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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

For Fiscal Year Ended October 31, 1999.

/x/ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____________ to ____________

Commission File Number 1-8649

THE TORO COMPANY

(Exact name of registrant as specified in its charter)

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

8111 Lyndale Avenue South

Bloomington, Minnesota 55420-1196

Telephone number: (612) 888-8801
(Address, including zip code, and telephone number, including area code,

of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Delaware	**41-0580470**
(State of incorporation)	(I.R.S. Employer Identification Number)

Securities registered pursuant to Section 12(g) of the Act:

None

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 and (2) has been subject to such filing requirements for the past 90 days. Yes /x/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.[ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing price of the Common Stock on January 12, 2000 as reported by the New York Stock Exchange, was approximately $468,791,048.

The number of shares of Common Stock outstanding as of January 12, 2000 was 12,756,219.

Documents Incorporated by Reference

Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended October 31, 1999 are incorporated by reference into Parts I, II, and IV.

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held March 29, 2000 are incorporated by reference into Part III.

FORM 10-K

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Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1.00 per share	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Part I
Item 1. Business

Introduction

The company designs, manufactures, and markets professional turf maintenance equipment, irrigation systems, landscaping equipment, agricultural irrigation systems, and residential yard products. The company produced its first lawn mower for golf course fairways in 1921 and its first lawn mower for home use in 1939 and has continued to enhance its product lines ever since.

The company emphasizes quality and innovation in its customer service, products, manufacturing, and marketing. The company strives to provide well built, dependable products supported by an extensive service network. The company's commitment and funding for engineering costs, as well as acquisition strategy and its licensing and related agreements, have all contributed to improvement of existing products and new product development efforts. Through these efforts, the company is responsive to trends, which may affect its target markets now and in the future. The company believes that a significant portion of its revenues in recent years have been attributable to its new and enhanced products.

The company has expanded its product lines and services in recent years by making acquisitions and strategic alliances. See "Acquisitions, Divestitures, and Strategic Alliances" below.

The company was incorporated in Minnesota in 1935 as a successor to a business founded in 1914. It was reincorporated in Delaware in 1983. The company's executive offices are located at 8111 Lyndale Avenue South, Bloomington, Minnesota 55420-1196, telephone number (612) 888-8801. Unless the context indicates otherwise, the term's "company" and "Toro" refer to The Toro Company and its subsidiaries.

Outdoor Maintenance Equipment

The company classifies its operations into two reportable segments, professional and residential, and also uses an "other" category consisting of Toro-owned distribution companies, corporate functions, and Toro Credit Company, a wholly owned finance subsidiary. The company continues to be a leader in transforming advanced technologies into products and services that provide solutions for landscape and turf care maintenance and beautification demands. Following is a summary of Toro's business segments:

Professional

Toro markets professional turf products worldwide through a network of distributors and dealers. The products are then sold to the professional user that maintains golf courses, sports fields, municipal properties, and residential and commercial landscapes. Professional turf maintenance equipment marketed under the Toro® brand name is the company's oldest product line, which began in 1921 with tractor-towed mowers for golf courses. Today the company's expanded product line includes products designed for large turf areas of schools, parks, cemeteries, sports fields, industrial sites, apartment buildings, and townhouse complexes, as well as golf courses. Management believes that golf courses will continue to be a significant market for turf maintenance equipment and irrigation systems as new golf course construction continues throughout the world, and existing courses continue to provide the largest market potential for Toro products.

Golf Course Products. Products for the golf course market include turf sprayer equipment, utility vehicles, riding and walk power reel mowers for the putting green, riding and pull-behind large reel and rotary products for the fairway, rough and trim cutting, turf aeration, sandtrap/bunker maintenance, and underground irrigation systems. Irrigation systems include sprinkler heads and controllers that typically activate electric, battery-operated, or hydraulic lines to control

the sprinkler heads. In fiscal 1999, the company successfully introduced several new products including the Reelmaster® 3100-D triplex mower with Sidewinder™ cutting units used to trim around greens and surrounds where the big mowers cannot go.

Landscape Contractor Products. Products for the landscape contractor market include mid-size walk power mowers, zero-turning radius riding mowers, hand-held trimmers, and compact utility loaders. These products are sold through distributors and dealers to individuals and companies who maintain residential and commercial landscapes on behalf of property owners. The company markets products for landscape contractors under the Toro®and Exmark® brands. In fiscal 1998, the company acquired Exmark Manufacturing Company Incorporated (Exmark), a leading manufacturer of mid-sized walk-behind power mowers and zero-turning radius riding mowers for the landscape contractor market.

The company acquired the manufacturing, sales, and distribution rights to Dingo Digging Systems (Dingo) in fiscal 1997. The Dingo® compact utility loader is a cornerstone product for the newly established Toro®Sitework™ Systems business formed around products designed to improve efficiency in the construction of landscapes. The company began manufacturing and selling the Toro Dingo line of equipment in fiscal 1998 for the U.S. market, and expanded into the international market in fiscal 1999. In fiscal 2000, Toro will expand the Dingo line with the Dingo TX, a track-driven model with simpler controls.

Grounds Maintenance and Other Professional Products. Grounds maintenance products for professional markets include riding rotary units with out-front cutting decks ranging from 52 inches to 16 feet, aerators, vehicles, and attachments designed for flexibility of use. These products are sold through distributors who then sell to owners of sports fields, municipal properties, cemeteries, and facilities such as airports and corporate headquarters. Other products include multipurpose vehicles, including the Workman® for turf and industrial applications.

