

POLARIS INDUSTRIES INC/MN

Form DEF 14A

March 11, 2004

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**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

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

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement

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

Definitive proxy statement

Definitive additional materials

Soliciting material pursuant to Rule 14a-12

**POLARIS INDUSTRIES INC.**

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(Name of Registrant as Specified in Its Charter)

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

Payment of filing fee (Check the appropriate box):

No fee required.

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:

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

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(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):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount previously paid:

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(2) Form, schedule or registration statement no.:

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(3) Filing party:

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(4) Date filed:

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**Polaris Industries Inc.**

2100 Highway 55  
Medina, Minnesota 55340  
763-542-0500  
Fax: 763-542-0599

March 11, 2004

Dear Fellow Shareholder:

The Board of Directors of Polaris Industries Inc. joins me in extending a cordial invitation to attend our 2004 Annual Meeting of Shareholders which will be held at our corporate headquarters, 2100 Highway 55, Medina, Minnesota 55340, on Thursday, April 22, 2004 at 9:00 a.m. local time.

In addition to voting on the matters described in the accompanying Notice of Annual Meeting and Proxy Statement, we will review Polaris 2003 business and discuss our direction for the coming years. There will also be an opportunity, after conclusion of the formal business of the meeting, to discuss other matters of interest to you as a shareholder.

It is important that your shares be represented at the meeting whether or not you plan to attend in person. Please vote by returning your signed proxy card in the envelope provided or by using the telephone or on-line voting options indicated on the proxy card. If you do attend the meeting and desire to vote in person, you may do so even though you have previously sent a proxy.

We hope that you will be able to attend the meeting and we look forward to seeing you.

Sincerely,

Gregory R. Palen  
*Chairman of the Board*

Enclosures

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**POLARIS INDUSTRIES INC.**

**2100 Highway 55  
Medina, Minnesota 55340  
March 11, 2004**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

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Polaris Industries Inc. will hold its 2004 Annual Meeting of Shareholders at its corporate headquarters located at 2100 Highway 55, Medina, Minnesota 55340, on Thursday, April 22, 2004. The meeting will begin at 9:00 a.m. local time. At the meeting, we will:

1. Elect two Class I directors for three year terms ending in 2007.
2. Approve the Polaris Industries Inc. Senior Executive Annual Incentive Compensation Plan.
3. Approve the Polaris Industries Inc. Long Term Incentive Plan.
4. Approve amendments to the Polaris Industries Inc. 1995 Stock Option Plan.
5. Act on any other matters that may properly come before the meeting.

The Board recommends that shareholders vote **FOR** the director nominees named in the accompanying Proxy Statement. The Board recommends that shareholders vote **FOR** the approval of the Senior Executive Annual Incentive Compensation Plan, the Long Term Incentive Plan, and the amendments to the 1995 Stock Option Plan, as each is described in the accompanying Proxy Statement.

Only shareholders of record at the close of business on March 1, 2004 may vote at the Annual Meeting or any adjournment thereof.

By Order of the Board of Directors

Michael W. Malone  
*Vice President-Finance,  
Chief Financial Officer and Secretary*  
**YOUR VOTE IS IMPORTANT**

Whether or not you plan to attend the meeting, we urge you to vote as soon as possible by telephone, Internet or mail.

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**POLARIS INDUSTRIES INC.**

**2100 Highway 55  
Medina, Minnesota 55340**

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**PROXY STATEMENT**

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**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING**

**Q: Who can vote?**

**A:** You can vote if you were a shareholder at the close of business on the record date of March 1, 2004. There were a total of 21,546,956 shares, on a pre-split basis, of the Company's common stock outstanding on March 1, 2004. This Proxy Statement and proxy card, along with the Annual Report for 2003, are being mailed to shareholders beginning March 11, 2004. The Proxy Statement summarizes the information you need to vote at the Annual Meeting.

**Q: What am I voting on?**

**A:** You are voting on:

Election of two nominees as Class I directors for three year terms ending in 2007. The Board of Directors' nominees are Andris A. Baltins and Thomas C. Tiller.

Approving the Senior Executive Annual Incentive Compensation Plan

Approving the Long Term Incentive Plan.

Approving amendments to the 1995 Stock Option Plan.

**Q: How does the Board recommend I vote on the proposals?**

**A:** The Board recommends you vote *FOR* the election of each nominee. The Board recommends you vote *FOR* the approval of the Senior Executive Annual Incentive Compensation Plan, the Long Term Incentive Plan, and the amendments to the 1995 Stock Option Plan.

**Q: How many votes are required to approve each proposal?**

**A.** *Election of Directors:* In the election of directors, the nominees who receive the affirmative vote of a majority of the outstanding shares of Polaris common stock present and entitled to vote will be elected. For this purpose, a properly executed proxy marked **WITHHOLD** with respect to the election of directors nominees will be counted for purposes of determining whether there is a quorum, but will not be considered present in person or by proxy and entitled to vote on the election of directors.

*Other Items:* For approval of the Senior Executive Annual Incentive Compensation Plan, the Long Term Incentive Plan, and the amendments to the 1995 Stock Option Plan, and any other proposals that properly come before the Annual Meeting, the affirmative vote of a majority of the outstanding shares of Polaris common stock present and entitled to vote must be cast in favor of the proposal. A properly executed proxy marked **ABSTAIN** with respect to any such matter will be counted for purposes of determining whether there is a quorum and will be considered present in person or by proxy and entitled to vote, but will not be deemed to have been voted in favor of such matter. Accordingly, an abstention will have the effect of a negative vote.



**Q: What is a quorum ?**

**A:** A quorum is the number of shares that must be present to conduct business at the Annual Meeting. As of the record date, 21,546,956 shares, on a pre-split basis, of Polaris common stock were issued and

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outstanding. A majority of the shares of our common stock outstanding on the record date, present or represented by proxy, constitutes a quorum for the purpose of electing directors or adopting proposals at the Annual Meeting. If you submit a valid proxy card or attend the Annual Meeting, your shares will be counted to determine whether there is a quorum. Abstentions and broker non-votes count toward the quorum.

**Q: How will shares referred to as broker non-votes be treated?**

**A:** A broker non-vote occurs when nominees (such as banks and brokers) that hold shares on behalf of beneficial owners do not receive voting instructions from the beneficial owners at least ten days before the meeting and do not have discretionary voting authority to vote those shares on a particular matter. In that case, the shares covered by such a non-vote proxy will be considered present at the meeting for purposes of determining a quorum but will not be considered to be represented at the Annual Meeting for purposes of calculating the vote required for approval of such matter.

**Q: How will the proxies vote on any other business brought up at the meeting?**

**A:** By submitting your proxy card, you authorize the proxies to use their judgment to determine how to vote on any other matter brought before the Annual Meeting. The Company does not know of any other business to be considered at the Annual Meeting.

The proxies' authority to vote according to their judgment applies only to shares you own as the shareholder of record.

**Q: How do I cast my vote?**

**A:** If you are a shareholder whose shares are registered in your name, you may vote your shares in person at the Annual Meeting or by using one of the three following methods:

Vote by phone, by dialing 1-800-560-1965 and following the instructions for telephone voting shown on the enclosed proxy card.

Vote by Internet, by going to the web address <http://www.eproxy.com/pii/> and following the instructions for Internet 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 phone or Internet, please do not mail your proxy card.

If you are a street-name shareholder (meaning that your shares are registered in the name of your bank or broker), you will receive instructions from your bank, broker or other nominee describing how to vote your shares.

Whichever method you use, the proxies identified on the back of the proxy card will vote the shares of which you are the shareholder of record in accordance with your instructions. If you submit a proxy card without giving specific voting instructions, the proxies will vote those shares as recommended by the Board of Directors.

**Q: Can I revoke or change my vote?**

**A:** You can revoke your proxy at any time before it is voted by:

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

Giving written notice before the meeting to the Secretary of the Company, stating that you are revoking your proxy; or

Attending the meeting and voting your shares in person.

Unless you decide to vote your shares in person, you should revoke your prior proxy in the same way you initially submitted it—that is, by telephone, Internet or mail.

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**Q: Who will count the votes?**

**A:** Wells Fargo Bank Minnesota, N.A., the independent proxy tabulator used by the Company, will count the votes. A representative of Wells Fargo Bank Minnesota, N.A. and Mark McCormick, the corporate controller of the Company, will act as inspectors of election for the meeting.

**Q: Is my vote confidential?**

**A:** All proxy cards and all vote tabulations that identify an individual shareholder are confidential. Your vote will not be disclosed except:

To allow Wells Fargo Bank Minnesota, N.A. to tabulate the vote;

To allow Mark McCormick, the corporate controller of the Company, and a representative of Wells Fargo Bank Minnesota, N.A. to certify the results of the vote; and

To meet applicable legal requirements.

**Q: What shares are included on my proxy card?**

**A:** Your proxy card represents all shares registered to your account in the same social security number and address, including any full and fractional shares you own under the Polaris Restricted Stock Plan, the Polaris Employee Stock Ownership Plan, the Polaris Employee Stock Purchase Plan and the Polaris 401(k) Retirement Saving Plan.

**Q: How are Polaris common shares in the Polaris Employee Stock Ownership Plan voted?**

**A:** If you hold shares of Polaris common stock through the Polaris Employee Stock Ownership Plan, your proxy card will instruct the trustee of the plan how to vote the shares allocated to your plan account. If you do not return your proxy card (or you submit it with an unclear voting designation or with no voting designation at all), then the plan trustee will vote the shares in your account as directed by the committee that administers the plan. Votes under the Polaris Employee Stock Ownership Plan receive the same confidentiality as all other votes.

**Q: How are Polaris common shares in the Polaris 401(k) Retirement Savings Plan voted?**

**A:** If you hold shares of Polaris common stock through the Polaris 401(k) Retirement Savings Plan, your proxy card will instruct the trustee of the plan how to vote the shares allocated to your plan account. If you do not return your proxy card (or you submit it with an unclear voting designation or with no voting designation at all), then the plan trustee will vote the shares in your account in proportion to the way the other 401(k) Retirement Savings Plan participants vote their shares. Votes under the Polaris 401(k) Retirement Savings Plan receive the same confidentiality as all other votes.

**Q: What does it mean if I get more than one proxy card?**

**A:** Your shares are probably registered in more than one account. You should vote each proxy card you receive.

**Q: How many votes can I cast?**

**A:** You are entitled to one vote per share on all matters presented at the meeting.

**Q: When are shareholder proposals due for the 2005 Annual Meeting of the Shareholders?**

**A:** If you want to present a proposal from the floor at the 2005 annual meeting, you must give the Company written notice of your proposal no later than January 31, 2005. Your notice should be sent to the Secretary, Polaris Industries Inc., 2100 Highway 55, Medina, Minnesota 55340.

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If instead of presenting your proposal at the meeting you want your proposal to be considered for inclusion in next year's proxy statement, you must submit the proposal in writing to the Secretary so it is received at the above address by November 17, 2004.

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**Q: How is this proxy solicitation being conducted?**

**A:** Polaris hired D.F. King & Co., Inc. to assist in the distribution of proxy materials and the solicitation of votes for a fee of \$8,500, plus out-of-pocket expenses. Polaris will reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to shareholders. In addition, some employees of the Company and its subsidiaries may solicit proxies. D.F. King & Co., Inc. and employees of the Company may solicit proxies in person, by telephone and by mail. No employee of the Company will receive special compensation for these services, which the employees will perform as part of their regular duties.

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The following table sets forth certain information with respect to the beneficial ownership of the Company's common stock as of March 1, 2004 by each person known to the Company who then beneficially owned more than 5% of the outstanding shares of common stock, each director of the Company, each nominee for director, each executive officer named in the Summary Compensation Table on page 29 and all executive officers and directors as a group. As of March 1, 2004, there were 21,546,956 shares, on a pre-split basis, of common stock outstanding (representing 43,093,912 shares on a post-split basis). Except as otherwise indicated, the named beneficial owner has sole voting and investment powers with respect to the shares held by such beneficial owner. The table also includes information with respect to common stock equivalents credited as of March 1, 2004 to the accounts of each director under the Company's Deferred Compensation Plan for Directors that is described in this Proxy Statement under the heading Corporate Governance Director Compensation. The number of securities appearing in the following table have been adjusted to reflect the two-for-one split of the Company's common stock paid in the form of a stock dividend on March 8, 2004 to shareholders of record on March 1, 2004.

