as well as cash. Cash compensation for Fiscal 2002 included an annual retainer and meeting fees (\$20,000 plus a fee of \$1,000 for each meeting of the Board or a committee attended, except that no more than one committee meeting fee is paid for committee meetings held in a single day). Beginning in calendar 2003, the Chair of the Audit Committee will receive \$3,000 for each meeting attended and the Chairs of each of the other board committees will receive \$2,000 for each meeting they attend and \$500 for each interim conference call meeting in which they participate. In addition in Fiscal 2002, outside directors received an annual grant of Common Stock having a \$10,000 market value (valued at the average of the closing prices of Common Stock during the three months prior to the award) and a 2,000 share stock option award (with an exercise price per share equal to 100% of the fair market value of one share of Common Stock on the date of grant which is the first business day of the fiscal year) pursuant to The Toro Company Directors Stock Plan and The Toro Company 2000 Directors Stock Plan (Directors Plans). A director may elect to receive the annual retainer fee and meeting fees in cash or shares of Common Stock, or a combination of both. The Company also supplies directors with Toro products for their personal use.

Other Arrangements. An outside director may elect to defer receipt of Board compensation under the Deferred Compensation Plan for Non-Employee Directors. Interest is accrued quarterly on deferred cash amounts at the average prime rate charged by U. S. Bank National Association, Minneapolis, Minnesota (ranging from 4.75% to 5.16% in Fiscal 2002). Deferred stock compensation is credited as Common Stock units, which then earn dividends that are reinvested as additional units. Ms. Harless has in the past deferred her Common Stock awards and her account was credited with 4,973 Common Stock units for dividends paid. Ms. Cooper and Ms. Harless have deferred all or a portion of their cash compensation and their accounts were credited with interest at the rates described above.

Each director is a party to an indemnification agreement that assures the director of indemnification and advancement of expenses to the fullest extent permitted by Delaware law and Toro's Restated Certificate of Incorporation, and of continued coverage under the Company's directors and officers liability insurance, to the extent it is maintained.

Table of Contents**EXECUTIVE COMPENSATION****SUMMARY COMPENSATION TABLE**

The table below shows compensation of the Company's Chief Executive Officer and the named executive officers for the last three fiscal years. The named executive officers include the four most highly compensated executive officers other than the CEO, who were serving as executive officers on October 31, 2002.

Name and Principal Position	Year	Annual Compensation		
		Salary (\$)	Bonus (\$)	Other Annual Compensation \$(1)
Kendrick B. Melrose	2002	\$ 683,589	\$ 553,194(5)	\$ 360,979
Chairman of the Board & Chief Executive Officer	2001	656,663	400,302(5)	9,411,136(8)
	2000	627,500	583,575(5)	264,080
Stephen P. Wolfe	2002	282,828	176,060(5)	89,123
Vice President Finance & Chief Financial Officer	2001	270,842	123,829(5)	37,238
	2000	252,334	176,003(5)	34,086
Michael J. Hoffman	2002	286,506	151,974(5)	87,090
Group Vice President	2001	255,000	162,262(5)	20,136
	2000	215,004	144,461(5)	870
Timothy A. Ford	2002	261,249	181,155(5)	0
Group Vice President	2001	31,250	80,000(6)	0
	2000	0	0	0
William D. Hughes	2002	216,354	242,325(7)	125,198
Vice President & General Manager Irrigation Business	2001	206,004	200,800(7)	123,103
	2000	182,502	283,500(7)	0

[Additional columns below]

[Continued from above table, first column(s) repeated]

Name and Principal Position	Long Term Compensation			
	Awards		Payouts	
	Restricted Stock (\$)	Options #(2)	LTIP Payouts \$(3)	All Other Compensation \$(4)
Kendrick B. Melrose	(9)	46,500	\$ 1,384,662	\$ 309,391
Chairman of the Board & Chief Executive Officer	0	51,000	1,421,894	268,917
	145,894(10)	48,000	834,854(13)	266,970
Stephen P. Wolfe	0	12,300	439,069	96,784
Vice President Finance & Chief Financial Officer	0	13,800	385,938	80,572
	44,000(10)	19,500	202,826	79,877
Michael J. Hoffman	0	12,000	359,962(14)	79,877
Group Vice President	0	13,800	209,884	58,559
	108,850(10)(11)	13,600	110,324	50,467
Timothy A. Ford	0	8,000	190,390(15)	0
Group Vice President	94,050(12)	15,000	0	0
	0	0	0	0
William D. Hughes	0	5,000	0	55,241
Vice President & General	0	5,000	0	60,954