Residential/Commercial Irrigation Products. Turf irrigation products marketed under the Toro® and Irritrol® brand names include sprinkler heads, brass and plastic valves, and electric and hydraulic control devices designed to be used in turf irrigation systems for residential and commercial use. These products are professionally installed in new systems and can also be used to replace or retrofit existing systems. Most of the product line is designed for underground irrigation systems. Electric and hydraulic controllers activate valves and sprinkler heads in a typical irrigation system.

Agricultural Irrigation Products. Products for the agricultural irrigation market include emission devices, Blue-Stripe™polyethylene tubing, and AquaTraxx® irrigation tape for use in low water volume agricultural applications. These products are sold through dealers who then sell to growers for use primarily in vegetable fields, fruit and nut orchards, and vineyards. The acquisition of GR Driplines, Incorporated (Drip In) in fiscal 1998 enhanced Toro's product line for the agricultural market by adding Drip In® drip line, an inline emission product.

Residential

Toro markets its residential products to homeowners through a variety of distribution channels, including dealers, hardware stores, home centers, and mass retailers. These products are sold mainly in North America, Europe, Asia, and Australia, with the exception of snow removal products, which are primarily sold in North America and Europe.

Walk Power Mowers. The company has manufactured walk power mowers for residential use since 1939. Its walk power lawn mowers are gasoline, battery, and electric powered . The company manufactures numerous models under its brand names Toro® and Lawn-Boy®, including both four-cycle and two-cycle gas engine models, and corded and battery electric models. Models differ

as to cutting width, type of starter mechanism, mulching and bagging attachments, controls, and power sources, and are either self-propelled or push mowers. Some Toro brand lawn mowers are backed by the company's "Guaranteed To Start" program and some Lawn-Boy models are equipped with a two-cycle engine manufactured by the company. In fiscal 1999, the company successfully introduced its new Toro® Personal Pace® lawn mower in the U.S. and Canadian markets. For fiscal 2000, Toro Personal Pace lawn mower will be expanded into the European, Asian, and Australian markets.

Riding Mowers and Lawn and Garden Tractors. The company manufactures riding lawn mowers and lawn and garden tractors under its brand name Toro®Wheel Horse®, which range from an eight horsepower rear engine rider model with a 25-inch deck, to a 23 horsepower diesel engine garden tractor model with a 60-inch side-discharge deck. Many models are available with a variety of decks and accessories. Recycler® cutting decks are available on select models. Some models are equipped with hydrostatic transmissions.

Home Solution Products. The company designs and markets electrical products under the Toro® brand name. These products include electric flexible line trimmers and electric blowers, and are intended to require little or no after sales service. Toro also sells do-it-yourself irrigation products under the Toro® and Lawn Genie® brand names to certain home centers and mass retailers.

Snow Removal Products. The company manufactures and markets a range of electric and gas single-stage and gas two-stage snowthrower models under the Toro® and Lawn-Boy® brand names. Single-stage snowthrowers, developed by the company and first introduced in 1965, are walk-behind units with a lightweight gasoline engine or electric motor, and most include Power Curve® snowthrower technology for general residential use. Two-stage snowthrowers are designed for relatively large areas with engines ranging from five to 12 horsepower. Units with eight horsepower and above can be equipped with the Power Shift® snowthrower technology.

Other

The other segment is comprised of Toro-owned distribution companies and corporate activities, including corporate financing activities and elimination of intersegment revenues and expenses. Corporate activities include general corporate expenditures (finance, human resources, legal, information services, public relations, and similar activities) and certain unallocated corporate assets and liabilities, including corporate facilities, financing receivables, and deferred tax assets. Toro owned three distribution companies as of October 31, 1999 and, during the first quarter of fiscal 2000, completed the acquisition of a fourth distribution company.

The segment detail information in Note 11 in the Notes to Consolidated Financial Statements on pages 26-27 of the company's Annual Report to Stockholders for the fiscal year ended October 31, 1999 is incorporated herein by reference.

International Operations

The company currently distributes its products worldwide with sales and/or distribution offices in the United States, Canada, Belgium, the United Kingdom, Australia, Dubai, Singapore, Japan, China, Philippines, and Italy. New product development is pursued primarily in the United States.

Products marketed outside of North America are designed to meet local safety standards. All products shipped to Europe are designed to conform to European Community Certification standards. In addition to developing new market-specific products, the company is seeking to expand into new regions.

Recent Developments

Acquisitions, Divestitures, and Strategic Alliances

During fiscal 1999, Toro completed a number of acquisitions and strategic alliances. The company completed the purchase of two of its U.S. midwestern-based distributors and signed an agreement to purchase another midwestern-based distributor. That acquisition was completed in the first quarter of fiscal 2000. Each of these companies distributes outdoor beautification equipment and systems to the professional market, and two of these companies also distribute equipment to the residential market.

Toro also became an equity partner in ProShot Golf, Inc. (ProShot). ProShot is a California-based provider of information and communication products to the golf industry, featuring Global Positioning Satellite (GPS)-based measurement and course management systems for golf applications.

Toro also purchased the assets of Multi-Core Aerators Limited, a European distributor of large turf aeration equipment. Multi-Core Aerators augment Toro's full-line of turf aeration equipment and are expected to have an immediate appeal to the company's customer base. Toro also acquired the technology and manufacturing rights for battery-operated irrigation valves and remote, hand-held controllers from a French manufacturer. The technology will be incorporated into both the Toro and Irritrol Systems product lines. The company also entered into an exclusive agreement with an irrigation controls manufacturer in Europe for a new line of user-friendly control systems.

