

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

FORM 10-Q

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

For the Quarterly Period Ended JULY 30, 1999 Commission File Number 1-8649

THE TORO COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

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

8111 LYNDAL AVE SOUTH
BLOOMINGTON, MINNESOTA 55420
TELEPHONE NUMBER: (612) 888-8801

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes X No
----- -----

The number of shares of Common Stock outstanding as of September 3, 1999 was
12,674,206.

THE TORO COMPANY
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PART I. ITEM 1. FINANCIAL INFORMATION

THE TORO COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
 (DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER-SHARE DATA)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | July 30, 1999 | July 31, 1998 | July 30, 1999 | July 31, 1998 |
| Net sales..... | \$ 325,317 | \$ 290,993 | \$ 1,009,186 | \$ 880,738 |
| Cost of sales..... | 199,478 | 189,713 | 642,549 | 573,457 |
| Gross profit..... | 125,839 | 101,280 | 366,637 | 307,281 |
| Selling, general, and administrative expenses..... | 103,140 | 89,532 | 292,276 | 256,431 |
| Restructuring and other unusual expense..... | 722 | 10,452 | 722 | 10,452 |
| Earnings from operations..... | 21,977 | 1,296 | 73,639 | 40,398 |
| Interest expense..... | (6,790) | (6,650) | (18,517) | (19,366) |
| Other income, net..... | 1,736 | 1,135 | 2,599 | 6,140 |
| Earnings (loss) before income taxes..... | 16,923 | (4,219) | 57,721 | 27,172 |
| Provision (benefit) for income taxes..... | 6,600 | (1,666) | 22,511 | 10,733 |
| Net earnings (loss)..... | \$ 10,323 | \$ (2,553) | \$ 35,210 | \$ 16,439 |
| Basic earnings (loss) per share of common stock..... | \$.80 | \$ (0.20) | \$ 2.72 | \$ 1.28 |
| Diluted earnings (loss) per share of common stock..... | \$.78 | \$ (0.20) | \$ 2.66 | \$ 1.24 |
| Weighted average number of shares of common stock outstanding - basic..... | 12,825 | 12,854 | 12,961 | 12,845 |
| Weighted average number of shares of common stock outstanding - dilutive..... | 13,244 | 12,854 | 13,235 | 13,302 |

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | July 30, 1999 | July 31, 1998 | October 31, 1998 |
|--|------------------|------------------|---------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Cash and cash equivalents.....\$ | 1,915 | \$ 2,800 | \$ 90 |
| Receivables, net..... | 339,748 | 328,628 | 241,426 |
| Inventories, net..... | 194,225 | 202,999 | 184,306 |
| Prepaid expenses and other current assets..... | 8,352 | 7,238 | 14,618 |
| Deferred income taxes..... | 39,154 | 44,831 | 38,997 |
| | ----- | ----- | ----- |
| Total current assets..... | 583,394 | 586,496 | 479,437 |
| | ----- | ----- | ----- |
| Property, plant, and equipment..... | 345,430 | 325,473 | 330,539 |
| Less accumulated depreciation..... | 222,631 | 192,510 | 203,402 |
| | ----- | ----- | ----- |
| | 122,799 | 132,963 | 127,137 |
| Deferred income taxes..... | 3,786 | 1,182 | 3,763 |
| Goodwill and other assets..... | 128,230 | 112,722 | 113,654 |
| | ----- | ----- | ----- |
| Total assets.....\$ | 838,209 | \$ 833,363 | \$ 723,991 |
| | ----- | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current portion of long-term debt.....\$ | 644 | \$ 684 | \$ 580 |
| Short-term debt..... | 115,356 | 158,031 | 31,000 |
| Accounts payable..... | 39,119 | 30,505 | 65,273 |
| Accrued liabilities..... | 196,153 | 161,581 | 161,357 |
| | ----- | ----- | ----- |
| Total current liabilities..... | 351,272 | 350,801 | 258,210 |
| | ----- | ----- | ----- |
| Long-term debt, less current portion..... | 195,617 | 196,947 | 196,844 |
| Other long-term liabilities..... | 6,325 | 6,625 | 5,538 |
| Stockholders' equity: | | | |
| Common stock, par value \$1.00, authorized 35,000,000 shares; issued and outstanding 12,657,994 shares at July 30, 1999 (net of 850,061 treasury shares), 12,867,614 shares at July 31, 1998 (net of 640,441 treasury shares), and 12,769,560 shares at October 31, 1998 (net of 738,495 treasury shares)... | 12,658 | 12,868 | 12,770 |
| Additional paid-in capital..... | 48,883 | 59,455 | 56,546 |
| Retained earnings..... | 231,200 | 214,501 | 200,609 |
| Foreign currency translation adjustment..... | (7,746) | (7,834) | (6,526) |
| | ----- | ----- | ----- |
| Total stockholders' equity..... | 284,995 | 278,990 | 263,399 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity.....\$ | 838,209 | \$ 833,363 | \$ 723,991 |
| | ----- | ----- | ----- |

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(DOLLARS IN THOUSANDS)

| | Nine Months Ended | |
|---|-------------------|------------------|
| | July 30, 1999 | July 31, 1998 |
| Cash flows from operating activities: | | |
| Net earnings..... | \$ 35,210 | \$ 16,439 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | |
| Provision for depreciation and amortization..... | 26,897 | 22,593 |
| Loss on disposal of property, plant, and equipment..... | 264 | 301 |
| Deferred income taxes..... | 282 | (2,490) |
| Tax benefits related to employee stock option transactions..... | 393 | 1,815 |
| Changes in operating assets and liabilities: | | |
| Receivables, net..... | (95,299) | (60,811) |
| Inventories, net..... | (4,060) | (31,448) |
| Prepaid expenses and other current assets..... | 5,886 | 4,283 |
| Accounts payable and accrued expenses..... | 8,520 | (18,100) |
| Net cash used in operating activities..... | (21,907) | (67,418) |
| Cash flows from investing activities: | | |
| Purchases of property, plant, and equipment..... | (18,551) | (24,514) |
| Proceeds from asset disposals..... | 256 | 1,330 |
| (Increase) decrease in investment in affiliates..... | (4,901) | 26 |
| (Increase) decrease in other assets..... | (2,207) | 1,336 |
| Acquisitions, net of cash acquired..... | (2,748) | (17,173) |
| Net cash used in investing activities..... | (28,151) | (38,995) |
| Cash flows from financing activities: | | |
| Increase in short-term debt..... | 79,736 | 117,031 |
| Repayments of long-term debt..... | (1,554) | (3,601) |
| Increase in other long-term liabilities..... | 763 | 972 |
| Proceeds from exercise of stock options..... | 3,326 | 2,176 |
| Purchases of common stock..... | (24,549) | - |
| Dividends on common stock..... | (4,619) | (4,619) |
| Net cash provided by financing activities..... | 53,103 | 111,959 |
| Foreign currency translation adjustment..... | (1,220) | (2,754) |
| Net increase in cash and cash equivalents..... | 1,825 | 2,792 |
| Cash and cash equivalents at beginning of period..... | 90 | 8 |
| Cash and cash equivalents at end of period..... | \$ 1,915 | \$ 2,800 |

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JULY 30, 1999

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by generally accepted accounting principles for complete financial statements. Unless the context indicates otherwise, the terms "company" and "Toro" refer to The Toro Company and its subsidiaries. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting primarily of recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. Since the company's business is seasonal, operating results for the nine months ended July 30, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 1999. Certain amounts from prior period's financial statements have been reclassified to conform to this period's presentation.

For further information, refer to the consolidated financial statements and notes included in the company's Annual Report on Form 10-K for the year ended October 31, 1998. The policies described in that report are used for preparing quarterly reports.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value with cost determined by the last-in, first-out (LIFO) method for most inventories.

Inventories were as follows:

| (Dollars in thousands) | July 30, 1999 | July 31, 1998 |
|--|---------------------|---------------------|
| | ----- | ----- |
| Raw materials and work in process..... | \$ 171,194 | \$ 178,678 |
| Finished goods..... | 69,003 | 66,096 |
| | ----- | ----- |
| Less LIFO and other reserves..... | 240,197 (45,972) | 244,774 (41,775) |
| | ----- | ----- |
| Total | \$ 194,225 | \$ 202,999 |
| | ----- | ----- |

RESTRUCTURING AND OTHER UNUSUAL EXPENSE

During the third quarter of fiscal 1999, the company recorded a net charge of \$.7 million for restructuring and other unusual expense. The company recorded a restructuring charge of \$1.9 million for asset write-downs and severance related to management and sales force changes due to a reorganization of its Australian manufacturing operations. Other unusual expense was reduced by \$1.2 million relating to the reversal for the unused portion of the \$3.7 million one-time consumer marketing programs accrued in the third quarter of fiscal 1998. The company also expects to record an approximate \$.8 million restructuring charge in the fourth quarter of fiscal 1999 related to severance costs for the closure of its Australian plant. This severance will be recorded in the fourth quarter because the employees were notified of their termination in the fourth quarter of fiscal 1999.

At October 31, 1998, the company had \$10.7 million of restructuring and other unusual expense in accrued liabilities. Since then, the company has utilized or reversed \$10.7 million of these reserves and accrued an additional \$1.9 million of restructuring charges, leaving \$1.9 million remaining in accrued liabilities for restructuring and other unusual expense at July 30, 1999. The company expects most of these reserves to be utilized by the end of the first quarter of fiscal 2000.

COMPREHENSIVE INCOME

Comprehensive income (loss) is comprised of two components: net earnings (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to revenues, expenses, gains, and losses that under generally accepted accounting principles are recorded as an element of stockholders' equity and are excluded from net earnings. Toro's other comprehensive loss is comprised of foreign currency translation adjustments from certain foreign subsidiaries.

The components of comprehensive income (loss) were as follows:

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|----------------------------------|--------------------|------------------|-------------------|------------------|
| | July 30, 1999 | July 31, 1998 | July 30, 1999 | July 31, 1998 |
| Net earnings (loss)..... | \$ 10,323 | \$ (2,553) | \$ 35,210 | \$ 16,439 |
| Other comprehensive loss..... | (1,623) | (1,049) | (1,220) | (2,754) |
| Comprehensive income (loss)..... | \$ 8,700 | \$ (3,602) | \$ 33,990 | \$ 13,685 |

EARNINGS PER SHARE

Reconciliation of basic and dilutive weighted average shares of common stock outstanding is as follows:

| BASIC (Shares in thousands) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | July 30, 1999 | July 31, 1998 | July 30, 1999 | July 31, 1998 |
| Weighted average number of shares of common stock outstanding..... | 12,825 | 12,854 | 12,792 | 12,845 |
| Assumed issuance of contingent shares | - | - | 169 | - |
| Weighted average number of shares of common stock and assumed issuance of contingent shares..... | 12,825 | 12,854 | 12,961 | 12,845 |
| DILUTIVE (Shares in thousands) | | | | |
| Weighted average number of shares of common stock and assumed issuance of contingent shares..... | 12,825 | 12,854 | 12,961 | 12,845 |
| Assumed conversion of stock options and assumed issuance of restricted shares..... | 419 | - | 274 | 457 |
| Weighted average number of shares of common stock, assumed issuance of contingent shares, assumed issuance of restricted shares, and assumed conversion of options outstanding..... | 13,244 | 12,854 | 13,235 | 13,302 |

BUSINESS ACQUISITIONS

On July 30, 1999, the company entered into an agreement to purchase one of its midwestern distributors. This company distributes Toro commercial and irrigation products in one midwestern state.

During the third quarter of fiscal 1999, Toro acquired the technology and manufacturing rights for battery-operated valves and remote, hand-held controllers from a French manufacturer. The technology will be incorporated into both the Toro and Irritrol-Registered trademark- Irrigation Systems product lines.

On May 20, 1999, the company completed the purchase of its Minnesota-based distributor. This company distributes Toro products in several midwestern states.

NEW ACCOUNTING PRONOUNCEMENTS

During fiscal 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," and the Accounting Standards Executive Committee issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

SFAS 133 establishes new standards for recognizing all derivatives as either assets or liabilities, and measuring those instruments at fair value. The company plans to adopt the new standard beginning with the first quarter of fiscal year 2001, as required. The company is in the process of evaluating SFAS 133 and the impact on the company.

SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use and does not require additional disclosures. The company plans to adopt the SOP in the first quarter of fiscal year 2000, as required. Costs incurred prior to the initial application of the SOP will not be adjusted to conform to SOP 98-1. The adoption of SOP 98-1 is not expected to have a material impact on the company's consolidated financial statements.

During fiscal 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 requires disclosure of selected information about operating segments including segment income, revenues, and asset data, as well as descriptive information about how operating segments are determined and the products and services provided by the segments. The company will be required to adopt SFAS 131 beginning with its 1999 fiscal year-end annual report. The company is in the process of evaluating SFAS 131 and the impact on the company's current disclosures.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, forward-looking statements may be made orally or in press releases, conferences, reports, or otherwise, in the future by or on behalf of the company.

Statements that are not historical are forward-looking. When used by or on behalf of the company, the words "expect", "anticipate", "believe", "intend", and similar expressions generally identify forward-looking statements.

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses operating in a global market, as well as matters specific to the company and the markets it serves. Particular risks and uncertainties facing the company at the present include inflationary pressures; whether the 1998 profit improvement plan will continue to be successful; increased competition in the company's businesses from competitors that have greater financial resources; soft markets in certain international markets, including Asia, Latin America, and Europe; whether the restructuring of the Australian operations will be successful at improving operating results; the continuing relative strength of the dollar which increases the cost of the company's products in foreign markets and ability to increase prices; competitive pricing pressures; competitive implications and price transparencies related to the euro conversion; changing buying patterns affecting the company's consumer business, including but not limited to a trend away from purchases at dealer outlets to price and value conscious purchases at hardware, home center, and mass retailers; potential impact of the internet and e-commerce on the company's business; changes in distributor ownership; the company's expansion into selected home center markets and effects on other product lines; the company's ability to integrate business acquisitions and to manage alliances successfully; the ability to pursue strategic investments for future earnings capability; successful implementation of strategies to use outside providers for warehousing and transportation services; the company's ability to develop and manufacture new and existing products profitably; market acceptance of existing and new products; changes in distributors, dealers, home center, or mass retailers' purchasing practices; the company's ability to manage costs and capacity constraints at its manufacturing facilities; the company's ability to obtain resources, including engines, from its suppliers on a timely basis in order to meet consumer demands; the company's ability to maintain good relations with its union employees; and the ability to retain and hire quality employees.

In addition, the company is subject to risks and uncertainties facing its industry in general, including changes in business and political conditions, and the economy in general in both foreign and domestic markets; weather conditions affecting demand, including warm winters and wet spring and dry summer weather; slower growth in the company's markets; financial market changes including increases in interest rates and fluctuations in foreign exchange rates; unanticipated problems or costs associated with the transition of European currencies to the common euro currency; a slowing in housing starts or new golf course starts; inability to raise prices of products due to market conditions; threatened or real inflationary pressures; changes in market demographics; actions of competitors; unanticipated problems or costs associated with accommodation of the year 2000 in computer applications or products; the inability of the company's suppliers, customers, creditors, government agencies, public utility providers, and financial service organizations to implement computer applications accommodating the year 2000; seasonal factors in the company's industry; unforeseen litigation; government action, including budget levels, regulation, and legislation, primarily legislation relating to the environment, commerce, infrastructure spending, health, and safety; and availability of raw materials.

The company wishes to caution readers not to place undue reliance on any forward-looking statement and to recognize that the statements are not predictions of actual future results. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others not now anticipated. The foregoing statements are not exclusive and further information concerning the company and its businesses, including factors that potentially could materially affect the company's financial results, may emerge from time to time. It is not possible for management to predict all risk factors or to assess the impact of such risk factors on the company's business.

RESULTS OF OPERATIONS

Third quarter net sales were \$325.3 million compared to \$291.0 million for the third quarter of fiscal 1998, an increase of 11.8 percent. Net earnings were \$10.3 million compared to a net loss of \$2.6 million for the same quarter in the previous year, and diluted earnings per share for the third quarter of fiscal 1999 were \$.78 compared to a loss per diluted share of \$.20 for the third quarter of fiscal 1998. Sales were slightly higher for consumer products due mainly to the distribution of Toro-Registered trademark- brand lawn mowers through certain home centers offset by slower sales of Lawn-Boy-Registered trademark- walk power mowers and consumer riding products. Sales to professional markets were strong due to the continued North American and European growth of the golf business and strong demand in the landscape contractor market. International sales were up due to increased sales to the European and Canadian markets for golf equipment and irrigation products, offset somewhat by soft consumer sales mainly for walk power mowers and riding products. The increase in net earnings and dilutive earnings per share was due to the significant increase in sales, a lower level of restructuring and other unusual expense, and an improvement in gross margins primarily in the consumer division.

Year-to-date net sales were \$1,009.2 million compared to \$880.7 million last year, an increase of 14.6 percent. Net earnings were \$35.2 million compared to \$16.4 million last year, an increase of 114.6 percent, and dilutive earnings per share for the year were \$2.66 compared to \$1.24 last year. Sales were strong for consumer products due to a positive reaction to the introduction of the new Toro Personal Pace-Registered trademark- walk power mower, initial distribution of Toro-Registered trademark- brand lawn mowers through home centers, and timing of snowthrower shipments. Sales to the professional markets also did well due to the continued worldwide growth of the golf business, strong demand in the landscape contractor market, and the addition of Drip In products beginning in the second quarter of fiscal 1998. International sales also increased over the prior year due to the reasons noted above for the quarter plus the addition of Drip In in the agricultural irrigation market. The increase in net earnings and dilutive earnings per share was due to the significant increase in net sales as described, lower level of restructuring and other unusual expenses, and an improvement in gross margins.

In summary, fiscal 1999 results have improved greatly from that of fiscal 1998 due to the continued growth in the company's professional businesses and the recovery of Toro's consumer business. The company is experiencing the success of the profit improvement plan put in place in fiscal 1998 that has repositioned portions of the consumer business resulting in significantly improved operating results. The professional businesses, and the markets they serve, continue to be very strong. The company's stronger than expected performance in fiscal 1999 has allowed Toro to pursue additional strategic investments that should position the company for stronger future earnings capabilities.

The following table sets forth net sales by product line.

| (Dollars in thousands) | Three Months Ended | | | |
|--|--------------------|---------------|-----------|----------|
| | July 30, 1999 | July 31, 1998 | \$ Change | % Change |
| Consumer products..... | \$ 99,247 | \$ 97,691 | \$ 1,556 | 1.6% |
| Commercial products..... | 127,973 | 111,725 | 16,248 | 14.5 |
| Irrigation products..... | 98,097 | 81,577 | 16,520 | 20.3 |
| Total * | \$ 325,317 | \$ 290,993 | \$ 34,324 | 11.8% |
| * Includes international sales of..... | \$ 55,097 | \$ 51,661 | \$ 3,436 | 6.7% |

| (Dollars in thousands) | Nine Months Ended | | | |
|--|-------------------|---------------|------------|----------|
| | July 30, 1999 | July 31, 1998 | \$ Change | % Change |
| Consumer products..... | \$ 356,972 | \$ 306,008 | \$ 50,964 | 16.7% |
| Commercial products..... | 422,142 | 368,316 | 53,826 | 14.6 |
| Irrigation products..... | 230,072 | 206,414 | 23,658 | 11.5 |
| Total * | \$ 1,009,186 | \$ 880,738 | \$ 128,448 | 14.6% |
| * Includes international sales of..... | \$ 198,983 | \$ 186,038 | \$ 12,945 | 7.0% |

CONSUMER PRODUCT SALES

Third quarter net sales of worldwide consumer products were \$99.2 million compared to \$97.7 million in the third quarter of fiscal 1998, an increase of 1.6 percent. Sales to home centers, a new distribution channel for the Toro-Registered trademark- brand walk power mowers, contributed to the sales increase. Do-it-yourself irrigation product sales were also up from the last comparable quarter due to dry weather in key Sun Belt markets, better availability of product, and more shelf space at select home centers. Offsetting those increases were lower sales for Lawn-Boy-Registered trademark- walk power mowers compared to the second and third quarter of fiscal 1998 when shipments were heavier than normal due to production delays in fiscal 1998. Sales in fiscal 1999 were also lower due to dry weather in certain key markets. Shipments for most riding products in the third quarter of fiscal 1999 also decreased from fiscal 1998 due to dry weather in certain key markets and continued strong competition. International sales were down compared to the third quarter of fiscal 1998 primarily due to a timing of sales in Australia for tractors that are expected to ship in the fourth quarter of fiscal 1999. Additionally, consumer sales continue to be soft in Canada due to dry weather conditions.

Overall, the consumer business recovery plan implemented in fiscal 1998 is working well, resulting in significantly improved operating results. Year-to-date net sales of worldwide consumer products were \$357.0 million compared to \$306.0 million last year, an increase of 16.7 percent. Sales of Toro-Registered trademark- brand walk power mowers were up significantly from last year due to the continued positive reception of the new Toro Personal Pace-Registered trademark- lawn mower and the addition of sales through 1,500 home center outlets, a new distribution channel for the Toro-Registered trademark- brand walk power mowers. Strong sales to Toro's traditional dealers for Toro -Registered trademark- walk power mowers were also significantly up from fiscal 1998. Shipments for riding products, primarily lawn tractors, increased slightly for the period. Year-to-date sales of snowthrowers were higher than last year due to the timing of shipments from the fourth quarter of fiscal 1998 to the first quarter of fiscal 1999. Do-it-yourself irrigation product sales were also up due to dry weather in key Sun Belt markets, better availability of product, and more shelf space at select home centers. Sales of electric appliance products, including trimmers and blower vacuums, also did well for the year due to the warm fall weather that extended the selling season into the first quarter of fiscal 1999 as well as sales to new mass retail outlets for electric trimmers and blowers. Offsetting those increases were lower sales of Lawn-Boy-Registered trademark- walk power mowers due to the dry weather conditions experienced in certain key markets. International sales were down as noted above in the quarter comparison, and Australian do-it-yourself irrigation sales declined due to wet weather.

