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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 15, 2008

THE TORO COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

1-8649
(Commission File Number)

41-0580470
(I.R.S. Employer Identification Number)

8111 Lyndale Avenue South
Bloomington, Minnesota
(Address of principal executive offices)

55420
(Zip Code)

Registrant's telephone number, including area code: **(952) 888-8801**

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Section 5—Corporate Governance and Management

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

- (e) On January 15, 2008, the Board of Directors of The Toro Company (the “Company”), on recommendation of the Compensation & Human Resources Committee, adopted amendments to certain of the Company’s equity compensation plans. Specifically, the Board of Directors:
- (i) Amended The Toro Company 2000 Stock Option Plan (the “2000 Stock Option Plan”) to:
- affirmatively prohibit the “repricing” of stock options without the approval of the Company’s shareholders;
 - reduce the Company’s flexibility with respect to option grants to foreign nationals and California residents by specifically prohibiting the reservation of shares or grant of options to such individuals in excess of the authorized number of shares under the 2000 Stock Option Plan, the repricing of options granted to such individuals, the granting of options with an exercise price of less than 100% of the fair market value of the Company’s common stock on the date of grant and any other action that would require the approval of the Company’s shareholders under any applicable law, rule or regulation;
 - eliminate the ability of the Board of Directors to increase the number of shares of the Company’s common stock authorized for issuance under the 2000 Stock Option Plan by an immaterial amount; and
 - clarify that “share recycling” is not permitted under the 2000 Stock Option Plan and provide a methodology for accounting for shares reserved under the 2000 Stock Option Plan.
- (ii) Amended The Toro Company Performance Share Plan (the “PSP”) to decrease the number of shares of the Company’s common stock authorized for issuance under the PSP as performance share awards by 250,000, from 3,000,000 to 2,750,000.
- (iii) Amended The Toro Company 2000 Directors Stock Plan (“2000 Directors Plan”) to decrease the number of shares of the Company’s common stock authorized for issuance under the 2000 Directors Plan by 25,000, from 480,000 to 455,000.

Copies of the 2000 Stock Option Plan, the PSP and the 2000 Directors Stock Plan, each as amended, are attached as Exhibits 10.1, 10.2 and 10.3 to this Current Report on Form 8-K.

Section 9—Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

Exhibit No.	Description
10.1	The Toro Company 2000 Stock Option Plan (as amended January 15, 2008)
10.2	The Toro Company Performance Share Plan (as amended January 15, 2008)
10.3	The Toro Company 2000 Directors Stock Plan (as amended January 15, 2008)

SIGNATURES

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

THE TORO COMPANY
(Registrant)

Date: January 18, 2008

By /s/ Timothy P. Dordell
Timothy P. Dordell
Vice President, Secretary and General Counsel

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
10.1	The Toro Company 2000 Stock Option Plan (as amended January 15, 2008)
10.2	The Toro Company Performance Share Plan (as amended January 15, 2008)
10.3	The Toro Company 2000 Directors Stock Plan (as amended January 15, 2008)

THE TORO COMPANY
2000 STOCK OPTION PLAN
(As Amended January 15, 2008)