Also in fiscal 1999, Toro and Maruyama Manufacturing Company, Inc. announced a four-year extension of their 1996 agreement to sell hand-held landscaping equipment under the Toro brand. The current agreement runs through the year 2003. Toro also announced an alliance with Hardi International, a subsidiary of Denmark-based Cheminova Holding A/S, to expand the Toro sprayer line with tow-behind units. Toro and ClubCorp of America (ClubCorp), the world's largest owner and operator of private clubs and golf resorts, entered into a new six-year agreement that makes Toro the preferred supplier of professional equipment and systems to ClubCorp properties. Toro was also named the official supplier of professional equipment and irrigation products to the European PGA Tour.

In fiscal 1999, Toro partnered with the governing bodies of golf to help create The First Tee, a program to make golf affordable and accessible for young people today and to foster a healthy market in the future.

During fiscal 1999, Toro sold the licensing rights and certain assets of its outdoor lighting business. The residential segment also discontinued selling gasoline-powered hand-held products. The company completed the sale of its professional fertilizer and recycling equipment businesses, for which a $5.3 million impairment loss had been recorded in fiscal 1998 due to restructuring portions of this business.

Software and ISO 9000

In 1999, the company continued integrating its operations to an enterprise-wide software system, which is expected to be completed in fiscal 2000, except for Toro's wholly owned distribution companies and the company's European subsidiaries. ISO 9000 continues to be a priority for the company's manufacturing facilities. The manufacturing facilities at Tomah, Wisconsin, and Shakopee, Minnesota, maintained their ISO 9002 certification, and Riverside, California and the commercial business unit at Bloomington, Minnesota maintained their ISO 9001 certification in fiscal 1999. The facility in Abilene, Texas received ISO 9000 certification in fiscal 1999. The facility in El Paso, Texas is working towards ISO 9000 certification in fiscal 2000, and

the facilities at Windom, Minnesota and Oxford, Mississippi are working towards ISO 9000 certification in fiscal 2001.

Manufacturing and Production

In some areas of its business, the company is primarily an assembler and in some cases, the company serves as a fully integrated manufacturer. The company's professional products are manufactured throughout the year. The company's residential spring and summer products are generally manufactured in the winter and spring months and its residential fall and winter products are generally manufactured in the summer and fall months. A majority of the company's manufacturing facilities are located in the United States, with the exception of some production facilities that are located in Australia, Mexico, and Italy. In fiscal 1999, the company started the process to close its Murray Bridge, Australia manufacturing facility. Certain manufacturing was moved to another facility and the remaining production is being outsourced to third parties. The company also opened a manufacturing facility in Mexico near its El Paso, Texas facility. Production at this new facility began in the first quarter of fiscal 2000.

Sales to independent distributors and dealers closely correspond with Toro's production levels, which are based on its estimates of demand for its products, taking into account the timing of shipments, distributor and dealer inventory levels, the need to shut down production to enable manufacturing facilities to be prepared for the manufacture of new or different models, the efficient use of manpower and facilities, labor disruptions, and other circumstances not within Toro's control.

Management continues to seek greater efficiencies and improve work processes throughout the company. Toro's total quality process is focused on improving product quality, customer response time, and reducing overall product cost.

In fiscal 1999, the company experienced manufacturing capacity constraints due to increased demand during the year and the expected continued growth of demand in fiscal 2000. Due to capacity constraints experienced for certain product lines in fiscal 1999, the company began fiscal 2000 production earlier than planned, which increased inventory levels at October 31, 1999 compared to October 31, 1998. The company is currently not planning on adding additional manufacturing facilities in fiscal 2000, except for the facility in Mexico described previously. The company is planning on maximizing current manufacturing capacity before it invests in additional manufacturing facilities. In order to maximize manufacturing capacity, production of certain products will be shifted to other plants that are not currently operating at full capacity to partially address this problem. Toro also plans on carrying higher levels of average inventory during fiscal 2000 as compared to fiscal 1999 to address its manufacturing capacity constraints for certain product lines during the spring and summer months.

Sources and Availability of Raw Materials

Most of the components for the company's products are commercially available from a number of sources and the company is generally not dependent on any one supplier, except for engines from Japanese suppliers used in the company's professional segment products. In fiscal 1999, Toro experienced no significant or unusual problems in the purchase of raw materials or commodities, except some difficulty in obtaining engines for certain residential products that shifted sales from the first quarter of fiscal 1999 to the second quarter of fiscal 1999. The largest component costs are generally engines, transmissions, and electric motors purchased from several suppliers from around the world. In addition, the company manufactures two-cycle engines for some of its residential products.

Service and Warranty

Toro products are warranted to the end-user to ensure end-user confidence in design, workmanship, and material quality. Warranty lengths vary depending on whether use is "residential" or

"professional" within individual product lines. Some products have an over-the-counter exchange option and some have a 30-day satisfaction guarantee. In general, warranties tend to be for six months to ten years, and cover all parts and labor for non-maintenance repairs and wear items, provided operator abuse, improper use, or negligence did not necessitate the repair. An authorized independent Toro distributor or dealer must perform warranty work. Distributors and dealers submit claims for warranty reimbursement to Toro and are credited for the cost of repairs and labor as long as the repairs meet Toro's prescribed standards. Warranty expense is accrued at the time of sale based upon historical claims by individual product lines. Special warranty reserves are also accrued for specific known major product problems. Service support outside of the warranty period is provided by independent Toro distributors and dealers at the customer's expense.