Field inventory levels at Toro's distributors and dealers were down for most domestic consumer products, however, they were slightly higher for domestic consumer riding products. Heavy snowfall in certain key markets during the winter of 1998-1999 resulted in historically low levels of snowthrower field inventories, and Toro's special one-time marketing programs introduced in the fall of 1998 reduced field inventory levels of walk power mower products to historically low levels. Management believes that the reduction of snowthrower domestic field inventories positions Toro for higher snowthrower sales in the fourth quarter of fiscal 1999 and the first quarter of fiscal 2000 compared to the fourth quarter of fiscal 1998 and the first quarter of fiscal 1999.

COMMERCIAL PRODUCT SALES

Third quarter net sales of worldwide commercial products were \$128.0 million compared to \$111.7 million in the third quarter of fiscal 1998, an increase of 14.5 percent. The sales increase was largely a result of growth in the landscape contractor market as well as acceptance of new landscape contractor equipment products introduced last year. Sales for the Toro-Registered trademark- Dingo-Registered trademark- Systems were up significantly from the third quarter of fiscal 1998 due to the greater market acceptance of this product introduced in fiscal 1998. Worldwide sales of both new and replacement golf course equipment also increased due to the continued growth of that market. Commercial product sales also did well for the quarter due to the introduction of new products. In addition, international commercial sales were up for the quarter due to strong demand for golf course equipment in Europe and Canada as well as market acceptance of new products.

Year-to-date net sales of worldwide commercial products were \$422.1 million compared to \$368.3 million last year, an increase of 14.6 percent. The nine-month increase in sales reflects the same factors contributing to the third quarter increase. In addition, strong retail sales at Toro's distributors and dealers have also been strong for the year for commercial and landscape contractor products, which has contributed to the growth.

IRRIGATION PRODUCT SALES

Third quarter net sales of worldwide irrigation products were \$98.1 million compared to \$81.6 million in the third quarter of fiscal 1998, an increase of 20.3 percent. Worldwide golf irrigation revenues increased over last year's comparable quarter due to the continued growth in both new and replacement systems. Irritrol-Registered trademark- Systems sales were also above the last comparable quarter for fiscal 1998 due to drier weather this year. Toro residential/commercial irrigation sales were significantly above third quarter of fiscal 1998 due to better product availability, dry weather conditions in key markets, and new marketing programs intended to improve market share. Offsetting those increases were decreased sales of domestic agricultural irrigation products due to pricing pressures from competitors. International sales were up from the same quarter in fiscal 1998 due to strong golf irrigation sales and strong sales of agricultural irrigation product in Europe.

Year-to-date net sales of worldwide irrigation products were \$230.1 million compared to \$206.4 million last year, an increase of 11.5 percent. As mentioned above in the quarter comparison, strong golf irrigation revenues contributed to the increase as did the addition of sales from Drip In, which was acquired in the second quarter of fiscal 1998. Sales of residential/commercial irrigation products also increased over last year due to dry weather conditions and new marketing programs this year intended to improve market share. International sales increased over last year due to the same factors mentioned in the quarter comparison, offset somewhat by soft Irritrol-Registered trademark- product sales in Australia due to wet weather in the early part of the selling season.

GROSS PROFIT

Third quarter gross profit was \$125.8 million compared to \$101.3 million last year, an increase of 24.2 percent. As a percent of net sales, gross profit for the third quarter was 38.7 percent compared to 34.8 percent last year. The increase in gross profit resulted primarily from higher margins for the consumer product line due to price increases for certain products and improved manufacturing processes at the company's El Paso facility. This increase was slightly offset by a gross margin reversal resulting from an agreement to purchase one of Toro's midwestern-based distributors.

Year-to-date gross profit was \$366.6 million compared to \$307.3 million last year, an increase of 19.3 percent. As a percent of net sales, year-to-date gross profit was 36.3 percent compared to 34.9 percent last year. The increase in gross margins was due to the same contributing factors as in the quarter comparison, in addition to the gross margin reversal from the purchase and agreement to purchase two Toro midwestern-based distributors in fiscal 1999.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Third quarter selling, general, and administrative expenses (SG&A) were \$103.1 million compared to \$89.5 million last year, an increase of 15.2 percent. As a percent of net sales, SG&A increased to 31.7 percent from 30.8 percent for the same quarter in fiscal 1998. The dollar increase is mainly due to increases for marketing expenses, warehousing costs, and warranty expenses due to higher sales levels. The percentage increase is mainly due to increases for incentive compensation expenses due to improved financial performance of the company in the third quarter of fiscal 1999. Information systems costs were also higher due to the continued implementation of an enterprise-wide software system.

Year-to-date SG&A expenses were \$292.3 million compared to \$256.4 million last year, an increase of 14.0 percent. However, as a percent of net sales, SG&A decreased slightly to 29.0 percent from 29.1 percent last year. The dollar increase is mainly due to increases for marketing expenses, warehousing costs, and warranty expenses due to higher sales levels. Incentive compensation expenses were also higher due to improved financial performance of the company. Information systems costs were higher due to the continued implementation of an enterprise-wide software system.

RESTRUCTURING AND OTHER UNUSUAL EXPENSES

Restructuring and other unusual expenses were \$0.7 million in the third quarter of fiscal 1999 compared to \$10.5 million in the third quarter of fiscal 1998. The company recorded a restructuring charge of \$1.9 million in the third quarter of fiscal 1999 for asset write-downs and severance related to management and sales force changes due to a reorganization of its Australian manufacturing operations. Offsetting that increase was a reduction in other unusual expense of a \$1.2 million related to the reversal for the unused portion of the one-time consumer marketing programs accrued in the third quarter of fiscal 1998. The company also expects to record an approximate \$0.8 million restructuring charge in the fourth quarter of fiscal 1999 related to severance costs for the closure of its Australian plant. This severance will be recorded in the fourth quarter because the employees were notified of their termination in the fourth quarter of fiscal 1999.

By comparison, fiscal 1998 third quarter restructuring and other unusual expense was \$10.5 million. The restructuring charge consisted of \$2.2 million for the severance and asset write-down related to the closure of a manufacturing facility, and \$1.1 million for other restructuring severance costs. Other unusual expense consisted of \$3.5 million for the expected loss on the sale of the recycling equipment division, and \$3.7 million for special consumer marketing programs. Those special marketing programs consisted of rebates and co-op credits designed to reduce certain consumer field inventories to historically low levels by providing incentives to increase retail sales in preparation for changes in warehousing and transportation.

INTEREST EXPENSE

Third quarter interest expense was \$6.8 million compared to \$6.7 million last year, a slight increase of \$0.1 million.

Year-to-date interest expense was \$18.5 million compared to \$19.4 million last year, a slight decline of \$0.9 million due to lower borrowing levels compared to last year as a result of improved asset management, primarily lower inventory and higher accounts payable and accrued expenses.

OTHER INCOME, NET

Third quarter other income, net, was \$1.7 million compared to \$1.1 million last year, an increase of \$0.6 million, due to currency gains in the third quarter of fiscal 1999.

Year-to-date other income, net, was \$2.6 million compared to \$6.1 million last year, a decrease of \$3.5 million. The decrease was due to a favorable settlement of a trade secret lawsuit in fiscal 1998, higher amounts of currency losses in fiscal 1999, and recoveries of previously written off notes receivables in fiscal 1998.

PROVISION FOR INCOME TAXES

The effective tax rate for the third quarter and fiscal 1999 year-to-date was 39.0 percent compared to 39.5 percent for the comparable quarter and year of fiscal 1998. The decline in the tax rate is due to an increase in benefits received from the company's foreign sales corporation.

FINANCIAL POSITION AS OF JULY 30, 1999

JULY 30, 1999 COMPARED TO JULY 31, 1998

Total assets at July 30, 1999 were \$838.2 million compared to \$833.4 million on July 31, 1998, an increase of \$4.8 million. Net accounts receivable increased by \$11.1 million. Increased sales primarily contributed to the increase in net accounts receivable. Inventory decreased \$8.8 million due to the sale of the recycling and professional fertilizer businesses in the fourth quarter of fiscal 1998, lower levels of consumer inventory due to strong sales for the year, and improved efforts at inventory management. Those decreases were somewhat offset by the addition of inventory acquired from Toro's Minnesota-based distributor in the third quarter of fiscal 1999. Net property, plant, and equipment declined \$10.2 million due to higher amounts of depreciation expense in comparison to capital additions. Goodwill and other assets increased \$15.5 million mainly as a result of a contingent payment made by the company in the first quarter of fiscal 1999, in connection with the company's acquisition of Exmark in fiscal 1998.

FINANCIAL POSITION AS OF JULY 30, 1999 (CONTINUED)

Total current liabilities at July 30, 1999 were \$351.3 million compared to \$350.8 million on July 31, 1998, a slight increase of \$.5 million. Short-term debt decreased by \$42.7 million as a result of better asset management. Accounts payable increased \$8.6 million due to higher manufacturing volumes resulting in higher inventory purchases compared to fiscal 1998. Accrued liabilities also increased by \$34.6 million as a result of the higher sales level that has increased marketing and warranty accruals.

JULY 30, 1999 COMPARED TO OCTOBER 31, 1998

Total assets at July 30, 1999 were \$838.2 million compared to \$724.0 million at October 31, 1998, an increase of \$114.2 million. Net accounts receivable increased \$98.3 million from October 31, 1998 due to the normal seasonal increase in accounts receivable. Inventory increased by \$9.9 million from October 31, 1999 due mainly to the acquisition of Toro's Minnesota-based distributor. Goodwill and other assets increased \$14.6 million mainly as a result of the Exmark contingent payment.

Total current liabilities at July 30, 1999 were \$351.3 million compared to \$258.2 million at October 31, 1998, an increase of \$93.1 million. The majority of this increase was the result of additional short-term debt of \$84.4 million, reflecting the company's strategy of utilizing short-term borrowing to fund the company's normal seasonal working capital needs. Accounts payable decreased \$26.2 million due to the timing of payments. Accrued liabilities increased \$34.8 million as a result of higher accruals for various seasonal sales and marketing programs and higher warranty reserves.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities for the first nine months of fiscal 1999 was primarily for the normal seasonal increase in accounts receivable, partially offset by increases in accrued liabilities and net earnings.

The company's domestic and international working capital needs are funded primarily with approximately \$290 million of committed unsecured bank credit lines. The company also has banker's acceptance financing agreements under which an additional \$40 million is available. The company's business is seasonal, with peak borrowing under the working capital lines described above generally occurring between February and May each year.

Management believes that the combination of funds available through its existing financing arrangements, coupled with forecasted cash flows, will provide the necessary capital resources for its anticipated working capital, capital additions, acquisitions, and stock repurchases.

INFLATION

The company is subject to the effects of changing prices. However, the company is not currently experiencing any material effects of rising costs. The company attempts to deal with inflationary pressures through a combination of internal cost reduction efforts and selected increases in selling prices of certain products.

YEAR 2000 COMPLIANCE

During the third quarter of fiscal 1999, Toro continued its company-wide program to prepare the company's computer systems for year 2000 compliance. The year 2000 issue relates to computer systems that use the last two digits rather than all four to define a year and whether such systems will properly and accurately process information when the year changes to 2000. Incomplete or untimely resolution of year 2000 issues by the company, by its important suppliers and customers, by public utility providers, or by governmental entities could have a material adverse impact on the company's business, operations, or financial condition.

STATE OF READINESS - The company has completed its project to replace core-business information systems with an Enterprise Resource Planning (ERP) software package that is certified as year 2000 compliant by the vendor. The package includes software to support the company's facilities and business units with the exception of five domestic subsidiaries and business units. The company's European subsidiaries are believed to be year 2000 compliant. The company is in the process of testing these non-ERP systems and updating any non-compliant systems, which should be completed in the fourth quarter of the 1999 calendar year.

Toro has assessed its products and, with the exception of six irrigation control systems, believes them to be year 2000 compliant. Testing of these systems has been completed and software remediations are available. In most cases, the company believes that the software modification currently available should make the units year 2000 compliant. In some cases, the company is recommending that customers replace their older non-compliant systems with newer, functionally enhanced compliant systems.

Toro's year 2000 issues list has over three hundred software and hardware items, the majority of which are single-user, departmental or plant systems. The company is in the testing phase for the following business-critical systems: ERP and all non-ERP core-business information systems, and associated infrastructure and support technologies. After delays experienced in the first quarter of fiscal 1999, the company has obtained products claimed by their vendors to be compliant. The company has also increased its resources for internal programming, and is currently back on schedule in the testing phase, which is expected to be completed by the fourth quarter of fiscal 1999. The company's new compliant warranty, financing, and customer promotion systems are also scheduled to be installed by the end of the fourth quarter of fiscal 1999. The company has completed the installation and testing of new compliant versions of its payroll and product data management systems.

Communications have been sent to all Toro customers informing them of the company's efforts and asking them to ensure that their business operations will not be adversely impacted by year 2000 issues. Surveys have also been sent to all of the company's production suppliers requesting information on their year 2000 efforts. Based on the surveys returned, the company's customers and key suppliers are either year 2000 compliant or are working on the issue with plans to be year 2000 compliant before December 31, 1999.

COSTS - Year 2000 costs through July 30, 1999 were approximately \$2.3 million and have been expensed as incurred. These costs include contractor support and ERP implementation for the company's recently acquired businesses. Costs remaining that have been identified are estimated to be less than \$1.0 million, which includes expenses for contractor support, telephone system upgrades, software modifications for irrigation systems, and business unit system upgrades. The estimated cost of year 2000 adaptation is less than 15 percent of the company's information systems budget for fiscal 1999.

RISKS - The company is continuing to test its core-business operating and financial systems and remains uncertain of the risks the year 2000 will have on its business operations. In addition, the company remains uncertain about whether the company's business partners, including dealers, distributors, home centers, mass retailers, banks, and suppliers will be year 2000 compliant. The company is particularly concerned about international customers and suppliers due to their late testing target dates. The company is addressing this issue by working closely with certain international customers in connection with their specific plans to attempt to be year 2000 compliant. The scope of Toro's year 2000 project does not include ensuring public utility and governmental agency's readiness for the year 2000. Toro has little to no control over these institutions, thereby introducing some level of risk in the company's ability to continue normal operations at and for the weeks immediately after the turn of the century.

YEAR 2000 COMPLIANCE (CONTINUED)

Testing to validate assumptions continues and is expected to be completed by the end of the fourth quarter of fiscal 1999. The company believes this timetable should allow enough time to fix or replace any internal business-critical problems discovered during the testing phase.

The most reasonably worst-case scenarios revolve around failures that may be experienced by entities outside the control of the company such as local electric utilities, telecommunication vendors, customers, suppliers, and governmental services. The effects of these scenarios vary with the severity and duration of any failure.

CONTINGENCY PLANS - The company's contingency plans will continue to evolve as the testing and implementation phase of the business-critical systems and technologies are completed. The company is in the stage of defining a Business Resumption Plan, which will include documented manual processes for critical business functions that could be invoked for any type of business interruption, including year 2000 problems. A draft of these manual procedures is scheduled to be updated and completed by the end of the calendar year 1999. A draft of recovery procedures was completed in the third quarter of fiscal 1999 for the worldwide headquarters located at Bloomington, Minnesota.

The company is also planning to perform complete, system-wide backups on December 30 and 31, 1999. Key information system personnel will also be on-site and on-call for the month of January 2000 to deal with any problems that may occur.

EURO CURRENCY

Beginning in January 1999, the European Monetary Union (EMU) entered into a three-year transition phase during which a common currency called the euro will be introduced in participating countries. Initially, this new currency will be used for financial transactions, and progressively, it will replace the old national currencies that will be withdrawn by July 2002. The transition to the euro currency will involve changing budgetary, accounting, contracts, and fiscal systems in companies and public administrations, as well as simultaneous handling of parallel currencies and conversion of legacy data. Uncertainty exists as to the effects the conversion to euro currency will have on the marketplace. One of the primary unknowns for the company is the potential equalization of prices to customers among countries and the resulting competitive impact on Toro distributor sales and Toro direct sales, and financial support given to distributors in those countries. The euro will make price differences on goods in the various countries transparent to the customer and make comparisons much easier. The company recently formed a group to review this issue and develop a strategy by late-1999. The company does not have sufficient experience with the new currency to predict whether price transparency will affect its operations, cash flows, or financial condition in future periods.

The company continued its program to evaluate whether the company's computer systems and programs will experience operational problems when the euro is fully implemented. The company's European subsidiaries' financial systems have completed initial testing and no problems were discovered in their ability to function using the euro. These subsidiaries began disclosing the euro value on each customer's invoice in January 1999. The company plans to continue testing its computer systems in fiscal 1999 for additional euro functionality. The company believes the risk to be minimal, as billing and banking functions are already being performed in multiple currencies within these entities.

Based on its evaluation to date, management currently believes that, while the company will incur internal and external costs to adjust to the euro, such costs are not expected to have a material impact on operations, cash flows, or the financial condition of the company and its subsidiaries, taken as a whole, in future periods.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

FOREIGN CURRENCY

The following forward exchange contracts held by the company have maturity dates in fiscal year 1999 and 2000. All items are non-trading and stated in U.S. dollars. The average contracted rate, notional amount, and fair value impact at July 30, 1999 were as follows:

| DOLLARS IN THOUSANDS (EXCEPT AVERAGE CONTRACTED RATE) | AVERAGE CONTRACTED RATE | NOTIONAL AMOUNT | FAIR VALUE IMPACT GAIN (LOSS) |
|--|-------------------------------|--------------------|-------------------------------------|
| Buy Australian dollar/Sell US dollar | .6414 | \$ 4,223.9 | \$ 71.1 |
| Buy US dollar/Sell Australian dollar | .6464 | 13,122.3 | (180.1) |
| Buy Belgium franc/Sell US dollar | 37.8675 | 1,853.8 | 9.5 |
| Buy US dollar/Sell Canadian dollar | 1.4912 | 7,477.1 | 5.6 |
| Buy German mark/Sell US dollar | 1.8436 | 1,627.3 | 44.3 |
| Buy Japanese Yen/Sell US dollar | 114.8800 | 6,963.6 | 276.2 |

DEBT FINANCING

The company is exposed to interest rate risk arising from transactions that are entered into during the normal course of business. The company's short-term debt borrowing rates are dependent upon the LIBOR rate plus an additional percentage based on the company's current borrowing level. See the company's Annual Report filed on Form 10-K for the fiscal year ended October 31, 1998 (Item 7A) for additional information. There has been no material change in the information contained in that report.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3(i)(a) and 4(a) Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form S-3, Registration No. 33-16125).
- 3(i)(b) and 4(b) Certificate of Amendment to Certificate of Incorporation of Registrant dated December 9, 1986 (incorporated by reference to Exhibit 3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 30, 1987, Commission File No. 1-8649).
- 3(i)(c) and 4(c) Certificate of Designation to Certificate of Incorporation of Registrant dated May 28, 1998 (incorporated by reference to Exhibit (1)(A) to Registrants' Current Report on Form 8-K dated May 27, 1998).
- 3(ii) and 4(d) Bylaws of Registrant (incorporated by reference to Exhibit 3(ii) and 4(d) to Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1999).
- 4(e) Specimen form of Common Stock certificate (incorporated by reference to Exhibit 4(c) to Registrant's Registration Statement on Form S-8, Registration No. 2-94417).
- 4(f) Rights Agreement dated as of May 20, 1998, between Registrant and Norwest Bank Minnesota, National Association relating to rights to purchase Series B Junior Participating Voting Preferred Stock, as amended (incorporated by reference to Registrant's Current Report on Form 8-K dated May 27, 1998, Commission File No. 1-8649).
- 4(g) Indenture as dated as of January 31, 1997, between Registrant and First National Trust Association, as Trustee, relating to the Registrant's 7.125% Notes due June 15, 2007 and its 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K for June 24, 1997, Commission File No. 1-8649).
- 10(a) Form of Employment Agreement in effect for certain officers of Registrant, as amended.*
- 10(b) The Toro Company Directors Stock Plan, as amended.*
- 10(c) The Toro Company Annual Management Incentive Plan II for officers of Registrant, as amended.*
- 10(d) The Toro Company 1985 Incentive Stock Option Plan (incorporated by reference to Exhibit 10(b) to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1993).*
- 10(e) The Toro Company 1989 Stock Option Plan, as amended.*
- 10(f) The Toro Company 1993 Stock Option Plan, as amended.*

Item 6. Exhibits and Reports on Form 8-K (continued)

| | |
|-------|---|
| 10(g) | The Toro Company Performance Share Plan, as amended.* |
| 10(h) | The Toro Company Supplemental Management Retirement Plan, as amended.* |
| 10(i) | The Toro Company Supplemental Retirement Plan, as amended.* |
| 10(j) | Chief Executive Officer Incentive Award Agreement, as amended.* |
| 10(k) | The Toro Company Deferred Compensation Plan for Officers (incorporated by reference to Exhibit 10(j) to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 29, 1999).* |
| 10(l) | The Toro Company Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibits 10(k) to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 29, 1999).* |
| 27 | Supplemental Data Schedule; electronic filing only. |

*Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Quarterly Report on Form 10-Q pursuant to Item 14(c).

(b) Reports on Form 8-K

None.

SIGNATURES

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

THE TORO COMPANY
(Registrant)

By /s/ Stephen P. Wolfe

Stephen P. Wolfe
Vice President, Finance
Chief Financial Officer
(principal financial officer)

Date: September 13, 1999

THE TORO COMPANY
EMPLOYMENT AGREEMENT

AGREEMENT by and between The Toro Company, a Delaware Company (the "Company"), and [FirstName] [LastName] (the "Executive"), dated as of the _____ day of _____, ____.

The Board of Directors of the Company (the "Board"), has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. CERTAIN DEFINITIONS. (a) The "Effective Date" shall mean the first date during the Change of Control Period (as defined in Section 1(b)) on which a Change of Control (as defined in Section 2) occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive's employment with the Company is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or (ii) otherwise arose in connection with or anticipation of a Change of Control, then for all purposes of this Agreement the "Effective Date" shall mean the date immediately prior to the date of such termination of employment.