Edgar Filing: TORO CO - Form DEF 14A

Manager Irrigation Business	0	8,000	0	45,791
-----------------------------	---	-------	---	--------

- (1) Includes the dollar value of the difference between the fair market value and the option exercise price (before payment of applicable income taxes) on stock options exercised. Fair market value is the closing price of the Common Stock on the New York Stock Exchange on the date of exercise or actual sale price.
- (2) Options granted pursuant to The Toro Company 1993 Stock Option Plan and The Toro Company 2000 Stock Option Plan. For information on Toro's stock option plans, see Stock Options on page 13.
- (3) Amounts shown for Fiscal 2002 reflect the value of Performance Shares vested for the three year Award Term of Fiscal 2000 through 2002 under The Toro Company Performance Share Plan (the Performance Share Plan), a long term incentive plan described in greater detail under Long Term Incentive Compensation and the Compensation Committee Report. Performance Shares that vested with respect to Fiscal 2000 to 2002 are valued as of December 4, 2002, the date the Compensation Committee certified performance goal achievement. Award payouts were based on cumulative net income plus after tax interest expense and cumulative average net asset turns performance goals with respect to the Fiscal 2000 to 2002 performance period. The number of shares issued or credited to each officer with respect to Fiscal 2002 is as follows: Mr. Melrose 21,451, Mr. Wolfe 6,802, Mr. Hoffman 3,400 and Mr. Ford 2,965. Mr. Hughes does not participate in this plan. Amounts shown for Fiscal 2001 reflect the value of Performance Shares vested for a three year performance period of Fiscal 1999 to 2001 for Messrs. Melrose, Wolfe and Hoffman. Those shares were valued as of December 4, 2001, the date the Compensation Committee certified performance goal achievement. Amounts shown for Fiscal 2000 reflect the value of Performance Shares vested for a two year transitional performance period of Fiscal 1999 to 2000 for Messrs. Melrose, Wolfe and Hoffman and for a one year transitional performance period for Mr. Ford who first became a participant in this plan for Fiscal 2002.
- (4) Amounts include Company contributions and allocations to The Toro Company Investment, Savings and Employee Stock Option Plan (a defined contribution retirement plan) for calendar years 2002, 2001

Table of Contents

and 2000 (an aggregate of \$20,228 each for Mr. Melrose, Mr. Wolfe, Mr. Hoffman and Mr. Hughes for calendar year 2002). Mr. Ford was not yet eligible to receive benefits under this plan. Also includes amounts accrued pursuant to Toro's Supplemental Management Retirement Plan for executive officers who receive annual compensation of \$170,000 Still \$170,000 or more (\$289,163 for Mr. Melrose, \$76,556 for Mr. Wolfe, \$59,649 for Mr. Hoffman and \$35,013 for Mr. Hughes for calendar year 2002). Participants' accounts are credited with an amount equal to the difference between the aggregate amount that would have been allocated to tax-qualified profit-sharing and other defined contribution plans, without regard to limitations imposed by the Internal Revenue Code, and the aggregate amount of contributions actually allocated (excess benefit accounts). Although amounts credited to such accounts remain a part of Toro's general assets until distributed to participants, if there is a change of control of Toro (as defined in the plans), or if we accept a participant's request to direct investment of an account, we will transfer to a trust an amount in cash equal to the total amount of accrued benefits for all participants or for the electing participant, as the case may be. Because our benefit plans operate on a calendar year basis, a small portion of the amounts shown for each fiscal year may have been accrued with respect to a different fiscal year.