Trademarks and Patents

Products manufactured by the company are nationally advertised and sold at the retail level under the trademarks Toro®, Wheel Horse®, Lawn-Boy®, Irritrol® Systems, Exmark®, Drip In®, and Lawn Genie®, all of which are registered in the United States and in the principal foreign countries in which the company markets its products. The company also manufactures and sells Dingo® landscape products under the Toro® Sitework™ Systems brand name.

The company holds patents in the United States and foreign countries and applies for patents as applicable. Although management believes patents have value to the company, patent protection does not deter competitors from attempting to develop similar products. Although patent protection is considered to be very beneficial, the company is not materially dependent on any one or more of its patents.

To prevent possible infringement of its patents by others, the company periodically reviews competitors' products. Furthermore, to avoid potential liability with respect to others' patents, the company regularly reviews patents issued by the U.S. Patent Office and foreign patent offices as needed. This patent program, consisting of both types of activities, helps the company take action against others when deemed necessary and helps minimize risk. The company is currently involved both in cases where it is the plaintiff and cases where it is the defendant. While the ultimate results of these cases are unknown at this time, management believes that the outcome of these cases is unlikely to have a materially adverse effect on the consolidated financial results of the company but could potentially have a positive impact.

Seasonality

Sales of the company's residential products, which accounted for approximately 35 percent of total consolidated net sales in fiscal 1999, are seasonal, with greater sales of lawn and garden products occurring between February and July, and of snow removal equipment occurring between August and January. Opposite seasons in some global markets somewhat moderate this seasonality of residential product sales. Seasonality of professional product sales also exists, but is tempered because the selling season in West Coast and Southern states continues for a longer portion of the year than in northern states. Overall, worldwide sales levels are highest in the second quarter. Historically, accounts receivable balances increase between January and April as a result of extended payment terms made available to the company's customers. Accounts receivable balances decrease between May and December when payments are made. The seasonal requirements of the business are financed from operations and with short-term bank lines of credit, where peak borrowing usually occurs between February and May.

Distribution and Marketing

The company markets the majority of its Toro branded products through 38 domestic and 107 foreign distributors, and a number of hardware stores, home centers, and mass retailers in more than 70 countries worldwide. Toro® and certain Lawn-Boy® residential products such as walk power mowers, riding products, and snowthrowers are sold to distributors for resale to retail dealers throughout the United States. Toro® Wheel Horse® riding products are also sold directly to dealers. Home solution products and most Lawn-Boy products are sold directly to hardware stores, home centers, and mass retailers. Beginning in the spring of fiscal 1999, the Toro brand of walk power mowers were sold in certain home centers. Internationally, residential products are primarily sold to distributors for resale to retail dealers and mass merchandisers outside the United States, principally in Canada, Australia, and certain Western European countries. Worldwide, professional products are sold to distributors for resale to dealers, sports complexes, industrial facilities, contractors, municipalities, and golf courses. Certain professional irrigation products are also sold directly to professional irrigation dealers. In addition, Toro owns distribution companies that sell professional and residential products directly to retail dealers and customers in Canada, Australia, certain countries in Western Europe, and parts of the United States.

The company's current marketing strategy is to maintain distinct brands and brand identification for Toro®, Toro® Wheel Horse®, Lawn-Boy®, Exmark®, Drip In®, Lawn Genie®, and Irritrol® Systems products.

The company's distribution systems for the sale of its products are intended to assure quality of sales and market presence as well as effective after-market service. The company considers its distribution network to be a competitive asset in marketing Toro, Toro Wheel Horse, Lawn-Boy, Irritrol Systems, and Exmark products.

The company advertises its residential products during appropriate seasons throughout the year on television, radio, and in print. Professional products are advertised in print and via direct mail programs. Most of the company's advertising emphasizes its brand names. Advertising is paid for by the company as well as through cooperative programs with distributors, dealers, home centers, and mass retailers.

Customers

The company does not believe it is dependent upon a single customer, except for the residential segment, which is dependent on a significant home center customer. While the loss of any substantial customer could have a material short-term impact on the company's business, Toro believes that its diverse distribution channels should minimize the long-term impact on any such loss.

Backlog of Orders

The approximate backlog of orders believed to be firm at October 31, 1999 was $141,290,000. The company expects that the existing backlog of orders can be filled in fiscal 2000. October 31, 1998 backlog is not reported because it is not comparable to October 31, 1999 due to a new enterprise-wide software system that more accurately reports the open orders that are believed to be firm at a point in time. Comparable information at October 31, 1998 was unable to be obtained.

Competition

The company's products are sold in highly competitive markets throughout the world. The principal competitive factors in the company's markets are pricing, product innovation, quality, and service. Pricing has become an increasingly important factor in a majority of the company's products. Management believes the company offers total solutions, full service packages with high quality

products that have the latest technology and design innovations. Also, by selling Toro®, Toro®Wheel Horse®, Lawn-Boy®, Exmark®, and Irritrol® Systems branded products through a network of distributors, dealers, hardware stores, home centers, and mass retailers, the company offers comprehensive service support during and after the relevant warranty period. The company competes in all product lines with numerous manufacturers, many of which have substantially greater financial resources than the company. However, no other company has a significant range of product lines that include turf equipment and irrigation systems, a competitive advantage for Toro. Management believes that its commitment to customer service, product innovation, and its distribution systems position it well to compete in these various markets.