(b) The "Change of Control Period" shall mean the period commencing on the date hereof and ending on the third anniversary of the date hereof; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof shall be hereinafter referred to as the "Renewal Date"), unless previously terminated, the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to the Renewal Date the Company shall give notice to the Executive that the Change of Control Period shall not be so extended.

2. CHANGE OF CONTROL. For the purpose of this Agreement, a "Change of Control" shall mean:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 15%

or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2; or

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

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

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

3. EMPLOYMENT PERIOD. The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary of such date (the "Employment Period").

4. TERMS OF EMPLOYMENT. (a) POSITION AND DUTIES. (i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office or location less than 35 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions, and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) COMPENSATION. (i) BASE SALARY. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary"), which shall be paid at a monthly rate, at least equal to twelve times the highest monthly base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed no more than twelve months after the last salary increase awarded to the Executive prior to the Effective Date and thereafter at least annually. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) ANNUAL BONUS. In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the Executive's highest bonus under the Company's [Annual Incentive Plans], or any comparable bonus under any predecessor or successor plan, for the last three full fiscal years prior to the Effective Date (annualized in the event that the Executive was not employed by the Company for the whole of such fiscal year) (the "Recent Annual Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

(iii) INCENTIVE, SAVINGS AND RETIREMENT PLANS. During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective Date or if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(iv) WELFARE BENEFIT PLANS. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(v) EXPENSES. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) FRINGE BENEFITS. During the Employment Period, the Executive shall be entitled to fringe benefits, including, without limitation, tax and financial planning services, payment of club dues, and, if applicable, use of an automobile and payment of related expenses, in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect

for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) OFFICE AND SUPPORT STAFF. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) VACATION. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

5. TERMINATION OF EMPLOYMENT. (a) DEATH OR DISABILITY. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 12(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(b) CAUSE. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from the incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties, or

(ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) GOOD REASON. The Executive's employment may be terminated by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 4(a) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than as provided in Section 4(a)(i)(B) hereof or the Company's requiring the Executive to travel on Company business to a substantially greater extent than required immediately prior to the Effective Date;

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

For purposes of this Section 5(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Executive for any reason during the 30-day period immediately following the first anniversary of the Effective Date shall be deemed to be a termination for Good Reason for all purposes of this Agreement.

(d) NOTICE OF TERMINATION. Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) DATE OF TERMINATION. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

6. OBLIGATIONS OF THE COMPANY UPON TERMINATION. (a) GOOD REASON; OTHER THAN FOR CAUSE, DEATH OR DISABILITY. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

A. the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the

"Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

B. the amount equal to the product of (1) three and (2) the sum of (x) the Executive's Annual Base Salary and (y) the Highest Annual Bonus; and

C. an amount equal to the excess of (1) the actuarial equivalent of the benefit under the Company's qualified defined benefit retirement plan (the "Retirement Plan") (utilizing actuarial assumptions no less favorable to the Executive than those in effect under the Company's Retirement Plan immediately prior to the Effective Date), and any excess or supplemental retirement plan in which the Executive participates (together, the "SERP") which the Executive would receive if the Executive's employment continued for three years after the Date of Termination assuming for this purpose that all accrued benefits are fully vested, and, assuming that the Executive's compensation in each of the three years is that required by Section 4(b)(i) and Section 4(b)(ii), over (2) the actuarial equivalent of the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP as of the Date of Termination;

(ii) for three years after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement if the Executive's employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies and their families, provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until three years after the Date of Termination and to have retired on the last day of such period;

(iii) the Company shall, at its sole expense as incurred, provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in his sole discretion; and

(iv) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or

which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(b) DEATH. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 6(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Company and its affiliated companies and their beneficiaries.

(c) DISABILITY. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, the term "Other Benefits" as utilized in this Section 6(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and its affiliated companies and their families.

(d) CAUSE; OTHER THAN FOR GOOD REASON. If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (x) his Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

7. NONEXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor, subject to Section 12(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. FULL SETTLEMENT. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Internal Revenue Code of 1986, as amended (the "Code").

9. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY. (a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 9(a), if it shall be determined that the Executive is entitled to a Gross-Up Payment, but that the Executive, after taking into account the Payments and the Gross-Up Payment, would not receive a net after-tax benefit of at least \$10,000 (taking into account both income taxes and any Excise Tax) as compared to the net after-tax proceeds to the Executive resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in the aggregate, to an amount (the "Reduced Amount") such that the receipt of Payments would not give rise to any Excise Tax, then

no Gross-Up Payment shall be made to the Executive and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by KPMG Peat Marwick LLP or such other certified public accounting firm as may be designated by the Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is required to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or to contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. CONFIDENTIAL INFORMATION. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the

Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. SUCCESSORS. (a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. MISCELLANEOUS. (a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

IF TO THE EXECUTIVE: [FirstName] [LastName]
[Address1]
[City,] [State] [PostalCode]

IF TO THE COMPANY: The Toro Company
8111 Lyndale Avenue South
Bloomington, Minnesota 55420
Attention Mr. J. Lawrence McIntyre, General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communication shall be effective when actually received by the addressee.

THE TORO COMPANY
DIRECTORS STOCK PLAN

1. PURPOSE OF THE PLAN. The purpose of The Toro Company Directors Stock Plan ("Plan") is to enable The Toro Company (the "Company") to attract and retain experienced and knowledgeable directors to serve on the Board of Directors of the Company or its subsidiaries, and to further align their interests with those of the stockholders of the Company by providing for or increasing their stock ownership interests in the Company. It is intended that the Plan be interpreted so that transactions under the Plan are exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to the extent applicable.
2. ELIGIBILITY. All members of the Company's Board of Directors who are not current employees of the Company or any of its subsidiaries ("Nonemployee Directors") are eligible to participate in the Plan.
3. PLAN AWARDS.
 - a. DIRECTORS SHARES. To carry out the purposes of the Plan, the Company shall issue shares ("Directors Shares") of the Company's Common Stock, \$1.00 par value and related preferred share purchase rights (subject to adjustment as provided in Section 4 hereof) (the "Common Stock"), to each person who is then a Nonemployee Director, on the first day of each fiscal year in an amount equal to \$5,000 divided by the fair market value of one share of Common Stock. The "fair market value of one share of Common Stock" shall be the average of the closing prices of the Common Stock on the New York Stock Exchange as reported in The Wall Street Journal for each of the trading days in the three calendar months immediately prior to the date of issue of the Directors Shares.
 - b. DIRECTORS OPTIONS.
 - i. ANNUAL GRANT. Subject to the terms and conditions of this Section 3.b., the Company shall grant a nonqualified option ("Directors Options") to purchase 1,000 shares of the Common Stock, to each person who is then a Nonemployee Director, on the first day of each fiscal year at an exercise price per share equal to the fair market value of one share of Common Stock on the date of grant. The "fair market value of one share of Common Stock" shall be the closing price of the Common Stock on the New York Stock Exchange on the first business day of the Company's fiscal year with respect to which the grant is made, as reported in The Wall Street Journal.
 - ii. OPTION TERMS.
 - (a) Directors Options shall be exercisable in whole or in part commencing six months following the date of grant and shall remain exercisable for a term of five years after the date of grant.
 - (b) No Directors Option shall be assigned or transferred, except by will or the laws of descent and distribution. An option so transferred may be exercised after the death of the individual to whom it is granted only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of

such individual, and only with respect to an option exercisable at the time of death.

(c) During the lifetime of a Nonemployee Director, options held by such individual may be exercised only by the Nonemployee Director and only while serving as a member of the Board of Directors of the Company and only if the Nonemployee Director has been continuously so serving since the date such options were granted; provided, however, that in the event of disability of a Nonemployee Director, options may be exercised by such individual not later than the earlier of the date the option expires or one year after the date such service as a member of the Board of Directors ceases by reason of disability, but only with respect to an option exercisable at the time such service ceases.

(d) Payment of the exercise price may be made in cash, in shares of Common Stock valued at fair market value on the date of exercise or in a combination of cash and Common Stock.

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

d. SUPPLEMENTAL BENEFIT. Directors Shares and Directors Options are a supplemental benefit and are not a component of the annual retainer and meeting fees paid to Nonemployee Directors. The value of Directors Shares and Directors Options shall not be included in the calculation by the Company of the amount of compensation upon which a Nonemployee Director's retirement benefit is calculated for purposes of the Company's Director Retirement Plan or any similar plan.

4. SHARES IN LIEU OF FEES. A Nonemployee Director shall have the right to elect to receive shares of Common Stock in lieu of annual retainer and meeting fees otherwise payable in cash. The election to receive Common Stock shall be made prior to the first day of the calendar year in which the fees are to be earned. Fees that are earned shall be reserved through the year and shares shall be issued in December of that year. The number of shares to be issued shall be determined by dividing the amount of the cash that otherwise would have been paid by the market value of one share of Common Stock on the date that the shares are issued.

5. STOCK SUBJECT TO PLAN. Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock that is reserved and available for issuance in connection with the Plan shall be 65,000 shares. If any Directors Option granted hereunder expires unexercised or terminates, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent the shares covered by an option are not issued or used, again be available for option grants under the Plan. Any shares issued by the Company in connection with the assumption or substitution of outstanding option grants from any acquired corporation shall not reduce the shares available for

stock awards or option grants under the Plan. Appropriate adjustments in the number of shares of the Common Stock that may be available for option grants under the Plan and adjustments in the option price per share of outstanding options may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or other similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.

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

Change of Control means:

- a. The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 15% or more of either (i) the then-outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection a., the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iv) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of subsection c. of this Section 6; or
- b. Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- c. Consummation of a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition by the Company of assets or stock of another entity (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either

directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

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

7. ADMINISTRATION OF THE PLAN. The Plan shall be administered by a committee composed of those members of the Board of Directors of the Company who are also employees of the Company (the "Committee"). The Committee shall have the authority to carry out all provisions of the Plan; provided, however, that it shall have no discretion to determine which Nonemployee Directors may receive Directors Shares or Directors Options or to set the value of such Directors Shares or Directors Options, other than to make the calculations required by Section 3.a. and Section 3.b.
8. TERM OF PLAN. The Plan became effective on August 20, 1992 and shall be perpetual, unless sooner terminated by action of the Board of Directors.
9. AMENDMENT. The effective date of any amendment to the Plan shall be the date of its adoption by the Board of Directors. No amendment of the Plan shall adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.
10. GOVERNING LAW. The Plan, options and awards granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

THE TORO COMPANY
ANNUAL MANAGEMENT INCENTIVE PLAN II

1. **PLAN PURPOSE.** The purpose of The Toro Company Annual Management Incentive Plan II (the "Plan") is to enhance stockholder value of The Toro Company (the "Company") by providing an annual incentive to reinforce achievement of the Company's performance goals ("Performance Goals"); to link a significant portion of a participating officer's annual compensation to the achievement by the Company, and in certain cases, a division or individual, of Performance Goals; to attract, motivate and retain officers on a competitive basis by making awards based on annual achievement of Performance Goals ("Annual Performance Awards"); and to encourage selected officers to acquire and retain shares of the Common Stock, par value \$1.00 per share, and related Preferred Share Purchase Rights of the Company ("Common Stock").
2. **ELIGIBILITY AND PARTICIPATION.** Within the first 90 days of each fiscal year, or before the first 25% of a shorter performance period has elapsed, the Compensation Committee (the "Committee") shall select as recipients of Annual Performance Awards ("Plan Participants") those officers of the Company who, through their position or performance, can have a significant, positive impact on the Company's financial results. Plan Participants are designated to participate in the Plan for one fiscal year, but may be renominated and selected again. Newly-hired and newly-promoted officers may be selected as Plan Participants after the first 90 days of a fiscal year subject to the provisions of this paragraph and subparagraph 4.a. With respect to persons subject to Section 16 of the Securities Exchange Act of 1934 ("Exchange Act"), transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successor provisions under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.
3. **AWARD AMOUNTS.**
 - a. **TARGET PAYOUT.** The target amount that may be paid with respect to an Annual Performance Award (the "Target Payout") shall be determined by the Committee and shall be based on a percentage of a Plan Participant's actual annual base salary at the time of grant ("Participation Factor"), within the range established by this subparagraph and subject to adjustment as provided in the last sentence of this subparagraph. The Participation Factors, which are intended to reflect a Plan Participant's level of responsibility, are up to 60% for the Chairman and Chief Executive Officer, up to 55% for the President and Chief Operating Officer if one should be elected, up to 50% for other elected officers and up to 45% for other officers. The Chief Executive Officer may approve modifications to the foregoing Participation Factors for any participant who is not a person referred to in Section 162(m) of the Internal Revenue Code of 1986, as amended, or the regulations thereunder ("Section 162(m)"), if such modification is based on level of responsibility. The Committee may establish curves, matrices or other measurements for prorating the amount of payouts for achievement of Performance Goals at less than the Target Payout.
 - b. **MAXIMUM PAYOUT.** The Committee may also establish a maximum potential payout amount (the "Maximum Payout") with respect to an Annual Performance Award of up to 200% of the Target Payout in the event Performance Goal targets are exceeded by an amount established by the Committee at the time Performance Goals are established. The Committee may establish curves, matrices or other measurements for prorating the amount of payouts for achievement of Performance Goals at greater than the Target Payout but less than the Maximum Payout.
 - c. **DIVISION PAYOUT.** At the time an Annual Performance Award is made, the Committee may establish supplemental division-specific Performance Goals ("Supplemental Division Performance Goals") and may provide that achievement of a Supplemental Division Performance Goal at or above an established target level shall be required in order to earn a Target Payout or Maximum Payout. The Committee shall also have the discretion to reduce

by an amount up to 20% the amount that would otherwise be paid under the division payout formula to a division vice president or general manager based on the Committee's evaluation of the quality of division performance.

- d. STRATEGIC PERFORMANCE MEASURE PAYOUT. At the time an Annual Performance Award is made, the Committee may increase the Target Payout and the Maximum Payout (as either may be prorated in accordance with subparagraphs 3.a. and 3.b.) by up to 20% but to not more than 200% of the Target Payout, for selected Plan Participants ("Strategic Performance Participants"), to reflect individual strategic performance measures ("SPM Performance Goals") established at that time by the Committee. The Committee shall have the discretion to reduce by an amount up to 20% the amount that would otherwise be paid under the payout formula to a Strategic Performance Participant based on the Committee's evaluation of the individual's achievement of the SPM Performance Goal.
- e. SECTION 162(m) MAXIMUM. With respect to any Plan Participant who is or may become a person referred to in Section 162(m), the maximum dollar amount that may be paid under an Annual Performance Award shall be set at the time the Committee grants the award and establishes Performance Goals under the award.

4. PERFORMANCE GOALS.

- a. ESTABLISHMENT. An award payment under an Annual Performance Award shall be made to a Plan Participant only if the Company, a division and/or the individual participant achieves Performance Goals established by the Committee in writing not later than 90 days after the commencement of the fiscal year to which the Performance Goal relates, provided that the outcome is substantially uncertain at the time the Committee establishes the Performance Goal; and provided further that in no event will a Performance Goal be considered to be pre-established if it is established after 25% of the period of service (as scheduled in good faith at the time the Performance Goal is established) has elapsed.
- b. PERFORMANCE GOAL CRITERIA. Performance Goals to be established under subparagraph 4.a. shall be based on earnings per share (EPS), return on average net assets (ROANA), average net asset dollar level, division profit adjustment, division controllable profit contribution, division average asset dollars, return on equity, revenue growth, earnings growth or economic value added. Supplemental Division Performance Goals for division participants that may be established under subparagraph 4.a. may be based on any of the foregoing and/or on division specific operating performance goals including revenue growth, sustained earnings, product warranty experience, product recalls or inventory levels. SPM Performance Goals that may be established under subparagraph 4.a. may be based on quantitative or qualitative factors, and may include, but are not limited to, aggressive revenue growth, sustaining earnings initiative, warranty experience, product recalls, field inventory, or acquisition experience, customer satisfaction (determined by such measurements as product quality, warranty, on-time delivery, fill rate, after-market service or customer satisfaction survey results), inventory reduction and inventory turnover. Each Performance Goal is to be specifically defined by the Committee on a Company, division or individual basis and/or in comparison with peer group performance.

5. DISCRETION TO DECREASE AWARD PAYMENT. With respect to any Plan Participant who is a person referred to in Section 162(m), the Committee shall have the discretion to decrease an award payment under an Annual Performance Award, but may not under any circumstances increase such amount.

6. MAXIMUM AWARD PAYMENT. Notwithstanding any other provision of this Plan, the maximum dollar amount a Plan Participant may be paid under an Annual Performance Award, whether in cash or Common Stock or Common Stock units, with respect to any fiscal year is \$1,500,000. The Committee may, in its discretion, decrease this maximum, but may not, under any circumstances, increase this maximum.

7. PAYMENTS. Before any payment is made under the Plan, the Committee must certify in writing, as reflected in the minutes, that the Performance Goals established with respect to an Annual Performance Award have been achieved. To the extent necessary with respect to any fiscal year, in order to avoid any undue windfall or hardship due to external causes, the Committee may make the determination as to whether a Performance Goal has been achieved without regard to the effect on the Performance Goal measure, as it may otherwise be presented in the financial statements, of any change in accounting standards, any acquisition by the Company not planned for at the time the Performance Goals are established, or any Board-approved extraordinary or non-recurring event or item.

8. STOCK RETENTION PROVISIONS.

a. ELIGIBILITY FOR STOCK RETENTION AWARD. Subject to the terms and conditions of this paragraph 8 (the "Stock Retention Provisions"), at the time the Committee selects Plan Participants, the Committee may grant to selected Plan Participants ("Stock Participants") a right (a "Stock Retention Award") to elect (i) to convert to shares of Common Stock or (ii) to defer, through The Toro Company Deferred Compensation Plan for Officers (the "Officer Deferred Plan"), into units having a value based on shares of Common Stock, up to 50% of the amount of an award payment under an Annual Performance Award ("Base Cash Award") and to receive additional incentive compensation in the form of one additional share or unit of Common Stock for every two shares or units acquired upon conversion up to the limit of 50% of the Base Cash Award (the "Matching Shares" or "Matching Units"). The shares or units acquired upon conversion of all or a portion of the Base Cash Award shall be retained by the Company (which shall be called the "Agent" for purposes of the Stock Retention Provisions) during the vesting periods for the Matching Shares or Units described in subparagraph 8.e. Shares of Common Stock issued under the Stock Retention Provisions shall be called "Retained Shares" and units of Common Stock deferred under the Officer Deferred Plan shall be called "Retained Units" under this paragraph 8.

b. NUMBER OF SHARES OR UNITS. The number of Retained Shares or Retained Units to be issued or credited upon conversion of a Base Cash Award under a Stock Retention Award election shall be equal to the dollar amount of the portion of the Base Cash Award subject to the election, divided by the fair market value of the Common Stock on the date that the Committee makes the certification required under paragraph 7 of this Plan. Fair market value shall be the closing price of one share of Common Stock, as reported in THE WALL STREET JOURNAL. Retained Shares shall be issued in whole shares only and cash shall be paid for fractional shares.

c. ELECTION TO EXERCISE STOCK RETENTION AWARD.

i. On or before the December 31 immediately preceding the end of the fiscal year to which a Stock Retention Award relates, a Stock Participant who wishes to convert a portion of a Base Cash Award into deferred compensation Retained Units shall notify the Company in writing that he or she has elected to participate in the Stock Retention Provisions and shall specify the percentage of the Base Cash Award to be converted, except as otherwise provided in the Officer Deferred Plan with respect to the year in which that plan is first implemented or materially amended or the first year in which a Stock Participant becomes eligible to participate in the Stock Retention Provisions.

ii. On or before the September 15 immediately prior to the last day of the fiscal year to which a Stock Retention Award relates, a Stock Participant who has not elected to convert the maximum permissible portion of the Base Cash Award into Retained Units and who wishes to convert up to the maximum permissible portion of the Base Cash Award into Retained Shares shall notify the Company in writing that he or she has elected to participate in the Stock Retention Provisions and shall specify the percentage of the Base Cash Award to be converted.

- iii. An election to participate is effective only for the fiscal year to which the Stock Retention Award relates.
- iv. A Stock Participant who terminates employment, dies, retires at or after age 65, elects early retirement at or after age 55 or becomes permanently disabled and unable to work during the fiscal year to which a Stock Retention Award relates shall not be eligible to participate in the Stock Retention Provisions for that fiscal year, and any Stock Retention Award for that year and any election made by the Stock Participant shall be canceled automatically as of the date of any such event.
- d. MATCHING SHARES OR UNITS. As soon as practical following the conversion of a Base Cash Award to Retained Shares or Retained Units, the Company shall issue one Matching Share or credit one Matching Unit for each two Retained Shares or Units acquired (up to the limit of 50% of the Base Cash Award) (the "Restricted Shares" or "Restricted Units"). Restricted Shares shall be held by the Agent for the Stock Participant's account. Restricted Shares shall be issued in whole shares only and cash shall be paid for fractional shares.
- e. VESTING, DELIVERY AND DISTRIBUTION.
 - i. Vesting. Restricted Shares and Restricted Units held or credited by the Company shall be forfeitable until they vest and shall vest in increments of 25% of the total number of such Restricted Shares or Units at the end of each of the second, third, fourth and fifth years after the date such Restricted Shares or Units are issued or credited, provided that such Restricted Shares or Units shall vest only if the Stock Participant's Retained Shares or Units have been left on deposit with the Agent through the requisite two, three, four and five year periods and all other requirements of the Plan have been met, except as may otherwise be provided in subparagraph 8.f.
 - ii. Delivery.
 - A. Retained Shares and Restricted Shares will be delivered as soon as possible after the applicable vesting requirements (including accelerated vesting under subparagraph 8.f.) have been fulfilled. In the event vesting requirements are not fulfilled, Retained Shares will be returned to a Stock Participant as soon as possible.
 - B. Retained Units and Restricted Units that have vested will be distributed to a Stock Participant consistent with a Stock Participant's distribution election properly made in accordance with the provisions of the Officer Deferred Plan.
 - iii. Retained Shares and Retained Units are fully vested at the time of issuance or crediting.
- f. VESTING AND CANCELLATION UNDER SPECIAL CONDITIONS.
 - i. Retirement or Disability. Notwithstanding the foregoing, all Restricted Shares or Units held in a Stock Participant's account shall vest in full if the participant retires on or after age 65 or becomes permanently disabled and unable to work while a Stock Participant under the Plan. Notwithstanding the foregoing, if within one year after such retirement the Stock Participant is employed or retained by a company that competes with the business of the Company, or such individual violates any confidentiality agreement with the Company, the Company may demand return of the economic value of the Restricted Shares or Units which vested early under this subparagraph; provided, however, that this provision shall not be applicable in the event of a Change of Control.