1. **Purpose.** The purpose of The Toro Company 2000 Stock Option Plan (the "Plan") is to enhance stockholder value of The Toro Company (the "Company") by providing an incentive to key employees and other key individuals who perform services for the Company to contribute significantly to the long-term performance and growth of the Company; to link a significant portion of a participant's compensation to the value of the Company's Common Stock, par value \$1.00 per share, and related Preferred Share Purchase Rights ("Common Stock"); and to attract and retain experienced and knowledgeable employees on a competitive basis. These purposes are expected to be achieved by granting options to acquire the Common Stock ("options").
2. **Eligibility.** Any employee of the Company who is regularly employed in an executive, managerial, professional or technical position and any other individual who performs services for the Company and who contributes significantly to the strategic and long-term performance objectives of the Company is eligible to participate in the Plan. Options may be granted to directors of the Company who are also employees of the Company. More than one option may be granted to the same individual.
 - a. **Limitations.** No option may be granted to an individual who owns, directly or indirectly, Common Stock or other capital stock of the Company possessing more than 5% of the total combined voting power or value of any class of capital stock of the Company or a subsidiary immediately after such option is granted, and the maximum number of shares that may be covered by options granted to any individual during any calendar year shall be 100,000 shares. Except for the foregoing limitations, there is no minimum or maximum number of shares of Common Stock with respect to which options may be granted to any individual under the Plan. Individuals to whom options are granted are referred to as "option holders".
3. **Stock Options.**
 - a. **ISOs and Nonqualified Options.** Options granted under the Plan may be either nonqualified stock options ("nonqualified options") or incentive stock options ("Incentive Stock Options") as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").
 - (i) **Incentive Stock Options.** Incentive Stock Options shall meet the applicable requirements of, and contain or be deemed to contain all provisions required by, the Code or corresponding provisions of subsequent revenue laws and regulations in effect at the time such options are granted. Any ambiguities in construction shall be interpreted in order to effectuate such intent. To the extent that the aggregate fair market value of Common Stock (determined at the time of grant of the Incentive Stock Option) with respect to which Incentive Stock Options are exercisable for the first time by an option holder during any calendar year (under all such plans of the Company and its parent and subsidiary corporations) exceeds \$100,000 or such other limit as may be imposed by the Code, such options to the extent they exceed such limit shall be treated as options which are not Incentive Stock Options. In applying the foregoing limitation, options shall be taken into account in the order in which they were granted.
 - b. **Agreements.** Options shall be evidenced by stock option agreements in such form and not inconsistent with the Plan as the Compensation and Human Resources Committee (the "Committee") of the Board of Directors shall approve from time to time.
 - c. **Number of Shares, Date of Grant and Term.** An option agreement shall specify the number of shares of Common Stock to which it pertains; the date of grant, which shall be the date on which the Committee grants an option or any later date which the Committee specifically designates, and the term of the option, which shall not exceed ten years.
 - d. **Exercise Price.** The exercise price of an option shall be not less than 100% of fair market value of the Common Stock on the date of grant. Fair market value is the 4 p.m. Eastern Time closing price for the Common Stock as reported by the New York Stock Exchange. Notwithstanding the foregoing, to the extent that options are granted under the Plan as a result of the Company's assumption or substitution of options issued by any acquired, merged or consolidated entity, the exercise price for such options shall be the price determined by the Committee pursuant to the conversion terms applicable to the transaction. After an option is granted, the exercise price shall not be reduced.
 - e. **Vesting, Transferability and Exercisability.**
 - (i) **Vesting.** An option granted to an officer or general manager of the Company shall vest and become exercisable in three approximately equal installments on each of the first, second and third anniversaries after the date of grant. An option granted to an employee or other service provider who is not an officer or general manager of the Company shall vest and become exercisable in full on the second anniversary after the date of grant. Notwithstanding the foregoing, the Committee shall have the authority to provide in any option agreement for any one or more of the following: (a) longer periods after the date of grant during which an option or any portion thereof may not yet be exercisable, (b) acceleration of vesting in the event of an option holder's disability or death and (c) continued vesting after an option holder's retirement, subject to Section 3.e(iii)(c).
 - (ii) **No Transfer.** Options shall not be transferable by the option holder except by will or applicable laws of descent and distribution.
 - (iii) **Exercise.** During the lifetime of an option holder, an option may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company or otherwise performing services for the Company or a parent or subsidiary and only if the option holder has been continuously so employed or engaged since the date such options were granted, except as the Committee may otherwise determine and provide for in an option agreement at the time of grant or, if the Committee does not so provide, as follows:
 - (a) **Disability.** In the event of disability of an option holder, options may be exercised by such individual or his or her

guardian or legal representative, not later than the earlier of the date the option expires or one year after the date employment or performance of services ceases by reason of such disability, but only with respect to an option exercisable at the time employment or performance of services ceases.

- (b) *Death.* An option may be exercised after the death of an option holder only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.
- (c) *Retirement.* An option may be exercised by an option holder after such individual ceases to be an employee by reason of retirement for up to four years after the date of retirement but not later than the date the option expires, provided that the option holder has remained an employee of the Company through the last day of the fiscal year in which the option is granted. "Retirement" shall have the meaning established by the Committee from time to time or, if no such meaning is established, shall mean termination of employment with the Company at or after age 55 and with a number of years of service that, when added together with the option holder's age, equals at least 65.
- (d) *Other Termination of Employment.* An option may be exercised by an option holder after such individual ceases to be an employee (for reasons other than disability, death or retirement) for up to three months after the date of termination of employment but not later than the date the option expires.

(iv) *Non-competes.* Notwithstanding any other provision of paragraph 3.e., if within one year after the termination of employment with or performance of services for the Company, an option holder is (a) employed or retained by or renders service to any organization that, directly or indirectly, competes with or becomes competitive with the Company, or if the rendering of such services is prejudicial or in conflict with the interests of the Company, or (b) violates any confidentiality agreement or agreement governing the ownership or assignment of intellectual property rights with the Company, or (c) engages in any other conduct or act determined to be injurious, detrimental or prejudicial to any interest of the Company, the Company may cancel or rescind or restrict all options held by such individual and shall have the right to the return of the economic value of any option which was realized or obtained (measured at the date of exercise) by such individual at any time during the period beginning on the date that is twelve months prior to the date of termination to the date of the last exercise, provided however, that this provision shall not be applicable in the event of a Change of Control.

(v) *Interruption in Service.* Absence on leave from the Company, or other interruption in the performance of services, by an option holder shall, if approved by the Committee, not be deemed a cessation or interruption of employment or services for the purposes of the Plan.

f. **Methods of Exercise and Payment of Exercise Price.** Subject to the terms and conditions of the Plan and the terms and conditions of the option agreement, an option may be exercised in whole at any time or in part from time to time, by delivery to the Company at its principal office of a written notice of exercise specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the exercise price for shares to be purchased at that time. Payment may be made (i) in cash, (ii) by tendering (either actually or by attestation) shares of Common Stock already owned for at least six months (or other period necessary to avoid a charge to the Company's earnings for financial statement purposes) valued at the fair market value of the Common Stock on the date of exercise or (iii) in a combination of cash and Common Stock; or the Committee may also, in its sole discretion exercised either at the time the option is granted or at any time before an option is exercised, (iv) permit option holders to deliver a notice of exercise of options, together with irrevocable instructions, approved in advance by proper officers of the Company, (A) to a brokerage firm designated by the Company, to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the exercise price and any related tax withholding obligations and (B) to the Company, to deliver certificates for such purchased shares directly to such brokerage firm, all in accordance with regulations of the Federal Reserve Board; or (v) authorize such other methods as it deems appropriate and as comply with requirements of the Code, the Securities Exchange Act of 1934 (the "Exchange Act") and other applicable laws and regulations. No shares of Common Stock shall be issued until full payment has been made.