Professional

The company's professional products compete with products from numerous manufacturers, but the principal competitors across most of the company's professional product lines are Deere & Company, Textron, Inc. (including brands of Jacobsen and Ransomes), Hunter Industries, Rain Bird Sprinkler Manufacturing Corporation, Husqvarna, Scag Power Equipment, Lesco Inc., Netafim, and T-Systems.

Residential

The company's principal competitors for residential products are Deere & Company, Honda Motor Co., Ltd., MTD Products, Inc. (including Cub Cadet Power Equipment), Murray Ohio Manufacturing Co., Inc. (a subsidiary of Tompkins Corp.), AB Electrolux (includes brands such as American Yard Products and Poulan/Weed Eater), Snapper Power Equipment (a division of Metromedia International Group, Inc.), Ariens Company, Garden Way, Incorporated, Simplicity Manufacturing Company, and The Black and Decker Corporation.

International

The international market is generally fragmented so that the degree of competition varies among the different countries in which the company markets its residential and professional products. Most competitors in the professional segment are based in the United States. Residential products can face more competition where foreign competitors manufacture and market competing products in their countries at a lower cost. In addition, fluctuations in the value of the U.S. dollar may affect the price of the company's products in such markets, thereby affecting their competitiveness.

Governmental Regulation

The company's residential products are subject to various federal statutes designed to protect consumers and are subject to the administrative jurisdiction of the Consumer Product Safety Commission. The company is also subject to certain federal and state environmental, occupational safety, transportation, and other regulations, none of which has had a materially adverse effect on its operations or business. Management believes the company is in substantial compliance with all such regulations. The Environmental Protection Agency (EPA) released Phase I regulations for all gas engines under 25 horsepower in June 1995. Toro's four-cycle engine suppliers are currently in compliance with these regulations. The company received certification in January 1998 on its own two-cycle walk power mower engines and earlier on the two-cycle snowthrower engines. Both now comply with Phase I regulations. This will allow the company to continue producing its two-cycle walk power mower engines at its Oxford, Mississippi plant through the calendar year 2002. The two-cycle snowthrower engines meet all current EPA regulations.

Financial Information about Foreign and Domestic Operations

With the exception of production facilities in Australia, Mexico, and Italy, all of the company's production facilities are located in the United States. Substantially all financial transactions are in U.S. dollars, although sales from the company's foreign subsidiaries, which are insignificant when compared to total consolidated company sales, are conducted in local currencies.

A portion of the company's cash flow is derived from sales and purchases denominated in foreign currencies. To reduce the uncertainty of foreign currency exchange rate movements on these sales and purchase commitments, the company enters into foreign currency exchange contracts for select transactions. These contracts are designed to hedge firm and anticipated foreign currency transactions.

See Notes to the Consolidated Financial Statements of the company contained in the company's Annual Report to Stockholders for the fiscal year ended October 31, 1999 for additional information relating to foreign exchange rate risk on page 11 and for information on international net sales and property, plant, and equipment on page 27, which information is incorporated herein by reference.

Wholesale Financing

Toro Credit Company, a wholly owned finance subsidiary of the company, provides financing for certain products manufactured by Toro for North American distributors and approximately 250 domestic dealers. Toro Credit Company purchases selected receivables from Toro and its distributors for extended periods, which enables the distributors and dealers to carry representative inventories of equipment. Down payments are not required, and depending on the finance program for each product line, either Toro incurs finance charges, finance charges may be shared between Toro and the distributor or dealer, or finance charges are paid by the distributor or dealer. A security interest is retained in the distributors' and dealers' inventories, and periodic physical checks are made of those inventories. Generally, terms to the distributors and dealers require payments as the equipment, which secures the indebtedness, is sold to customers. Rates are generally based on prime rate plus a fixed percentage that differs based on whether the financing is for a distributor or dealer. Rates may also vary based upon the product that is financed.

Independent Toro dealers that do not finance through the Toro Credit Company finance their inventories with a third party financing source. The finance charges represent interest for a pre-established length of time at a predefined rate from a contract with this third party financing source. Exmark product is also financed with a third party financing source.

Dealer and distributor defaults in recent years have not been significant.

Year 2000

The discussion of year 2000 issues in Management's Discussion and Analysis in the Annual Report to stockholders, on page 12, is incorporated herein by reference.

Employees

During fiscal 1999, the company employed an average of 4,923 employees. The total number of employees at October 31, 1999 was 4,673. Four collective bargaining agreements cover approximately 18 percent of these employees, each one expiring in May 2000, September 2000, October 2000, and October 2002.

Management considers its overall relations with its employees to be good.

Item 2. Properties

The company utilizes manufacturing and office facilities, which total approximately 4,241,000 square feet of space. Toro also utilizes 20.34 acres as a testing facility. Plant utilization varies during the year depending upon the production cycle. In fiscal 1999, the company announced the closing of its production facility at Murray Bridge, Australia. The company considers each of its current facilities in use to be in good operating condition and adequate for its present use. Management believes it has sufficient manufacturing capacity for fiscal 2000 based on certain steps the company took, which included beginning fiscal 2000 production earlier than normal and opening a new manufacturing facility in Mexico. See Item 1, Manufacturing and Production section for further details. The following schedule outlines the company's significant facilities by location, ownership, and function as of October 31, 1999:

* Toro-owned facilities that are currently idle and available for sale or subleasing.