Name and Address of Beneficial Owner	Shares Beneficially Owned(6)	Percent of Class	Common Stock Equivalents(7)
Kayne Anderson Rudnick Investment Management, LLC(1)	2,449,910	5.7%	
Thomas C. Tiller(2)(3) Chief Executive Officer, President and Director	1,772,850	4.0%	
Jeffrey A. Bjorkman(2)(3) Vice President Operations	98,452	*	
John B. Corness(2)(3) Vice President Human Resources	72,360	*	
Michael W. Malone(2)(3) Vice President Finance, Chief Financial Officer and Secretary	96,826	*	
Kenneth J. Sobaski(2)(3) Vice President Sales, Marketing and Business Development	35,400	*	
Andris A. Baltins(4)(5) Director	34,150	*	16,316
Annette K. Clayton(5) Director	4,000	*	1,144
William E. Fruhan, Jr.(5) Director	12,000	*	2,484
John R. Menard, Jr.(5) Director	4,000	*	3,653
Gregory R. Palen(5) Non-executive Chairman of the Board of Directors	21,400	*	20,511
R. M. (Mark) Schreck(5) Director	7,890	*	5,366
J. Richard Stonesifer(5) Director	30,000	*	5,366
Richard A. Zona(5) Director	10,500	*	5,007
All directors and executive officers as a group (14 persons)(2)(3)(5)	2,209,828	4.9%	59,847

\* Indicates ownership of less than 1%.

- (1) The address for Kayne Anderson Rudnick Investment Management, LLC ( Kayne ) is 1800 Avenue of the Stars, Second Floor, Los Angeles, CA 90067. Kayne, an investment adviser, has sole voting power and sole dispositive power with respect to 2,449,910 shares, as adjusted to reflect the two-for-one split of

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the Company's common stock. The information set forth herein is based on the Schedule 13G dated February 9, 2004 filed by Kayne with the Securities and Exchange Commission.

- (2) Includes 190,000, 12,950, 12,020, 9,250 and 35,400 restricted shares of common stock awarded to Messrs. Tiller, Bjorkman, Corness, Malone and Sobaski, respectively, and 269,620 aggregate restricted shares of common stock awarded to all executive officers as a group under the Polaris Industries Inc. 1996 Restricted Stock Plan. An aggregate of 100,000 restricted shares become freely tradeable only upon the Company achieving certain compounded earnings growth targets within a four year period and an aggregate of 169,620 restricted shares become freely tradeable three years after the date of issuance provided that the holder continues to be an employee of the Company. The number of shares of restricted stock have been adjusted to reflect the two-for-one split of the Company's common stock.
- (3) Includes 1,550,000, 52,800, 46,000, and 26,054 shares subject to stock options that were granted to Messrs. Tiller, Bjorkman, Corness and Malone, respectively, and 1,674,854 aggregate shares subject to stock options that were granted to all executive officers as a group under the Polaris Industries Inc. 1995 Stock Option Plan which are or will become vested and exercisable on or before May 11, 2004. The number of shares subject to stock options has been adjusted to reflect the two-for-one stock split of the Company's common stock.
- (4) Other members of the law firm of Kaplan, Strangis and Kaplan, P.A., of which Mr. Baltins is a member and which serves of counsel to the Company, beneficially own 9,580 shares, as adjusted for the two-for-one split of the Company's common stock.
- (5) Includes 4,000 shares, on a post-split basis, subject to stock options that were granted to each of the non-employee directors with respect to the initial annual grant under the Polaris Industries Inc. 2003 Non-Employee Director Stock Option Plan, which will become vested and exercisable on or before May 11, 2004.
- (6) Number of shares have been adjusted to reflect the two-for-one split of the Company's common stock. Does not include common stock equivalents credited to the accounts of the Company's non-employee directors. The number of common stock equivalents credited to such accounts is listed in the last column of this table.
- (7) Represents the number of common stock equivalents credited as of March 1, 2004 to the accounts of each non-employee director as maintained by the Company under the Polaris Industries Inc. Deferred Compensation Plan for Directors. A director will receive one share of common stock for every common stock equivalent held by that director upon his or her termination of service as a member of the Board of Directors. The plan is described in this Proxy Statement under the heading Corporate Governance Director Compensation. Number of common stock equivalents has been adjusted to reflect the two-for-one stock split of the Company's common stock.

**Stock Ownership Guidelines**

Our Board of Directors has adopted stock ownership guidelines, which provide that each non-employee director is expected to own, directly or indirectly, on January 22, 2007, shares of Polaris common stock or common stock equivalents having a value of at least three times the amount of the annual retainer fee paid to such director. Each non-employee director who is elected for the first time after January 23, 2003 will be expected to satisfy such guidelines at the end of a period of four years commencing on the date such director is elected. The stock ownership guidelines also provide that the Chief Executive Officer and other executive officers of the Company are expected to own, directly or indirectly, shares of common stock or restricted share awards having a value of at least five and three times, respectively, their annual base salaries. The Chief Executive Officer and other executive officers of the Company that held office as of January 23, 2003 currently satisfy these guidelines and any person becoming an executive officer of the Company after January 23, 2003 will be expected to satisfy the guidelines at the end of a period of four years commencing on the date of becoming an executive officer of the Company.

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**CORPORATE GOVERNANCE**

**Corporate Governance Guidelines and Independence**

Our Board of Directors has adopted Corporate Governance Guidelines, which may be viewed online on our website at [www.polarisindustries.com](http://www.polarisindustries.com). Under our Corporate Governance Guidelines, which adopt the current standards for independence established by the NYSE, a majority of the members of the Board of Directors must be independent as determined by the Board of Directors. In making its determination of independence, among other things, the Board of Directors must have determined that the director has no material relationship with Polaris either directly or indirectly as a partner, shareholder or officer of an organization that has a relationship with Polaris. The Board of Directors has determined that Ms. Clayton and Messrs. Fruhan, Menard, Schreck, Stonesifer and Zona are independent. The Board of Directors has also determined that Mr. Baltins is independent for all purposes other than service on the Company's Audit Committee because he is a member of one of the law firms that provides legal services to the Company. Mr. Palen, our non-Executive Chairman of the Board, is the Chairman and Chief Executive Officer of Spectro Alloys, an aluminum manufacturing company that served as a supplier to the Company until June 2003. Under our Corporate Governance Guidelines, Mr. Palen will be regarded as non-independent until June 2006, three years following the termination of the Spectro Alloys relationship with Polaris. Mr. Tiller, our President and Chief Executive Officer is not considered to be independent by the Board of Directors. Accordingly, a substantial majority of our Board of Directors is considered to be independent. Additionally, all current members of our Audit, Compensation and Corporate Governance and Nominating Committees are considered to be independent.

We have also adopted a Code of Business Conduct and Ethics applicable to all employees, including our Chief Executive Officer, our Chief Financial Officer and all other senior executives, and the directors. A copy of the Polaris Code of Business Conduct and Ethics is available on our website at [www.polarisindustries.com](http://www.polarisindustries.com).

**Communications with the Board**

Under our Corporate Governance Guidelines, a process has been established by which shareholders may communicate with members of the Board of Directors. Any shareholder who desires to communicate with the Board of Directors, individually or as a group, may do so by writing to the intended member or members of the Board of Directors, c/o Corporate Secretary, Polaris Industries Inc., 2100 Highway 55, Medina, Minnesota 55340.

All communications received in accordance with these procedures will be reviewed initially by the office of our Corporate Secretary to determine that the communication is a message to our directors and will be relayed to the appropriate director or directors unless the Corporate Secretary determines that the communication is an advertisement or other promotional material. The director or directors who receive any such communication will have discretion to determine whether the subject matter of the communication should be brought to the attention of the full Board of Directors or one or more of its committees and whether any response to the person sending the communication is appropriate.

**Director Compensation**

Directors who are employees of the Company receive no compensation for their services as directors or as members of committees. Compensation for non-employee directors is divided into cash and stock components. The Company presently pays each non-employee director other than our Chairman, Mr. Palen, an annual director's fee of \$40,000, at least \$5,000 of which will be payable in common stock equivalents (as described below). Mr. Palen, our non-executive Chairman of the Board of Directors, currently receives an annual fee of \$100,000 in lieu of the annual director's fee received by other non-employee directors. The Chairs of the Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and Technology Committee currently receive an annual committee chairman's fee of \$10,000.

The Company maintains a deferred compensation plan for directors, the Polaris Industries Inc. Deferred Compensation Plan for Directors (the "Deferred Compensation Plan") for directors who are not officers or



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employees of the Company ( Outside Directors ). As of each quarterly date on which retainer fees are payable to Outside Directors, each Outside Director will automatically receive an award of common stock equivalents having a fair market value of \$1,250. An Outside Director can also defer all or a portion of the director and/or chair fees that would otherwise be paid to him or her in cash. Such deferred amounts will be converted into additional common stock equivalents based on the then fair market value of the common stock. These common stock equivalents are phantom stock units, i.e., each common stock equivalent represents the economic equivalent of one share of common stock. Dividends will be credited to Outside Directors as if the common stock equivalents were outstanding shares of common stock. Such dividends will be converted into additional common stock equivalents.

As soon as practicable after an Outside Directors service on the Board terminates, he or she will receive a distribution of a number of shares of common stock equal to the number of common stock equivalents then credited to him or her under the Deferred Compensation Plan. Upon the death of an Outside Director, the shares will be issued to his or her beneficiary. Upon a change in control of the Company (as defined in the Deferred Compensation Plan), however, each Outside Director will receive a cash payment equal to the value of his or her accumulated common stock equivalents.

A maximum of 150,000 shares of common stock (on a post-split basis) are reserved for issuance under the Deferred Compensation Plan. Of that total, 39,941 shares of common stock (on a post-split basis) remain available for future grants. The Deferred Compensation Plan will remain effective until May 10, 2005, unless terminated earlier by the Board of Directors. The Deferred Compensation Plan may be terminated or amended at any time.

Under the 2003 Non-Employee Director Stock Option Plan, each non-employee director elected at an annual meeting of shareholders or who continues to serve as a director after such annual meeting will receive an automatic annual grant of stock options to purchase 4,000 shares (on a post-split basis) of the Company s common stock at an exercise price equal to fair market value on the date of grant. The initial grant of options under the 2003 Non-Employee Director Stock Option Plan was made following the 2003 Annual Meeting at which the plan was approved by shareholders.

Additionally, the Company makes Polaris products available to its Outside Directors at no charge to encourage a first-hand understanding of the riding experience of Polaris customers.

## **Board Meetings**

During 2003, the full Board of Directors met five times. Each of those meetings was preceded and/or followed by an executive session of the Board of Directors without management in attendance, chaired by either Mr. Palen or the chair of the Corporate Governance and Nominating Committee. Each of our directors attended 75% percent or more of the meetings of the Board of Directors and any committee on which they served in 2003. The Board also acted through one written action in 2003. The Company does not maintain a formal policy regarding the Board s attendance at annual shareholder meetings; however, Board members are expected to regularly attend all Board meetings and meetings of the committees on which they serve. All members of the Board of Directors attended our 2003 Annual Meeting.

## **Committees of the Board and Meetings**

The Board of Directors has designated five standing committees. The Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee and the Technology Committee each operate under a written charter which is available for review on our website at <http://www.polarisindustries.com>. The current membership of each committee and its principal functions, as well as the number of times it met during fiscal 2003, are described below.

### ***Executive Committee***

*Members:* Gregory R. Palen  
Thomas C. Tiller, Chair

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*Purpose:* Reviews and makes recommendations to the Board of Directors regarding the strategic plans and allocation of resources of the Company and exercises the authority of the Board of Directors on specific matters as delegated to it from time to time. This committee acted through one written action during 2003.

***Audit Committee***

*Members:* Annette K. Clayton  
William E. Fruhan, Jr.  
Richard A. Zona, Chair

All members of the Audit Committee have been determined to be independent and financially literate by the Board of Directors in accordance with our Corporate Governance Guidelines and the applicable listing requirements of the New York Stock Exchange. Additionally, Mr. Zona and Mr. Fruhan have each been determined by the Board of Directors to be an Audit Committee Financial Expert as that term has been defined by the Securities and Exchange Commission (the SEC). The Board of Directors has determined that Mr. Zona's service on the audit committee of three other public companies does not impair his ability to effectively serve on the Company's Audit Committee.

*Purpose:* A copy of the current Audit Committee Charter, as amended by the Board of Directors on January 22, 2004 is attached as Annex A to this Proxy Statement. The Audit Committee assists the Board of Directors in fulfilling its fiduciary responsibilities by overseeing the Company's financial reporting and public disclosure activities. The Audit Committee's primary purposes are to:

assist the Board of Directors in its oversight of (a) the integrity of the Company's financial statements, (b) the Company's compliance with legal and regulatory requirements, (c) the independent auditor's qualifications and independence, (d) the responsibilities, performance, budget and staffing of the Company's internal audit function and (e) the performance of the Company's independent auditor;

prepare the Audit Committee Report that appears later in this Proxy Statement;

serve as an independent and objective party to oversee the Company's financial reporting process and internal control system; and

provide an open avenue of communication among the independent auditor, financial and senior management, the internal auditors and the Board of Directors.

The Audit Committee, in its capacity as a committee of the Board of Directors, is directly responsible for the appointment, compensation, and oversight of the work of any independent auditor employed by the Company (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company, and each such independent auditor reports directly to the Audit Committee. This committee met eleven times during 2003.

***Compensation Committee***

*Members:* William E. Fruhan, Jr.  
J. Richard Stonesifer, Chair  
Richard A. Zona

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All members of the Compensation Committee have been determined to be independent by the Board of Directors in accordance with our Corporate Governance Guidelines and the applicable listing requirements of the New York Stock Exchange.