g. **Rights as a Stockholder.** An option holder shall have no rights as a stockholder with respect to any Common Stock covered by an option until the option is exercised and shares of Common Stock are issued. Except as otherwise expressly provided in the Plan, no adjustments shall be made for dividends or other rights for which the record date is prior to issuance of the Common Stock.

4. **Common Stock Subject to the Plan.** Subject to adjustment to reflect corporate transactions provided for in paragraph 4.a., the total number of shares of Common Stock that is reserved and available for issuance pursuant to options granted under the Plan shall be 6,400,000. Any shares issued by the Company in connection with the assumption or substitution of outstanding grants from any acquired corporation shall not reduce the shares available for option grants under the Plan. Shares of Common Stock that may be issued under the Plan may be authorized but unissued shares, reacquired or treasury shares, or outstanding shares acquired in the market or from private sources, or a combination thereof. Shares of Common Stock that are issued under the Plan or that are potentially issuable pursuant to outstanding options granted under the Plan will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan. All shares so subtracted from the amount available under the Plan with respect to an option that lapses, expires, is forfeited or for any reason is terminated unexercised or unvested or is settled or paid in cash or any form other than shares of Common Stock will not again become available for issuance under the Plan. Without limiting the generality of the foregoing, (i) any shares which would have been issued upon any exercise of an option but for the fact that the exercise price was paid by the tender or attestation as to ownership of shares of Common Stock already owned pursuant to paragraph 3.f. of the Plan will not again become available for issuance under the Plan, (ii) shares withheld or repurchased by the Company to satisfy the payment of the exercise price of an option or any tax withholding obligation will not again become available for issuance under the Plan, and (iii) shares repurchased by the Company using option proceeds will not again become available for issuance under the Plan.

a. **Adjustments for Corporate Transactions.** In the event of a corporate transaction involving the Company (including, without limitation, any merger, consolidation, recapitalization, reorganization, split off, spin off, reclassification, combination, stock dividend, stock split, reverse stock split, repurchase, exchange, extraordinary cash dividend, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend), the Committee shall make such proportional adjustments as are necessary to preserve the benefits or potential benefits of the options. Action by the Committee may include appropriate adjustments in all or any of (i) the number of shares of the Common Stock or

other new or different securities that may be available for option grants under the Plan; (ii) the number of shares of Common Stock or other new or different securities subject to outstanding options; (iii) the option price per share of outstanding options and, if deemed appropriate, cash payments; (iv) the maximum number and kind of securities that may be made subject to options for any individual as set forth in paragraph 2.a.; or (v) any other adjustment the Committee determines to be equitable. The Committee may also, in its sole discretion, make provisions in any option agreement for the protection of outstanding options in the event of such a corporate transaction.

5. Administration of the Plan.

- a. The Plan shall be administered by the Committee, provided that members of the Committee shall be “non-employee directors” as contemplated by Rule 16b-3 under the Exchange Act or any successor rule and shall qualify to administer the Plan as “outside directors” as contemplated by Section 162(m) of the Internal Revenue Code and the regulations thereunder (“Section 162(m)"). The Committee may delegate administrative duties and all decisions not required to be exercised by it under Section 162(m), Section 16 of the Exchange Act or the rules of the New York Stock Exchange to an officer of the Company. The decision of the Committee on any matter affecting the Plan and obligations arising under the Plan or any option granted thereunder shall be deemed final and binding upon all persons, including the Company, its stockholders and option holders. No member of the Board or of the Committee shall be liable for any action taken or determination made in good faith with respect to the Plan or any option granted under the Plan.
- b. Subject to the express provisions of the Plan, the Committee shall have authority, in its discretion, to grant options; to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the exercise price of each option to purchase Common Stock, the individuals to whom and the time or times at which options shall be granted, the number of shares to be subject to each option, when an option may be exercisable and the other terms and provisions (and amendments thereto) of the respective option agreements (which need not be identical); to determine whether a particular option is to be an Incentive Stock Option; and to make all other determinations deemed necessary or advisable for the administration of the Plan.
- c. Notwithstanding any other provision of this Plan other than paragraph 4, the Committee may not, without prior approval of the Company’s stockholders, seek to effect any repricing of any previously granted option by: (i) amending or modifying the terms of the option to lower the exercise price; (ii) canceling the option and granting replacement options having a lower exercise price in exchange; (iii) repurchasing the options and granting new options under this Plan; or (iv) taking any other action that is treated as a “repricing” under generally accepted accounting principles.