Item 3. Legal Proceedings

The company is a party to litigation in the ordinary course of its business. Ongoing litigation primarily involves claims for damages arising out of the use of the company's products, some of which include claims for punitive as well as compensatory damages. The company is also subject to administrative proceedings in respect to certain claims involving the discharge of hazardous substances into the environment. Certain of these claims assert damages and liability for remedial investigations and clean up costs. Management is of the opinion that amounts, which may be awarded or assessed in connection with these matters, will not have a material effect on the company's financial position. Further, the company maintains insurance against product liability losses.

The company is involved in a number of patent litigation cases, both as a plaintiff and as a defendant. While the ultimate results of these cases are unknown at this time, management believes that the outcome of these cases is unlikely to have a material adverse effect on the consolidated financial results of the company but could potentially have a positive impact.

Item 4. Submissions of Matters to a Vote of the Security Holders

None.

Executive Officers of the Registrant

The list below identifies those persons deemed to be executive officers of the company, discloses their age and position with the company as of January 7, 2000 and positions held by them during the last five or more years. Officers are elected by the Board of Directors or appointed by the Chief Executive Officer annually. A complete list of all officers of the company is found on page 32 of the company's Annual Report to Stockholders for the year ended October 31, 1999.

Location	Ownership	Products Manufactured / Use
Plymouth, WI	Owned	Professional and residential parts distribution center, office
Windom, MN	Owned/Leased	Residential components and products and warehouse
Lakeville, MN	Leased	Professional and residential finished goods distribution center, office
Bloomington, MN	Owned/Leased	Corporate headquarters and test facility
Tomah, WI	Owned/Leased	Professional and residential products and warehouse
Sardis, MS*	Owned	Residential finished goods distribution center
Baraboo, WI	Leased	Professional and residential finished Goods distribution center, office
Riverside, CA	Owned/Leased	Professional and residential products and warehouse, office
Evansville, IN	Leased	Professional and residential products
Beatrice, NE	Owned	Professional products, office
Shakopee, MN	Owned	Components for professional and residential products
El Paso, TX	Owned/Leased	Professional and residential products and warehouse
Beverley, Australia	Owned	Professional and residential office and distribution center
Murray Bridge, Australia*	Owned	Professional and residential products and warehouse
El Cajon, CA	Owned	Professional products and warehouse, office
Mound, MN	Leased	Residential products warehouse
Oxford, MS	Owned	Components for residential products
Oevel, Belgium	Owned	Professional and residential finished goods distribution center, office
Madera, CA	Owned	Professional products and warehouse, office
Laguna, CA	Leased	Professional products warehouse
Juarez, Mexico	Leased	Professional and residential manufacturing facility
Braeside, Australia	Leased	Professional products warehouse
Lincoln, NE	Leased	Professional products warehouse
DFW Airport, TX	Leased	Distribution facility
Plymouth, MN	Leased	Distribution facility
Itaska, IL	Leased	Distribution facility
Mountaintop, PA	Leased	Professional and residential parts distribution center

There are no family relationships between any director, executive officer or person nominated to become a director or executive officer. There are no arrangements or understandings between any executive officer and any other person pursuant to which he or she was selected as an officer.

Part II

All information incorporated by reference in this Part II is from the Registrant's Annual Report to Stockholders for the fiscal year ended October 31, 1999 ("Annual Report").

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

Toro Common Stock (including related Preferred Share Purchase Rights) is listed for trading on the New York Stock Exchange. As of January 7, 2000 there were 6,073 holders of record of the company's common stock.

See "Quarterly Financial Data" on page 29 of the Annual Report for dividends paid and range of high and low sales prices for the company's common stock on the New York Stock Exchange on a quarterly basis for the period from November 1, 1997 to October 31, 1999, which information is incorporated herein by reference.

Although the company intends to declare cash dividends on a quarterly basis in the future, the determination as to the payment and the amount of any cash dividend will depend upon the company's then current financial condition, capital requirements, results of operations, and other factors deemed relevant by the company's board of directors.

Item 6. Selected Financial Data

See "Selected Financial Data" on page 14 of the Annual Report for financial data for the years ended October 31, 1999, 1998, 1997, 1996, the 3 month period ended October 31, 1995, and the year ended July 31, 1995, which information for these periods is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report to Stockholders on pages 4 through 13, which section is incorporated herein by reference.

Forward-Looking Information

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Part I of this Annual Report on Form 10-K and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the company's Annual Report to Stockholders for fiscal 1999 referred to above contain 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", "estimate", "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 and rising interest rates that could slow the economic growth that has been important to the growth of the company's professional businesses, including golf, agricultural irrigation, and landscape contractor markets; the company's ability to develop and manufacture new and existing products based on existing investments in manufacturing capacity and engineering; market acceptance of existing and new products relative to expectations and based on current commitments to fund advertising and promotions; the company's ability to acquire, develop, and integrate new businesses and manage alliances successfully; increased competition in the company's businesses from competitors that have greater financial resources, including competitive pricing pressures; changing buying patterns affecting the company's residential segment, including but not limited to a trend away from purchases at dealer outlets to price and value sensitive purchases at hardware stores, home centers, 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; unforeseen difficulties in the implementation of strategies to use outside providers for warehousing and transportation services; changes in distributors', dealers', home centers', or mass retailers' purchasing practices; loss of, or a significant reduction in, sales through a significant distribution channel; the company's ability to cost-effectively open new, and expand existing, manufacturing facilities; the company's ability to manage costs and capacity constraints at its manufacturing facilities; socio-economic conditions in certain international markets; the degree of success from restructuring actions undertaken at the Australian subsidiary; the continuing relative strength of the dollar against certain currencies, which increases the cost of the company's products in foreign markets and impairs its ability to increase prices; the decline of the U.S dollar against the Japanese yen, which increases costs of certain inventory components that in turn could negatively affect gross margins; competitive implications and price transparencies related to the euro conversion; whether the 1998 profit improvement plan will continue to be successful in reducing costs and

improving margins and use of assets; the ability to retain and hire quality employees; the impact of new accounting standards; and threatened or pending litigation on matters relating to patent infringement.