*Purpose:* The Compensation Committee assists the Board of Directors in establishing a philosophy and policies regarding executive and director compensation, provides oversight to the administration of the Company's director and executive compensation programs and administers the Company's stock option, restricted share and other equity based plans, reviews the compensation of directors, executive officers and senior management, and prepares any report on executive compensation required by the rules and regulations of the SEC or other regulatory body, including the Compensation Committee Report on Executive Compensation that appears later in this Proxy Statement. In addition, the Compensation Committee periodically reviews with the Chief Executive Officer a written procedure for the efficient transfer of his responsibilities in the event of his sudden incapacitation or departure, including recommendations for longer-term succession planning. This committee met seven times during 2003 and acted through three written actions.

***Corporate Governance and Nominating Committee***

*Members:* Andris A. Baltins, Chair  
William E. Fruhan, Jr.  
R. M. (Mark) Schreck

All members of the Corporate Governance and Nominating Committee have been determined to be independent by the Board of Directors in accordance with our Corporate Governance Guidelines and the applicable listing requirements of the New York Stock Exchange.

*Purpose:* The Corporate Governance and Nominating Committee provides oversight and guidance to the Board of Directors to ensure that the membership, structure, policies and processes of the Board and its committees facilitate the effective exercise of the Board's role in the governance of the Company. The committee reviews and evaluates the policies and practices with respect to the size, composition and functioning of the Board, evaluates the qualifications of possible candidates for the Board of Directors and recommends the nominees for directors to the Board of Directors for approval. The committee will consider individuals recommended by shareholders for nomination as a director in accordance with the procedures described under Submission of Shareholder Proposals and Nominations that appears later in this Proxy Statement. The committee also is responsible for recommending to the Board of Directors any revisions to the Company's Corporate Governance Guidelines. This committee met three times and acted through one written action during 2003.

***Technology Committee***

*Members:* Annette K. Clayton  
John R. Menard, Jr.  
Gregory R. Palen  
R. M. (Mark) Schreck, Chair  
Thomas C. Tiller

*Purpose:* Provides oversight of the product and technology plans at the Company to ensure that the Polaris management team: (1) continues to provide leadership products across all product lines; (2) addresses regulatory and competitive challenges in a

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timely and appropriate manner; (3) provides adequate investment funds across product lines; (4) addresses major facility opportunities and issues, such as expansions, and in-source/out source opportunities; and (5) properly assesses the risk and benefits associated with major product and facility changes. This committee met three times during 2003.

**Certain Relationships and Related Transactions**

The law firm of Kaplan, Strangis and Kaplan, P.A. ( KSK ) provides ongoing legal services to the Company and certain subsidiaries in connection with various matters. Andris A. Baltins, a member of the Board of Directors, is a member of that firm. During 2003, KSK received \$522,500 in legal fees from the Company.

Gregory R. Palen, the non-Executive Chairman of the Board of Directors, is the Chairman and Chief Executive Officer of Spectro Alloys, an aluminum manufacturing company that served as a supplier to the Company until June 2003. Under our Corporate Governance Guidelines, Mr. Palen will be regarded as non-independent until June 2006, three years following the termination of the Spectro Alloys relationship with Polaris. Mr. Palen voluntarily resigned from the Audit Committee and the Corporate Governance and Nominating Committee in January 2004 in order that such committees be comprised of independent directors as required under the current NYSE rules. The Audit Committee is currently comprised of Messrs. Fruhan and Zona and Ms. Clayton, each of whom are independent directors. The Corporate Governance and Nominating Committee is currently comprised of Messrs. Baltins, Fruhan, and Schreck, all of whom are independent directors.

**Compensation Committee Interlocks and Insider Participation**

All current members of the Compensation Committee are considered independent under our Corporate Governance Guidelines. No interlocking relationships exist between the Board of Directors or the Compensation Committee and the Board of Directors or compensation committee of any other company.

**Section 16 Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers to file initial reports of ownership and reports of changes of ownership of the Company's common stock with the SEC. Executive officers and directors are required to furnish the Company with copies of all Section 16(a) reports that they file. To the Company's knowledge, based solely upon a review of the copies of those reports furnished to the Company during 2003 and written representations that no other reports were required, the Company believes that, during the year ended December 31, 2003, all filing requirements applicable to its directors, executive officers and 10% beneficial owners, if any, were complied with, except that the Company inadvertently failed to report credits to all directors of the Company other than Mr. Tiller of an aggregate of 12,231 common stock equivalents (on a post-split basis) under the Deferred Compensation Plan for Directors that were made on April 1, 2003, July 1, 2003, October 1, 2003 and January 1, 2004. In addition, due to an administrative oversight, the Company failed to timely report an aggregate of 176,000 stock options (on a post-split basis) granted under the 1995 Stock Option Plan to the Company's senior executive officers on November 3, 2003 and a grant of 50,000 shares of restricted stock (on a post-split basis) under the 1996 Restricted Stock Plan to Mr. Tiller on November 3, 2003. Form 4s have been filed reporting the common stock equivalent credits, stock options and restricted stock award.

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**AUDIT COMMITTEE REPORT**

The Audit Committee reports to and acts on behalf of the Board of Directors by providing oversight of (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, (4) the responsibilities, performance, budget and staffing of the Company's internal audit function, and (5) the performance of the Company's independent auditor, which reports directly to the Audit Committee. The Audit Committee is comprised of three directors, all of whom meet the standards of independence adopted by the SEC and the New York Stock Exchange.

In performing our oversight responsibilities, we have reviewed and discussed the audited financial statements of the Company for the year ended December 31, 2003 with management and with representatives of Ernst & Young LLP, the Company's independent auditors.

We also discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61, *Communications with Audit Committees*, as amended by Statement on Auditing Standards No. 90. We have received from the Company's independent auditors the written disclosures and the letter required by Independence Standards Board No. 1, *Independence Discussions with Audit Committees*, and discussed the independence of Ernst & Young LLP with representatives of such firm. We are satisfied that the non-audit services provided to the Company by the independent auditors are compatible with maintaining their independence.

Management is responsible for Polaris's system of internal controls and the financial reporting process. Ernst & Young LLP is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. Our committee's responsibility is to monitor and oversee these processes.

In reliance on the reviews and discussions referred to in this Report, and subject to the limitations of our role, we recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

AUDIT COMMITTEE

Richard A. Zona, Chair  
Annette K. Clayton  
William E. Fruhan, Jr.

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**INDEPENDENT AUDITORS**

On March 15, 2002, the Board of Directors of the Company and its Audit Committee dismissed Arthur Andersen LLP ( Arthur Andersen ) as the Company s independent auditors and engaged Ernst & Young LLP ( E&Y ) to serve as the Company s independent auditors for the fiscal year ending December 31, 2002.

Arthur Andersen s report on the Company s consolidated financial statements for the year ended December 31, 2001 did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles.

During the year ended December 31, 2001 and through March 15, 2002, there were no disagreements with Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen s satisfaction, would have caused them to make reference to the subject matter of the disagreements in connection with their report on the Company s financial statements for such year; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K of the SEC.

During the year ended December 31, 2001 and through March 15, 2002, the Company did not consult E&Y with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company s consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K of the SEC.

The Audit Committee of the Board of Directors has engaged E&Y as independent auditors to examine the Company s accounts for the fiscal year ending December 31, 2003. Representatives of E&Y will be present at the Annual Meeting, will have an opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

*Audit Fees.* The aggregate audit fees paid to E&Y for the fiscal years ended December 31, 2003 and December 31, 2002, were \$300,000 and \$210,000, respectively. These fees include amounts for the audit of the Company s consolidated annual financial statements, statutory audits at certain foreign subsidiaries, and the reviews of the consolidated financial statements included in the Company s Quarterly Reports on Form 10-Q, including services related thereto such as attest services and consents.

*Audit-Related Fees.* The aggregate audit-related fees paid to E&Y for the fiscal years 2003 and 2002 were \$114,000 and \$60,000, respectively. These fees related to the audit of Polaris Acceptance, the audit of employee benefit plans and the issuance of certain industry reports. The 2003 amount includes general assistance with the implementation of the SEC rules pursuant to the Sarbanes-Oxley Act of 2002.

*Tax Fees.* The aggregate fees billed by E&Y for tax services rendered for the fiscal years 2003 and 2002 were \$319,000 and \$890,000, respectively. Of the amounts paid in 2003 and 2002, \$75,000 and \$500,000, respectively, were paid under a deferred billing arrangement entered into by the Company with E&Y prior to its engagement as the Company s auditors in March 2002 with respect to tax planning services rendered in 2001. The remaining fees paid in each of those years primarily related to tax planning and compliance services and assistance related to the establishment of foreign subsidiaries.

*All Other Fees.* There were no other fees paid to E&Y for the years ended December 31, 2003 and December 31, 2002.

*Audit Committee Pre-Approval Requirements.* The Audit Committee s charter provides that it has the sole authority to review in advance and grant any pre-approvals of (i) all auditing services to be provided by the independent auditor, (ii) all significant non-audit services to be provided by the independent auditors as permitted by Section 10A of the Securities Exchange Act of 1934, and (iii) all fees and the terms of engagement with respect to such services. All audit and non-audit services performed by Ernst & Young during fiscal 2003 were pre-approved pursuant to the procedures outlined above.

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**PROPOSAL 1 ELECTION OF DIRECTORS**

**General Information**

The Board of Directors of the Company is divided into three classes. The members of one class are elected at each annual meeting of shareholders to serve three-year terms. The Class I directors currently serving on the Board, whose terms expire at the 2004 Annual Meeting, are Messrs. Andris A. Baltins, J. Richard Stonesifer and Thomas C. Tiller. Mr. Stonesifer, currently a Class I director, is not standing for reelection. The Board of Directors has not presently identified a nominee to fill the Class I vacancy created by Mr. Stonesifer's decision not to stand for reelection and will reduce the size of the Board of Directors to eight members to eliminate the Class I directorship being vacated by Mr. Stonesifer until such time as an appropriate director candidate is identified for election to the Board.

Upon the recommendation of the Corporate Governance and Nominating Committee of the Board, the Board of Directors proposes that the following nominees, both of whom are currently serving as Class I Directors, be elected as Class I directors for three-year terms expiring in 2007:

Andris A. Baltins

Thomas C. Tiller

The persons named in the enclosed proxy intend to vote your proxy for the election of each of the two nominees, unless you indicate on the proxy card that your vote should be withheld from any or all of the nominees. If you are voting by telephone or on the Internet, you will be told how to withhold your vote from some or all of the nominees. Each nominee elected as a Director will continue in office until his successor has been elected, or until his death, resignation or retirement.

Other incumbent directors are not up for election this year and will continue in office for the remainder of their terms. After the election of two Class I directors at the Annual Meeting, the Board will consist of eight directors, including the six continuing directors whose present terms extend beyond this Annual Meeting (Classes II and III will consist of three members each and Class I will consist of two members.) There are no family relationships between or among any executive officers or directors of the Company.

We expect each nominee standing for election as a Class I director to be able to serve if elected. If any nominee is not able to serve, proxies will be voted in favor of the remainder of those nominated and may be voted for substitute nominees designated by the Board, unless an instruction to the contrary is indicated on the proxy card.

**The Board of Directors unanimously recommends a vote FOR the election of these nominees as Directors.**

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**Information Concerning Nominees and Directors**

The principal occupation and certain other information about the nominees and other directors whose terms of office continue after the Annual Meeting are set forth on the following pages.

**Director Nominees Class I (Term Ending 2007)**

**Andris A. Baltins** Director since 1994

Mr. Baltins, 58, has been a member of the law firm of Kaplan, Strangis and Kaplan, P.A. since 1979. He is a director of AOA Holding, LLC and Adams Outdoor Advertising, Inc. Mr. Baltins is also a director of various private and non-profit corporations. Mr. Baltins serves as the Chair of our Corporate Governance and Nominating Committee.

**Thomas C. Tiller** Director since 1998

Mr. Tiller, 42, is the President and Chief Executive Officer of the Company and was the President and Chief Operating Officer of the Company from July 15, 1998 to May 20, 1999. From 1983 to 1998, Mr. Tiller held a number of design, marketing and plant management positions with General Electric Company, most recently as Vice President and General Manager of G.E. Silicones. Mr. Tiller serves as the Chair of our Executive Committee and is also a member of our Technology Committee.



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**Directors Continuing in Office Class II (Term Ending 2005)**

**William E. Fruhan, Jr.** Director since 2000

Mr. Fruhan, 61, has been the Professor of Business Administration at Harvard Business School since 1979. Mr. Fruhan also serves as a director of various private corporations, including PQ Corporation and Brierley and Partners, Inc. Mr. Fruhan serves as a member of our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee.