- ii. Early Retirement. Restricted Units held in the account of a Stock Participant who retires at or after age 55, but before age 65, shall vest or be forfeited in accordance with the provisions of the Officer Deferred Plan. A Stock Participant who retires at or after age 55, but before age 65, may elect to leave Retained Shares on deposit until the participant reaches age 65 or until the applicable vesting requirements of subparagraph 8.e. have been fulfilled, as the case may be, and Restricted Shares shall vest upon the occurrence of the earlier of such event. Notwithstanding the foregoing, if within one year after such early retirement the Stock Participant is employed or retained by a company that competes with the business of the Company, or such individual violates any confidentiality agreement with the Company, the Company may demand return of the economic value of the Restricted Shares which vested after the date of early retirement under this subparagraph; provided, however, that this provision shall not be applicable in the event of a Change of Control.
- iii. Early Withdrawal. In the event that a Stock Participant elects to withdraw Retained Shares or Units from the account prior to age 65, but before the applicable vesting requirements have been fulfilled, Restricted Shares or Units held in such participant's account that have not vested shall not vest and shall be forfeited.
- iv. Death. In the event of the death of a Stock Participant before the applicable vesting requirements have been fulfilled, the Restricted Shares or Units shall vest in full.
- v. Voluntary Resignation. In the event that a Stock Participant resigns voluntarily, Restricted Shares or Units held in such participant's account that have not yet vested shall not vest and shall be forfeited, unless otherwise determined by the Chairman of the Committee, in his or her discretion, upon recommendation by the Chief Executive Officer of the Company.
- vi. Change of Control. All Restricted Shares and Restricted Units shall vest if there is a Change of Control of the Company.

Change of Control means:

(A) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 15% or more of either (A) the then-outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subparagraph (A), the following acquisitions shall not constitute a Change of Control: (a) any acquisition directly from the Company, (b) any acquisition by the Company, (c) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (d) any acquisition by any corporation pursuant to a transaction that complies with clauses (a), (b) and (c) of subparagraph (C) of this subparagraph 8.f.vi.; or

(B) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding,

for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

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

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

- g. TEMPORARY WITHDRAWAL FOR OPTION EXERCISE. A Stock Participant may temporarily withdraw all or a portion of Retained Shares held in the participant's account, but not Restricted Shares or Retained or Restricted Units, in order to exercise Company stock options, provided that an equal number of shares of Common Stock is promptly redeposited with the Agent after such exercise.
- h. DIVIDENDS AND VOTING. Dividends on Retained and Restricted Shares may at the election of the Stock Participant be paid to such participant or reinvested under the Company's dividend reinvestment plan as then in effect. Dividends on Retained and Restricted Units shall be credited under the Officer Deferred Plan, in additional units based on the fair market value of one share of the Common Stock on the record date for payment of dividends. A Stock Participant shall have the right to vote Retained and Restricted Shares.
- i. MAXIMUM SHARES SUBJECT TO STOCK RETENTION AWARDS. Subject to the provisions of this subparagraph and paragraph 6 hereof, the number of shares of Common Stock reserved and available for issuance pursuant to Stock Retention Awards under the Plan is 100,000. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares or outstanding shares acquired in the market or from private

sources or a combination thereof. Appropriate adjustments in the number of shares of Common Stock that may be available for such purposes under the Plan may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.

9. **NON-TRANSFERABILITY.** Neither Annual Performance Awards, Stock Retention Awards, Retained Shares, Restricted Shares, Retained Units, Restricted Units nor any interest in any one of such awards or shares or units or benefits may be anticipated, alienated, encumbered, sold, pledged, assigned, transferred or subjected to any charge or legal process, other than by will or the laws of descent and distribution, so long as the Retained and Restricted Shares are held by the Agent or the Retained and Restricted Units have not been distributed in accordance with the Officer Deferred Plan, and any sale, pledge, assignment or other attempted transfer shall be null and void.
10. **ADMINISTRATION.** The Committee shall have the authority to administer the Plan; establish policies under the Plan; amend the Plan, subject to the provisions of paragraph 12; interpret provisions of the Plan; select Plan Participants and Stock Participants; establish Performance Goals; make Annual Performance Awards and Stock Retention Awards; or terminate the Plan, in its sole discretion. The Committee may delegate certain of these activities and all decisions not required to be exercised by it under Section 162(m) or Section 16 of the Exchange Act, as it solely determines. All decisions of the Committee shall be final and binding upon all parties including the Company, its stockholders, Plan Participants and Stock Participants.
11. **GOVERNING LAW.** The Plan, awards granted under the Plan, agreements entered into under the Plan, Retained or Restricted Shares and Retained or Restricted Units shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.
12. **PLAN AMENDMENT AND TERMINATION.** The Committee may, in its sole discretion, amend, suspend or terminate the Plan at any time, with or without advance notice to Plan Participants, provided that no amendment to the Plan shall be effective that would increase the maximum amount payable under paragraph 6 to a Plan Participant who is a person referred to in Section 162(m); that would change the Performance Goal criteria applicable to a Plan Participant who is a person referred to in Section 162(m) for payment of awards stated under paragraph 4; or that would modify the requirements as to eligibility for participation under paragraph 2, unless the stockholders of the Company shall have approved such change in accordance with the requirements of Section 162(m). No amendment, modification or termination of the Plan may adversely affect in a material manner any right of any Plan Participant with respect to any Performance Share Award theretofore granted without such participant's written consent.
13. **EFFECTIVE DATE OF THE PLAN AND AMENDMENTS.** The Plan first became effective on November 1, 1995. Any amendment to the Plan shall be effective on the date established by the Committee, subject to stockholder approval, if required under the provisions of paragraph 12.

THE TORO COMPANY
1989 STOCK OPTION PLAN

1. PURPOSE. The purpose of the 1989 Stock Option Plan (the "Plan") is to advance the interests of The Toro Company (the "Company") and its stockholders by providing an incentive to certain employees of the Company and its subsidiaries and to certain other key individuals who perform services for the Company and its subsidiaries, to contribute significantly to the strategic and long-term performance objectives and growth of the Company and its subsidiaries. This purpose is expected to be achieved by granting options to acquire the Common Stock, \$1.00 par value, and related preferred share purchase rights of the Company (the "Common Stock"). Subject to the provisions of the Plan, options may contain such terms and conditions as shall be required so as to be either nonqualified stock options ("nonqualified options") or incentive stock options ("Incentive Stock Options") as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Subject to such limits as may be imposed by the Plan, nonqualified options or Incentive Stock Options or both may be granted to an eligible individual.
2. EFFECTIVE DATE. The effective date of the Plan shall be August 8, 1989.
3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors of the Company (the "Board"), provided that members of the Committee shall be Non-employee Directors as contemplated by Rule 16b-3 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") or any successor rule and shall qualify to administer the Plan as contemplated by Section 162(m) of the Code and the regulations thereunder ("Section 162(m)"). A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee and the acts of a majority of the members present at any meeting at which a quorum is present or the acts unanimously approved in writing by all members of the Committee shall be the acts of the Committee. The decision of the Committee on any matter affecting the Plan and obligations arising under the Plan or any option granted thereunder shall be deemed final and binding upon all persons. No member of the Board or of the Committee shall be liable for any action or determination taken or made in good faith with respect to the Plan or any option granted thereunder. Committee members shall be reimbursed for out-of-pocket expenses reasonably incurred in the administration of the Plan.

Subject to the express provisions of the Plan, the Committee shall have plenary authority, in its discretion, to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the exercise price of each option to purchase Common Stock, the individuals to whom and the time or times at which options shall be granted, the number of shares to be subject to each option, when an option may be exercisable and the other terms and provisions (and amendments thereto) of the respective option agreements (which need not be identical); to determine whether a particular option is to be an Incentive Stock Option and the terms and provisions thereof that shall be required in the judgment of the Committee to provide therefor or to conform to any change in any law or regulation

applicable thereto, or to any other law or regulation that may hereafter become effective to provide similar or related tax benefits to option holders; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

4. COMMON STOCK SUBJECT TO THE PLAN. Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock that is reserved and available for issuance pursuant to options granted under the Plan shall be 1,700,000 shares. If any option granted hereunder terminates, expires unexercised, is exchanged for other options without the issuance of shares of Common Stock or is exercised by the delivery or constructive delivery of shares of Common Stock already owned by the option holder, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent shares covered by an option are not issued or used, again be available for option grants under the Plan. Any shares issued by the Company in connection with the assumption or substitution of outstanding grants from any acquired corporation shall not reduce the shares available for option grants under the Plan. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares, or outstanding shares acquired in the market or from private sources, or a combination thereof. Appropriate adjustments in the number of shares of the Common Stock that may be available for option grants under the Plan and adjustments in the option price per share of outstanding options may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or other similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.
5. ELIGIBILITY. Options may be granted to any employee of the Company or any subsidiary thereof who is regularly employed in an executive, managerial, professional or technical position, and to any other individual who performs services for the Company or any subsidiary and who contributes significantly to the strategic and long-term performance objectives of the Company and its subsidiaries. Options may be granted to directors of the Company who are also employees of the Company. More than one option may be granted to the same individual. No option may be granted to an individual who owns, directly or indirectly, Common Stock or other capital stock of the Company possessing more than 5% of the total combined voting power or value of any class of capital stock of the Company or a subsidiary immediately after such option is granted. Except for the foregoing limitations, there is no minimum or maximum number of shares of Common Stock with respect to which options may be granted to any individual under the Plan. Individuals to whom options are granted are at times referred to as "option holders".
6. DURATION OF THE PLAN. The Plan shall remain in effect until all shares reserved for issuance pursuant to the Plan shall have been purchased pursuant to options granted under the Plan, provided that options under the Plan must be granted within ten years from the effective date of the Plan.

7. GENERAL TERMS OF OPTIONS. Options shall be evidenced by stock option agreements in such form and not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions:
- A. DATE OF GRANT. An option agreement shall specify the date of grant, which shall be the date on which the Committee grants an option or any later date which the Committee specifically designates.
 - B. NUMBER OF SHARES OF COMMON STOCK. An option agreement shall specify the number of shares of Common Stock to which it pertains. Notwithstanding any other provision of the Plan, the maximum number of shares that may be covered by any option grant during any calendar year shall be 100,000 shares.
 - C. EXERCISE PRICE. The exercise price of all stock options will be granted at fair market value, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan, where the exercise price is an average and on the date of grant could be higher or lower than fair market value. Fair market value is generally determined to be the closing price for the Common Stock on the New York Stock Exchange as reported by The Wall Street Journal or other readily available quotation of composite transactions.
 - D. TERM OF OPTIONS. The term of each option shall be fixed by the Committee.
 - E. EXERCISABILITY AND TRANSFERABILITY.
 - (i) The Committee shall have the authority to determine whether an option agreement shall specify periods after the date of grant of an option during which the option or any portion thereof may not yet be exercisable, including provisions applicable to persons subject to Section 16 of the Exchange Act.
 - (ii) During the lifetime of an option holder, options may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company or otherwise performing services for the Company or a parent or subsidiary and only if the option holder has been continuously so employed or engaged since the date such options were granted, except as the Committee may otherwise determine and provide for in an option agreement at the time of grant or, if the Committee does not so provide, as follows:
 - (a) DISABILITY. In the event of disability of an option holder, options may be exercised by such individual or his or her guardian or legal representative, not later than the earlier of the date the option expires or one year after the date such employment or performance of services ceases by reason of disability, but only with respect to an option exercisable at

the time such employment or performance of services ceases.

- (b) DEATH. An option may be exercised after the death of an option holder only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.
- (c) RETIREMENT. A nonqualified option may be exercised by an option holder after such individual ceases to be an employee by reason of retirement for up to four years after the date of retirement but not later than the date the option expires. "Retirement" shall have the meaning established by the Committee from time to time or, if no such meaning is established, shall mean termination of employment with the Company at an age and with a number of years of service to the Company which, when added together, equal at least 65.
- (d) OTHER TERMINATION OF EMPLOYMENT. An option may be exercised by an option holder after such individual ceases to be an employee (for reasons other than disability, death or retirement) for up to three months after the date of termination of employment but not later than the date the option expires.
- (e) In the event a salary replacement option is granted by the Committee and the option holder is involuntarily terminated during the option term or becomes disabled or dies, the Committee shall have the right to grant to the option holder or his personal representative, as the case may be, the right to request either (1) that the option be cancelled and the option holder or his estate be paid an amount equal to the compensation the option holder has given up from the date of grant to the date of such termination, disability or death together with interest at the prime rate less the then market gain on that portion of the shares covered by the option which is then vested; or (2) that the stock option accelerates such that the option be deemed to have vested at an appropriate rate per month (as determined by the Committee) from the date of grant to the last date of the month in which the date of termination, disability or death occurs, such accelerated option to be then exercisable for a period of three years following such date but only with respect to an option exercisable at the time such individual ceases to be an employee.

- (iii) Notwithstanding any provision of this paragraph 7.E, if within one year after the termination of employment with or performance of services for the Company, an option holder is employed or retained by a company that competes with the business of the Company or such individual violates any confidentiality agreement with the Company, the Company may cancel and rescind all options held by such individual and demand return of the economic value of any option which was realized or obtained (measured at the date of exercise) by such individual at any time during the period beginning on the date which is twelve months prior to the date of termination provided, however, that this provision shall not be applicable in the event of a Change of Control.
- (iv) Absence on leave or any other interruption in the performance of services by an option holder with the Company shall, if approved by the Committee, not be deemed a cessation or interruption of employment or services for the purposes of the Plan.
- (v) No option shall be assignable or transferable by the individual to whom it is granted except that it may be transferable by will or the laws of descent and distribution.
- (vi) In no event shall any option be exercisable at any time after its expiration date unless extended by the Committee. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated.

F. METHODS OF EXERCISE. Subject to the terms and conditions of the Plan and the terms and conditions of the option agreement, an option may be exercised in whole at any time or in part from time to time, by delivery to the Company at its principal office of a written notice of exercise specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the exercise price for shares to be purchased at that time. Payment may be made (i) in cash, (ii) in shares of Common Stock valued at the fair market value of the Common Stock on the date of exercise or (iii) in a combination of cash and Common Stock. The Committee may also, in its sole discretion, permit option holders to deliver a notice of exercise of options and to simultaneously sell the shares of Common Stock thereby acquired pursuant to a brokerage or similar arrangement approved in advance by proper officers of the Company, using the proceeds from such sale as payment of the exercise price, or may authorize such other methods as it deems appropriate and as comply with requirements of the Code and the Exchange Act.

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

G. ACCELERATED OWNERSHIP FEATURE. An option may, in the discretion of the Committee, include the right to acquire an accelerated ownership nonqualified stock option ("AO Option"). An option which provides for the grant of an AO Option shall entitle the option holder, upon exercise of that option and payment of the appropriate exercise price in shares of Common Stock that have been owned by such option holder for not less than six months prior to the date of exercise, to receive an AO Option. An AO Option is an option to purchase, at fair market value

at the date of grant of the AO Option, a number of shares of Common Stock equal to the sum of the number of whole shares delivered by the option holder in payment of the exercise price of the original option and the number of whole shares, if any, withheld by the Company as payment for withholding taxes. An AO Option shall expire on the same date that the original option would have expired had it not been exercised. All AO Options shall be nonqualified options.

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

Change of Control means:

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

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

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

- I. REORGANIZATION. The Committee may, in its sole discretion, make provisions in any option agreement for the protection of outstanding options in the event of a merger, consolidation, reorganization or liquidation of the Company or the acquisition of stock or assets of the Company by another entity.

- J. RIGHTS AS A STOCKHOLDER. An option holder shall have no rights as a stockholder with respect to any Common Stock covered by an option until exercise of such option and issuance of shares of Common Stock. Except as otherwise expressly provided in the Plan, no adjustments shall be made for dividends or other rights for which the record date is prior to issuance of the Common Stock.

- K. GENERAL RESTRICTION. Each option shall be subject to the requirement that, if at any time the Board shall determine in its discretion that the listing, registration or qualification of the Common Stock subject to such option on any securities exchange or under any state or federal law, or the consent or approval of any

government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issue or purchase of Common Stock thereunder, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

L. FOREIGN NATIONALS. Without amending the Plan, awards may be granted to individuals who are foreign nationals or are employed or otherwise performing services for the Company or any subsidiary outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purpose of the Plan.

8. INCENTIVE AND NONQUALIFIED OPTIONS. It is intended that certain options granted under the Plan shall be Incentive Stock Options and shall meet the applicable requirements of and contain or be deemed to contain all provisions required under Section 422 of the Code or corresponding provisions of subsequent revenue laws and regulations in effect at the time such options are granted; that other options shall not meet such requirements and shall be nonqualified stock options; and that any ambiguities in construction shall be interpreted in order to effectuate such intent. The Committee may grant one or more options of either type, or of both types, to any one or more individuals either at different times or concurrently. Such options shall be subject to the terms and conditions set forth elsewhere in the Plan and to the following:

A. INCENTIVE STOCK OPTIONS. The term of any Incentive Stock Option shall meet the requirements of Section 422 of the Code. Any Incentive Stock Option shall be treated as "outstanding" until it is exercised in full or expires by reason of lapse of time. To the extent that the aggregate fair market value of Common Stock (determined at the time of grant of the Incentive Stock Option in accordance with paragraph 7.C of the Plan) with respect to which Incentive Stock Options are exercisable for the first time by an option holder during any calendar year (under all such plans of the Company and its parent and subsidiary corporations) exceeds \$100,000 or such other limit as may be imposed by the Code, such options to the extent they exceed such limit shall be treated as options which are not Incentive Stock Options. In applying the foregoing limitation, options shall be taken into account in the order in which they were granted.

B. NONQUALIFIED OPTIONS. There is no limitation on the maximum amount of nonqualified options which may be exercised in any year.

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

10. AMENDMENT OF THE PLAN. The Plan may be amended, suspended or discontinued in whole or in part at any time and from time to time by the Board, including an amendment to increase the number of shares of Common Stock with respect to which options may be granted, provided however that no amendment shall be effective unless and until the same is approved by stockholders of the Company where the failure to obtain such approval would adversely affect the availability of any exemption under Rule 16b-3 under the Exchange Act or successor rule and with other applicable law, including the Code. No amendment of the Plan shall adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.

11. MISCELLANEOUS.

- A. USE OF PROCEEDS. The proceeds derived from the sale of shares of Common Stock pursuant to options granted under the Plan shall constitute general funds of the Company.
- B. PARENT AND SUBSIDIARY. As used herein, the terms "parent" and "subsidiary" shall mean "parent corporation" and "subsidiary corporation", respectively, as defined in Section 424 of the Code.
- C. GOVERNING LAW. The Plan, options granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

THE TORO COMPANY
1993 STOCK OPTION PLAN

1. PURPOSE. The purpose of the 1993 Stock Option Plan (the "Plan") is to advance the interests of The Toro Company (the "Company") and its stockholders by providing an incentive to certain employees of the Company and its subsidiaries and to certain other key individuals who perform services for the Company and its subsidiaries, to contribute significantly to the strategic and long-term performance objectives and growth of the Company and its subsidiaries. This purpose is expected to be achieved by granting options to acquire the Common Stock, \$1.00 par value, and related preferred share purchase rights of the Company (the "Common Stock"). Subject to the provisions of the Plan, options may contain such terms and conditions as shall be required so as to be either nonqualified stock options ("nonqualified options") or incentive stock options ("Incentive Stock Options") as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Subject to such limits as may be imposed by the Plan, nonqualified options or Incentive Stock Options or both may be granted to an eligible individual.
2. EFFECTIVE DATE. The effective date of the Plan shall be August 17, 1993.
3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors of the Company (the "Board"), provided that members of the Committee shall be Non-employee Directors as contemplated by Rule 16b-3 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") or any successor rule and shall qualify to administer the Plan as contemplated by Section 162(m) of the Code and the regulations thereunder ("Section 162(m)"). A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee and the acts of a majority of the members present at any meeting at which a quorum is present or the acts unanimously approved in writing by all members of the Committee shall be the acts of the Committee. The decision of the Committee on any matter affecting the Plan and obligations arising under the Plan or any option granted thereunder shall be deemed final and binding upon all persons. No member of the Board or of the Committee shall be liable for any action or determination taken or made in good faith with respect to the Plan or any option granted thereunder. Committee members shall be reimbursed for out-of-pocket expenses reasonably incurred in the administration of the Plan.