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; 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; changes in market demographics; actions of competitors; any material, undisclosed problems with the company's suppliers, customers, creditors, government agencies, public utility providers, and financial service organizations related to year 2000 problems; 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; availability of raw materials; and the company's ability to maintain good relations with its union employees.

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.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency

The company is exposed to foreign currency exchange risk arising from transactions entered into in the normal course of business. To mitigate the risk from foreign currency exchange rate fluctuations in those transactions, the company will generally enter into forward currency exchange contracts for the purchase or sale of a currency. Decisions on whether to use such forward currency exchange contracts are made based on the amount of those exposures the currency involved, and an assessment of the near-term market value for each currency. These hedge instruments are managed to reduce the risk associated with the exposure being hedged and are designated as a hedge at the inception of the contract. Accordingly, changes in market values of these hedge instruments are highly correlated with changes in market values of underlying hedged items both at inception of the hedge and over the life of the hedge contract. The company's primary exchange rate exposure is with various European currencies, including the euro, the Japanese yen, the Australian dollar, and the Canadian dollar against the U.S. dollar. Gains and losses on foreign currency contracts are recorded in the Consolidated Statements of Earnings and Comprehensive Income.

The following forward exchange contracts held by the company have maturity dates in fiscal year 2000. All items are non-trading and stated in U.S. dollars. The average contracted rate, notional amount, and fair value impact at October 31, 1999 were as follows:

Name, Age and Position with the Company	Business Experience During the Last Five Years
Kendrick B. Melrose 59, Chairman and Chief Executive Officer	Elected Chairman of the Board in December 1987 and Chief Executive Officer in December 1983.
J. David McIntosh 56, Executive Vice President, Professional Businesses and International	Elected Executive Vice President, Professional Businesses and International in August 1998. From September 1996 to August 1998, he served as Group Vice President. From January 1992 to September 1996, he was appointed Vice President and General Manager, Consumer Division.
Stephen P. Wolfe 51, Vice President Finance, Treasurer and Chief Financial Officer	Elected Vice President Finance, Treasurer in June 1997 and Chief Financial Officer in May 1997. Appointed Treasurer in January 1996. Appointed Vice President in August 1994. Elected President, Toro Credit Company in July 1990.
J. Lawrence McIntyre 57, Vice President, Secretary and General Counsel	Elected Vice President in July 1993. Elected Secretary and General Counsel in August 1993.
Karen M. Meyer 50, Vice President, Administration	Elected Vice President, Administration in August 1998. From December 1991 to August 1998, she served as Vice President, Human Resources/Administrative Services.
Dennis P. Himan 55, Vice President and General Manager Landscape Contractor Businesses	Appointed Vice President and General Manager, Landscape Contractor Businesses in August 1998. From January 1996 to August 1998, he served as Vice President, Distributor Development Contractor Businesses and Mergers/Acquisitions. From October 1987 to January 1996, he served as Vice President and Treasurer.
Michael J. Hoffman 44, Vice President and General Manager Commercial Business	Appointed Vice President and General Manager, Commercial Business November 1997. From November 1996 to November 1997, he served as General Manager of the Commercial Division. He served as Managing Director, Recycling Division from March 1994 to October 1996 and as Director of Marketing and Service, Commercial Division from September 1989 to March 1994.
William D. Hughes 49, Vice President and General Manager Consumer Business	Appointed Vice President and General Manager, Consumer Business August 1998. From September 1983 to August 1998, he was Chairman and Chief Operating Officer of Turf Equipment and Supply Company, Inc.
Randy B. James 56, Vice President and Controller	Appointed Vice President and Controller in December 1988.
Richard W. Parod 46, Vice President and General Manager U.S. Irrigation Business	Appointed Vice President and General Manager, U.S. Irrigation Business in March 1997. From December 1993 to March 1997, he served as President of James Hardie Irrigation, Inc. From September 1993 to December 1993, he served as Chief Financial Officer of James Hardie Irrigation, Inc.

Debt Financing

The company's interest rate exposure results from short-term rates, primarily LIBOR-based borrowings from commercial banks. Toro currently does not use interest rate swaps to mitigate the impact of fluctuations in interest rates because the existing agreement is favorable compared to similar types of borrowing arrangements at current market credit spreads based on points over LIBOR. At October 31, 1999, the financial liabilities of the company exposed to changes in interest rates consisted mainly of $56.5 million of short-term debt outstanding. Assuming a hypothetical increase of 1 percent (100 basis points) in short-term interest rates with all other variables remaining constant, interest expense would have increased $1.2 million in fiscal 1999. Included in long-term debt is $196.2 million of fixed rate debt, which is not subject to interest rate risk. At October 31, 1999, the estimated fair value of long-term debt with fixed interest rates was $185.9 million compared to its carrying value of $196.2 million. The fair value is estimated by discounting the projected cash flows using the rate at which similar amounts of debt could currently be borrowed. Assuming a hypothetical increase of 1 percent (100 basis points) in applicable interest rates, the estimated fair value of long-term debt would decrease by $13.8 million.