**R. M. (Mark) Schreck** Director since 2000

Mr. Schreck, 59, a registered professional engineer, has been the President of RMS Engineering, LLC, an engineering and business consulting company, since January 1998. He has also been a member of the staff of the University of Louisville College of Engineering since January 1998. Mr. Schreck is a former Vice President and General Manager, Technology, of GE Appliances. Mr. Schreck is also a director of the Kentucky Science and Technology Corporation, a private, nonprofit organization. Mr. Schreck serves as the Chair of our Technology Committee and is also a member of our Corporate Governance and Nominating Committee.

**John R. Menard, Jr.** Director since 2001

Mr. Menard, 64, has been the President and a director of Menard, Inc., a building materials and home improvement retailing business, since February 1960. Mr. Menard serves as a member of our Technology Committee.

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**Directors Continuing in Office Class III (Term Ending 2006)**

**Gregory R. Palen** Director since 1994

Mr. Palen, 48, was elected to serve as the non-executive Chairman of our Board of Directors in May 2002 and has been Chairman and Chief Executive Officer of Spectro Alloys, an aluminum manufacturing company, since 1989 and Chief Executive Officer of Palen/ Kimball Company, a heating and air conditioning company, since 1983. He is a director of Valspar Corporation, a painting and coating manufacturing company. Mr. Palen also serves as a director of Opus Northwest, LLC, a construction and real estate development company. Mr. Palen is also a director of various private and non-profit corporations, including St. John's University. Mr. Palen is a member of our Executive Committee and our Technology Committee.

**Richard A. Zona** Director since 2000

Mr. Zona, 59, has been the Chief Executive Officer of Zona Financial, LLC, a financial advisory firm, since December 2000. Mr. Zona was the Vice-Chairman of U.S. Bancorp, a regional bank holding company, from 1996 to 2000. Mr. Zona joined U.S. Bancorp, then known as First Bank System, Inc., as Executive Vice President and Chief Financial Officer in 1989 and served as Vice Chairman and Chief Financial Officer from 1991 to 1996. Mr. Zona, a certified public accountant, was with Ernst & Young from 1970 to 1989. Mr. Zona is a director of New Century Financial Corporation, a mortgage banking and financial services company, ShopKo Stores, Inc., a consumer retailing company, and Piper Jaffray Companies, a securities brokerage firm. He also serves as a director of ING Direct Bank, fsb. Mr. Zona serves as the Chair of our Audit Committee and is also a member of our Compensation Committee.

**Annette K. Clayton** Director since 2003

Ms. Clayton, 40, has been the President and a director of Saturn Corporation, a subsidiary of General Motors Corporation, since April 2001. She was the Executive Director of Global Manufacturing Systems-Quality of General Motors Corporation from April 2000 to April 2001. From 1983 to 2000, Ms. Clayton held a number of production, engineering and management positions at General Motors' assembly plants in Moraine, Ohio, Fort Wayne, Indiana, and Oshawa, Ontario. She is a member of the External Advisory Board for the College of Engineering and Computer Science at Wright State University. Ms. Clayton is a member of our Audit Committee and our Technology Committee.

**Table of Contents****ANNUAL AND LONG TERM INCENTIVE COMPENSATION PLAN PROPOSALS**

Section 162(m) of the Internal Revenue Code limits the tax deduction available to a public company for compensation paid to certain executive officers, unless the compensation qualifies as performance based. The Board of Directors believes that in light of Section 162(m), it is desirable to adopt two new cash-based incentive compensation plans to provide for objective performance goals, and to submit the plans for shareholder approval. The Senior Executive Annual Incentive Compensation Plan (the Senior Executive Incentive Plan) is an annual performance-based bonus plan for senior executives of the Company. The Long Term Incentive Plan (the LTIP) is a plan providing for cash compensation awards to designated employees based on performance over award periods of three consecutive calendar years. It is the Board of Directors' intention that incentive awards will be made under the Senior Executive Incentive Plan in lieu of awards under the Company's existing annual profit sharing plan. It is also intended that awards will be made under the LTIP in substitution for awards previously made to our employees under the 1995 Restricted Stock Plan. Awards made under the 1995 Restricted Stock Plan will be limited to awards made to Mr. Tiller under the terms of his employment agreement and discretionary awards made to new hires or in recognition of significant contributions to the Company. The approval of these plans by the shareholders will enable payments to the executives under the plans to qualify as performance based compensation for purposes of Section 162(m), and thereby be deductible by the Company without regard to the deduction limit otherwise imposed by that Section.

No awards have been made under the Senior Executive Incentive Plan or the LTIP. Assuming shareholders approve the Senior Executive Incentive Plan and the LTIP at the Annual Meeting, the following table illustrates the amounts that would have been paid under the Senior Executive Incentive Plan and the LTIP for fiscal year 2003 if the plans had then been in effect, using the methodologies expected to be applied by the Compensation Committee for fiscal year 2004:

**NEW PLAN BENEFITS**

Name and Principal Position	Dollar Value(\$)	
	Senior Executive Incentive Plan	LTIP
Thomas C. Tiller Chief Executive Officer and President	\$ 1,210,000	(1)
Jeffrey A. Bjorkman Vice President Operations	-0-	\$ 148,000
John B. Corness Vice President Human Resources	-0-	\$ 136,900
Michael W. Malone Vice President Finance, Chief Financial Officer and Secretary	-0-	\$ 118,400
Kenneth J. Sobaski Vice President Sales, Marketing and Business Development	-0-	(2)
All Executive Officers as a group	\$ 1,210,000	\$ 403,300
All non-executive directors as a group	-0-	-0-
All non-executive officer employees as a group	-0-	\$ 1,670,500

(1) Mr. Tiller would not have received an award under the LTIP because he received a restricted stock grant for fiscal year 2003 under the terms of his employment agreement.

(2) Mr. Sobaski would not have been eligible to receive an award under the LTIP had it been in effect during 2003 because he was not an employee of the Company for the entire three-year performance period ended December 31, 2003.

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**PROPOSAL 2 APPROVAL OF SENIOR EXECUTIVE**

**ANNUAL INCENTIVE COMPENSATION PLAN**

Upon the recommendation of the Compensation Committee, the Board of Directors has adopted the Senior Executive Incentive Plan and is submitting it to the shareholders for approval. If approved by shareholders, the Senior Executive Incentive Plan will become effective as of January 1, 2004. It is the Board of Directors' intention that incentive awards will be made under the Senior Executive Incentive Plan in lieu of awards under the Company's existing annual profit sharing plan. The approval of this plan by the shareholders will enable payments to the executives under the plan to qualify as performance based compensation for purposes of Section 162(m). The following summary of the Senior Executive Incentive Plan is qualified in its entirety by reference to the complete text of the Senior Executive Incentive Plan, which is attached as Annex B.

**General Provisions**

*Purpose.* The purpose of the Senior Executive Incentive Plan is to provide incentives for senior executives to attain and maintain the highest standards of performance, to attract and retain executives of outstanding competence and ability, to stimulate the active interest of key executives in the development and financial success of the Company, to further align the interests of employees with those of the shareholders and to reward executives for outstanding performance when certain annual performance objectives are achieved.

*Administration.* The Compensation Committee has been designated to administer the Senior Executive Incentive Plan. The Compensation Committee will interpret the Senior Executive Incentive Plan, prescribe, amend, and rescind rules relating to it, select eligible participants, and take all other actions necessary for its administration, which actions will be final and binding upon all participants. To the extent not otherwise provided for under the Company's Articles and By-laws, all members of the Board of Directors, including the members of the Compensation Committee, are entitled to be indemnified by the Company with respect to claims relating to their actions in the administration of the Senior Executive Incentive Plan, so long as such action is taken in good faith and within the scope of the Compensation Committee's authority under the Senior Executive Incentive Plan.

*Selection of Participants.* For each calendar year, the Compensation Committee will determine in writing the participants who will be eligible to receive an incentive award under the Senior Executive Incentive Plan for such period. Only senior executive officers of the Company are eligible to participate in the Senior Executive Incentive Plan (6 individuals as of January 1, 2004). The Compensation Committee will make its determination of participants prior to the commencement of the calendar year, or at such other time as permitted by Section 162(m) of the Internal Revenue Code.

*Performance Objectives.* For each calendar year, the Compensation Committee will establish the applicable performance objectives in writing prior to the commencement of the calendar year, or at such other time as permitted by Section 162(m) of the Internal Revenue Code. The performance objectives selected shall be relative or absolute measures of any one or more of the Business Criteria (described below). The performance objectives will, subject to the required certification described below, state an objective method for computing the amount of bonus payable to the participant upon attainment of the performance objectives. The formula will set the target level of performance required for the performance objectives to be attained.

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*Business Criteria.* The Business Criteria for purposes of the Senior Executive Incentive Plan are specified levels of one or more of the following:

Operating Income	Net Income
Pre-Tax Income	Customer Retention
Cash Flow	Return on Investment
Return on Capital	Revenue
Return on Equity	Revenue Growth
Return on Assets	Total Shareholder Return
Return on Sales	Stock Price
Expense Targets	Market Share
Customer Satisfaction	Productivity Targets
Sales	Earnings Per Share
Sales Growth	Earnings Per Share Growth
	Economic Value Added

The above terms have the same meaning as in the Company's financial statements, or if the terms are not used in the Company's financial statements, as applied pursuant to generally accepted accounting principles, or as used in the industry, as applicable. As determined by the Compensation Committee, the Business Criteria shall be applied (i) in absolute terms or relative to one or more other companies or indices and (ii) to a business unit, geographic region, one or more separately incorporated entities, or the Company as a whole.

*Extraordinary or Unusual Events.* The Compensation Committee may, in its discretion, disregard the impact of any extraordinary or unusual event (in accordance with generally accepted accounting procedures) in determining whether a performance objective has been attained or may make appropriate adjustments in any performance objective to reflect such extraordinary or unusual event.

*Incentive Award Certification.* The Compensation Committee will certify in writing prior to payment of the incentive award that the performance objective has been attained and the incentive award is payable. With respect to Compensation Committee certification, approved minutes of the meeting in which the certification is made will be treated as written certification.

*Maximum Incentive Award Payable.* The maximum incentive award payable under the Senior Executive Incentive Plan to any participant for any calendar year is \$2,500,000.

*Discretion to Reduce Rewards.* The Compensation Committee, in its sole and absolute discretion, may reduce the amount of any award otherwise payable to a participant.

*Active Employment Requirement.* An incentive award will be paid for a calendar year only to a participant who is actively employed by the Company (or on approved vacation or other approved leave of absence) throughout the calendar year and who is employed by the Company on the date the bonus is paid. To the extent consistent with the deductibility of awards under Section 162(m) of the Internal Revenue Code and regulations thereunder, the Compensation Committee may in its sole discretion grant an incentive award for the calendar year to a participant who is first employed or who is promoted to a position eligible to become a participant under the Senior Executive Incentive Plan during the calendar year, or whose employment is terminated during the calendar year because of the participant's retirement under the Company's 401(k) plan, death, or because of disability as defined in Section 22(e)(3) of the Internal Revenue Code. In such cases of partial active employment, a pro rata incentive award may be paid for the calendar year.

*Payment of Incentive Awards.* Incentive awards will be paid to participants for a calendar year in such form and at such time as the Compensation Committee may determine.

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*Shareholder Approval.* No incentive award will be payable under the Senior Executive Incentive Plan unless the Senior Executive Incentive Plan is approved by the shareholders in accordance with Section 162(m) of the Internal Revenue Code and regulations thereunder.

*Amendment and Termination of the Senior Executive Incentive Plan.* The Compensation Committee may amend or terminate the Senior Executive Incentive Plan at any time, except that no amendment or termination shall be made which would impair the rights of any participant to an incentive award which would be payable were the participant to terminate employment on the effective date of such amendment or termination, unless the participant consents to such amendment or termination. The Senior Executive Incentive Plan will automatically terminate on January 1, 2009, unless sooner terminated by action of the Compensation Committee.

**Vote Required**

Approval of the Senior Executive Incentive Plan will require the affirmative vote of at least a majority of the outstanding shares of Polaris common stock present in person or by proxy and entitled to vote at the Annual Meeting, assuming the presence of a quorum at the Annual Meeting.

**Board Recommendation**

Except where authority has been withheld by a shareholder, the enclosed proxy will be voted for the approval of the Senior Executive Incentive Plan. **The Board of Directors unanimously recommends a vote FOR the proposal to approve the Senior Executive Incentive Plan.**

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**PROPOSAL 3 APPROVAL OF LONG TERM INCENTIVE PLAN**

Upon the recommendation of the Compensation Committee, the Board of Directors has adopted the LTIP and is submitting it to the shareholders for approval. If approved by shareholders, the LTIP will become effective as of January 1, 2004. It is the Board of Directors intention that awards will be made under the LTIP in substitution for awards previously made to our employees under the 1995 Restricted Stock Plan. Awards made under the 1995 Restricted Stock Plan will be limited to awards made to Mr. Tiller under the terms of his employment agreement and discretionary awards made to new hires or in recognition of significant contributions to the Company. The following summary of the LTIP is qualified in its entirety by reference to the complete text of the LTIP, which is attached as Annex C.