6. Foreign Nationals and Residents of California.

- a. **Foreign Nationals.** Without amending the Plan, options may be granted to individuals who are foreign nationals or are employed or otherwise performing services for the Company or any subsidiary outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purposes of the Plan.
- b. **California Residents.** Without amending the Plan, and notwithstanding any provision of the Plan to the contrary, options granted to individuals who are residents of the State of California may contain such terms and conditions as may be required by applicable California statutes governing stock options.
- c. **Limitations.** The Committee shall have no authority, however, to take action pursuant to paragraphs 6.a. and 6.b. of the Plan: (i) to reserve shares or grant options in excess of the limitations provided in paragraph 4 of the Plan; (ii) to effect any repricing in violation of paragraph 5.c. of the Plan; (iii) to grant options having an exercise price in violation of paragraph 3.d. of the Plan; or (iv) for which stockholder approval would then be required pursuant to any applicable law, rule or regulation, including without limitation the rules and regulations of the New York Stock Exchange and the Securities and Exchange Commission.

7. **Change of Control.** In the event of a Change of Control of the Company as hereinafter defined, whether or not approved by the Board, all options shall fully vest, unless otherwise limited by the Committee at the time of the option grant, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the Change of Control, but not later than ten years after the date of grant.

- a. **Definition.** For the purpose of this paragraph 7, a “Change of Control” shall mean:
 - (i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 15% or more of either (A) the then-outstanding shares of Common Stock of the Company (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of subsection (iii) of this paragraph 7; or
 - (ii) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
 - (iii) Consummation of a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition by the Company of assets or stock of another entity (a “Business Combination”), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the

beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

8. **Tax Withholding.** The Company shall have the right to deduct from any settlement made under the Plan, including the exercise of an option or the sale of shares of Common Stock, any federal, state or local taxes of any kind required by law to be withheld with respect to such payments or to require the option holder to pay the amount of any such taxes or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. If Common Stock is withheld or surrendered to satisfy tax withholding, such stock shall be valued at its fair market value as of the date such Common Stock is withheld or surrendered. The Company may also deduct from any such settlement any other amounts due the Company by the option holder.
9. **Governing Law.** The Plan, options granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan or an agreement to the substantive law of another jurisdiction.
10. **Plan Amendment and Termination.** The Board may amend, suspend or terminate the Plan at any time, with or without advance notice to option holders; provided however that no amendment that would (a) increase the maximum number of shares that may be subjected to options or (b) increase the number of shares that may be covered by an option grant to any person referred to in Section 162(m) or (c) modify requirements as to eligibility for participation in the Plan or (d) constitute a material revision to the terms of the Plan within the meaning of the rules and regulations of the New York Stock Exchange or the Securities and Exchange Commission or (e) than is required by any applicable law, rule or regulation to be approved by the stockholders of the Company or (f) modify paragraph 3.d. or 5.c. of the Plan shall be effective unless the stockholders of the Company shall have approved such amendment in accordance with applicable provisions of the Code, other law, rule or regulation. No amendment, modification or termination of the Plan may adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.
11. **Effective Date and Duration of the Plan.** The Plan first became effective on March 29, 2000. Any amendment to the Plan shall be effective on the date established by the Committee, subject to stockholder approval, if required. The Plan shall remain in effect until all shares reserved for issuance pursuant to the Plan have been purchased pursuant to options granted under the Plan, provided that options under the Plan must be granted not later than ten years after the effective date of the Plan or any future amendment approved by stockholders.

The Toro Company
Performance Share Plan
(As Amended January 15, 2008)