Subject to the express provisions of the Plan, the Committee shall have plenary authority, in its discretion, to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the exercise price of each option to purchase Common Stock, the individuals to whom and the time or times at which options shall be granted, the number of shares to be subject to each option, when an option may be exercisable and the other terms and provisions (and amendments thereto) of the respective option agreements (which need not be identical); to determine whether a particular option is to be an Incentive Stock Option and the terms and provisions thereof that shall be required in the judgment of the Committee to provide therefor or to conform to any change in any law or regulation

applicable thereto, or to any other law or regulation that may hereafter become effective to provide similar or related tax benefits to option holders; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

4. **COMMON STOCK SUBJECT TO THE PLAN.** Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock that is reserved and available for issuance pursuant to options granted under the Plan shall be 1,600,000 shares. If any option granted hereunder terminates, expires unexercised, is exchanged for other options without the issuance of shares of Common Stock or is exercised by the delivery or constructive delivery of shares of Common Stock already owned by the option holder, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent shares covered by an option are not issued or used, again be available for option grants under the Plan. Any shares issued by the Company in connection with the assumption or substitution of outstanding grants from any acquired corporation shall not reduce the shares available for option grants under the Plan. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares, or outstanding shares acquired in the market or from private sources, or a combination thereof. Appropriate adjustments in the number of shares of the Common Stock that may be available for option grants under the Plan and adjustments in the option price per share of outstanding options may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or other similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.
5. **ELIGIBILITY.** Options may be granted to any employee of the Company or any subsidiary thereof who is regularly employed in an executive, managerial, professional or technical position, and to any other individual who performs services for the Company or any subsidiary and who contributes significantly to the strategic and long-term performance objectives of the Company and its subsidiaries. Options may be granted to directors of the Company who are also employees of the Company. More than one option may be granted to the same individual. No option may be granted to an individual who owns, directly or indirectly, Common Stock or other capital stock of the Company possessing more than 5% of the total combined voting power or value of any class of capital stock of the Company or a subsidiary immediately after such option is granted. Except for the foregoing limitations, there is no minimum or maximum number of shares of Common Stock with respect to which options may be granted to any individual under the Plan. Individuals to whom options are granted are at times referred to as "option holders".
6. **DURATION OF THE PLAN.** The Plan shall remain in effect until all shares reserved for issuance pursuant to the Plan shall have been purchased pursuant to options granted under the Plan, provided that options under the Plan must be granted within ten years from the effective date of the Plan.

7. GENERAL TERMS OF OPTIONS. Options shall be evidenced by stock option agreements in such form and not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions:
- A. DATE OF GRANT. An option agreement shall specify the date of grant, which shall be the date on which the Committee grants an option or any later date which the Committee specifically designates.
 - B. NUMBER OF SHARES OF COMMON STOCK. An option agreement shall specify the number of shares of Common Stock to which it pertains. Notwithstanding any other provision of the Plan, the maximum number of shares that may be covered by any option grant during any calendar year shall be 100,000 shares.
 - C. EXERCISE PRICE. The exercise price of all stock options will be granted at fair market value, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan, where the exercise price is an average and on the date of grant could be higher or lower than fair market value. Fair market value is generally determined to be the closing price for the Common Stock on the New York Stock Exchange as reported by The Wall Street Journal or other readily available quotation of composite transactions.
 - D. TERM OF OPTIONS. The term of each option shall be fixed by the Committee.
 - E. EXERCISABILITY AND TRANSFERABILITY.
 - (i) The Committee shall have the authority to determine whether an option agreement shall specify periods after the date of grant of an option during which the option or any portion thereof may not yet be exercisable, including provisions applicable to persons subject to Section 16 of the Exchange Act.
 - (ii) During the lifetime of an option holder, options may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company or otherwise performing services for the Company or a parent or subsidiary and only if the option holder has been continuously so employed or engaged since the date such options were granted, except as the Committee may otherwise determine and provide for in an option agreement at the time of grant or, if the Committee does not so provide, as follows:
 - (a) DISABILITY. In the event of disability of an option holder, options may be exercised by such individual or his or her guardian or legal representative, not later than the earlier of the date the option expires or one year after the date such employment or performance of services ceases by reason of disability, but only with respect to an option exercisable at

the time such employment or performance of services ceases.

- (b) DEATH. An option may be exercised after the death of an option holder only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.
- (c) RETIREMENT. A nonqualified option may be exercised by an option holder after such individual ceases to be an employee by reason of retirement for up to four years after the date of retirement but not later than the date the option expires. "Retirement" shall have the meaning established by the Committee from time to time or, if no such meaning is established, shall mean termination of employment with the Company at an age and with a number of years of service to the Company which, when added together, equal at least 65.
- (d) OTHER TERMINATION OF EMPLOYMENT. An option may be exercised by an option holder after such individual ceases to be an employee (for reasons other than disability, death or retirement) for up to three months after the date of termination of employment but not later than the date the option expires.
- (e) In the event a salary replacement option is granted by the Committee and the option holder is involuntarily terminated during the option term or becomes disabled or dies, the Committee shall have the right to grant to the option holder or his personal representative, as the case may be, the right to request either (1) that the option be cancelled and the option holder or his estate be paid an amount equal to the compensation the option holder has given up from the date of grant to the date of such termination, disability or death together with interest at the prime rate less the then market gain on that portion of the shares covered by the option which is then vested; or (2) that the stock option accelerates such that the option be deemed to have vested at an appropriate rate per month (as determined by the Committee) from the date of grant to the last date of the month in which the date of termination, disability or death occurs, such accelerated option to be then exercisable for a period of three years following such date but only with respect to an option exercisable at the time such individual ceases to be an employee.

- (iii) Notwithstanding any provision of this paragraph 7.E, if within one year after the termination of employment with or performance of services for the Company, an option holder is employed or retained by a company that competes with the business of the Company or such individual violates any confidentiality agreement with the Company, the Company may cancel and rescind all options held by such individual and demand return of the economic value of any option which was realized or obtained (measured at the date of exercise) by such individual at any time during the period beginning on the date which is twelve months prior to the date of termination provided, however, that this provision shall not be applicable in the event of a Change of Control..
- (iv) Absence on leave or any other interruption in the performance of services by an option holder with the Company shall, if approved by the Committee, not be deemed a cessation or interruption of employment or services for the purposes of the Plan.
- (v) No option shall be assignable or transferable by the individual to whom it is granted except that it may be transferable by will or the laws of descent and distribution.
- (vi) In no event shall any option be exercisable at any time after its expiration date unless extended by the Committee. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated.

F. METHODS OF EXERCISE. Subject to the terms and conditions of the Plan and the terms and conditions of the option agreement, an option may be exercised in whole at any time or in part from time to time, by delivery to the Company at its principal office of a written notice of exercise specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the exercise price for shares to be purchased at that time. Payment may be made (i) in cash, (ii) in shares of Common Stock valued at the fair market value of the Common Stock on the date of exercise or (iii) in a combination of cash and Common Stock. The Committee may also, in its sole discretion, permit option holders to deliver a notice of exercise of options and to simultaneously sell the shares of Common Stock thereby acquired pursuant to a brokerage or similar arrangement approved in advance by proper officers of the Company, using the proceeds from such sale as payment of the exercise price, or may authorize such other methods as it deems appropriate and as comply with requirements of the Code and the Exchange Act.

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

G. ACCELERATED OWNERSHIP FEATURE. An option may, in the discretion of the Committee, include the right to acquire an accelerated ownership nonqualified stock option ("AO Option"). An option which provides for the grant of an AO Option shall entitle the option holder, upon exercise of that option and payment of the appropriate exercise price in shares of Common Stock that have been owned by such option holder for not less than six months prior to the date of exercise, to receive an AO Option. An AO Option is an option to purchase, at fair market value

at the date of grant of the A0 Option, a number of shares of Common Stock equal to the sum of the number of whole shares delivered by the option holder in payment of the exercise price of the original option and the number of whole shares, if any, withheld by the Company as payment for withholding taxes. An A0 Option shall expire on the same date that the original option would have expired had it not been exercised. All A0 Options shall be nonqualified options.

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

Change of Control means:

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

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

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

- I. REORGANIZATION. The Committee may, in its sole discretion, make provisions in any option agreement for the protection of outstanding options in the event of a merger, consolidation, reorganization or liquidation of the Company or the acquisition of stock or assets of the Company by another entity.
- J. RIGHTS AS A STOCKHOLDER. An option holder shall have no rights as a stockholder with respect to any Common Stock covered by an option until exercise of such option and issuance of shares of Common Stock. Except as otherwise expressly provided in the Plan, no adjustments shall be made for dividends or other rights for which the record date is prior to issuance of the Common Stock.
- K. GENERAL RESTRICTION. Each option shall be subject to the requirement that, if at any time the Board shall determine in its discretion that the listing, registration or qualification of the Common Stock subject to such option on any securities exchange or under any state or federal law, or the consent or approval of any

government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issue or purchase of Common Stock thereunder, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

- L. FOREIGN NATIONALS. Without amending the Plan, awards may be granted to individuals who are foreign nationals or are employed or otherwise performing services for the Company or any subsidiary outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purpose of the Plan.
8. INCENTIVE AND NONQUALIFIED OPTIONS. It is intended that certain options granted under the Plan shall be Incentive Stock Options and shall meet the applicable requirements of and contain or be deemed to contain all provisions required under Section 422 of the Code or corresponding provisions of subsequent revenue laws and regulations in effect at the time such options are granted; that other options shall not meet such requirements and shall be nonqualified stock options; and that any ambiguities in construction shall be interpreted in order to effectuate such intent. The Committee may grant one or more options of either type, or of both types, to any one or more individuals either at different times or concurrently. Such options shall be subject to the terms and conditions set forth elsewhere in the Plan and to the following:
- A. INCENTIVE STOCK OPTIONS. The term of any Incentive Stock Option shall meet the requirements of Section 422 of the Code. Any Incentive Stock Option shall be treated as "outstanding" until it is exercised in full or expires by reason of lapse of time. To the extent that the aggregate fair market value of Common Stock (determined at the time of grant of the Incentive Stock Option in accordance with paragraph 7.C of the Plan) with respect to which Incentive Stock Options are exercisable for the first time by an option holder during any calendar year (under all such plans of the Company and its parent and subsidiary corporations) exceeds \$100,000 or such other limit as may be imposed by the Code, such options to the extent they exceed such limit shall be treated as options which are not Incentive Stock Options. In applying the foregoing limitation, options shall be taken into account in the order in which they were granted.
 - B. NONQUALIFIED OPTIONS. There is no limitation on the maximum amount of nonqualified options which may be exercised in any year.
9. WITHHOLDING TAXES. The Company shall have the right to deduct from any settlement made under the Plan, including the exercise of an option or the sale of shares of Common Stock, any federal, state or local taxes of any kind required by law to be withheld with respect to such payments or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. If Common Stock is withheld or surrendered to satisfy tax withholding, such stock shall be valued at its fair market value as of the date such Common Stock is withheld or surrendered.

10. AMENDMENT OF THE PLAN. The Plan may be amended, suspended or discontinued in whole or in part at any time and from time to time by the Board, including an amendment to increase the number of shares of Common Stock with respect to which options may be granted, provided however that no amendment shall be effective unless and until the same is approved by stockholders of the Company where the failure to obtain such approval would adversely affect the availability of any exemption under Rule 16b-3 under the Exchange Act or successor rule and with other applicable law, including the Code. No amendment of the Plan shall adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.

11. MISCELLANEOUS.

- A. USE OF PROCEEDS. The proceeds derived from the sale of shares of Common Stock pursuant to options granted under the Plan shall constitute general funds of the Company.
- B. PARENT AND SUBSIDIARY. As used herein, the terms "parent" and "subsidiary" shall mean "parent corporation" and "subsidiary corporation", respectively, as defined in Section 424 of the Code.
- C. GOVERNING LAW. The Plan, options granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

THE TORO COMPANY
PERFORMANCE SHARE PLAN

1. **PURPOSE.** The purpose of the Toro Company Performance Company Performance Share Plan (the "Plan") is to enhance long-term stockholder value of The Toro Company (the "Company"), by reinforcing the incentives of key executives to achieve long-term performance goals of the Company; to link a significant portion of a participant's compensation to the achievement by the Company of performance goals and to the value of the Company's Common Stock, par value \$1.00 per share, and related Preferred Share Purchase Rights ("Common Stock"); and to attract and motivate executives and to encourage their continued employment on a competitive basis. The purposes of the Plan are to be achieved by the grant of Performance Share Awards.
2. **ELIGIBILITY AND PARTICIPATION.** Key employees of the Company who, through their position or performance, can have a significant, positive impact on the Company's financial results, shall be eligible to participate in the Plan. The Compensation Committee (the "Committee") shall select recipients of Performance Shares ("Plan Participants"). Newly-hired and newly-promoted executives may be selected as Plan Participants subject to the provisions of subparagraph 3.c.(ii), if applicable.
3. **PERFORMANCE SHARE AWARDS.**
 - a. **PERFORMANCE SHARE DEFINED.** A Performance Share is a right to receive shares of Common Stock or Common Stock units, contingent on the achievement of performance goals of the Company during a three period, except that a shorter period may be established for new participants and for awards granted at the time the Plan is adopted (the "Award Term"). A Performance Share Award shall be subject to such conditions, restrictions and contingencies as the Committee shall determine.
 - b. **VESTING.** Performance Shares shall be subject to forfeiture until they vest and shall vest only after the conclusion of the Award Term, and only if the Committee makes the certification required by subparagraph 3.c.(iii), except as may otherwise be provided in subparagraph 3.c.(iv).
 - c. **SECTION 162(m) CONDITIONS.** Performance Share Awards may be designated as "performance-based compensation" as that term is used in Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").
 - (i) **PERFORMANCE GOALS.** The Performance Goal criteria ("Performance Goals") that may be used by the Committee for Performance Shares shall include one or more of the following, as selected by the Committee: cumulative earnings, cumulative earnings per share, profit after tax, net income, return on invested capital, invested capital dollars, earnings per share, average net assets, after-tax interest expense, return on average net assets, return on equity, return on beginning equity, revenue growth and earnings growth.
 - (ii) **ESTABLISHMENT OF PERFORMANCE GOALS.** Performance Share Awards designated "performance-based compensation" shall be granted, and Performance Goals shall be established, by the Committee in writing not later than 90 days after the commencement of the period of service to which the Performance Goal relates, or such other period required under Section 162(m) of the Code, provided that the outcome is substantially uncertain at the time the Committee establishes the Performance Goal; and provided further that in no event will a Performance Goal be considered to be pre-established if it is established after 25% of the period of service (as scheduled in good faith at the time the Performance Goal is established) has elapsed.
 - (iii) **SECTION 162(m) MAXIMUM AWARD PAYMENT.** With respect to a Performance Share Award that is designated "performance-based compensation" for purposes of Section 162(m), the maximum number of shares that may be issued under the award shall be set at the time the

Committee grants the award and establishes Performance Goals under the award. Notwithstanding any other provision of this Plan, the maximum number of Performance Shares that may be granted to a Plan Participant with respect to any Award Term is 100,000, subject to adjustment as provided in paragraph 4.

- (iv) CERTIFICATION OF PAYMENT. Before any payment or delivery of shares of Common Stock is made under the Plan to any Participant who is a person referred to in Section 162(m), the Committee must certify in writing, as reflected in the minutes, that the Performance Goals established with respect to a Performance Share Award have been achieved. To the extent necessary with respect to any fiscal year, in order to avoid any undue windfall or hardship due to external causes, the Committee may make the determination as to whether a Performance Goal has been achieved without regard to the effect on the Performance Goal measure, as it may otherwise be presented in the financial statements, of any change in accounting standards, any acquisition by the Company not planned for at the time the Performance Goals are established or any Board-approved extraordinary or non-recurring event or item. With respect to any Plan Participant who is a person referred to in Section 162(m), the Committee shall have the discretion to decrease an award payment under a Performance Share Award, but may not under any circumstances increase such amount.
- d. DELIVERY. Certificates for shares of Common Stock in the number of Performance Shares that vest under an award will be delivered as soon as possible after the applicable vesting requirements (including accelerated vesting under subparagraph 3.e.) have been fulfilled, except that if a Plan Participant has properly elected to defer income that may be attributable to an award under a Company deferred compensation plan, Common Stock units will be credited to the Plan Participant's account thereunder. In the event vesting requirements are not fulfilled, Performance Shares shall be canceled and have no value.
- e. VESTING AND CANCELLATION UNDER SPECIAL CIRCUMSTANCES.
 - (i) RETIREMENT, DEATH OR DISABILITY. If a Plan Participant retires on or after age 65 or dies or becomes permanently disabled and unable to work, shares of Common Stock shall be delivered with respect to the participant's Performance Share Award only if otherwise earned and only with respect to the portion of the applicable Award Term completed at the date of such event (based on a 360 day year and expressed as a percentage). Such shares shall be delivered only after the conclusion of the Award Term in accordance with the provisions of subparagraphs 3.b., 3.c. and 3.d. of the Plan.
 - (ii) VOLUNTARY RESIGNATION AND EARLY RETIREMENT. In the event that a Participant resigns voluntarily or retires before age 65, Performance Shares in such participant's name that have not yet vested shall not vest and shall be canceled.
 - (iii) CHANGE OF CONTROL. Notwithstanding the provisions of subparagraphs 3.b. and 3.c., all Performance Shares that have not yet vested shall vest and become immediately payable if there is a change of control of the Company.

Change of Control means:

(A) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 15% or more of either (a) the then-outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or (b) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subparagraph (A), the following acquisitions shall not constitute a Change of

Control: (a) any acquisition directly from the Company, (b) any acquisition by the Company, (c) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (d) any acquisition by any corporation pursuant to a transaction that complies with clauses (a), (b) and (c) of subparagraph (C) of this subparagraph 3.e.(iii); or

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

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

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

f. DIVIDENDS AND VOTING. A Plan Participant shall have no rights as a stockholder with respect to Performance Shares unless and until Common Stock or Common Stock units are issued in settlement of the award. Except as expressly provided in the Plan, no adjustments shall be made for dividends or other rights for which the record date is prior to issuance of the Common Stock or crediting of Common Stock units.

- g. NON-TRANSFERABILITY. Neither Performance Shares nor Performance Share Awards nor any interest in any one of such awards or shares may be anticipated, alienated, encumbered, sold, pledged, assigned, transferred or subjected to any charge or legal process, other than by will or the laws of descent and distribution, so long as the Performance Shares have not vested and shares of Common Stock have not been distributed in accordance with the Plan, and any sale, pledge, assignment or other attempted transfer shall be null and void. A Plan Participant may receive payment under a Performance Share Award only while an employee of the Company and only if continuously employed from the date the award was granted, except as may otherwise be provided in subparagraph 3.e.
4. MAXIMUM SHARES SUBJECT TO PERFORMANCE SHARE AWARDS. Subject to the provisions of subparagraph 4.a., the number of shares of Common Stock reserved and available for issuance pursuant to Performance Share Awards under the Plan is 500,000. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares or outstanding shares acquired in the market or from private sources or a combination thereof.
- a. ADJUSTMENTS. Appropriate adjustments in (i) the number or kind of Performance Shares previously granted or (ii) the maximum number of shares of Common Stock or number or kind of securities that may be subject to Performance Share Awards or otherwise available for the purposes of the Plan may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company or other security through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.
5. ADMINISTRATION. The Plan shall be administered by the Committee. The Committee shall have the authority to administer the Plan; establish policies under the Plan; amend the Plan, subject to the provisions of paragraph 8; interpret provisions of the Plan; select Plan Participants; establish Performance Goals; make Performance Share Awards; or terminate the Plan, in its sole discretion. The Committee may delegate administrative duties and all decisions not required to be exercised by it under Section 162(m) or Section 16 of the Exchange Act, as it solely determines, including to Company officers. All decisions of the Committee shall be final and binding upon all parties including the Company, its stockholders and Plan Participants.
6. TAX WITHHOLDING. The Company shall have the right to deduct from any settlement made under the Plan or to require the Participant to pay the amount of any federal, state or local taxes of any kind required by law to be withheld with respect to the grant, vesting, payment or settlement of an award under this Plan, or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. If Common Stock is withheld or surrendered to satisfy tax withholding, such stock shall be valued at its fair market value as of the date it is withheld or surrendered. The Company may also deduct from any award settlement any other amounts due the Company by the Plan Participant.
7. GOVERNING LAW. The Plan, awards granted under the Plan, agreements entered into under the Plan and Performance Shares shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.
8. PLAN AMENDMENT AND TERMINATION. The Committee may, in its sole discretion, amend, suspend or terminate the Plan at any time, with or without advance notice to Plan Participants, provided that no amendment to the Plan shall be effective that would increase the maximum number of Performance Shares that may be granted under subparagraph 3.c.(iii) to a Participant who is a person referred to in Section 162(m); that would change the Performance Goal criteria applicable to a Participant who is a person referred to in Section 162(m) for payment of awards as set forth in subparagraph 3.c.(i); or that would modify the requirements as to eligibility for participation under paragraph 2, unless the stockholders of the Company shall have approved such change in accordance with the requirements of Section 162(m). No amendment, modification or termination of the Plan may adversely affect in a material manner any right of any Plan Participant with respect to any Performance Share Award theretofore granted without such participant's written consent.

9. EFFECTIVE DATE OF THE PLAN AND AMENDMENTS. The Plan shall first become effective on November 18, 1998, subject to stockholder approval. Any amendment to the Plan shall be effective on the date established by the Committee, subject to stockholder approval, if required under the provisions of paragraph 8.

THE TORO COMPANY
SUPPLEMENTAL MANAGEMENT RETIREMENT PLAN

JULY 27, 1998 RESTATEMENT

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THE TORO COMPANY
SUPPLEMENTAL MANAGEMENT RETIREMENT PLAN

JULY 27, 1998 RESTATEMENT

The Toro Company hereby amends and restates its Supplemental Management Retirement Plan originally effective as of August 1, 1989, as subsequently amended and restated. This amendment and restatement is effective as of July 27, 1998. This Plan is maintained by Company for the purpose of providing benefits for a select group of highly-compensated employees, in excess of the limitations on benefits and contributions imposed by Sections 401(a)(17) and 415 of the Internal Revenue Code of 1986. This Plan is unfunded for purposes of Title I of ERISA.

I. DEFINITIONS

When used in this Plan, the following terms have the meanings indicated unless a different meaning is plainly required by the context.

"BENEFICIARY" means the person or persons selected by the Participant to receive benefits under this Plan in the event of the Participant's death.

"CHANGE OF CONTROL" means:

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

- (ii) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- (iii) Consummation of a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition by the Company of assets or stock of another entity (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the

board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

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

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMMITTEE" means the Compensation Committee of the Board of Directors of the Company, or any successor committee.

"COMMON STOCK" means the Company's common stock, par value \$1.00 per share, and related preferred share purchase rights.

"COMPANY" means The Toro Company, a Delaware corporation.