**General Provisions**

*Purpose.* The purpose of the LTIP is to provide incentives for certain key employees to attain and maintain the highest standards of performance, to attract and retain employees of outstanding competence and ability, to stimulate the active interest of key employees in the development and financial success of the Company, to further align the interests of employees with those of the shareholders and to reward key employees for outstanding performance when certain long-term performance objectives are achieved.

*Administration.* The Compensation Committee has been designated to administer the LTIP. The Compensation Committee will interpret the LTIP, prescribe, amend, and rescind rules relating to it, select eligible participants, and take all other actions necessary for its administration, which actions will be final and binding upon all participants. To the extent not otherwise provided for under the Company's Articles and By-laws, all members of the Board of Directors, including the members of the Compensation Committee, are entitled to be indemnified by the Company with respect to claims relating to their actions in the administration of the LTIP, so long as such action is taken in good faith and within the scope of the Compensation Committee's authority under the LTIP.

*Selection of Participants.* For each performance period (as defined under *Performance Objectives* below), the Compensation Committee will determine in writing the participants who will be eligible to receive an award under the LTIP for such period. Any employee of the Company may be designated to participate in the LTIP (approximately 3,500 individuals as of January 1, 2004). The Compensation Committee will make its determination of participants prior to the commencement of the performance period, or at such other time as permitted by Section 162(m) of the Internal Revenue Code.

*Performance Objectives.* The performance objectives that apply to awards under the LTIP will be measured over a period of three consecutive calendar years. This three-year period is referred to in this summary as the performance period. For each performance period, the Compensation Committee will establish the applicable performance objectives in writing prior to the commencement of the performance period, or at such other time as permitted by Section 162(m) of the Code. The performance objectives selected shall be relative or absolute measures of any one or more of the Business Criteria (described below). The performance objectives will, subject to the required certification described below, state an objective method for computing the amount of the award payable to the participant upon attainment of the performance objectives. The formula will set the target level of performance required for the performance objectives to be attained. The amount of an award payable to a participant may be denominated in cash and, under the terms established by the Compensation Committee, at a participant's election may be adjusted to reflect changes in the market price of the Company's common stock during the applicable performance period, provided that all amounts paid under the LTIP will be paid in cash.

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*Business Criteria.* The Business Criteria for purposes of the LTIP are specified levels of one or more of the following:

Operating Income	Net Income
Pre-Tax Income	Customer Retention
Cash Flow	Return on Investment
Return on Capital	Revenue
Return on Equity	Revenue Growth
Return on Assets	Total Shareholder Return
Return on Sales	Stock Price
Expense Targets	Market Share
Customer Satisfaction	Productivity Targets
Sales	Earnings Per Share
Sales Growth	Earnings Per Share Growth
	Economic Value Added

The above terms have the same meaning as in the Company's financial statements, or if the terms are not used in the Company's financial statements, as applied pursuant to generally accepted accounting principles, or as used in the industry, as applicable. As determined by the Compensation Committee, the Business Criteria shall be applied (i) in absolute terms or relative to one or more other companies or indices and (ii) to a business unit, geographic region, one or more separately incorporated entities, or the Company as a whole.

*Extraordinary or Unusual Events.* The Compensation Committee may, in its discretion, disregard the impact of any extraordinary or unusual event (in accordance with generally accepted accounting procedures) in determining whether a performance objective has been attained or may make appropriate adjustments in any performance objective to reflect such extraordinary or unusual event.

*Award Certification.* The Compensation Committee will certify in writing prior to payment of the award that the performance objective has been attained and the award is payable. With respect to Compensation Committee certification, approved minutes of the meeting in which the certification is made will be treated as written certification.

*Maximum Award Payable.* The maximum award payable under the LTIP to any participant for any calendar year is 200% of such participant's base salary (up to a maximum base salary of \$1,000,000).

*Discretion to Reduce Rewards.* The Compensation Committee, in its sole and absolute discretion, may reduce the amount of any award otherwise payable to a participant.

*Active Employment Requirement.* An award will be paid for a performance period only to a participant who is actively employed by the Company (or on approved vacation or other approved leave of absence) throughout the performance period and who is employed by the Company on the date the bonus is paid. To the extent consistent with the deductibility of awards under Section 162(m) of the Internal Revenue Code and regulation thereunder, the Compensation Committee may in its sole discretion grant an award for the performance period to a participant who is first employed or who is promoted to a position eligible to become a participant under the LTIP during the performance period, or whose employment is terminated during the performance period because of the participant's retirement under the Company's 401(k) plan, death, or because of disability as defined in Section 22(e)(3) of the Internal Revenue Code. In such cases of partial active employment, a pro rata award may be paid for the performance period.

*Payment of Awards.* Awards will be paid to participants for a performance period in such form and at such time as the Compensation Committee may determine.

*Shareholder Approval.* No award will be payable under the LTIP unless the LTIP is approved by the shareholders in accordance with Section 162(m) of the Internal Revenue Code and regulations thereunder.



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*Amendment and Termination of the LTIP.* The Compensation Committee may amend or terminate the LTIP at any time, except that no amendment or termination shall be made which would impair the rights of any participant to an award which would be payable were the participant to terminate employment on the effective date of such amendment or termination, unless the participant consents to such amendment or termination. The LTIP will automatically terminate on January 1, 2009, unless sooner terminated by action of the Compensation Committee.

**Vote Required**

Approval of the LTIP will require the affirmative vote of at least a majority of the outstanding shares of Polaris common stock present in person or by proxy and entitled to vote at the Annual Meeting, assuming the presence of a quorum at the Annual Meeting.

**Board Recommendation**

Except where authority has been withheld by a shareholder, the enclosed proxy will be voted for the approval of the LTIP. **The Board of Directors unanimously recommends a vote FOR the proposal to approve the LTIP.**

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**PROPOSAL 4 APPROVAL OF AMENDMENTS TO 1995**

**STOCK OPTION PLAN**

**General Information**

Upon the recommendation of the Compensation Committee, the Board of Directors has recommended that the shareholders of the Company approve the Company's 1995 Stock Option Plan, as amended and restated on January 18, 2001 and approved by the Company's shareholders on May 3, 2001 (the Original Stock Option Plan), as amended by the Board of Directors on January 22, 2004 (the Amended Stock Option Plan). A vote in favor of the Amended Stock Option Plan will be a vote in favor of the amendments to the Original Stock Option Plan which will (1) increase the number of shares of Polaris common stock reserved for issuance thereunder by 2,000,000 shares, on a post-split basis, (2) increase the number of shares of Polaris common stock that may be awarded to a participant in any calendar year from 600,000 to 1,200,000, on a post-split basis, and (3) extend the expiration date of the plan from March 15, 2005 to March 15, 2010.

The reserve of shares of common stock under the Original Stock Option Plan is subject to appropriate adjustment in the event of certain changes in the common stock, including by reason of a stock split. As of the record date for the Annual Meeting, 6,200,000 shares of common stock (on a post-split basis) were reserved for issuance under the Original Stock Option Plan. Of that total, 242,864 shares of common stock (on a post-split basis) remained available for future grants. If the proposed amendment is approved, there will be an aggregate of 2,242,864 shares available for future grants. The Board of Directors believes that the grant of stock options to officers and key employees, consultants and independent contractors of the Company is a vital factor in attracting and retaining effective and capable personnel who contribute to the growth and success of the Company and in establishing a direct link between the financial interests of such individuals and of the Company's shareholders and that it is prudent to increase the number of shares of common stock available for future grants at this time.

The following summary of the Amended Stock Option Plan is qualified in its entirety by reference to the complete text of the Amended Stock Option Plan, which is attached as Annex D.

**General Provisions**

*Duration of the Amended Stock Option Plan; Shares to be Issued.* The Original Stock Option Plan became effective on March 15, 1995. If the proposed amendment is approved, the Amended Stock Option Plan will remain effective until March 15, 2010 unless terminated earlier by the Board of Directors.

The shares of common stock to be issued or delivered under the Amended Stock Option Plan will be authorized and unissued shares or previously issued and outstanding shares of common stock reacquired by the Company. Shares of common stock covered by any unexercised portions of terminated options and shares of common stock subject to any awards which are otherwise surrendered by participants without receiving any payment or other benefit with respect thereto may again be subject to new awards under the Amended Stock Option Plan.

On March 1, 2004, the closing price of Polaris common stock on the New York Stock Exchange was \$86.66 per share, on a pre-split basis.

*Administration.* The Amended Stock Option Plan is administered by the Compensation Committee of the Board of Directors. The Compensation Committee is comprised solely of non-employee independent directors of the Company who are not eligible to participate in the Amended Stock Option Plan. The Compensation Committee determines the employees who will be eligible for and granted awards, determines the amount and type of awards, establishes rules and guidelines relating to the Amended Stock Option Plan, establishes, modifies and determines terms and conditions of awards and takes such other action as may be necessary for the proper administration of the Amended Stock Option Plan.

*Participants.* Any employee, consultant or independent contractor of the Company or its subsidiaries may be selected by the Compensation Committee to receive an award under the Amended Stock Option Plan. Presently, there are approximately 3,500 persons eligible to participate in the Amended Stock Option Plan. It

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is not possible at this time to determine the amount of stock options to be allocated to specific persons or groups from the additional number of shares being added to the pool of shares available under the Amended Stock Option Plan. If the proposed amendment is approved, no participant may receive stock option awards in respect of more than 1,200,000 shares of common stock in any calendar year.

*Awards Available Under Amended Stock Option Plan.* Awards to participants under the Amended Stock Option Plan may take the form of stock options meeting the requirements of Section 422 of the Internal Revenue Code ( Incentive Stock Options ) and stock options which do not meet such requirements ( Nonqualified Stock Options ). The duration of each option will be determined by the Compensation Committee, but no option will be exercisable more than ten years after the date of grant. The exercise price for stock options must be at least equal to 100% of the fair market value of the common stock on the date of grant of such option. The exercise price will be payable in cash or in such other form as the Compensation Committee may approve in the applicable award agreement, including, without limitation, by a cashless exercise through a broker or the delivery to the Company of (i) a promissory note equal to the exercise price (but the par value of the shares must be paid in cash) or (ii) shares of common stock owned by the participant for at least six months.

The options will be subject to restrictions on exercise, such as exercise in periodic installments or upon attainment of specified performance criteria, as determined by the Compensation Committee. Stock options granted under the Amended Stock Option Plan will not be transferable except by will or the laws of descent and distribution and may be exercised only by a participant during his or her lifetime.

Unless otherwise determined by the Compensation Committee and provided in the applicable option agreement, options will be exercisable within thirty days of any termination of services other than termination due to disability, death or normal retirement (but not later than the expiration date of the option). The options will be exercisable within one year of a termination of services by reason of disability, death or normal retirement (but not later than the expiration date of the option), but an Incentive Stock Option will not be exercisable more than three months after retirement.

*Termination and Amendment.* The Board may amend or terminate the Amended Stock Option Plan at any time but, without a participant consent, no such action will affect or in any way impair the rights of such participant under any award granted prior to such action, and no amendment will be made without the approval of the Company's shareholders if such approval is required to maintain the compliance of the Amended Stock Option Plan with Section 162 (m) of the Internal Revenue Code.

*Antidilution Provisions.* The amount of shares authorized to be issued under the Amended Stock Option Plan, and the terms of outstanding stock options, may be adjusted to prevent dilution or enlargement of rights in the event of any stock dividend, reorganization, reclassification, recapitalization, stock split, combination, merger, consolidation or other capitalization change of similar effect.

*Withholding Obligations.* The Company has the right to deduct from a participant's salary, bonus or other compensation any taxes required to be withheld with respect to options granted under the Amended Stock Option Plan. Alternatively, a participant can satisfy his or her tax withholding obligations under the Amended Stock Option Plan by tendering shares of Polaris common stock owned by such participant or reducing the number of shares issuable pursuant to the award.

*Certain Federal Income Tax Consequences.* The following is a brief summary of the principal federal income tax consequences of awards under the Amended Stock Option Plan to United States citizens based upon current federal income tax laws. The summary is not intended to be exhaustive and, among other things, does not describe state, local or foreign tax consequences. Changes in the law and the regulations may modify the discussion, and, in some cases, changes may be retroactive. In addition, tax consequences may vary depending upon the personal circumstances of individual holders of options and the tax requirements applicable to residents of countries other than the United States.

An option holder will not recognize income upon the grant of an option under the Amended Stock Option Plan or at any other time prior to the exercise of the option. Upon exercise of a Nonqualified Stock Option, the option holder will recognize compensation taxable as ordinary income in an amount equal to the excess of the

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fair market value of the common stock on the date the option is exercised over the exercise price of the option. This income is subject to withholding and other employment taxes. The Company is entitled to a deduction in a like amount for compensation income recognized by the option holder.

A subsequent taxable disposition of shares of common stock acquired upon exercise of a Nonqualified Stock Option will generally result in a capital gain or loss measured by the difference between the fair market value of the common stock on the date the option was exercised and the amount realized on later disposition. The gain or loss will be long-term if the shares of common stock are held for more than one year, and short-term if held for one year or less.