1. **Purpose.** The purpose of The Toro Company Performance Share Plan (the “Plan”) is to enhance long-term stockholder value of The Toro Company (the “Company”), by reinforcing the incentives of key executives to achieve long-term performance goals of the Company; to link a significant portion of a participant’s compensation to the achievement by the Company of performance goals and to the value of the Company’s Common Stock, par value \$1.00 per share, and related Preferred Share Purchase Rights (“Common Stock”); and to attract and motivate executives and to encourage their continued employment on a competitive basis. The purposes of the Plan are to be achieved by the grant of Performance Share Awards.
2. **Eligibility and Participation.** Key employees of the Company, who, through their position or performance, can have a significant, positive impact on the Company’s financial results, shall be eligible to participate in the Plan. The Compensation Committee (the “Committee”) shall select recipients of Performance Shares (“Plan Participants”). Newly-hired and newly-promoted executives may be selected as Plan Participants subject to the provisions of paragraph 3.c.(ii), if applicable.
3. **Performance Share Awards.**
 - a. **Performance Share Defined.** A Performance Share is a right to receive shares of Common Stock or Common Stock units, contingent on the achievement of performance goals of the Company during a three-year period, except that a shorter period may be established for new participants (the “Award Term”). A Performance Share Award shall be subject to such conditions, restrictions and contingencies as the Committee shall determine.
 - b. **Vesting.** Performance Shares shall be subject to forfeiture until they vest and shall vest only after the conclusion of the Award Term, and only if the Committee makes the certification required by paragraph 3.c.(iv), except as may otherwise be provided in paragraphs 3.e.(i), 3.e.(ii) and 3.e.(iv).
 - c. **Section 162(m) Conditions.** Performance Share Awards may be designated as “performance-based compensation” as that term is used in Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”).
 - (i) **Performance Goals.** The performance goal criteria (“Performance Goals”) that may be used by the Committee for Performance Shares shall include one or more of the following, as selected by the Committee: cumulative earnings, cumulative earnings per share, profit after tax, net income, return on invested capital, invested capital dollars, earnings per share, average net assets, after-tax interest expense, return on average net assets, average net asset turns, cumulative average net asset turns, return on equity, return on beginning equity, revenue growth, earnings growth, economic value added, fill rate, customer care and customer satisfaction scores.
 - (ii) **Establishment of Performance Goals.** Performance Share Awards designated “performance-based compensation” shall be granted, and Performance Goals shall be established, by the Committee in writing not later than 90 days after the commencement of the period of service to which the Performance Goal relates, or such other period required under Section 162(m) of the Code, provided that the outcome is substantially uncertain at the time the Committee establishes the Performance Goal; and provided further that in no event will a Performance Goal be considered to be preestablished if it is established after 25% of the period of service (as scheduled in good faith at the time the Performance Goal is established) has elapsed.
 - (iii) **Section 162(m) Maximum Award Payment.** With respect to a Performance Share Award that is designated “performance-based compensation” for purposes of Section 162(m), the maximum number of shares that may be issued under the award shall be set at the time the Committee grants the award and establishes Performance Goals under the award. Notwithstanding any other provision of this Plan, the maximum number of Performance Shares that may be granted to a Plan Participant with respect to any Award Term is 100,000, subject to adjustment as provided in paragraph 4.
 - (iv) **Certification of Payment.** Before any payment or delivery of shares of Common Stock is made under the Plan to any Participant who is a person referred to in Section 162(m), the Committee must certify in writing, as reflected in the minutes, that the Performance Goals established with respect to a Performance Share Award have been achieved. To the extent necessary with respect to any fiscal year or Award Term, in order to avoid any undue windfall or hardship due to external causes, the Committee may make the determination as to whether a Performance Goal has been achieved without regard to the effect on the Performance Goal measure, as it may otherwise be presented in the financial statements, of any change in accounting standards, any acquisition by the Company not planned for at the time the Performance Goals are established or any Board-approved extraordinary or non-recurring event or item. With respect to any Plan Participant who is a person referred to in Section 162(m), the Committee shall have the discretion to decrease an award payment under a Performance Share Award, but may not under any circumstances increase such amount.
 - d. **Delivery.** Certificates for shares of Common Stock in the number of Performance Shares that vest under an award will be delivered as soon as possible after the applicable vesting requirements (including accelerated vesting under paragraph 3.e.(iv)) have been fulfilled, except that if a Plan Participant has properly elected to defer income that may be attributable to an award under a Company deferred compensation plan, Common Stock units will be credited to the Plan Participant’s account thereunder. In the event vesting requirements are not fulfilled or in the event Performance Shares are canceled under the provisions of paragraph 3.e.(v), Performance Shares shall be canceled and have no value.
 - e. **Vesting and Cancellation Under Special Circumstances.**

- (i) **Retirement, Death or Disability.** If a Plan Participant retires, dies or becomes permanently disabled and unable to work prior to the end of an Award Term, but after the conclusion of not less than 33% of the Award Term, the Committee may, in its sole discretion, cause shares of Common Stock to be delivered with respect to the participant's Performance Share Award, but only if otherwise earned and only with respect to the portion of the applicable Award Term completed at the date of such event, with proration based on full fiscal years only and no shares to be delivered for partial fiscal years. "Retirement" means termination of employment with the Company at age 55 or older and with a number of years of service to the Company that, when added together with the participant's age, equals at least 65. The Committee shall consider the requirements of paragraph (A) under this paragraph 3.e.(i) and shall have the discretion to consider any other fact or circumstance in making its decision as to whether to deliver shares, including whether the participant again becomes employed. Shares shall be delivered only after the conclusion of the applicable Award Term in accordance with paragraphs 3.b., 3.c. and 3.d. of the Plan.
- (A) **Non-compete.** Notwithstanding the foregoing, if a Plan Participant retires prior to age 65, and within one year after the later of the date of that retirement or the date shares are delivered pursuant to paragraph 3.e.(i), the Plan Participant (a) is employed or retained by or renders service to any organization that, directly or indirectly, competes with or becomes competitive with the Company, or if the rendering of such services is prejudicial or in conflict with the interests of the Company; or (b) violates any confidentiality agreement or agreement governing the ownership or assignment of intellectual property rights with the Company, or (c) engages in any other conduct or act determined to be injurious, detrimental or prejudicial to any interest of the Company, the Company may rescind or restrict the special vesting under this paragraph 3.e.(i) or withhold or have the right to the return of the economic value of the Performance Shares that vested under this paragraph; provided, however, that this provision shall not be applicable in the event of a Change of Control.
- (ii) **Reassignment.** If prior to the end of an Award Term, a Plan Participant is reassigned to a position with the Company (including a subsidiary or parent of the Company), and that position is not eligible to participate in the Plan, but the Plan Participant does not terminate employment with the Company, the Committee may, in its sole discretion, cause shares of Common Stock to be delivered with respect to the participant's Performance Share Award, but only if otherwise earned and only with respect to the portion of the applicable Award Term completed at the date of such reassignment, based on full fiscal years only, with no shares to be delivered for partial fiscal years.
- (iii) **Other Termination.** In the event that a Plan Participant terminates employment with the Company other than by reason of retirement, death or disability as provided in paragraph 3.e.(i), Performance Shares in such participant's name that have not yet vested shall not vest and shall be canceled.
- (iv) **Change of Control.** Notwithstanding the provisions of paragraphs 3.b. and 3.c., all Performance Shares that have not yet vested shall vest and become immediately payable if there is a change of control of the Company.