"COMPENSATION" means all amounts received by a Participant from the Company that are subject to federal income tax withholding; provided, that (i) Compensation shall not include any amount received by an employee on account of the grant or exercise of an option to purchase Common Stock of the Company, and (ii) Compensation shall include an amount equal to any reductions in a Participant's gross income as a result of salary reductions under Sections 125 or 401(k) or 402(a)(8) of the Code.

"DISTRIBUTION ELECTION FORM" means a form provided by the Company through which a Participant makes the distribution elections provided for in Article VI.

"ELIGIBILITY SERVICE" means eligibility service as defined in the Profit Sharing Plan.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ESOP" means The Toro Company Employee Stock Ownership Plan, as amended.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"PARTICIPANT" means any employee of the Company or a participating Subsidiary who meets the conditions described in Article II of this Plan.

"PARTICIPATING SUBSIDIARY" means a Subsidiary of the Company to which this Plan has been extended by action of the Board of Directors of the Company or by action of the Committee, if the Board of Directors has authorized the Committee to so act.

"PENSION PLAN" means The Toro Company Retirement Plan for Office and Hourly Employees (the successor of The Toro Company Retirement Plan for Office Employees), as amended, or any successor or replacement plan.

"PLAN" means this Supplemental Management Retirement Plan, as amended.

"PLAN YEAR" means the calendar year.

"PROFIT SHARING PLAN" means The Toro Company Investment and Savings Plan (prior to August 1, 1995, The Toro Company Profit Sharing Plan for Office Employees), as amended, or any successor or replacement plan.

"SECTION 16 INSIDER" means any Participant who is, with respect to the Company, subject to Section 16 of the Exchange Act.

"SUBSIDIARY" means any corporation which is a component member of the controlled group of corporations of which the Company is the common parent. Controlled group shall be determined by reference to Section 1563 of the Code but including any corporation described in Section 1563(b) (2) thereof.

"SURVIVING SPOUSE" means a person who is married to a Participant at the date of the Participant's death and for at least one year prior thereto.

"TRUST" means the trust established or maintained by the Company which is used in connection with this Plan to assist the Company in meeting its obligations under the Plan.

"TRUSTEE" means the corporation or individual selected by the Company to serve as trustee for the Trust.

The singular form of any word shall include the plural and the masculine gender shall include the feminine where necessary for the proper interpretation of this Plan.

II. ELIGIBILITY AND PARTICIPATION

An employee who satisfies the conditions of Section 2.2 and whose benefits under the ESOP, the Pension Plan or the Profit Sharing Plan are or will be reduced because of the limitations on contributions and benefits imposed by Sections 401(a) (17) or 415 of the Code shall be a Participant in the Plan.

Prior to August 1, 1994, a Participant in the Plan was required to be an executive of the Company at the level of Vice President or above or an employee receiving annual Compensation equal to or greater than \$200,000. On and after August 1, 1994, a Participant in the Plan must be an employee of the Company or of a Participating Subsidiary receiving annual Compensation at a rate equal to or greater than \$150,000, as such amount may be adjusted from time to time by the Secretary of the Treasury pursuant to Section 401(a)(17) of the Code.

Once an employee becomes a Participant, his or her account under the Plan will remain in effect until distributed as provided herein, even if for any subsequent Plan Year or portion thereof the employee is ineligible to be a Participant, or ceases to be a Participant for any other reason.

III. SUPPLEMENTAL ACCOUNT

3.1 ESTABLISHMENT OF ACCOUNT

The Company shall establish and maintain an Article III account for each Participant, and shall credit such account for each Plan Year with an amount equal to the amount described in Section 3.2.

3.2 CREDITS TO ARTICLE III ACCOUNT

The amount credited to a Participant's Article III account for each Plan Year or portion thereof during which the employee is a Participant shall equal the difference between:

(a) the aggregate amount of contributions and forfeitures which would have been allocated or reallocated to the Participant under the Profit Sharing Plan, the ESOP and any other defined contribution plan (as defined in Section 414(i) of the Code) maintained by the Company, based on the Participant's Compensation, and without regard to the limitations imposed by Sections 401(a)(17) or 415 of the Code, and

(b) the aggregate amount of contributions and forfeitures actually allocated or reallocated to the Participant under such qualified plans plus any credits made under any nonqualified deferred compensation plan maintained by the Company (other than this Plan) to replace amounts that would have been credited under the qualified plans had the Participant not deferred compensation under such nonqualified plans.

Amounts credited to a Participant's Article III account for any Plan Year shall be credited as of the end of such Plan Year.

3.3 EARNINGS ON AMOUNTS CREDITED

Amounts credited to a Participant's Article III account shall be credited with interest at a rate and in a manner determined by the Company to be consistent with the average prime rate of interest charged by U. S. Bank, National Association to its individual borrowers. Prior to a Change of Control the method for determining the interest crediting rate may be changed at any time, at the discretion of the Company. After a Change of Control, the Trustee shall have authority to change the method for determining the interest crediting rate. Interest shall be credited as of the end of each quarter.

3.4 OPTIONAL EARNINGS CREDITS

If a Participant's age and years of Eligibility Service with the Company equals or exceeds sixty (60), the Participant may request the Trustee in writing, on a form approved by the Committee, to invest a specified percentage of his or her Article III account in one or more of the investment vehicles made available by the Company under the Trust. A Participant may change his or her election as of the first day of January and as of the first day of July, and more frequently if permitted by the Company, by delivering an election form to the Chief Financial Officer of the Company at least thirty days prior to the effective date of the election. Prior to a Change of Control, the investment vehicles made available to the Participants shall be selected by the Chief Executive Officer of the Company or by such Officer's designee. After a Change of Control, investment vehicles shall be selected by the Trustee. Any expense incurred in connection with an investment option shall be charged on a pro rata basis against the Participants' accounts. The investment vehicles made available under the Trust shall include at least one vehicle that provides a fixed rate of interest through investment in fixed income mutual funds or common trust funds, U.S. Treasury bonds and notes, certificates of deposit, annuity contracts, or other similar investments.

If the investment vehicles include a fund that invests exclusively or primarily in the Company's Common Stock, Participants who are Section 16 Insiders may allocate amounts to or from such fund only in accordance with Company policies on insider trading and in compliance with the rules for "Discretionary Trading" as defined in Rule 16b-3 (or any successor provision) under the Exchange Act. Distributions from a fund that invests exclusively or primarily in the Company's Common Stock shall be made in Common Stock.

If the Committee approves an election made as provided in this Section, the Participant's account will thereafter be credited with earnings or losses based upon the earnings or losses attributable to the investments so elected; and the Company shall not credit any portion of the account subject to such election with interest, as described in Section 3.3.

IV. SUPPLEMENTAL RETIREMENT BENEFIT

4.1 BENEFIT ELIGIBILITY

A supplemental retirement benefit shall be payable to a Participant under this Article IV commencing on the Participant's normal retirement date, as defined in the Pension Plan. The amount of that benefit, which shall not be less than zero, shall equal the difference between:

(a) the amount that the Participant would have been entitled to receive under the Pension Plan and any other defined benefit plans (as defined in Section 414(j) of the Code) maintained by the Company if such amount was determined (for each Plan Year or portion thereof in which the individual was a Participant) without regard to the limitations on benefits imposed by Sections 401(a)(17) or 415 of the Code on such plan or plans, reduced by the Defined Contribution Plan Offset, as defined in the Pension Plan, but including as an additional part of such Defined Contribution Plan Offset the sum of (i) amounts credited to the Participant under Article III of this Plan (including interest and other credits thereto) and (ii) amounts credited to the Participant under any other nonqualified deferred compensation plan maintained by the Company to replace amounts that would have been credited under such qualified plans had the Participant not deferred compensation under such a nonqualified deferred compensation plan, and

(b) the amount of the benefit actually payable to the Participant under the Pension Plan and such other qualified defined benefit plans.

4.2 CALCULATION OF THE BENEFIT

(a) The amount described in Section 4.1 will be computed as of the date of the Participant's retirement or termination of employment with the Company, in the form of a straight life annuity payable monthly over the lifetime of the Participant commencing on the Participant's normal retirement date, as defined under the Pension Plan.

(b) If the benefit under Article IV is payable in any form other than a straight life annuity over the lifetime of the Participant, or if it commences at any time other than the Participant's normal retirement date as defined in the Pension Plan, the amount of the benefit shall be the actuarial equivalent of the benefit described in clause (a) of this Section.

(c) For purposes of clauses (a) and (b) of this Section, the benefit calculation shall be made using the same actuarial methods and assumptions as are used at the time to determine benefits under the Pension Plan.

4.3 EFFECT OF PLAN TERMINATION

If the Pension Plan is terminated by the Company, the benefit payable to a Participant under this Article IV, if any, shall be determined as of the termination date of the Pension Plan and no other benefit shall be provided under this Article IV.

V. SUPPLEMENTAL SURVIVING SPOUSE BENEFIT

5.1 ELIGIBILITY FOR SURVIVING SPOUSE BENEFIT

If a Participant dies prior to commencement of payment of his or her benefit under the Pension Plan under circumstances in which a benefit is payable to the Participant's Surviving Spouse under such plan, then a supplemental benefit shall be payable to the Surviving Spouse under this Plan. The benefit shall be an amount, not less than zero, equal to the difference between:

(a) the monthly amount of the benefit under the Pension Plan and any other qualified defined benefit plans maintained by the Company to which the Surviving Spouse would have been entitled under such plan or plans if such benefit were computed without regard to the limitations on benefits imposed by Sections 401(a)(17) or 415 of the Code, reduced by the Defined Contribution Plan Offset, as defined in the Pension Plan, but including as an additional part of such Defined Contribution Plan Offset the sum of (i) amounts credited to the Participant under Article III of this Plan (including interest and other credits thereto) and (ii) amounts credited to the Participant under any other nonqualified deferred compensation plan

maintained by the Company to replace amounts that would have been credited under such qualified plans had the Participant not deferred compensation under such a nonqualified deferred compensation plan, and

(b) the monthly amount of the benefit actually payable to the Surviving Spouse under the Pension Plan and such other plan or plans.

5.2 CALCULATION OF THE BENEFIT

Subject to Section 9.6, a benefit payable under this Article V shall be payable over the lifetime of the Surviving Spouse in monthly installments commencing on the date for commencement of payment of the benefit payable to the Surviving Spouse under the Pension Plan and terminating on the date of the last payment of the benefit payable to the Surviving Spouse under the Pension Plan. A Participant may elect on a Distribution Election Form to have the actuarial equivalent of the benefit described herein paid in a lump sum. If the lump sum option is elected, it shall be paid on the first day of the month following the month in which the Participant dies, or as soon thereafter as is administratively feasible. A Participant may change the form of payment in the manner described in Section 6.2. The actuarial equivalent of the benefit described in this Section 5.2 shall be determined using the actuarial methods specified in the Pension Plan.

5.3 EFFECT OF PLAN TERMINATION

If the Pension Plan is terminated by the Company, the benefit payable to a Surviving Spouse under this Article V, if any, shall be determined as of the termination date of the Pension Plan and no other benefit shall be provided under this Article V.

VI. DISTRIBUTIONS

6.1 DISTRIBUTION OF ARTICLE III ACCOUNTS

All amounts credited to a Participant's account in accordance with Article III of this Plan, including gains or losses, shall be distributed to or with respect to a Participant only upon termination of the Participant's employment with the Company for any reason including death.

6.2 ELECTION OF DISTRIBUTION METHOD - ARTICLE III ACCOUNTS

Each Participant shall elect on a Distribution Election Form the method of distribution of his or her Article III account. The election shall become effective upon its receipt by the Company. A Participant may change his or her election at any time up to two years before the date of the Participant's retirement from the Company. Any change shall become effective on January 1 of the calendar year following the calendar year in which the change was received by the Company. No change in election will be effective if made after the Participant's employment with the Company is terminated for any reason. The Committee may, in its sole discretion, reduce the payment period over which payments would have been made pursuant to a Participant's election. If no election has been made, the Company shall pay the amounts credited to a Participant's Article III account in accordance with the election made by the Participant under The Toro Company Supplemental Retirement Plan, or if no such elections have been made or are in effect, then in a lump sum payment or, at the discretion of the Company, through a single life annuity on the life of the Participant.

6.3 DEATH PRIOR TO COMPLETION OF DISTRIBUTIONS

If a Participant dies before the full amount of his or her Article III account has been distributed, any remaining amounts shall be distributed to the Participant's Beneficiary by a method designated by the Participant in his or her Distribution Election Form. If a Participant has not designated a Beneficiary or method of distribution, or if no designated Beneficiary is living on the date of distribution, such amounts shall be distributed to the Participant's beneficiary under the Profit Sharing Plan in a lump sum distribution as soon as administratively feasible following the Participant's death.

6.4 DISTRIBUTION OF ARTICLE IV ACCOUNTS

All amounts credited to a Participant's account in accordance with Article IV of the Plan, including gains and losses, shall be distributed to or with respect to a Participant in accordance with this Section and the other provisions of this Article.

Each Participant shall elect on a Distribution Election Form the method of distribution of his or her Article IV benefit. The election shall become effective upon its receipt by the Company. A Participant may change his or her election at any time up to two years before the date of the Participant's retirement from the Company. Any change shall become effective on January 1 of the calendar year following the calendar year in which the change was received by the Company. No change in election will be effective if elected after the Participant's employment with the

Company is terminated for any reason. The Committee may, in its sole discretion, reduce the payment period over which payments would have been made pursuant to a Participant's election. If no election has been made, the Company shall pay the benefit described in Article IV in the form of a life annuity over the life of the Participant.

If a Participant dies before termination of employment or retirement, no benefit is payable under Article IV but a benefit may be payable under Article V if and to the extent that the conditions of that Article are satisfied.

6.5 ELECTION OF DISTRIBUTION METHOD - ARTICLE IV BENEFITS

Each Participant shall elect on a Distribution Election Form the method of distribution of his or her Article IV benefit. The election shall become effective upon its receipt by the Company. A Participant may change his or her election at any time up to two years before the date of the Participant's retirement from the Company. Any change shall become effective on January 1 of the calendar year following the calendar year in which the change was received by the Company. No change in election will be effective if made after the Participant's employment with the Company is terminated for any reason. The Committee may, in its sole discretion, reduce the payment period over which payments would have been made pursuant to a Participant's election. If no election has been made, the Company shall pay the benefit described in Article IV in the form of a life annuity over the life of the Participant.

6.6 DEATH BEFORE TERMINATION OF EMPLOYMENT

If a Participant dies before termination of employment or retirement from the Company, no benefit is payable under Article IV but a benefit may be payable under Article V if and to the extent that the conditions of that Article are satisfied.

6.7 DISTRIBUTIONS IN COMMON STOCK OF THE COMPANY

Any distribution under the Plan in the form of Company Stock shall be made in a lump sum if the Participant has elected a lump sum distribution or if a lump sum distribution occurs for any other reason. If the Participant has elected monthly distributions over one or more years, then distributions of Company Stock shall be made annually, during the first calendar quarter of each year over which monthly distributions are scheduled to be made.

6.8 DISTRIBUTIONS FOR CERTAIN TAX PURPOSES

If at any time a court or the Internal Revenue Service determines that any amount in a Participant's account or in the Trust is includable in a Participant's gross income and subject to tax, the Company shall make a lump sum distribution to such Participant (but not in an amount greater than the value of the Participant's account at the time of the distribution) of an amount equal to the amount determined to be so includable, and shall debit the Participant's account under the Plan by a like amount, plus the amount of any excise tax under Section 4999 of the Code with respect to the amounts so includable.

VII. ADMINISTRATION OF THE PLAN

7.1 COMPANY AUTHORITY

The Plan shall be administered by the Company, which shall have the authority, duty and power to interpret and construe the provisions of the Plan in its sole discretion. The Company shall have the duty and responsibility of maintaining records, making the requisite calculations and disbursing the payments hereunder. The Company's interpretations, determinations, regulations and calculations shall be final and binding on all persons and parties concerned.

7.2 RELIANCE

The Company shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the Plan.

7.3 BENEFIT STATEMENTS

The Company shall furnish individual statements of accrued benefits to each Participant, or current Beneficiary or Surviving Spouse at least annually, in such form as determined by the Company

7.4 CLAIMS

The employee benefit plan procedures in this section are intended to comply with Section 503 of ERISA and Section 2560.503-1 of the Department of Labor Regulations and pertain to claims by Participants and Beneficiaries ("claimants") for Plan benefits, consideration of such claims, and review of claim denials. For purposes of these procedures, a "claim" is a request for a benefit by a Participant or Beneficiary

under the Plan. A claim is filed when the requirements of these procedures have been met.

(a) If a claim is wholly or partially denied, notice of the decision, meeting the requirements of subsection (b) of these procedures, shall be furnished to the claimant within a reasonable period of time after receipt of the claim by the Company. If notice of the denial of a claim is not furnished in accordance with this subsection (a) within a reasonable period of time, the claim shall be deemed denied and the claimant shall be permitted to proceed to the review stage described in subsection (c) of these procedures. For purposes of this subsection (a), the period of time for notification to the claimant will not exceed 90 days after receipt of the claim by the Company, unless special circumstances require an extension of time for processing the claim. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Company expects to render the final decision.

(b) The Company shall provide to every claimant who is denied a claim for benefits written notice setting forth in a manner calculated to be understood by the claimant:

- (i) the specific reason or reasons for the denial;
- (ii) specific reference to pertinent provisions of the Plan or Agreement on which the denial is based;
- (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (iv) appropriate information as to the steps to be taken if the Participant or Beneficiary wishes to submit his or her claim for review.

(c) If a claim is denied in whole or in part and if the claimant is dissatisfied with the disposition of the claim, the claimant or his or her duly authorized representative shall have a reasonable opportunity to appeal the denied claim to the Company or to a person designated by the Company, and shall have a full and fair review of the claim and its denial. Under this review procedure, a claimant or his or her duly authorized representative may:

- (i) request a review upon written application to the Company;
- (ii) review pertinent documents; and
- (iii) submit issues and comments in writing.

A claimant must file such a request for review of a denied claim within a reasonable period of time, not to exceed 60 days, after receipt by the claimant of written notification of denial of a claim.

(d) A decision by the Company shall be made promptly and shall not ordinarily be made later than 60 days after the receipt by the Company of a request for review, unless special circumstances (such as the need to hold a hearing) require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than 120 days after receipt of a request for review. If an extension of time for review is required because of special circumstances, written notice of the extension shall be furnished to the claimant prior to the commencement of the extension. The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan or Agreement on which the decision is based. The decision on review shall be furnished to the claimant within the period of time described in this subsection (d). If the decision on review is not furnished within such time, the claim shall be deemed denied on review.

VIII. AMENDMENT OR TERMINATION

The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan at any time.

No amendment or termination of the Plan shall directly or indirectly reduce the balance of any account described in Article III as of the effective date of such amendment or termination. Upon termination of the Plan, distribution of amounts credited to such account shall be made to the Participant or his or her Beneficiary in accordance with Article VI. No additional credits or contributions will be made to any account under the Plan after termination of the Plan, but gains or losses will continue to be credited to the Participant's account under the Plan until all benefits are distributed to the Participants or their Beneficiaries.

No amendment or termination of the Plan shall directly or indirectly deprive any current or former Participant or Surviving Spouse of all or any portion of any benefit under Article IV or Article V of the Plan payment of which has commenced prior to the effective date of such amendment or termination or which would be payable if the Participant terminated employment for any reason, including death, on such effective date.

IX. GENERAL PROVISIONS

9.1 THE TRUST

The Company has established a Trust which may be used to pay benefits arising under this Plan and costs, charges and expenses relating thereto. To the extent that the funds held in the Trust are insufficient to pay such benefits, costs, charges and expenses, and except as provided in Section 3.5 relating to investment option elections, the Company shall pay them.

9.2 NO ALIENATION

Neither the benefits payable hereunder nor the right to receive future benefits under the Plan may be anticipated, alienated, sold, transferred, assigned, pledged, encumbered, or subjected to any charge or legal process; no interest or right to receive a benefit may be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

9.3 UNFUNDED PLAN

The Plan at all times shall be considered entirely unfunded both for tax purposes and for purposes of Title I of ERISA. Funds invested under this Plan, including amounts held in the Trust, shall continue for all purposes to be part of the general assets of the Company and available to the general creditors of the Company in the event of the Company's bankruptcy (when the Company is involved in a pending proceeding under the Federal Bankruptcy Code) or insolvency (when the Company is unable to pay its debts as they mature). In the event of the Company's bankruptcy or insolvency, the Company's Board of Directors and chief executive officer are required to notify the Trustee and each Participant in writing of such an occurrence within three business days following the Company's becoming aware thereof. No Participant, Surviving Spouse or any other person shall have any interest in any particular assets of the Company by reason of the right to receive a benefit under the Plan and to the extent the Participant, Surviving Spouse or any other person acquires a right to receive benefits under this Plan, such right shall be no greater than

the right of any general unsecured creditor of the Company. The Plan constitutes a mere promise by the Company to make payments to the Participants, Surviving Spouses, or Beneficiaries in the future.

9.4 NO GUARANTY

Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that any funds in the Trust or the assets of the Company will be sufficient to pay any benefit hereunder.

9.5 NO RIGHT OF EMPLOYMENT

No Participant or Surviving Spouse shall have any right to a benefit under this Plan except in accordance with the terms of the Plan. Establishment of the Plan shall not be construed to give any Participant the right to be retained in the service of the Company.

9.6 SMALLER ACCOUNTS

If the value or actuarial value of any benefit payable to or on behalf of the Participant under the Plan is \$25,000 or less, the Company shall have the discretion to pay such value or actuarial value to the Participant, Beneficiary, or Surviving Spouse in a single lump sum in lieu of any further benefit payments under the Plan.

9.7 INCOMPETENCY

If any person entitled to a benefit payment under the Plan is declared incompetent and a conservator or other person legally charged with the care of his or her person or his or her estate is appointed, any benefits under the Plan to which such person is entitled shall be paid to such conservator or other person. Except as provided above, when the Company determines that such person is unable to manage his or her financial affairs, the Company may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Company and the Plan therefor.