An option holder will not recognize income upon the grant or exercise of an Incentive Stock Option under the Amended Stock Option Plan. The difference between the fair market value of the common stock on the date of exercise and the exercise price, however, is an item of adjustment for purposes of the alternative minimum tax.

If an option holder who has acquired shares of common stock by the exercise of an Incentive Stock Option makes a taxable disposition of the stock at least two years after the date the option was granted and at least one year after the transfer of the stock to the option holder, the option holder generally will recognize a long-term capital gain or loss measured by the difference between the exercise price and the selling price.

If an option holder who has acquired shares of common stock by the exercise of an Incentive Stock Option makes a taxable disposition of the stock within two years from the date the option was granted or within one year after the transfer of the stock to the option holder, a disqualifying disposition occurs. In that event, the option holder recognizes ordinary income equal to the lesser of the actual gain on the disposition or the difference between the exercise price and the fair market value of the common stock on the date of exercise. The Company is entitled to a deduction in a like amount for compensation income recognized by the option holder. If a loss is sustained on such a disposition, the loss will generally be treated as a capital loss. If the amount received on the disqualifying disposition exceeds the fair market value of the common stock on the date of exercise, the excess will generally be either a long-term or short-term capital gain, depending on the holding period of the shares.

The deductibility by the Company of amounts recognized as ordinary income by option holders upon the exercise or disposition of stock options may be limited under certain provisions of the Internal Revenue Code, including the \$1 million deduction limit per executive under Section 162(m) and the limit with respect to certain payments in connection with a change in control under Section 280G.

## **Vote Required**

Approval of the Amended Stock Option Plan will require the affirmative vote of at least a majority of the outstanding shares of Polaris common stock present in person or by proxy at the Annual Meeting, assuming the presence of a quorum at the Annual Meeting.

## **Board Recommendation**

Except where authority has been withheld by a shareholder, the enclosed proxy will be voted for the approval of the Amended Stock Option Plan. **The Board of Directors unanimously recommends a vote FOR the proposal to approve the Amended Stock Option Plan.**

## **EQUITY COMPENSATION PLANS**

*Equity Compensation Plans Approved by Shareholders.* Our shareholders have approved the Polaris Industries Inc. 1995 Stock Option Plan, the Polaris Industries Inc. 1996 Restricted Stock Plan, the Polaris Industries Inc. Employee Stock Purchase Plan, the Polaris Industries Inc. Deferred Compensation Plan for Directors and the 2003 Non-Employee Director Stock Option Plan.

*Equity Compensation Plans Not Approved by Shareholders.* The Polaris Industries Inc. 1999 Broad-Based Stock Option Plan was approved by the Board of Directors, but was not approved by the shareholders.

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Neither the NYSE rules nor federal law required shareholder approval at the time the 1999 Broad-Based Stock Option Plan was adopted and accordingly it was not submitted for shareholder approval.

Under the Polaris Industries Inc. 1999 Broad-Based Stock Option Plan, each of the Company's full-time employees, and any part-time employee who had performed at least 1,000 hours of service prior to the date of grant, received a one-time award of non-qualified stock options to purchase shares of Polaris common stock. The Company's executive officers and directors are not eligible to participate in this plan. On April 1, 1999, an aggregate of 675,400 options, as adjusted to reflect the two-for-one split of the Company's common stock, were granted under the plan, consisting of an option to each fulltime employee to purchase 200 shares and an option to each part-time employee to purchase 100 shares of Polaris common stock, each as adjusted to reflect the two-for-one split of the Company's common stock. These grants were made at the fair market value of Polaris common stock as of the grant date. Of the 675,400 options initially granted under the plan, an aggregate of 518,400 options, as adjusted for the two-for-one split of the Company's common stock, vested on March 7, 2002 when the closing price of Polaris common stock, as reported on the NYSE, was two times the per share exercise price of such options. The Board of Directors does not intend to grant any future options under this plan.

*Summary Table.* The following table sets forth certain information as of December 31, 2003, with respect to compensation plans under which shares of Polaris common stock may be issued. The number of securities appearing in the following table have been adjusted to reflect the two-for-one split of the Company's common stock.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity Compensation plans approved by security holders	4,702,612	\$23.21(1)	991,760
Equity compensation plans not approved by security holders	98,900	\$15.78	
Total	4,801,512	\$23.06	991,760

- (1) Does not include an aggregate of 57,216 common stock equivalents acquired on various dates between 1995 and December 31, 2003 pursuant to the Company's Deferred Compensation Plan for Directors at prices ranging from \$10.37 to \$41.31, as adjusted for the two-for-one split of the Company's common stock. A director will receive one share of common stock for every common stock equivalent held by that director upon his or her termination of service as a member of the Board of Directors.

**Table of Contents****EXECUTIVE COMPENSATION AND STOCK OPTION INFORMATION****Executive Compensation Summary**

The following table shows, for each of the last three fiscal years, the annual compensation paid to or earned by the Company's Chief Executive Officer and the other four most highly compensated executive officers (the Executive Officers) in all capacities in which they served.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Awards		All Other Compensation (\$ (F))
		Salary (\$ (A))	Bonus (\$ (B))	Other Annual Compensation (\$ (C))	Restricted Stock (\$ (D))	# of Options (#) (E)	
Thomas C. Tiller	2003	\$675,000	\$1,210,000		\$2,150,750	100,000	\$91,982
Chief Executive Officer	2002	\$614,136	\$1,165,000		\$1,424,750	100,000	\$85,956
and President	2001	\$571,157	\$1,085,200		\$2,002,500	950,000	\$77,096
Jeffrey A. Bjorkman	2003	\$249,038	\$210,000			20,000	\$24,202
Vice President	2002	\$225,000	\$200,000		\$210,863	16,000	\$21,500
Operations	2001	\$203,846	\$185,000		\$123,488	12,000	\$19,404
John B. Corness	2003	\$224,231	\$189,000			15,000	\$21,077
Vice President Human Resources	2002	\$204,229	\$180,000		\$184,363	14,000	\$19,712
	2001	\$185,000	\$170,000		\$123,488	12,000	\$18,750
Michael W. Malone	2003	\$203,076	\$173,000			15,000	\$19,904
Vice President Finance,	2002	\$184,806	\$160,000		\$158,147	12,000	\$17,490
Chief Financial Officer and Secretary	2001	\$172,404	\$145,000		\$82,325	8,000	\$17,620
Kenneth J. Sobaski	2003	\$330,769	\$225,000	\$91,515		16,000	
Vice President Sales,	2002	\$307,693	\$250,000		\$210,863	16,000	
Marketing and Business Development (G)	2001	\$111,538	\$70,000		\$623,000	60,000	\$1,154

(A) Includes amounts deferred by the Executive Officers under the Company's 401(k) Retirement Saving Plan and Supplemental Retirement/Savings Plan.

(B) Profit sharing bonus payments are reported for the year in which the related services were performed.

(C) The Company provides club memberships, club dues, financial planning and tax preparation, relocation benefits, Exec-U-Care coverage, as well as standard employee medical, dental, and disability coverage to its Executive Officers. The value of all Other Annual Compensation is less than the minimum of \$50,000 or 10% of the total cash compensation for each person reported above, except for Mr. Sobaski who in 2003 received a one-time relocation payment of \$39,659 and a medical reimbursement payment of \$49,775 under the Exec-U-Care coverage.

(D) The Company granted restricted stock awards to employees (including the Executive Officers) in 2001, 2002 and 2003. All restricted stock awards were approved by the appropriate committee of the Board of Directors and were granted in accordance with the Company's 1996 Restricted Stock Plan. The amounts shown in this column were calculated by multiplying the closing market price of Polaris common stock on the date of grant by the number of shares granted. An aggregate of 100,000 restricted shares, on a post-split basis, become freely tradeable only upon the Company achieving certain compounded earnings growth targets within a four year period and an aggregate of 159,620 restricted shares, on a post-split basis, become freely tradeable three years after the date of issuance provided that the holder continues to be an employee of the Company. The total number and value of restricted stock holdings as of December 31, 2003 (the last trading day of calendar year 2003), calculated by multiplying the closing market price of Polaris common stock on December 31, 2003 of \$44.29 per share, as adjusted for the two-for one stock split, by the number of restricted shares held, for the named officers are as

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follows: Messrs. Tiller, 190,000, \$8,415,100; Bjorkman, 12,950, \$573,556; Corness, 12,020, \$532,366; Malone, 9,250, \$409,683 and Sobaski, 35,400, \$1,567,866. The number of shares of restricted stock have been adjusted to reflect the two-for-one split of the Company's common stock.

- (E) The Company granted stock options to employees (including the Executive Officers) in 2001, 2002 and 2003. All stock option grants were approved by the appropriate committee of the Board of Directors and granted in accordance



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with the Company's 1995 Stock Option Plan. These numbers have been adjusted to reflect the two-for-one stock split of the Company's common stock.

(F) Consists of Company matching contributions to the Polaris 401(k) Retirement Saving Plan and Supplemental Retirement/ Savings Plan. The Supplemental Retirement/ Savings Plan began July 1, 1995 and is a nonqualified plan which mirrors the Polaris 401(k) Retirement Saving Plan without the Internal Revenue Service contribution limitations. The Executive Officers each received \$12,000 in matching contributions to the Polaris 401(k) Retirement Saving Plan during 2003, except for Mr. Sobaski. The Supplemental Retirement/ Savings Plan contributions during 2003 were \$79,982, \$12,202, \$9,077, \$7,904 and \$0, respectively, for Messrs. Tiller, Bjorkman, Corness, Malone and Sobaski.

(G) Mr. Sobaski joined the Company in October 2001.

The Company does not maintain any defined benefit or actuarial pension plan under which benefits are determined primarily by final compensation and years of service.

**Option Grants in 2003**

The following table shows all options to purchase Polaris common stock granted in 2003 to each of our Executive Officers named in the Summary Compensation Table and the potential value of such grants at stock price appreciation rates of 5% and 10%, compounded annually over the maximum ten-year term of the options. The 5% and 10% rates of appreciation are required to be disclosed by SEC rules and are not intended to forecast possible future appreciation, if any, in our stock price. The actual future value of the options will depend on the market value of the Company's common stock.

**OPTION GRANTS DURING 2003 AND**

**ASSUMED POTENTIAL REALIZABLE VALUES**

Name	Number of Options Granted(A)	Individual Grants		Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
		% of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Share)		5%	10%
Thomas C. Tiller	Base Price					
<b>Expiration</b>						
<b>Potential Realizable</b>						
<b>Value at Assumed</b>						
<b>Annual Rates of Stock Price</b>						
<b>Appreciation for</b>						
<b>Option Term(1)</b>						
<b>Name</b>						
<b>Granted(#)</b>						
<b>Year 2006</b>						
<b>(\$/Sh)</b>						

**Date**

**5%**

**10%**

Ronald D. Croatti

2,100

2.9

%

\$34.83

10/27/15

\$45,999

\$116,571

Cynthia Croatti

1,600

2.2

34.83

10/27/15

35,047

88,816

John B. Bartlett

1,600

2.2

34.83

10/27/15

35,047

88,816

Bruce P. Boynton

1,400

2.0

34.83

10/27/15

30,666

77,714

Dennis G. Assad

1,400

2.0

34.83

10/27/15

30,666

77,714

- (1) These columns show the hypothetical gains or option spreads of the options granted based on assumed annual compound stock appreciation rates of 5% and 10% over the full 10-year term of the options. The 5% and 10% assumed rates of appreciation are mandated by the rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of future Common Stock prices. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise of the option or the sale of the underlying shares or reflect non-transferability, vesting or termination provisions. The actual gains, if any, on the exercises of stock options will depend on the future performance of the Common Stock.

### Option Exercises and Year-End Holdings

The following table sets forth information concerning the number and value of unexercised options to purchase Common Stock of the Company held by the Named Executive Officers at August 26, 2006. John B. Bartlett exercised 100% of his exercisable options (4,200) to purchase Common Stock during fiscal 2006. No other Named Executive Officer of the Company exercised any options to purchase Common Stock during fiscal 2006.

Number of Securities Underlying

Value of Unexercised

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<u>Name</u>	Unexercised Options at		in-the-Money Options at	
	August 26, 2006(#) <u>Exercisable</u>	<u>Unexercisable</u>	August 26, 2006(\$) <u>Exercisable</u>	<u>Unexercisable</u>
Ronald D. Croatti	6,300	8,400	\$102,464	\$40,467
Cynthia Croatti	3,400	5,800	53,977	26,978
John B. Bartlett		5,800		26,978
Bruce P. Boynton	275	4,700	3,564	21,197
Dennis G. Assad	3,300	4,700	53,672	21,197

**Supplemental Executive Retirement Plan**

The Company maintains the UniFirst Unfunded Supplemental Executive Retirement Plan (the "SERP") available to certain eligible employees of the Company and its affiliates. Retirement benefits available under the SERP are based on a participant's average annual base earnings for the last three years of employment prior to his retirement date ("Final Average Earnings"). Upon the retirement of a participant on his social security retirement date, the participant will be paid an aggregate amount equal to 1.33% percent of his Final Average Earnings multiplied by his years of service, limited to 30 years, less his primary Social Security benefit. Upon the death of a participant, the participant's designated beneficiary will be paid retirement benefits up to 12 years from the date of retirement. The SERP provides that, upon any change of control, participants in the SERP will receive a lump sum payment equal to the actuarial equivalent of their plan benefit as of the date of the change in control.