Change of Control means:

- (A) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 15% or more of either (a) the then-outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or (b) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this paragraph (A), the following acquisitions shall not constitute a Change of Control: (a) any acquisition directly from the Company, (b) any acquisition by the Company, (c) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (d) any acquisition by any corporation pursuant to a transaction that complies with clauses (a), (b) and (c) of paragraph (C) of this paragraph 3.e.(iv); or
- (B) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- (C) Consummation of a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition by the Company of assets or stock of another entity (a "Business Combination"), in each case, unless, following such Business Combination, (a) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (b) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (c) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the

Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(D) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(v) **Committee Discretion to Scale Back Awards.** At any time during an Award Term of more than one fiscal year, the Committee may, in its discretion, cancel a portion of the Performance Shares in any Performance Share Award prior to the conclusion of the Award Term (a “Scale Back”), provided that:

(A) the Performance Share Award has not yet vested;

(B) based on financial information contained in the Company’s financial statements or similar internal reports, the Committee determines that the Performance Goals for the Award Term cannot be achieved at the maximum levels established at the time of grant;

(C) Performance Share Awards shall be Scaled Back in proportion to the estimated short fall in achievement of Performance Goals from maximum levels;

(D) all Performance Share Awards for the same Award Term are Scaled Back by the same percentage;

(E) once an award is Scaled Back, it may not again be increased to add or recover Performance Shares that were canceled; and

(F) Performance Shares canceled in a Scale Back shall again be available to the Committee for grant of new Performance Share Awards for any future Award Term. This provision shall not be used in any manner that could have the effect of repricing a previous Performance Share Award grant.

f. **Dividends and Voting.** A Plan Participant shall have no rights as a stockholder with respect to Performance Shares unless and until Common Stock or Common Stock units are issued in settlement of the award.

g. **Non-transferability.** Neither Performance Shares nor Performance Share Awards nor any interest in any one of such awards or shares may be anticipated, alienated, encumbered, sold, pledged, assigned, transferred or subjected to any charge or legal process, other than by will or the laws of descent and distribution, so long as the Performance Shares have not vested and shares of Common Stock have not been distributed in accordance with the Plan, and any sale, pledge, assignment or other attempted transfer shall be null and void. A Plan Participant may receive payment under a Performance Share Award only while an employee of the Company and only if continuously employed from the date the award was granted, except as may otherwise be provided in paragraphs 3.e.(i) and 3.e.(ii).

4. **Maximum Shares Subject to Performance Share Awards.** Subject to the provisions of paragraph 4.a., the total number of shares of Common Stock that may be issued pursuant to Performance Share Awards under the Plan is 2,750,000. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares or outstanding shares acquired in the market or from private sources or a combination thereof.

a. **Adjustments.** In the event of a corporate transaction involving the Company, the Common Stock or the Company’s corporate or capital structure, including but not limited to any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, reclassification, split-up, spin-off, combination or exchange of shares, or a sale of the Company or of all or part of its assets or any distribution to stockholders other than a normal cash dividend, the Committee shall make such proportional adjustments as are necessary to preserve the benefits or potential benefits of the Performance Share Awards. Action by the Committee may include all or any of adjustment in (i) the maximum number and kind of securities subject to the Plan as set forth in this paragraph; (ii) the maximum number and kind of securities that may be made subject to Performance Share Awards for any individual as set forth in paragraph 3.c. (iii); (iii) the number and kind of securities subject to any outstanding Award; and (iv) any other adjustments that the Committee determines to be equitable.

5. **Administration.** The Plan shall be administered by the Committee. The Committee shall have the authority to administer the Plan; establish policies under the Plan; amend the Plan, subject to the provisions of paragraph 8; interpret provisions of the Plan; select Plan Participants; establish Performance Goals; make Performance Share Awards; or terminate the Plan, in its sole discretion. The Committee may delegate administrative duties and all decisions not required to be exercised by it under Section 162(m) or Section 16 of the Exchange Act, as it solely determines, including to Company officers. All decisions of the Committee shall be final and binding upon all parties including the Company, its stockholders and Plan Participants.

6. **Tax Withholding.** The Company shall have the right to deduct from any settlement made under the Plan or to require the Participant to pay the amount of any federal, state or local taxes of any kind required by law to be withheld with respect to the grant, vesting, payment or settlement of an award under this Plan, or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. If Common Stock is withheld or surrendered to satisfy tax withholding, such stock shall be valued at its fair market value as of the date it is withheld or surrendered. The Company may also deduct from any award settlement any other amounts due the Company by the Plan Participant.

7. **Governing Law.** The Plan, awards granted under the Plan, agreements entered into under the Plan and Performance Shares shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan or an award or agreement or Performance Shares to the substantive law of another jurisdiction.