- (5) Amounts reflect payments made, or deferred at the election of the officer, pursuant to the Annual Incentive Plan as in effect for the fiscal year indicated. Amounts shown for Fiscal 2000 do not include Matching Common Stock or units under Stock Retention Awards for Fiscal 2000, which are shown in the Restricted Stock column. See Note 10. For more information on this plan, see the Compensation Committee Report.
- (6) Mr. Ford was paid \$80,000 in connection with his becoming employed by Toro in Fiscal 2001.
- (7) Amounts reflect payments made pursuant to special arrangements with Mr. Hughes. Amounts for each of the fiscal years are based on achievement of pre-established performance goals. For more information, see Employment Agreements following this table and the Compensation Committee Report. Amount for Fiscal 2001 also includes a \$150,000 bonus paid with respect to Fiscal 2001 because Mr. Hughes remained with Toro through that fiscal year.
- (8) Amount includes a gain of \$8,403,590 attributable to exercise of options on 300,000 shares of Common Stock, granted to Mr. Melrose in 1991 in lieu of \$100,000 of base salary each year for five years from 1991 to 1995. The exercise price for these salary reduction options based on Toro's stock price in 1991 was \$14.95. Toro's stock price at the time of Mr. Melrose's exercises in 2001 ranged from \$43.50 to \$46.50.
- (9) Mr. Melrose holds 12,227 shares of unvested restricted stock under the Chief Executive Officer Succession Incentive Agreement. The value of these shares based on the closing price of the Common Stock on the New York Stock Exchange on October 31, 2002 was \$780,816.
- (10) Includes the value of shares of Common Stock or Common Stock units credited to an officer's deferred compensation account in connection with Stock Retention Awards paid with respect to Fiscal 2000 under the Annual Incentive Plan. Shares and units were valued at the closing price of Toro Common Stock on December 5, 2000, the date the Committee certified performance goal achievement under the Annual Incentive Plan. These Matching Shares and units are subject to forfeiture, with vesting in four equal annual installments beginning two years after the date the shares were issued or units were credited to the officers' accounts. During Fiscal 2002, shares or units vested in the amounts of 2,393 for Mr. Melrose, 717 for Mr. Wolfe and 522 for Mr. Hoffman. During Fiscal 2001, shares or units vested in the amounts of 1,285 for Mr. Melrose, 383 for Mr. Wolfe, and 255 for Mr. Hoffman. The Committee did not award Stock Retention Awards for either Fiscal 2002 or 2001. Stock Retention Awards are intended to encourage officer stock ownership by encouraging conversion of a portion of the annual cash bonus to shares or units of Common Stock.
- (11) Amount includes \$72,737, the value of 2,200 shares of restricted stock awarded to Mr. Hoffman on May 18, 2000 in alignment with his change in responsibilities from Vice President and General Manager of the Commercial Business to Vice President and General Manager of the Consumer

Table of Contents

Business. These shares vested in full in Fiscal 2002 (see Note 14). Vesting of these shares was subject to the requirement that Toro's Consumer Business achieve a division controllable profit contribution of at least 12% not later than the end of Fiscal 2005. The restricted stock had dividend and voting rights. The value of these shares based on the closing price of the Common Stock on October 31, 2002 was \$140,492.

- (12) Amount reflects the value of 4,000 shares of restricted stock awarded to Mr. Ford on July 19, 2001 in connection with commencement of his employment, with vesting based on continued employment. 1,800 shares vested on November 30, 2002. If Mr. Ford remains employed by Toro on November 30, 2003, the remaining 2,200 shares will vest. The restricted stock has dividend and voting rights. The value of these shares based on the closing price of the Common Stock on October 31, 2002 was \$255,440.
- (13) The amount shown for Mr. Melrose includes the value of 2,620 shares of restricted stock that vested with respect to achievement of performance goals under the Chief Executive Officer Succession Incentive Agreement in Fiscal 2000, valued at \$88,098 based on the closing price of Toro Common Stock on the date the Committee certified performance goal achievement.
- (14) The amount shown for Mr. Hoffman includes the value of 2,200 shares of restricted stock that vested with respect to achievement of a division controllable profit contribution performance goal for the Consumer Business. The value is based on the closing price of Toro Common Stock on October 31, 2002, the vesting date.
- (15) The amount shown for Mr. Ford is a one year transition award for Fiscal 2002 to bring him into The Toro Company Performance Share Plan.

Employment Agreements

Change in Control Agreements. Each of the executive officers, including those named in the Summary Compensation Table except for Mr. Hughes, is a party to a change of control employment agreement adopted in Fiscal 1995 and amended in Fiscal 1998. The agreements are operative only upon the occurrence of a change in control, which includes substantially those events described below. Absent a change in control, the agreements do not require the Company to retain the executives or to pay them any specified level of compensation or benefits.

Each agreement provides that for three years after a change in control, there will be no adverse change in the executive's salary, bonus opportunity, benefits or location of employment. If during this three year period the executive's employment is terminated by the Company other than for cause, or if the executive terminates his employment for good reason (as defined in the agreements, and including compensation reductions, demotions, relocation and excess travel), or voluntarily during the 30 day period following the first anniversary of the change in control, the executive is entitled to receive all accrued salary and annual incentive payments through the date of termination and, except in the event of death or disability, a lump sum severance payment (Lump Sum Payment) equal to three times the sum of base salary and annual bonus (and certain insurance and other welfare plan benefits). Further, in the event an excise tax is imposed on payments under the agreement, an additional payment (gross-up) is required in an amount such that after the payment of all taxes, both income and excise, the executive will be in the same after-tax position as if no excise tax under the Internal Revenue Code had been imposed.