9.8 CORPORATE CHANGES

The Plan shall not be automatically terminated by a transfer or sale of assets of the Company or by the merger or consolidation of the Company into or with any other corporation or other entity, but the Plan shall be continued after such sale, merger or consolidation only if and to the extent that the transferee, purchaser or successor

entity agrees to continue the Plan. In the event that the Plan is not continued by the transferee, purchaser or successor entity, then the Plan shall terminate subject to the provisions of Article VIII.

9.9 ADDRESSES

Each Participant shall keep the Company informed of his or her current address and the current address of his or her spouse or designated Beneficiary. The Company shall not be obligated to search for any person. If the location of a Participant is not made known to the Company within three (3) years after the date on which payment of the Participant's benefits payable under this Plan may first be made, payment may be made as though the Participant had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed, or, within three (3) years after the actual death of a Participant, the Company is unable to locate any Surviving Spouse or designated Beneficiary of the Participant, then the Company shall have no further obligation to pay any benefit hereunder to such Participant, Surviving Spouse or designated Beneficiary and such benefits shall be irrevocably forfeited.

9.10 LIMITATIONS ON LIABILITY

Notwithstanding any of the preceding provisions of the Plan, neither the Company nor any individual acting as an employee or agent of the Company shall be liable to any Participant, former Participant, Surviving Spouse, or any other person for any claim, loss, liability or expense incurred in connection with the Plan, unless attributable to fraud or willful misconduct on the part of the Company or any such employee or agent of the Company.

9.11 UNFORSEEABLE EMERGENCIES

In the event a Participant incurs an unforeseeable emergency, the Participant may make a written request to the Committee for a hardship withdrawal from his or her account established under Article III. An unforeseeable emergency is a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Withdrawals of amounts because of an unforeseeable emergency are only permitted to the extent reasonably needed to satisfy the emergency need. This provision shall be interpreted in a manner consistent with Sections 1.457-2(h)(4) and 1.457-2(h)(5) of the Treasury Regulations.

9.12 DISABILITY

A Participant who becomes permanently disabled may make a written request to the Committee for a withdrawal of the accrued benefits in his or her account under Article IV. For purposes of this Section, a Participant becomes "permanently disabled" if he or she qualifies for long-term disability benefits under the Company's long-term disability plan. If the Participant does not participate in such a plan or the Company does not offer such a plan, the Committee in its sole discretion shall determine whether a Participant is permanently disabled. Permanent disability does not include any period of short-term disability under any Company plan providing for short-term disability benefits. If a withdrawal of accrued benefits under this Section is approved by the Committee, the maximum amount payable shall be determined as provided in Section 4.2.

9.13 TRANSFERS TO THE TRUST

On the occurrence of a Change of Control or if a Participant elects to direct the investment of amounts credited to his or her account pursuant to Section 3.5, the Company shall transfer cash or property to the Trust in an amount equal to the present value of all accumulated or accrued benefits then payable to or on behalf of such Participant or Participants under this Plan, plus any applicable fees. The Company may also transfer cash or property to the Trust in an amount equal to the present value of all accumulated or accrued benefits then payable under this Plan at any time in the sole discretion of the Company. If a transfer of cash or property occurs, the amounts transferred with respect to the benefits payable under Articles IV and V shall be, for each Participant, Beneficiary or Surviving Spouse, the actuarial equivalent, as determined by using the actuarial assumptions described in the Pension Plan, of the benefits payable to or on behalf of each such individual under said Articles IV and V. Thereafter, the Company shall, for each Plan Year, transfer cash or property no later than thirty (30) days after the end of the Plan Year in which the initial transfer occurs, and thereafter on each anniversary thereof, to the Trust for the benefit of each affected individual in an amount equal to the additional benefit accrued under the terms of this Plan during and in relation to the most recent Plan Year then ended. In the event of a transfer, the accounts of the Participants, established pursuant to Article III, shall be credited with interest, or earnings and losses in accordance with Section 3.5.

9.14 INSPECTION

Each Participant shall receive a copy of the Plan, and the Company will make available for inspection by any Participant or Beneficiary a copy of any rules and regulations that are used by the Company in administering the Plan.

9.15 GOVERNING LAW

To the extent that it is not governed by United States federal law, the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

Dated as of this 13th day of May, 1999.

THE TORO COMPANY

By /s/ K. B. Melrose
Its Chairman & Chief Executive Officer

THE TORO COMPANY
SUPPLEMENTAL RETIREMENT PLAN

JULY 27, 1998 RESTATEMENT

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THE TORO COMPANY
SUPPLEMENTAL RETIREMENT PLAN
JULY 27, 1998 RESTATEMENT

The Toro Company hereby amends and restates its Supplemental Retirement Plan, most recently amended and restated effective as of January 1, 1996, which has been maintained by The Toro Company primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. This amendment and restatement is effective as of July 27, 1998.

I. DEFINITIONS

When used in this Plan document, the following terms have the meanings indicated unless a different meaning is plainly required by the context.

"ASSISTANT SECRETARY" means the person serving as Assistant Corporate Secretary of the Company.

"BENEFICIARY" means the person or persons selected by the Participant to receive the benefits provided under this Plan in the event of the Participant's death.

"CHANGE OF CONTROL" means:

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

by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of subsection (iii) of this definition; or

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

- (iii) Consummation of a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition by the Company of assets or stock of another entity (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of

the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

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

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMMITTEE" means the Compensation Committee of the Board of Directors of the Company, or any successor committee.

"COMMON STOCK" means the Company's common stock, par value \$1.00 per share, and related preferred share purchase rights.

"COMPANY" means The Toro Company, a Delaware corporation.

"COMPENSATION" means all amounts received by a Participant from the Company that are subject to federal income tax withholding: provided, that (i) Compensation shall not include any amount received by an employee on account of the grant or exercise of an option to purchase Common Stock of the Company, and (ii) Compensation shall include an amount equal to any reductions in a Participant's gross income as a result of salary reductions under Sections 125 or 401(k) or 402(a)(8) of the Code.

"DIRECTOR" means the person serving as Director of Compensation and Benefits of the Company.

"ELIGIBILITY SERVICE" means eligibility service as defined in the Profit Sharing Plan.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"PARTICIPANT" means an eligible employee who has executed a Deferred Compensation Agreement.

"PLAN" means this Supplemental Retirement Plan, including any amendments thereto.

"PLAN YEAR" means the calendar year.

"PROFIT SHARING PLAN" means The Toro Company Investment and Savings Plan (the successor of the Profit Sharing Plan for Office Employees) or any successor or replacement plan.

"SECTION 16 INSIDER" means a Participant who is, with respect to the Company, subject to Section 16 of the Securities Exchange Act of 1934, as amended.

"SUBSIDIARY" means any corporation that is a component member of the controlled group of corporations of which the Company is the common parent. Controlled group shall be determined by reference to Section 1563 of the Code but including any corporation described in Section 1563(b)(2) thereof.

"TRUST" means the trust established or maintained by the Company that is used in connection with this Plan to assist the Company in meeting its obligations under the Plan.

"TRUSTEE" means the corporation or individual selected by the Company to serve as Trustee for the Trust.

The singular form of any word shall include the plural and the masculine gender shall include the feminine wherever necessary for the proper interpretation of this Plan.

II. ELIGIBILITY AND PARTICIPATION

All management or highly compensated employees who are at the director level or above with the Company, or with any Subsidiary of the Company to which this Plan has been extended by the Board of Directors of the Company, are eligible to become Participants.

An eligible employee will become a Participant upon submission of a completed election form, in the form approved by the Committee, to the Director or the Assistant Secretary.

Once an employee has become a Participant, his or her account under the Plan will remain in effect until distributed as provided herein, even if for any subsequent Plan Year or portion thereof the employee ceases to meet the eligibility requirements of this Article II or ceases to be a Participant for any other reason.

III. DEFERRED COMPENSATION

3.1 DEFERRAL ELECTION

A Participant may elect to defer Compensation for a calendar year by completing and submitting a deferral election on a form provided by the Company. Such election must be submitted to the Director or the Assistant Secretary by December 31 to be effective in the following year. An election shall remain in effect until revoked or revised by the Participant by a written election delivered to the Director or the Assistant Secretary. An election shall take effect as of January 1 of the year following the year in which it is received.

A Participant shall not be eligible to defer Compensation for any calendar year following the year in which he or she no longer satisfies the eligibility requirements of this Plan, unless the Committee in its discretion permits such a deferral.

3.2 ACCOUNTS

The Company shall establish and maintain an account for each Participant, and shall credit such account with amounts deferred by the Participant pursuant to Section 3.1 and the Participant's election.

3.3 COMPANY CREDITS

The Company shall credit a Participant's account as of December 31 each year with an amount equal to the difference between (i) the amount that would have been credited to the Participant's account under the Profit Sharing Plan and the ESOP for the Plan Year had the Participant not made an election to defer compensation for the year under Section 3.1 of this Plan and (ii) the amount actually credited to the Participant's account under the Profit Sharing Plan and the ESOP for the Plan Year. To prevent duplication of benefits, credits under this Section 3.3 shall not be made with respect to any year or partial year in which the Participant or any account of the Participant receives comparable credits under the Supplemental Management Retirement Plan or any other Company plan.

3.4 DEFERRAL OF CERTAIN 1995 BONUS AMOUNTS

Amounts credited to Participant accounts pursuant to this Section 3.4 prior to its amendment as of July 27, 1998, representing deferrals of bonuses earned by Participants for the fiscal year ending October 31, 1995, shall continue to be held pursuant to the terms and conditions of this Plan, together with any other amounts credited to the Participant's account under the Plan.

IV. EARNINGS ON PARTICIPANT ACCOUNTS

4.1 EARNINGS CREDIT

Amounts held in an account maintained for a Participant shall be credited with interest at a rate and in a manner determined by the Committee to be consistent with the average prime rate of interest charged by U. S. Bank, National Association to its individual borrowers. Prior to a Change of Control the method for determining the interest crediting rate may be changed at any time, at the discretion of the Committee. After a Change of Control, the Trustee shall have authority to change the method for determining the interest crediting rate. Interest shall be credited as of the end of each quarter.

4.2 OPTIONAL EARNINGS CREDIT

If a Participant's age and years of Eligibility Service with the Company equals or exceeds sixty (60), the Participant may request the Trustee in writing, on a form approved by the Company, to invest a specified percentage of his or her account in one or more of the investment vehicles available under the Trust. A Participant may change his or her election as of the first day of January and as of the first day of July, and more frequently if permitted by the Committee, by delivering an election form to the Chief Financial Officer of the Company at least thirty days prior to the effective date of the election. Prior to a Change of Control, the investment vehicles made available to the Participants shall be selected by the Chief Executive Officer of the Company or by such Officer's designee. After a Change of Control, investment vehicles shall be selected by the Trustee. Any expense incurred in connection with an investment option shall be charged on a pro rata basis against the Participants' accounts. The investment vehicles made available under the Trust shall include at least one vehicle that provides a fixed rate of interest through investment in fixed income mutual funds or common trust funds, U.S. Treasury bonds and notes, certificates of deposit, annuity contracts, or such other similar investments.

If the investment vehicles include a fund that invests exclusively or primarily in the Company's Common Stock, Participants who are Section 16 Insiders may allocate amounts to or from such fund only in accordance with Company policies on insider trading and in compliance with the rules for "Discretionary Trading" as defined in Rule 16b-3 (or any successor provision) under the Securities Exchange Act of 1934, as amended. Distributions from a fund that invests exclusively or primarily in the Company's Common Stock shall be made in Common Stock.

If the Committee approves an election made pursuant to this Section, the Participant's account will thereafter be credited with earnings or losses based upon the earnings or losses attributable to the investments so elected; and the Company shall not credit any portion of the account subject to such investment election with interest, as described in Section 4.1.

4.3 NO INTEREST IN ASSETS

The Company may set aside or earmark funds or other assets to meet its obligations under the Plan, but title to and ownership of such funds and assets shall remain in the Company. Neither the Participant nor any beneficiary shall have any ownership rights or any property interests in any of such funds or other assets, or in any other assets of the Company, until they are distributed in accordance with the Plan.

V. DISTRIBUTIONS

5.1 DISTRIBUTION ELECTIONS

Distributions under the Plan shall be made in accordance with the Participant's election. Elections (both as to distributions and as to deferrals) made prior to the July 27, 1998 Restatement of this Plan shall remain in effect until changed by the Participant as provided in this Plan.

5.2 FORM OF ELECTION; ABSENCE OF A VALID ELECTION

Except as provided in Sections 5.3, 5.4, 5.5 and 5.6 hereof, the amount of the Participant's deferred compensation account shall be distributed on the Participant's retirement, resignation or termination from employment with the Company, or on the disability or death of the Participant, whichever occurs first. Distributions shall be made in accordance with the Participant's distribution election most recently filed with the Director or Assistant Secretary: provided, that any election filed two years or less before the date of the Participant's retirement, resignation or termination of employment shall be disregarded.

In the absence of a valid election, the Company shall pay the accrued amount in forty (40) quarterly installments commencing after the Participant's retirement, resignation or termination from employment with the Company, or on the disability or death of the Participant, whichever occurs first. Installments shall reflect earnings or losses on a monthly basis, and be paid on an actuarially amortized and annually adjusted basis, or on a decreasing fraction basis (1/40th, 1/39th, 1/38th, etc.), or on such other basis as elected by the Company in its sole discretion, in order to provide

reasonably level payments throughout the period. In the event of the Participant's death before distribution is completed (or before any early distribution under Section 5.3 hereof), the balance may be distributed in a lump sum or on an installment basis as the Company may determine, either to any designated beneficiary or to the estate or legal representative of the Participant.

5.3 EARLY DISTRIBUTIONS

A Participant may irrevocably elect to receive a distribution of all or a portion of the Participant's account prior to retirement, resignation or termination of employment with the Company, but early distributions hereunder shall not commence until after the Participant has attained age 55. The election shall be made not later than two years prior to the Plan Year in which the early distribution is to be made. Distributions under this Section shall be paid in a lump sum. Any election under this Section is subject to Committee approval.

5.4 UNFORESEEABLE EMERGENCY

A Participant who incurs an unforeseeable emergency may make a written request to the Company for a hardship withdrawal from the Participant's account. An unforeseeable emergency is a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152(a) of the Internal Revenue Code of 1986, as amended) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Withdrawals of amounts because of an unforeseeable emergency are permitted to the extent reasonably needed to satisfy the emergency need. This Section 5.3 shall be interpreted in a manner consistent with Sections 1.457-2(h)(4) and 1.457(h)(5) of the Treasury Regulations.

5.5 ACCELERATED DISTRIBUTIONS

Prior to a Change of Control, the Company shall have the right to make distribution on an accelerated installment basis, including lump sum, or to purchase an annuity contract for the Participant's benefit, in the event of merger, reorganization, sale of assets, liquidation of the Company, or for such other causes as the Company deems appropriate in its sole discretion. Any such lump sum or annuity payment shall be the actuarial equivalent of the distribution elected by the Participant, calculated using actuarial assumptions consistent with those applied at the time under the Company's Retirement Plan for Office and Hourly Employees, or any successor or replacement plan. Any amounts remaining in the account during the period of any

accelerated installment distribution shall continue to be credited with earnings or losses as provided in the Plan.

5.6 DISTRIBUTIONS FOR CERTAIN TAX PURPOSES

If at any time a court or the Internal Revenue Service determines that any amount in a Participant's account or in the Trust is includable in a Participant's gross income and subject to tax, the Company shall make a lump sum distribution to such Participant (but not in an amount greater than the value of the Participant's account under the Plan at the time of such distribution) of an amount equal to the amount determined to be so includable, and shall deduct a like amount from the Participant's account under the Plan.

5.7 TIMING OF DISTRIBUTIONS

Except in the event of the Participant's death or disability, benefits payable under this Plan shall be paid beginning in the first month of the calendar year immediately following the calendar year in which the distributable event occurs or, in the case of distributions pursuant to elections under Section 5.3, in the first month of the year of distribution, as elected by the Participant and approved by the Committee. In the event of a Participant's death or disability, benefits shall be distributed beginning in the first month following the month in which the Participant's death occurred or the determination of disability is made.

5.8 STATUS AS GENERAL CREDITOR; UNFUNDED PLAN

To the extent that any person acquires the right to receive any distribution under this Agreement, such rights shall be no greater than the right of any unsecured general creditor of the Company. The Agreement shall at all times be considered unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. This Agreement and all rights, interests, and benefits hereunder shall not be assigned, transferred or pledged by the Participant and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, or other disposition of this Agreement, or of any such rights, interests and benefits, and any levy of attachment or similar process thereupon, shall be null and void and without effect.

VI. ADMINISTRATION OF THE PLAN

6.1 COMPANY'S AUTHORITY

The Plan shall be administered by the Company, which shall have the authority, duty and power to interpret and construe the provisions of the Plan as it deems appropriate. The Company shall have the duty and responsibility of maintaining records,

making the requisite calculations and dispersing the payments hereunder. The Company's interpretations, determinations, regulations and calculations shall be final and binding on all persons and parties concerned.

6.2 RELIANCE

The Company shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the Plan.

6.3 BENEFIT STATEMENTS

The Company shall furnish individual statements of accrued benefits to each Participant, or current Beneficiary, at least annually, in such form as determined by the Company.

6.4 CLAIMS

The employee benefit plan procedures in this section are intended to comply with Section 503 of ERISA, and Section 2560.503-1 of the Department of Labor Regulations and pertain to claims by participants and beneficiaries ("claimants") for Plan benefits, consideration of such claims, and review of claim denials. For purposes of these procedures, a "claim" is a request for a benefit by a Participant or Beneficiary under the Plan or a Deferred Compensation Agreement. A claim is filed when the requirements of these procedures have been met.

(a) If a claim is wholly or partially denied, notice of the decision, meeting the requirements of subsection (b) of these procedures, shall be furnished to the claimant within a reasonable period of time after receipt of the claim by the Company. If notice of the denial of a claim is not furnished in accordance with this subsection (a) within a reasonable period of time, the claim shall be deemed denied and the claimant shall be permitted to proceed to the review stage described in subsection (c) of these procedures. For purposes of this subsection (a), the period of time for notification to the claimant will not exceed 90 days after receipt of the claim by the Company, unless special circumstances require an extension of time for processing the claim. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Company expects to render the final decision.

(b) The Company shall provide to every claimant who is denied a claim for benefits written notice setting forth in a manner calculated to be understood by the claimant:

- (i) the specific reason or reasons for the denial;
- (ii) specific reference to pertinent provisions of the Plan or Agreement on which the denial is based;
- (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (iv) appropriate information as to the steps to be taken if the Participant or Beneficiary wishes to submit his or her claim for review.

(c) If a claim is denied in whole or in part and if the claimant is dissatisfied with the disposition of the claim, the claimant or his or her duly authorized representative shall have a reasonable opportunity to appeal the denied claim to the Company or to a person designated by the Company, and shall have a full and fair review of the claim and its denial. Under this review procedure, a claimant or his or her duly authorized representative may:

- (i) request a review upon written application to the Company;
- (ii) review pertinent documents; and
- (iii) submit issues and comments in writing.

A claimant must file such a request for review of a denied claim within a reasonable period of time, not to exceed 60 days, after receipt by the claimant of written notification of denial of a claim.

(d) A decision by the Company shall be made promptly and shall not ordinarily be made later than 60 days after the receipt by the Company of a request for review, unless special circumstances (such as the need to hold a hearing) require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than 120 days after receipt of a request for review. If an extension of time for review is required because of special circumstances, written notice of the extension shall be furnished to the claimant prior to the commencement of the extension. The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan or

Agreement on which the decision is based. The decision on review shall be furnished to the claimant within the period of time described in this subsection (d). If the decision on review is not furnished within such time, the claim shall be deemed denied on review.

VII. AMENDMENT OR TERMINATION

The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan at any time.

No amendment or termination of the Plan shall directly or indirectly reduce the balance of any account described in Article III as of the effective date of such amendment or termination. The Company shall not credit the accounts of any Participant with any further deferrals after termination of the Plan, but gains or losses will continue to be credited to the Participant's account under the Plan until all benefits are distributed to the Participants or to their Beneficiaries.

VIII. GENERAL PROVISIONS

8.1 TRUST

The Company has established a Trust which may be used to pay benefits arising under the Plan and costs, charges and expenses relating thereto. To the extent that the funds held in the Trust are insufficient to pay such benefits, costs, charges and expenses, and except as provided in Section 4.2 relating to investment option elections, the Company shall pay them.

8.2 NO ALIENATION

Neither the benefits payable hereunder nor the right to receive future benefits under the Plan may be anticipated, alienated, sold, transferred, assigned, pledged, encumbered, or subjected to any charge or legal process; no interest or right to receive a benefit may be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

8.3 UNFUNDED PLAN

The Plan shall at all times be considered entirely unfunded both for tax purposes and for purposes of Title I of ERISA. Funds invested under this Plan, including amounts held in the Trust, shall continue for all purposes to be part of the general assets of the Company and available to the general creditors of the Company in the event of the Company's bankruptcy (when the Company is involved in a pending proceeding under the

Federal Bankruptcy Code) or insolvency (when the Company is unable to pay its debts as they mature). In the event of the Company's bankruptcy or insolvency, the Company's Board of Directors and Chief Executive Officer shall notify the Trustee in writing of such an occurrence within three business days following the Company's becoming aware of such occurrence. No Participant or any other person shall have any interests in any particular assets of the Company by reason of the right to receive a benefit under the Plan and to the extent the Participant or any other person acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any general unsecured creditor of the Company. The Plan constitutes a mere promise by the Company to make payments to the Participants in the future.

8.4 NO GUARANTY

Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that any funds in the Trust or the assets of the Company will be sufficient to pay any benefit hereunder.

8.5 NO RIGHT OF EMPLOYMENT

No Participant shall have any right to a benefit under this Plan except in accordance with the terms of the Plan. Establishment and continuance of the Plan shall not be construed to give any Participant the right to be retained in the service of the Company.