8. **Plan Amendment and Termination.** The Committee may, in its sole discretion, amend, suspend or terminate the Plan at any time, with or without advance notice to Plan Participants, provided that no amendment to the Plan shall be effective that would increase the maximum number of Performance Shares that may be granted under paragraph 3.c.(iii) to a participant who is a person referred to in Section 162(m); that would change the Performance Goal criteria applicable to a participant who is a person referred to in Section 162(m) for payment of awards as set forth in

paragraph 3.c.(i); or that would modify the requirements as to eligibility for participation under paragraph 2, unless the stockholders of the Company shall have approved such change in accordance with the requirements of Section 162(m). No amendment, modification or termination of the Plan may adversely affect in a material manner any right of any Plan Participant with respect to any Performance Share Award theretofore granted without such participant's written consent.

9. Effective Date of the Plan and Amendments. The Plan first became effective on November 18, 1998. Any amendment to the Plan shall be effective on the date established by the Committee, subject to stockholder approval, if required under the provisions of paragraph 8.

THE TORO COMPANY
2000 DIRECTORS STOCK PLAN
(As Amended January 15, 2008)

1. **Purpose of the Plan.** The purpose of The Toro Company 2000 Directors Stock Plan (“Plan”) is to enable The Toro Company (the “Company”) to attract and retain experienced and knowledgeable directors to serve on the Board of Directors of the Company or its subsidiaries, and to further align their interests with those of the stockholders of the Company by providing for or increasing their stock ownership interests in the Company. It is intended that the Plan be interpreted so that transactions under the Plan are exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), to the extent applicable.
2. **Eligibility.** All members of the Company’s Board of Directors who are not current employees of the Company or any of its subsidiaries (“Nonemployee Directors”) are eligible to participate in the Plan.
3. **Plan Awards.**
 - a. **Directors Shares.** To carry out the purposes of the Plan, the Company shall, on the first business day of each fiscal year, issue to each person who is then a Nonemployee Director, shares of the Company’s Common Stock, \$1.00 par value and related preferred share purchase rights (the “Common Stock”), in an amount equal to \$20,000 divided by the fair market value of one share of Common Stock rounded down to the greatest number of whole shares (“Directors Shares”), subject to adjustment as provided in Section 5 hereof. Fair market value for this purpose shall be the average of the 4 p.m. Eastern Time closing prices of the Common Stock as reported by the New York Stock Exchange for each of the trading days in the three calendar months immediately prior to the date of issue of the Directors Shares.
 - b. **Directors Options.**
 - i. **Annual Grant.** Subject to the terms and conditions of this Section 3.b., on the first business day of each fiscal year, the Company shall grant to each person who is then a Nonemployee Director, a nonqualified option to purchase shares of the Common Stock (a “Directors Option”). Each such option shall have a grant date fair value of \$40,000, determined using a standard Black-Scholes, binomial or monte carlo valuation formula, based on assumptions consistent with those used to value option grants disclosed under Schedule 14A under the Securities Exchange Act of 1934, or successor requirements, for the business day prior to the date of grant.
 - ii. **Vesting, Transferability and Exercisability.**
 - (a) **Vesting.** Except as provided in Sections 3.b.ii.(c)(1) and (2) and Section 6, Directors Options shall vest and become exercisable in three equal installments on each of the first, second and third anniversaries following the date of grant, and shall remain exercisable for a term of ten years after the date of grant.
 - (b) **No Transfer.** No Directors Option shall be assigned or transferred, except by will or the laws of descent and distribution. An option so transferred may be exercised after the death of the individual to whom it is granted only by such individual’s legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.
 - (c) **Exercise.** During the lifetime of a Nonemployee Director, Directors Options held by such individual may be exercised only by the Nonemployee Director and only while serving as a member of the Board of Directors of the Company and only if the Nonemployee Director has been continuously so serving since the date such options were granted, except as follows:
 - (1) **Disability or Death.** In the event of disability or death of a Nonemployee Director, all outstanding unvested options shall vest effective as of the date of death or termination of service by reason of disability, and all such vested options may be exercised by such individual or his or her legal representatives not later than the earlier of the date the option expires or one year after the date such service as a Nonemployee Director ceases by reason of disability or death.
 - (2) **Termination.** If a Nonemployee Director has served as a member of the Board of Directors for ten full fiscal years or longer and terminates service on the Board, (A) outstanding unvested options shall remain outstanding and continue to vest in accordance with their terms, and (B) the Nonemployee Director may exercise all such vested outstanding options for up to four years after the date of termination, but not later than the date an option expires. If a Nonemployee Director has served as a member of the Board of Directors for less than ten years and terminates service on the Board, (C) all unvested options shall expire and be canceled and (D) the Nonemployee Director may exercise any vested outstanding options for up to three months after the date of termination, but not later than the date an option expires.
 - (d) **Methods of Exercise and Payment of Exercise Price.** Subject to the terms and conditions of the Plan and the terms and conditions of the option agreement, a vested option may be exercised in whole at any time or in part from time to time, by delivery to the Company at its principal office of a written notice of exercise specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the exercise price for shares to be purchased at that time. Payment may be made (1) in cash, (2) by tendering (either actually or by attestation) shares of Common Stock already owned for at least six months (or shorter period necessary to avoid a charge to the Company’s earnings for financial statement purposes) valued at the fair market value of the Common Stock on the date of exercise, (3) in a combination of cash and Common Stock or (4) by delivery of a notice of exercise of options, together with irrevocable instructions, approved in advance by proper officers of the Company, (A) to a brokerage firm designated by the Company, to deliver promptly to the Company the aggregate amount of sale or loan

proceeds to pay the exercise price and any related tax withholding obligations and (B) to the Company, to deliver certificates for such purchased shares directly to such brokerage firm, all in accordance with regulations of the Federal Reserve Board.