Generally, and subject to certain exceptions, a change in control is deemed to have occurred if: (1) a majority of Toro's Board of Directors becomes comprised of persons other than persons for whose election proxies have been solicited by the Board, or who are then serving as directors appointed by the Board to fill vacancies caused by death or resignation (but not removal) of a director or to fill newly created directorships; (2) another party becomes the beneficial owner of at least 15% of Toro's outstanding voting stock; or (3) Toro's stockholders approve a definitive agreement or plan to merge or consolidate Toro with another party (other than certain limited types of mergers), to exchange shares of voting stock of Toro for shares of

Table of Contents

another corporation pursuant to a statutory exchange, to sell or otherwise dispose of all or substantially all of Toro's assets, or to liquidate or dissolve Toro.

If a change in control of the Company had occurred on January 1, 2003 and had resulted in the involuntary termination of the named executives at such time or the termination by such executives for good reason, the Lump Sum Payment to be made to the Chief Executive Officer and three of the named executive officers who are parties to such an agreement in the aggregate would have been approximately \$8,082,720 (before excise tax). The Company has also established a trust for the benefit of these officers which, in the event of a change of control, must be funded in an amount equal to the Company's accrued liability related to such agreements.

Mr. Hughes Employment. Mr. Hughes joined Toro in August 1998 as Vice President and General Manager for Toro's Consumer Business. The assignment was intended to be temporary and Mr. Hughes was expected to return in Fiscal 2000 to the Toro distributorship of which he is a part owner and had been Chairman and Chief Operating Officer. His success with the Consumer Business led Toro to offer continued employment to Mr. Hughes if he would transfer to the position of Vice President and General Manager of the Toro Irrigation Business. Mr. Hughes was paid a base salary of \$206,004 and an annual bonus, based on the performance of the Consumer Division in Fiscal 2000 and the Irrigation Division in Fiscal 2001. Pursuant to this agreement, Toro purchased a home for Mr. Hughes to reside in while on assignment with Toro's Irrigation Business in Riverside, California and paid Mr. Hughes a modest amount to cover out-of-pocket expenses related to retaining his own residence during his temporary assignment. Mr. Hughes' arrangement also provided for a stay-on bonus of \$150,000, paid to Mr. Hughes if he remained with Toro through Fiscal 2001; for the award of 5,000 stock options in December 2000, subject to approval by Toro's Board of Directors; and for standard officer perquisites.

Toro and Mr. Hughes are currently parties to an agreement, which provides for (1) base salary increases in alignment with normal market adjustments, (2) an annual bonus for Fiscal 2002 based 50% on achievement of corporate performance goals and 50% on achievement of Irrigation Division goals. Because both corporate and the Irrigation Division achieved performance goals above target levels, Mr. Hughes received a higher than target level payout of \$242,325. See the Summary Compensation Table on page 9. This agreement also provides that if Mr. Hughes remains actively employed by Toro through April 2003, he will be eligible to receive a stay-on bonus of \$75,000. This agreement provides that Mr. Hughes will receive base salary only through April 30, 2003 and will be on a leave of absence through December 2003, with the right to retain appropriate perquisites and to exercise certain options, through that period. The agreement continues the payment of out-of-pocket expenses relating to his own residence provided he is unable to rent it and provides for payment of reasonable relocation expenses.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Prior to Mr. Hughes accepting a temporary assignment with Toro he held the position of Chairman and Chief Operating Officer of Turf Equipment & Supply Company, Inc., of which he is also a 50% owner. Turf Equipment & Supply Company, Inc. and its affiliated companies are located in the Maryland/ Washington D.C. area, and is one of thirty-three independent domestic distributors of Toro products. During the fiscal year Turf Equipment & Supply Company, Inc. purchased \$22,608,395 of Toro products and received commissions of \$175,835 for store management services in its geographic area.

Table of Contents

STOCK OPTIONS

The Company has two stock option plans, The Toro Company 1993 Stock Option Plan (the 1993 Plan) and The Toro Company 2000 Stock Option Plan (the 2000 Plan). The plans are administered by the Compensation Committee which selects employees to whom options are granted.

As of January 2003, 84 shares remained available for new option grants under the 1993 Plan and 446,046 shares remained available for new grants under the 2000 Plan. The exercise price of an option must be not less than 100% of the fair market value of the Common Stock on the date of grant and an option may not be repriced, once granted. Options are not transferable except by will or the laws of descent and distribution. Options may have a term of up to ten years, and may be exercised immediately after grant, using cash, stock or a cashless method through a broker.

The following table shows options granted under the 2000 Plan during Fiscal 2002 to the Chief Executive Officer and the named executive officers.

Individuals Grants