8.6 INCOMPETENCY

If any person entitled to a benefit payment under the Plan is declared incompetent and a conservator or other person is legally charged with the care of such person or of his or her estate is appointed, any benefits under the Plan to which the person is entitled shall be paid to such conservator or other person legally charged with the care of the person or his or her estate. Except as provided above, when the Company determines that such person is unable to manage his or her affairs, the Company may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such Person and a complete discharge of any liability of the Company and the Plan therefore.

8.7 CORPORATE CHANGES

The Plan shall not be automatically terminated by a transfer or sale of assets of the Company or by the merger or consolidation of the Company into or with any other

corporation or other entity, but the Plan shall continue after such sale, merger or Consolidation only if and to the extent that the transferee, purchaser or successor entity agrees to continue the Plan. In the event the Plan is not continued by the transferee, purchaser or successor entity, then the Plan shall terminate subject to the provisions of Article VII.

8.8 ADDRESSES

Each Participant shall keep the Company informed of his or her current address and the current address of his or her spouse. The Company shall not be obligated to search for any person. If the location of a Participant is not made known to the Company within three (3) years after the date on which payment of the Participant's benefits Payable under this Plan may first be made, payment may be made as though the Participant had died at the end of the three-year Period. If, within one additional year after such three year period has elapsed, or, within three (3) years after the actual death of a Participant, the Company is unable to locate any designated Beneficiary of the Participant, then the Company shall have no further obligation to pay any benefit hereunder to such Participant or designated Beneficiary and such benefits shall be irrevocably forfeited.

8.9 LIMITATIONS ON LIABILITY

Notwithstanding any of the preceding provisions of the Plan, neither the Company nor any individual acting as an employee or agent of the Company shall be liable to any Participant, former Participant, or any other person for any claim, loss, liability or expense incurred in connection with the Plan, unless attributable to fraud or willful misconduct on the part of the Company or any such employee or agent of the Company.

8.10 TRANSFERS TO THE TRUST

On the occurrence of a Change of Control or if a Participant elects to direct the investment of amounts credited to his or her account pursuant to Section 4.2, the Company shall transfer cash or property to the account or accounts maintained in the name of each affected Participant or Participants for this Plan under the Trust in an amount equal to the present value of all accumulated or accrued benefits then payable to or on behalf of such Participant or Participants under this Plan, plus any applicable fees. The Company may also transfer cash or property to the accounts maintained for any Participant under the Trust in an amount equal to the present value of all accumulated or accrued benefits then payable under the Plan at any time in the sole discretion of the Company. Thereafter, the Company may, and after a Change of Control it shall, for each Plan Year, transfer cash or property no later than thirty (30) days after the end of the Plan Year in which the initial transfer occurs, and thereafter on each anniversary thereof, to such account or accounts maintained for the affected Participant or Participants under the

Trust an amount equal to the additional benefit accrued under the terms of this Plan and the Deferred Compensation Agreements during and in relation to the most recent Plan Year then ended. If a transfer occurs, the accounts of the Participants shall be credited with interest, or earnings and losses in accordance with Sections 4.1 and 4.2.

8.11 INSPECTION

Each Participant shall receive a copy of the Plan and the Company will make available for inspection by any Participant or designated Beneficiary a copy of any rules and regulations that are used by the Company in administering the Plan.

8.13 GOVERNING LAW

To the extent that it is not governed by United States federal law, the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflict of laws.

Dated as of this 13th day of May 1999.

THE TORO COMPANY

By: /s/ Kendrick B. Melrose

Its Chairman, Chief Executive Officer

THE TORO COMPANY
CHIEF EXECUTIVE OFFICER INCENTIVE AWARD AGREEMENT

AGREEMENT ("Agreement") dated as of July 31, 1995, as amended July 31, 1997 and as amended and restated July 31, 1998, by and between The Toro Company, a Delaware corporation (the "Company"), and Kendrick B. Melrose, its Chief Executive Officer ("Mr. Melrose").

1. PURPOSE. The purpose of this Agreement is to implement The Toro Company Chief Executive Officer Succession Plan (the "Plan") pursuant to which the Company will grant to Mr. Melrose a Restricted Stock and Performance Unit award and enter into a post-retirement and noncompetition agreement with Mr. Melrose, subject to the terms and conditions of the Plan and to Mr. Melrose's acceptance of the terms and conditions thereof.

2. GRANT OF AWARD.

a. GRANT OF RESTRICTED STOCK. The Company hereby grants to Mr. Melrose the number of whole shares of Common Stock having an aggregate fair market value of \$500,000 on July 31, 1995 (the "Restricted Stock"), subject to forfeiture or reduction of the number of shares in the event performance goals set forth in Subsection 3.a.i(A) (the "Performance Goals") are not achieved and to the other terms and conditions of the Plan; provided however that in the event the fair market value of the Common Stock on the date of vesting of the Restricted Stock is less than the fair market value on July 31, 1995, the Company shall make an aggregate payment to Mr. Melrose of the difference between the fair market value on the date of vesting of the Restricted Stock and the fair market value on July 31, 1995. Fair market value shall mean the closing price of the Common Stock on the New York Stock Exchange as reported in THE WALL STREET JOURNAL.

b. GRANT OF PERFORMANCE UNITS AND ANNUITY PURCHASE. Subject to the terms and conditions of the Plan and this Agreement, the Company hereby grants to Mr. Melrose performance units equal to the number of whole shares of Common Stock having an aggregate fair market value of \$500,000 on July 31, 1995 (the "Performance Units"), which Performance Units shall be subject to forfeiture or reduction in the event the Performance Goals set forth in the Plan and in Subsection 3.a.i(A) hereof are not achieved and to the other terms and conditions of the Plan and this Agreement. Each Performance Unit shall have a value equal to the fair market value of one share of Common Stock, from time to time, provided however that the value shall not be less than the fair market value of one share of Common Stock on July 31, 1995. Performance Units shall be evidenced by this Agreement. An amount equal to the aggregate value of the Performance Units remaining at the date of Mr. Melrose's retirement, after forfeiture, if any, shall be utilized by the Company to purchase a retirement annuity payable to Mr. Melrose until his 75th birthday, or to his estate or beneficiaries, and for no other purpose, subject to the condition that Mr. Melrose enter into and comply with the terms and conditions of a noncompetition agreement, in accordance with Subsections 2.c. and 3.b. hereof.

c. POST-RETIREMENT CONSULTING AND NONCOMPETITION AGREEMENT. Subject to the terms and conditions of the Plan and this Agreement, the Company shall enter into a post-retirement consulting and non-competition agreement with Mr. Melrose, providing for the payment of an aggregate amount of up to \$500,000, which amount shall be adjusted not less than once annually to reflect increases in the consumer price index and which may be utilized to pay expenses of office and support services for Mr. Melrose for a period of five years following the date of his retirement.

3. TERMS, CONDITIONS AND RESTRICTIONS.

a. RESTRICTED STOCK AND PERFORMANCE UNIT PERFORMANCE GOAL RESTRICTIONS.

The obligation of the Company to deliver certificates representing the Restricted Stock granted hereunder and to utilize the aggregate value of the Performance Units to purchase a retirement annuity shall be subject to the terms, conditions and restrictions set forth in this Subsection 3.a.

i. VESTING OF RESTRICTED STOCK AND PERFORMANCE UNITS. Mr. Melrose's right to receive the Restricted Stock and the value of the Performance Units shall be subject to the vesting requirements set forth in this Subsection 3.a.i. and to the achievement by Mr. Melrose of the Performance Goals set forth in Subsection 3.a.i.(A) hereof not later than the last day of the period specified to achieve such performance (the "Restricted Period"). Upon achievement of a Performance Goal within an applicable Restricted Period, the restrictions shall lapse with respect to the specified portion of Restricted Stock, which specified portion shall vest and become nonforfeitable. Upon achievement of a Performance Goal within an applicable Restricted Period, the restrictions shall lapse with respect to the specified portion of Performance Units, which specified portion shall vest and become nonforfeitable, subject to the further condition that Mr. Melrose enter into and comply with the terms and conditions of a noncompetition agreement in accordance with Subsections 2.c and 3.b. If Mr. Melrose does not enter into a noncompetition agreement or does not comply with the terms and conditions of such a noncompetition agreement, then Mr. Melrose shall forfeit the value of the Performance Units or, if a retirement annuity has been acquired by the Company, the retirement annuity.

(A) The following table sets forth the Performance Goals, the schedule for achievement of each Performance Goal and the portion of Restricted Stock and Performance Units in which rights vest upon such achievement.

| Performance Goal to be Achieved | Restricted Period (July 31, 1995 through earlier of date shown or Goal Achievement) | Portion of Shares of Restricted Stock to Vest Upon Achievement | Portion of Performance Units to Vest Upon Achievement |
|---|---|--|---|
| Goal 1: CEO and senior management succession plan developed and progress towards fulfillment of the plan, approved by Board of Directors | October 31, 1999 | 15% | 15% |
| Goal 2: Potential CEO successor identified with approval of Board of Directors and continued development of senior management team | October 31, 2000 | 15% | 15% |
| Goal 3: CEO successor who was identified and developed by Mr. Melrose is elected as CEO by Board of Directors | October 31, 2003 | 70% | 70% |

(B) Early Selection of Successor. Notwithstanding any other provision of the Plan, in the event that the Board of Directors elects as Mr. Melrose's successor the individual identified and developed by Mr. Melrose, and such successor is in place as chief executive officer of the Company and Mr. Melrose elects to retire prior to the last day of the final Restricted Period, but no earlier than July 31, 1997, all Restricted Stock and Performance Units shall vest in full and become nonforfeitable, subject to the condition with respect to the Performance Units that Mr. Melrose enter into and comply with the terms and conditions of a noncompetition agreement in accordance with Subsection 3.b.

(C) The Special CEO Succession Subcommittee of the Compensation Committee of the Board of Directors (the "Committee") shall be responsible for certifying in writing to the Company that an applicable Performance Goal has been met by Mr. Melrose prior to release and delivery of certificates representing the shares of Restricted Stock or payment of the value of Performance Units for the purchase of a retirement annuity to Mr. Melrose.

ii. Limits on Transfer of Restricted Stock and Performance Units. Shares of the Restricted Stock which have not vested in accordance with the provisions of Subsection 3.a.i. hereof may not be sold, transferred, pledged, assigned or otherwise encumbered. Performance Units may not be sold, transferred, pledged, assigned or otherwise encumbered at any time and the value of Performance Units may be utilized only for the purpose of purchasing the retirement annuity referred to the Subsection 2.b. hereof.

iii. Termination, Death or Disability. In the event that the Board of Directors terminates Mr. Melrose's employment other than for cause (as defined in Subsection 3.c. hereof) and elects as Mr. Melrose's successor a chief executive officer who was identified and developed by Mr. Melrose, or in the event of the termination of Mr. Melrose's employment due to his death or disability, then all shares of Restricted Stock and Performance Units shall automatically vest in full, notwithstanding that Mr. Melrose does not enter into a noncompetition agreement in accordance with Subsections 2.c. and 3.b., and shall become nonforfeitable in the fiscal year following the year of the date of such event, and on the first day that such vesting would not cause the compensation to be deemed compensation with respect to the prior fiscal year.

(D) The terms of this Agreement are not intended to, and do not, impose on Mr. Melrose a mandatory retirement date not otherwise applicable to employees of the Company generally, and Mr. Melrose shall not be obligated to retire as an officer of the Company in order to obtain the benefits of this Agreement.

b. POST-RETIREMENT CONSULTING AND NONCOMPETITION AGREEMENT. The Company's agreement to pay any amount in connection with post-retirement consulting services to be provided by Mr. Melrose and its payment of the value of Performance Units for the purchase of a retirement annuity payable to Mr. Melrose pursuant to Subsection 2.b. shall be subject to and in consideration of Mr. Melrose's execution of an agreement not to compete with the Company by serving as an employee or member of the board of directors of or consultant to Rainbird, Jacobson or John Deere, or any successor thereof or similar competitor of the Company for a period of five years following the date of Mr. Melrose's retirement as Chief Executive Officer. The Company's agreement to pay any amount in connection with post-retirement consulting services to be provided by Mr. Melrose shall be subject to his agreement to provide consulting services to the Company for a period of five years following the date of his retirement; provided however that Mr. Melrose may elect to terminate the consulting agreement, but not the agreement not to compete, in which event any balance of the \$500,000 amount referred to in Subsection 2.c. not then expended for Mr. Melrose's benefit shall be paid to Mr. Melrose over the remainder of the five year period. Mr. Melrose shall not have any right to receive payments pursuant to Subsection 2.c. or this Subsection 3.b. until and unless he shall have executed an agreement not to compete with the Company and delivered a fully executed copy thereof to the Company, and otherwise complied with the then applicable terms and conditions of the Plan, except as provided in Subsection 3.a.(C)iii.

c. TERMINATION OF EMPLOYMENT. Except as otherwise provided by Subsection 3.a. hereof, if Mr. Melrose resigns his employment with the Company or if his employment is

terminated by the Board of Directors for cause during any Restricted Period, all shares of Restricted Stock and all Performance Units then subject to restrictions and all other rights under this Plan shall be forfeited by Mr. Melrose and the Restricted Stock shall be reacquired by the Company. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of Mr. Melrose to perform substantially his duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Mr. Melrose by the Board of Directors of the Company which specifically identifies the manner in which the Board of Directors believes that Mr. Melrose has not substantially performed his duties, or

(ii) the willful engaging by Mr. Melrose in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this provision, no act or failure to act, on the part of Mr. Melrose, shall be considered "willful" unless it is done, or omitted to be done, by Mr. Melrose in bad faith or without reasonable belief that Mr. Melrose's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors or upon the instructions of a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Mr. Melrose in good faith and in the best interests of the Company. The cessation of employment of Mr. Melrose shall not be deemed to be for Cause unless and until there shall have been delivered to Mr. Melrose a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting of the Board of Directors called and held for such purpose (after reasonable notice is provided to Mr. Melrose and Mr. Melrose is given an opportunity, together with counsel, to be heard before the Board of Directors), finding that, in the good faith opinion of the Board of Directors, Mr. Melrose is guilty of the conduct described in Subsection 3.c.(i) or (ii) above, and specifying the particulars thereof in detail.

d. STOCK CERTIFICATES.

i. ISSUANCE. The Company shall issue a stock certificate or certificates representing the shares of Restricted Stock granted under the Plan. Such certificates shall be registered in Mr. Melrose's name and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to the grant, substantially in the following form:

The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Chief Executive Officer Succession Incentive Plan and an agreement entered into between the registered owner and The Toro Company. Copies of the plan and agreement are on file in the offices of The Toro Company, 8111 Lyndale Avenue South, Bloomington, Minnesota 55420.

ii. ESCROW. Certificates representing the Restricted Stock shall be physically held by the Company or its nominee during any Restricted Period, and the Company may require, as a condition of the grant, that Mr. Melrose shall have delivered a stock power, endorsed in blank, with respect to any shares of the Restricted Stock. Upon the achievement of the Performance Goals with respect to any shares of Restricted Stock, as certified to by the Committee, the Company shall cause the certificate representing such shares of Restricted Stock to be removed from escrow and delivered to the Company for reissuance and delivery of Common Stock in the name of Mr. Melrose. If any shares of Restricted Stock are to be forfeited, certificates representing such shares shall be delivered to the Company for reissuance in its name or cancellation and Mr. Melrose shall have no further interest in such stock.

iii. LAPSE OF RESTRICTIONS. When the Performance Goals set forth in Subsection 3.a.i.(A) have been achieved with respect to any portion of the shares of the Restricted Stock, the Company shall deliver to Mr. Melrose or his legal representative, beneficiary or heir not later than 60 days thereafter a certificate or certificates representing the Common Stock without the legend referred to in Subsection 3.d.i. hereof. The number of shares of Common Stock to be released shall be the same number as to which the Performance Goals have been achieved in accordance with Subsection 3.a.i.(A).

e. RIGHTS AS STOCKHOLDER.

i. RIGHT TO VOTE AND DIVIDENDS. Except as provided in Section 2 and this Section 3, Mr. Melrose shall have, with respect to the shares of Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares and the right to receive cash dividends with respect to the shares.

ii. ADJUSTMENTS. In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure affecting the Common Stock, the Committee shall make such substitution or adjustment in the aggregate number of shares of Common Stock reserved for issuance under the Plan or in the number of shares outstanding as Restricted Stock or in the number of Performance Units, as may be determined to be appropriate by the Committee, acting in its sole discretion, provided that the number of shares or Performance Units shall always be a whole number.

f. CHANGE IN CONTROL. In the event of a Change of Control of the Company as hereinafter defined, whether or not approved by the Board of Directors, all shares of Restricted Stock shall immediately fully vest and be freely transferable.

Change of Control means:

i. The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 15% or more of either (A) the

then-outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection i., the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of subsection iii. of this Subsection 3.f.; or

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

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

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

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

4. WITHHOLDING TAXES. The Company shall have the right to deduct from any settlement made under the Plan any federal, state or local taxes of any kind, including FICA and related taxes, required by law to be withheld with respect to the vesting of rights to receive or payment of remuneration or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. If Common Stock is withheld or surrendered to satisfy tax withholding, such stock shall be valued at its fair market value as of the date such Common Stock is withheld or surrendered or the obligation to pay such taxes becomes fixed.

5. REGISTRATION RIGHTS. Mr. Melrose shall have the right to require that the Company promptly take all necessary steps to register or qualify the Restricted Stock, or Common Stock issued upon vesting of the Restricted Stock, under the Securities Act of 1933, as amended, and the securities laws of such states as Mr. Melrose may reasonably request. The Company shall keep effective and maintain any registration, qualification, notification or approval for such period as is reasonably necessary for Mr. Melrose to dispose of the Restricted Stock or Common Stock and from time to time shall amend or supplement the prospectus used in connection therewith to the extent necessary in order to comply with applicable law. The Company shall bear all fees, costs and expenses of such registration, qualification, notification or approval.

6. COMPLIANCE WITH RULE 16b-3 AND SECTION 162(m). The grants of Restricted Stock and Performance Units made under this Agreement and the remuneration to be paid to Mr. Melrose as a consequence of the grants are intended to comply with all applicable conditions of Rule 16b-3 under the Securities Exchange Act of 1934 and to avoid the loss of the deduction referred to in paragraph (1) of Section 162(m) of the Internal Revenue Code of 1986, as amended. Anything in the Plan or this Agreement to the contrary notwithstanding, to the extent any provision of the Plan or this Agreement or action by the Committee fails to so comply or to avoid the loss of such deduction, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Committee.

7. EMPLOYMENT. Nothing in the Plan or this Agreement shall interfere with or limit in any way the right of the Company to terminate Mr. Melrose's employment at any time, with the Company or any subsidiary of the Company, or shall confer upon Mr. Melrose any right to continue in the employ of the Company.

8. NONEXCLUSIVITY OF THE PLAN. Neither the adoption of the Plan by the Board nor the submission of the Plan to stockholders for approval shall be construed to limit the power of the Board or the Committee to adopt such other incentive arrangements as either may deem desirable, including without limitation, the award of stock and cash awards otherwise than under the Plan, or to set compensation and retirement benefits and make such awards to Mr. Melrose as either may deem desirable.

9. EXCLUSION FROM PENSION, PROFIT SHARING AND OTHER BENEFIT CALCULATIONS. By acceptance of the award made by this Agreement, Mr. Melrose agrees that the award or vesting of Restricted Stock and Performance Units constitute special incentive compensation that is not taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement or profit sharing plan of the Company or any subsidiary. Mr. Melrose agrees further that such award shall not be taken into account in determining the amount of any life insurance coverage, short or long-term disability coverage or any other pay-based benefit provided by the Company or any subsidiary.

10. AMENDMENT. This Agreement may be amended, modified or terminated from time to time, to reflect any amendments, modifications or the termination of the Plan; provided however that no amendment may be adopted without the approval of the stockholders of the Company if such amendment requires stockholder approval pursuant to Rule 16b-3 or Section 162(m), and no amendment, modification or termination may be adopted without the written agreement of Mr. Melrose if such amendment, modification or termination would adversely affect his rights. Subject to the foregoing and the requirements of Section 162(m), the Board may, in accordance with the recommendation of the Committee and without further action on the part of stockholders of the Company or the consent of Mr. Melrose, amend the Plan to preserve the employer deduction under Section 162(m).

11. GOVERNING LAW. This Plan, awards granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

12. SUCCESSORS. Except as otherwise provided in the Plan or this Agreement, the Plan and this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns and Mr. Melrose, his beneficiaries, heirs, executors, administrators and legal representatives.

IN WITNESS WHEREOF, the Agreement has been executed and delivered by the Company as of the date first above set forth.

THE TORO COMPANY

By: J. Lawrence McIntyre

Title: Vice President & Secretary

I hereby agree to the terms and conditions of this Restricted Stock and Performance Unit Award grant made to me as of July 31, 1995, as amended July 31, 1997 and as amended and restated July 31, 1998 and as amended 5/13/99.

KENDRICK B. MELROSE

/s/ Kendrick B. Melrose

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CONDENSED CONSOLIDATED BALANCE SHEETS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

| | | |
|---------|-------------|-----------|
| 9-MOS | | |
| | OCT-31-1999 | |
| | NOV-01-1998 | |
| | JUL-30-1999 | |
| | | 1,915 |
| | | 0 |
| | | 339,748 |
| | | 0 |
| | | 194,225 |
| | | 583,394 |
| | | 345,430 |
| | | 222,631 |
| | | 838,209 |
| | | 351,272 |
| | | 196,261 |
| | | 0 |
| | | 0 |
| | | 12,658 |
| | | 272,337 |
| 838,209 | | |
| | | 1,009,186 |
| | | 1,009,186 |
| | | 642,549 |
| | | 292,998 |
| | | (2,599) |
| | | 0 |
| | | 18,517 |
| | | 57,721 |
| | | 22,511 |
| | | 35,210 |
| | | 0 |
| | | 0 |
| | | 0 |
| | | 35,210 |
| | | 2.72 |
| | | 2.66 |

Total long-term debt

Does not include additional paid-in-capital

Other income, net

Not included in quarterly financial information

Total net receivables