Average Compensation(1)	Annual Retirement Benefit(2)
\$ 200,000	\$ 80,000
250,000	100,000
300,000	120,000
350,000	140,000
400,000	160,000
450,000	180,000

- (1) Average Compensation for purposes of this table is based on the participant's average base salary for the last three years of full-time employment preceding retirement.
- (2) The Annual Retirement Benefit assumes the participant has provided 30 years of service, and does not consider the deduction for Social Security benefits. As of November 17, 2006, Messrs. Croatti, Bartlett, Boynton, and Assad and Ms. Croatti had served a total of 41, 29, 30, 31, and 26 years, respectively.

**REPORT OF COMPENSATION COMMITTEE**

During the 2006 fiscal year, the Compensation Committee consisted of Messrs. A. Cohen (Chairman), P. Cohen and Evans, three Directors who are not employees of the Company. The Compensation Committee reviews and approves the Company's executive compensation program.

**Compensation Philosophy**

The Company seeks to attract and retain executive officers who, in the judgment of the Company's Board of Directors, possess the skill, experience and motivation to contribute significantly to the long-term success of the Company and to long-term stock price appreciation. With this philosophy in mind, the Compensation Committee follows an executive officer compensation program designed to foster the mutuality of interest between the Company's executive officers and the Company's shareholders and to provide senior management additional incentive to enhance the sales growth and profitability of the Company, and thus shareholder value.

The Compensation Committee reviews its compensation policy annually. Compensation of executive officers currently consists of a base salary and, based on the achievement of predetermined corporate performance objectives, a cash bonus. In addition, for fiscal 2006 the Company issued options to purchase a total of approximately 71,400 shares to over 100 officers, non-employee Directors, vice presidents, department

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directors, general managers and other management personnel. Although the Company's fiscal year ends in August, compensation decisions generally are made on a calendar year basis.

### **Base Salary**

Each year, the Compensation Committee consults with the Chief Executive Officer with respect to setting the base salaries of its executive officers, other than the Chief Executive Officer, for the ensuing year. Annual salary adjustments are determined by evaluating the financial performance of the Company during the prior year, each executive officer's contribution to the profitability, sales growth, return on equity and market share of the Company during the prior year and the compensation programs and levels generally paid to executives at other companies.

### **Incentive Compensation Plan**

Annual cash bonuses for executive officers of the Company are determined in accordance with the Company's incentive compensation plan, the philosophy and substantive requirements of which are reviewed by the Compensation Committee each year. Cash bonuses are determined with reference to, among other things, the Company's financial performance.

Each year, the Compensation Committee confers with the Chief Executive Officer and establishes performance goals. The cash bonuses awarded depend on the extent to which the performance of the Company meets or exceeds the budgeted amounts. In addition, the Compensation Committee establishes minimum achievement thresholds and maximum bonus levels for each of these performance criteria which apply uniformly to the Company's executive officers. Bonuses are determined and paid annually after the end of each fiscal year.

### **Compensation of Chief Executive Officer**

The Compensation Committee established the compensation of Ronald D. Croatti, the Chief Executive Officer, for 2006 using the same criteria applicable to determining compensation levels and bonuses for other executive officers as noted in this report. Such criteria included the financial performance of the Company during the 2005 fiscal year, the compensation levels generally paid to executives of other companies, and Mr. Croatti's contribution to the growth, profitability and overall success of the Company during the 2005 fiscal year and his leadership of the Company. The Compensation Committee determined that Mr. Croatti provided the Company with strong leadership and strategic vision and, therefore, increased his salary generally commensurate with increases granted to other executive officers of the Company. Mr. Croatti's 2006 calendar year base salary was established at \$442,000, a 7% increase from the prior year.

Submitted by the Compensation Committee for fiscal 2006

Albert Cohen (Chairman)

Phillip L. Cohen

Donald J. Evans

### **Compensation Committee Interlocks and Insider Participation**

During the 2006 fiscal year, the Compensation Committee consisted of Messrs. A. Cohen, P. Cohen and Evans. None of these individuals has served as an officer or employee of the Company or any of its subsidiaries. The Company is not aware of any compensation committee interlocks.

### **REPORT OF AUDIT COMMITTEE**

The Audit Committee is composed entirely of independent directors meeting the requirements of applicable Securities and Exchange Commission and New York Stock Exchange rules. The key responsibilities of our committee are set forth in our Charter.



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We serve in an oversight capacity and are not intended to be part of UniFirst's operational or managerial decision-making process. UniFirst's management is responsible for preparing the consolidated financial statements and its independent registered public accounting firm is responsible for auditing those statements. Our principal purpose is to monitor these processes.

The Audit Committee has, among other things:

Reviewed and discussed with management and the independent registered public accounting firm the audited financial statements for the year ended August 26, 2006.

Reviewed and discussed with management and the independent registered public accounting firm the quarterly and annual earnings press releases prior to release and the quarterly and annual reports on Forms 10-Q and 10-K prior to filing.

Discussed with management and the independent registered public accounting firm the results of the testing of internal controls over financial reporting.

Discussed with the independent registered public accounting firm the overall scope and plans for the annual audit, the results of their examination and the overall quality of UniFirst's financial reporting.

Discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards ( SAS ) No. 61, as amended by SAS No. 90.

Reviewed all audit and non-audit service performed by the independent registered public accounting firm and considered whether the provision of non-audit audit services is compatible with maintaining the auditors' independence.

Received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, and discussed with the independent registered public accounting firm the auditors' independence.

Based on the review and discussions above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee for fiscal 2006

Phillip L. Cohen (Chairman)

Donald J. Evans

Lawrence R. Pugh

#### **Independent Registered Public Accounting Firm**

*Audit Fees.* During fiscal 2006, the aggregate fees and expenses for professional services rendered by Ernst & Young LLP (Ernst & Young) for the audit of the Company's annual financial statements, audit of management's assessment and the operating effectiveness of the Company's internal controls over financial reporting, and review of the Company's quarterly financial statements totaled \$1,205,326. Of this amount, \$81,600 was paid for service provided in connection with a follow-on offering completed in July 2006. This amount was fully reimbursed by the selling shareholders. During fiscal 2005, the aggregate fees and expenses billed for professional services rendered by Ernst & Young for the audit of the Company's annual financial statements, audit of management's assessment and the operating effectiveness of the Company's internal controls over financial reporting, and review of the Company's quarterly financial statements totaled \$1,292,300.

*Audit-Related Fees.* During fiscal 2006 and 2005, there were no fees and expenses billed for assurance and related services rendered by Ernst & Young that were reasonably related to the performance of the audit or review of the Company's annual financial statements and review of the Company's quarterly financial statements.

*Tax Fees.* During fiscal 2006, the aggregate fees and expenses billed for professional services rendered by Ernst & Young for tax compliance, tax advice and tax planning totaled \$50,000. During fiscal 2005, the aggregate fees and expenses billed for professional services rendered by Ernst & Young for tax compliance, tax advice and tax planning totaled \$165,757.

*All Other Fees.* During fiscal 2006, the aggregate fees and expenses billed for professional services rendered by Ernst & Young to the Company not covered in the three preceding paragraphs totaled \$10,318, which were primarily for advisory services. During fiscal 2005, the aggregate fees and expenses billed for professional services rendered by Ernst & Young to the Company not covered in the three preceding paragraphs totaled \$19,419, which were primarily for advisory services.

Under its Charter, the Audit Committee must pre-approve all audit and permitted non-audit services to be provided by our principal independent registered public accounting firm unless an exception to such pre-approval exists under the Exchange Act or the rules of the SEC. Each year, the

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audit committee approves the retention of the independent registered public accounting firm to audit our financial statements, including the associated fee. All of the services described in the four preceding paragraphs were approved by the Audit Committee. The Audit Committee has considered whether the provisions of such services, including non-audit services, by Ernst & Young is compatible with maintaining Ernst & Young's independence and has concluded that it is.

**Stock Performance Graph**

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Common Stock, based on the market price of the Common Stock, with the cumulative total shareholder return of a peer group and of companies within the Standard & Poor's 500 Stock Index, in each case assuming reinvestment of dividends. The peer group is composed of Cintas Corporation, G & K Services, Inc. and Angelica Corporation. The calculation of cumulative total shareholder return assumes a \$100 investment in the Common Stock, the peer group and the S&P 500 Stock Index on August 31, 2001.

**COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN**

**AMONG UNIFIRST CORPORATION,**

**THE S&P 500 INDEX AND A PEER GROUP**

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[www.researchdatagroup.com/S&P.htm](http://www.researchdatagroup.com/S&P.htm)

	Aug. 01	Aug. 02	Aug. 03	Aug. 04	Aug. 05	Aug. 06
UniFirst Corporation	\$ 100.00	\$ 140.54	\$ 156.94	\$ 176.16	\$ 242.01	\$ 192.04
S&P 500	\$ 100.00	\$ 82.01	\$ 91.90	\$ 102.43	\$ 115.29	\$ 125.53
Peer Group	\$ 100.00	\$ 96.92	\$ 89.85	\$ 93.79	\$ 96.29	\$ 85.63

**Certain Relationships and Related Transactions**

The Company retained during the 2006 fiscal year, and proposes to retain during the 2007 fiscal year, the law firm of Goodwin Procter LLP. Donald J. Evans, a Director of the Company, was formerly a partner of the law firm of Goodwin Procter LLP. Raymond C. Zemlin, the Secretary of the Company, is a partner in the law firm of Goodwin Procter LLP.

**Director Compensation**

During the 2006 calendar year, each Director who was not an employee of the Company received: an annual fee of \$24,000; an annual fee for chairing a Committee of \$4,000; a \$2,500 fee for each Board meeting attended; a \$500 fee for each Committee meeting attended if held on the same day as a Board meeting; a \$2,000 fee for one or more Committee meetings attended on a single day if not held on the same day as a Board meeting; a \$1,000 fee for participating in a telephonic Board meeting; a \$500 fee for participating in a telephonic Committee meeting; and an option to purchase 1,000 shares of Common Stock, to be issued on the third business day following the Company's 2006 Annual Meeting.

The Board of Directors, based on a recommendation from the Compensation Committee, has established the compensation for calendar 2007 for each non-employee Director as follows: an annual fee of \$28,000; an annual fee for chairing the Audit Committee of \$7,500; an annual fee for chairing a Committee other than the Audit Committee of \$5,000; a \$2,500 fee for each Board meeting attended; a \$500 fee for each Committee meeting attended if held on the same day as a Board meeting; a \$2,000 fee for one or more Committee meetings attended on a single day if not held on the same day as a Board meeting; a \$1,250 fee for participating in a telephonic Board meeting; a \$1,000 fee for participating in a telephonic Committee meeting; and an option to purchase 1,500 shares of Common Stock, to be issued on the third business day following the Company's 2007 Annual Meeting.

Each Director who was also an employee of the Company received no Director's fees during fiscal year 2006 and will receive no Director's fees during calendar year 2007.

## **2. AMENDMENT TO 1996 STOCK INCENTIVE PLAN**

### **General**

Under the Company's 1996 Stock Incentive Plan (the "Plan") the Company is authorized to issue up to 450,000 shares of Common Stock. The Company has historically granted options once each year to approximately 110 managers, directors and executives. Following the option grant made on October 31, 2006, fewer than 13,000 shares of Common Stock remained available for future option grants. Accordingly, the Board of Directors amended the Plan, on October 31, 2006, subject to stockholder approval, by increasing the shares authorized to be issued thereunder from 450,000 to 800,000, an increase of 350,000 shares. A copy of the Plan, as amended to date, may be obtained upon written request to the Company's Secretary at the address listed on page 2.

### **Recommendation**

The Board of Directors believes that stock option and other stock-based incentive awards can play an important role in the success of the Company by encouraging and enabling the officers and other employees of the Company and its subsidiaries upon whose judgment, initiative and efforts the Company largely depends on for the successful conduct of its business to acquire a proprietary interest in the Company. The Board of Directors believes that providing such persons with a direct stake in the Company assures a closer identification of the interests of participants in the Plan with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company. On October 31, 2006, the Board of Directors determined that shares of Common Stock then remaining available for issuance pursuant to new awards under the Plan were insufficient to provide for the continued proper compensation and incentivization of the Company's officers and employees. The Board of Directors believes that this Amendment to increase the number of shares of Common Stock authorized for issuance under the Plan is necessary to ensure that a sufficient reserve of Common Stock is available under the Plan.

### **Summary of the Plan**

The following description of certain features of the Plan, including the proposed Amendment, is intended to be a summary only. The summary is qualified in its entirety by the full text of the Plan and the Amendment.