No shares of Common Stock shall be issued until full payment has been made.

c. **Share Proration.** If, on any date on which Directors Shares are to be issued pursuant to Section 3.a. or Directors Options are to be granted pursuant to Section 3.b., the number of shares of Common Stock is insufficient for the issuance of the entire number of shares to be issued or for the grant of the entire number of options, as calculated in accordance with Section 3.a. or Section 3.b., respectively, then the number of shares to be issued and options to be granted to each Nonemployee Director entitled to receive Directors Shares or Directors Options on such date shall be such Nonemployee Director's proportionate share of the available number of shares and options (rounded down to the greatest number of whole shares), provided that if a sufficient number of shares of Common Stock is available to issue all of the Directors Shares, then the entire number of Directors Shares shall be issued first and the number of shares to be subjected to options shall be prorated in accordance with this section.

4. **Shares in Lieu of Fees.** A Nonemployee Director shall have the right to elect to receive shares of Common Stock in lieu of annual retainer and meeting fees otherwise payable in cash. The election to receive Common Stock shall be made prior to the date fees are otherwise scheduled to be paid but not later than May 31 of the calendar year for which the fees are to be paid. Fees that are earned after the date a director makes an election shall be reserved through the rest of the calendar year and shares shall be issued in December of that year. The number of shares to be issued shall be determined by dividing the dollar amount of reserved fees by the 4 p.m. Eastern Time closing price of one share of Common Stock as reported by the New York Stock Exchange for the date that the shares are issued.

5. **Stock Subject to Plan.** Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock reserved and available for issuance in connection with the Plan shall be 455,000 shares. If any Directors Option granted hereunder expires unexercised, terminates, is exchanged for other options without the issuance of shares of Common Stock or is exercised by delivery or constructive delivery of shares of Common Stock already owned by the option holder, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent the shares covered by an option are not issued or used, again be available for option grants under the Plan, unless prohibited by applicable law or regulation. Any shares issued by the Company in connection with the assumption or substitution of outstanding option grants from any acquired corporation shall not reduce the shares available for stock awards or option grants under the Plan. In the event of a corporate transaction involving the Company, the Common Stock or the Company's corporate or capital structure, including but not limited to any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, reclassification, split-up, spin-off, combination or exchange of shares, or a sale of the Company or of all or part of its assets or any distribution to stockholders other than a normal cash dividend, the Committee shall make such proportional adjustments as are necessary to preserve the benefits or potential benefits of the Directors Shares and Directors Options. Action by the Committee may include all or any adjustment in (a) the maximum number and kind of securities subject to the Plan as set forth in this paragraph; (b) the maximum number and kind of securities that may be made subject to Directors Options and the determination of the number or kind of Directors Shares; (c) the number and kind of securities subject to any outstanding Directors Option; and (d) any other adjustments that the Committee determines to be equitable.

6. **Change of Control.** In the event of a Change of Control of the Company as hereinafter defined, all Directors Options shall fully vest, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the Change of Control, but not later than ten years after the date of grant.

Change of Control means:

a. The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 15% or more of either (i) the then-outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection a., the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of subsection c. of this Section 6; or

b. Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

c. Consummation of a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition by the Company of assets or stock of another entity (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

d. Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

7. **Administration of the Plan.** The Plan shall be administered by a committee composed of those members of the Board of Directors of the Company who are also employees of the Company (the "Committee"). The Committee shall have the authority to carry out all provisions of the Plan; provided, however, that it shall have no discretion to determine which Nonemployee Directors may receive Directors Shares or Directors Options or to set the value of such Directors Shares or Directors Options, other than to make the calculations required by Section 3.a., Section 3.b. or Section 5.

8. **Tax Withholding.** The Company shall have the right to deduct from any settlement made under the Plan, including the exercise of an option or the sale of shares of Common Stock, any federal, state or local taxes of any kind required by law to be withheld with respect to such payments or to require the option holder to pay the amount of any such taxes or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. If Common Stock is withheld or surrendered to satisfy tax withholding, such stock shall be valued at its fair market value as of the date such Common Stock is withheld or surrendered. The Company may also deduct from any such settlement any other amounts due the Company by the option holder.

9. **Effective Date and Term of Plan.** The Plan first became effective March 14, 2001 and shall end March 12, 2011, unless terminated earlier by action of the Board of Directors.

10. **Amendment.** The Board may amend, suspend or terminate the Plan at any time, with or without advance notice to Plan participants. The effective date of any amendment to the Plan shall be the date of its adoption by the Board of Directors, subject to stockholder approval, if required. No amendment of the Plan shall adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.

11. **Governing Law.** The Plan, Directors Shares, Directors Options and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan or an option or an award or agreement to the substantive law of another jurisdiction.