*Shares Subject to the Plan.* An aggregate of 800,000 shares of Common Stock have been reserved for issuance under the Plan.

*Plan Administration; Eligibility.* The Board of Directors or a committee thereof appointed by the Board (such committee, or the Board acting in such capacity, the "Committee") has full power to select, from among the persons eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the

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provisions of the Plan. Persons eligible to participate in the Plan will be such officers and other employees of the Company and its subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company and its subsidiaries, as selected from time to time by the Committee. Non-Employee Directors are included in the group of persons eligible to participate in the Plan. The number of individuals potentially eligible to participate in the amended Plan is approximately 9,800 persons.

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*Stock Options.* The Plan permits the granting of both (i) options to purchase Common Stock intended to qualify as incentive stock options ( Incentive Stock Options ) under Section 422 of the Internal Revenue Code of 1986, as amended (the Code ) and (ii) options that do not so qualify ( Non-Qualified Options ). The option exercise price of each option will be determined by the Committee but may not be less than 100% of the fair market value of the Common Stock on the date of grant in the case of Incentive Stock Options. The term of each option will be fixed by the Committee and may not exceed ten years from date of grant in the case of an Incentive Stock Option. The Committee will determine at what time or times each option may be exercised and, subject to the provisions of the Plan, the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised. Options may be made exercisable in installments, and the exercisability of options may be accelerated by the Committee. Upon exercise of options, the option exercise price must be paid in full either in cash or by certified or bank check or other instrument acceptable to the Committee or, if the Committee so permits, by delivery of shares of Common Stock that are not then subject to restrictions under any Company Plan and that have been beneficially owned by the optionee for at least six months. Such shares will be valued at their fair market value on the exercise date. The exercise price may also be delivered to the Company by a broker pursuant to irrevocable instructions to the broker from the optionee.

To qualify as Incentive Stock Options, options must meet additional Federal tax requirements, including a \$100,000 limit on the value of shares subject to Incentive Stock Options which first become exercisable in any one calendar year, and a shorter term and higher minimum exercise price in the case of certain large shareholders.

*Stock Options Granted to Non-Employee Directors.* The Plan provides that each Non-Employee Director who is serving as a Director of the Company on the third business day after each annual meeting of shareholders, beginning with the 2004 annual meeting, shall be granted a Non-Qualified Option to acquire a number of shares of stock as determined annually by the Committee. The exercise price of each such Non-Qualified Option will be the fair market value of Common Stock on the date of grant. Unless otherwise determined by the Committee the option will be exercisable in full on the date of grant, and the option will terminate on the later to occur of the eighth anniversary of the date of grant or two years following the date on which the optionee ceased to be a Director of the Company. The Plan also provides that the Committee may make discretionary grants of Non-Qualified Options to Non-Employee Directors, subject to the terms of the Plan.

*Stock Appreciation Rights.* The Committee may also grant stock appreciation rights ( SARs ) entitling the recipient, upon exercise, to receive an amount in cash or shares of Common Stock, or a combination thereof, having a value equal to the excess of the fair market value on the date of exercise of one share of Common Stock over the exercise price per share set by the Committee at the time of grant (or over the option exercise price per share if the SAR was granted in tandem with a Stock Option) times the number of shares of Common Stock with respect to which the SAR is exercised. This amount may be paid in cash, Common Stock, or a combination thereof, as determined by the Committee. SARs may be granted independently or in tandem with the grant of a stock option. If the SAR is granted in tandem with a stock option, exercise of the SAR cancels the related option to the extent of such exercise.

*Restricted Stock.* The Committee may also award shares of Common Stock subject to such conditions and restrictions as the Committee may determine ( Restricted Stock ). These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with the Company through a specified restricted period. The purchase price, if any, of shares of Restricted Stock will be determined by the Committee. Recipients of Restricted Stock must enter into a Restricted Stock Award Agreement with the Company, in such form as the Committee determines. The Committee at the time of grant shall specify the restrictions to which the shares are subject and the date or dates on which the restrictions will lapse and the shares become vested.

The Committee may at any time waive such restrictions or accelerate such dates. If a participant who holds shares of Restricted Stock terminates employment for any reason (including death) prior to the vesting of such Restricted Stock, the Company shall have the right to repurchase the shares or to require their forfeiture if acquired at no cost, from the participant or participant's legal representative. Prior to the vesting of Restricted Stock, the participant will have all rights of a shareholder with respect to the shares, including voting and dividend rights, subject only to the conditions and restrictions set forth in the Plan or in the Restricted Stock award agreement.

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*Unrestricted Stock.* The Committee may also grant shares (at no cost or for a purchase price determined by the Committee) which are free from any restrictions under the Plan ( *Unrestricted Stock* ).

*Performance Share Awards.* The Committee may also grant awards entitling the recipient to receive shares of Common Stock upon the achievement of specified performance goals and such other conditions as the Committee shall determine ( *Performance Share Awards* ). Except as otherwise determined by the Committee, rights under a Performance Share Award will terminate upon a participant's termination of employment. Performance Shares may be awarded independently or in connection with stock options or other awards under the Plan.

*Adjustments for Stock Dividends, Mergers, Etc.* The Committee will make appropriate adjustments in outstanding awards to reflect stock dividends, stock splits and similar events. In the event of a merger, liquidation, sale of the Company or similar event, the Committee, in its discretion, may provide for substitution or adjustments or may (subject to the provisions described below under *Change of Control Provisions* ) accelerate or, upon payment or other consideration for the vested portion of any awards as the Committee deems equitable in the circumstances, terminate such awards.

*Tax Withholding.* Plan participants are responsible for the payment of any Federal, state or local taxes which the Company is required by law to withhold from the value of any award. The Company may deduct any such taxes from any payment otherwise due to the participant. Participants may elect to have such tax obligations satisfied either by authorizing the Company to withhold shares of stock to be issued pursuant to an award under the Plan or by transferring to the Company shares of Common Stock having a value equal to the amount of such taxes.

*Amendments and Termination.* The Board of Directors may at any time amend or discontinue the Plan and the Committee may at any time amend or cancel outstanding awards (or provide substitute awards at the same or a reduced exercise price, or with no exercise or purchase price) for the purpose of satisfying changes in the law or for any other lawful purpose. However, no such action may be taken which adversely affects any rights under outstanding awards without the holder's consent. Further, Plan amendments shall be subject to approval by the Company's shareholders if and to the extent required by (i) the New York Stock Exchange rules, or (ii) the Code to ensure that Incentive Stock Options are qualified under Section 422 of the Code.

*Change of Control Provisions.* The Plan provides that in the event of a *Change of Control* (as defined in the Plan) of the Company, all stock options, SARs and Performance Share Awards shall automatically become fully exercisable. Restrictions and conditions on awards of Restricted Stock shall automatically be deemed waived. In addition, at any time prior to or after a Change of Control, the Committee may accelerate awards and waive conditions and restrictions on any awards to the extent it may determine appropriate.

### **Tax Aspects Under the U.S. Internal Revenue Code**

The following is a summary of the principal Federal income tax consequences of option grants under the Plan. It does not describe all Federal tax consequences under the Plan, nor does it describe state or local tax consequences.

*Incentive Options.* Under the Code, an employee will not realize taxable income by reason of the grant or the exercise of an Incentive Option. If an employee exercises an Incentive Option and does not dispose of the shares until the later of (a) two years from the date the option was granted or (b) one year from the date the shares were transferred to the employee, the entire gain, if any, realized upon disposition of such shares will be taxable to the employee as long-term capital gain, and the Company will not be entitled to any deduction. If an employee disposes of the shares within such one-year or two-year period in a manner so as to violate the holding period requirements (a *disqualifying disposition* ), the employee generally will realize ordinary income in the year of disposition, and the Company will receive a corresponding deduction, in an amount equal to the excess of (1) the lesser of (x) the amount, if any, realized on the disposition and (y) the fair market value of the shares on the date the option was exercised over (2) the option price. Any additional gain realized on the disposition of the shares acquired upon exercise of the option will be long-term or short-term capital gain and any loss will be long-term or short-term capital loss depending upon the holding period for such shares. The employee will be considered to have disposed of his shares if he sells, exchanges, makes a gift of or transfers legal title to the shares (except by pledge or by transfer on death). If the disposition of shares is by gift and violates the holding period requirements, the amount of the



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employee's ordinary income (and the Company's deduction) is equal to the fair market value of the shares on the date of exercise less the option price. If the disposition is by sale or exchange, the employee's tax basis will equal the amount paid for the shares plus any ordinary income realized as a result of the disqualifying distribution. The exercise of an Incentive Option may subject the employee to the alternative minimum tax. Under current law, an employee will not have any additional FICA (Social Security taxes) upon exercise of an Incentive Option. Special rules apply if an employee surrenders shares of Common Stock in payment of the exercise price of his Incentive Option.

An Incentive Option that is exercised in accordance with its terms by an employee more than three months after an employee's employment terminates will be treated as a Non-Qualified Option for Federal income tax purposes. In the case of an employee who is disabled, the three-month period is extended to one year and in the case of an employee who dies, the three-month employment rule does not apply.

*Non-Qualified Options.* There are no Federal income tax consequences to either the optionee, or the Company on the grant of a Non-Qualified Option. On the exercise of a Non-Qualified Option, the optionee has taxable ordinary income equal to the excess of the fair market value of the Common Stock received on the exercise date over the option price of the shares. The optionee's tax basis for the shares acquired upon exercise of a Non-Qualified Option is increased by the amount of such taxable income. The Company will be entitled to a Federal income tax deduction in an amount equal to such excess. Upon exercise, the optionee will also be subject to FICA (Social Security taxes) on the excess of the fair market value over the exercise price of the option. Upon the sale of the shares acquired by exercise of a Non-Qualified Option, the optionee will realize long-term or short-term capital gain or loss depending upon his or her holding period for such shares. Special rules apply if an optionee surrenders shares of Common Stock in payment of the exercise price of a Non-Qualified Option.

*Parachute Payments.* The exercise of any portion of any option that is accelerated due to the occurrence of a change of control may cause a portion of the payments with respect to such accelerated options to be treated as parachute payments as defined in the Code. Any such parachute payments may be non-deductible to the Company, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or portion of such payment (in addition to other taxes ordinarily payable).

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*Limitation on Company's Deductions.* As a result of Section 162(m) of the Code, the Company's deduction for awards under the Plan may be limited to the extent that the Chief Executive Officer or other executive officer whose compensation is required to be reported in the summary compensation table receives compensation (other than performance-based compensation) in excess of \$1 million a year.

**The Board of Directors recommends that you vote FOR the Amendment to the Plan, which serves to authorize the issuance of an additional 350,000 shares of Common Stock for issuance under the Plan.**

### 3. RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed Ernst & Young LLP as the Company's independent registered public accounting firm for its fiscal year ending August 25, 2007. Ernst & Young LLP has served as the Company's independent registered public accounting firm since 2002. The Audit Committee is directly responsible for the appointment, retention, compensation and oversight of the work of the Company's independent registered public accounting firm for the purpose of preparing or issuing an audit report or related work. In making its determinations regarding whether to appoint or retain a particular independent registered public accounting firm, the Audit Committee takes into account the views of management and will take into account the vote of the Company's stockholders with respect to the ratification of the appointment of the Company's independent registered public accounting firm.

A representative of Ernst & Young LLP is expected to be present at the Annual Meeting. He or she will have an opportunity to make a statement, if he or she desires to do so, and will be available to respond to appropriate questions.

**The Board of Directors recommends that you vote FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending August 25, 2007.**

### 4. OTHER MATTERS

Management is not aware of any other matters which may come before the Annual Meeting; however, if any matters other than those set forth in the attached Notice of Annual Meeting should be properly presented at the Annual Meeting, the persons named in the enclosed proxy intend to take such action as will be, in their discretion, consistent with the best interest of the Company.

#### Shareholder Proposals

Any shareholder desiring to present a proposal for inclusion in the Company's Proxy Statement in connection with the Company's 2008 Annual Meeting of shareholders must submit the proposal so as to be received by the Secretary of the Company at the principal executive offices of the Company, 68 Jonspin Road, Wilmington, Massachusetts 01887, not later than August 6, 2007. In addition, in order to be included in the proxy statement, such a proposal must comply with the requirements as to form and substance established by applicable laws and regulations.

Shareholders wishing to present business for action, other than proposals to be included in the Company's Proxy Statement, or to nominate candidates for election as Directors at a meeting of the Company's shareholders, must do so in accordance with the Company's By-laws. The

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By-laws provide, among other requirements, that in order to be presented at the 2008 Annual Meeting of shareholders, such shareholder proposals or nominations may be made only by a shareholder of record who shall have given notice of the proposal or nomination and the related required information to the Company no earlier than September 11, 2007 and no later than October 26, 2007.

**WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE FILL IN AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENVELOPE PROVIDED. IF YOU DESIRE TO VOTE YOUR STOCK IN PERSON AT THE MEETING, YOUR PROXY MAY BE REVOKED.**

December 4, 2006