Commodities

Certain raw materials used in the company's products are exposed to commodity price changes. Toro manages this risk by using purchase orders and long-term agreements. The primary commodity price exposures are with aluminum, steel, and plastic resin.

Item 8. Financial Statements and Supplementary Data

The financial statements described in Item 14(a)1 of this report are incorporated herein by reference.

See "Quarterly Financial Data" appearing on page 29 of the Annual Report to Stockholders which is incorporated herein by reference.

Item 9. Disagreements on Accounting and Financial Disclosure

None.

Part III
Item 10. Directors and Executive Officers of the Registrant

See "Executive Officers of the Registrant" in Part I of this report for information regarding the executive officers of the company, which information is herein incorporated by reference.

Information regarding the directors of the company and additional information regarding certain executive officers is incorporated herein by reference to information to be contained in the company's Proxy Statement to be filed with the Securities and Exchange Commission with respect to the next annual meeting of stockholders which involves the election of directors or, if such Proxy Statement is not filed within 120 days after the end of the fiscal year covered by this Form 10-K, such information will be filed as part of an amendment to this Form 10-K not later than the end of the 120-day period.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference to information to be contained in the company's Proxy Statement to be filed with the Securities and Exchange Commission with respect to the next meeting of stockholders which involves the election of directors or, if such Proxy Statement is not filed within 120 days after the end of the fiscal year covered by this Form 10-K, such information will be filed as part of an amendment to this Form 10-K not later than the end of the 120-day period.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information regarding the security ownership of certain beneficial owners and management of the company is incorporated herein by reference to information to be contained in the company's Proxy Statement to be filed with the Securities and Exchange Commission with respect to the next meeting of stockholders which involves the election of directors or, if such Proxy Statement is not filed within 120 days after the end of the fiscal year covered by this Form 10-K, such information will be filed as part of an amendment to this Form 10-K not later than the end of the 120-day period.

Item 13. Certain Relationships and Related Transactions

None.

Part IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Index to Consolidated Financial Statements

Incorporated by reference into Part II, Item 8 of this report:

Dollars in thousands (except average contracted rate)	Average Contracted Rate	Notional Amount	Fair Value Impact Gain (Loss)
Buy US $/Sell Australian dollar	.6502	$ 11,159.3	$ 178.1
Buy US $/Sell Canadian dollar	1.4872	6,253.4	(100.9)
Buy US $/Sell Great British pound	.6225	1,478.0	(34.4)
Buy German mark/Sell US $	1.8436	1,627.3	5.8
Buy Japanese yen/Sell US $	114.8800	6,963.6	889.3

(a) 2. Index to Consolidated Financial Statement Schedules

All other schedules are omitted because the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

(a) 3. Exhibits

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

(b) Reports on Form 8-K

None.

The company's Annual Report on Form 10-K for the fiscal year ended October 31, 1999, at the time of its filing with the Securities and Exchange Commission, shall modify and supersede all prior documents filed pursuant to Sections 13, 14 and 15(d) of the 1934 Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement or Prospectus filed pursuant to the Securities Act of 1933 which incorporates by reference such Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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 Registrant's 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 (incorporated by reference to Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(b)	The Toro Company Directors Stock Plan (incorporated by reference to Exhibit 10(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(c)	The Toro Company Annual Management Incentive Plan II for officers of Registrant (incorporated by reference to Exhibit 10(c) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999) .*
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 (incorporated by reference to Exhibit 10(e) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(f)	The Toro Company 1993 Stock Option Plan (incorporated by reference to Exhibit 10(f) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(g)	The Toro Company Performance Share Plan (incorporated by reference to Exhibit 10(f) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(h)	The Toro Company Supplemental Management Retirement Plan (incorporated by reference to Exhibit 10(h) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(i)	The Toro Company Supplemental Retirement Plan (incorporated by reference to Exhibit 10(i) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(j)	Chief Executive Officer Incentive Award Agreement (incorporated by reference to Exhibit 10(j) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
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 Exhibit 10(k) to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 29, 1999).*
12	Computation of Ratio of Earnings to Fixed Charges (page 25 of this report).
13	Fiscal 1999 Annual Report to Stockholders for The Toro Company.
21	Subsidiaries of Registrant (page 69 of this report).
23	Independent Auditors' Consent (page 70 of this report).
27	Supplemental Data Schedule; electronic filing only.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

THE TORO COMPANY
(Registrant)

Dated: January 20, 2000

/s/ STEPHEN P. WOLFE

Stephen P. Wolfe
Vice President—Finance
Treasurer and Chief Financial Officer

Independent Auditors' Report

The Stockholders and Board of Directors

The Toro Company:

Under the date of December 13, 1999, we reported on the consolidated balance sheets of The Toro Company and subsidiaries (the Company) as of October 31, 1999 and 1998, and the related consolidated statements of earnings and comprehensive income, and cash flows for each of the years in the three year period ended October 31, 1999, as contained in the 1999 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the fiscal year 1999. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related consolidated financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

KPMG
LLP

Minneapolis,
Minnesota

December 13, 1999

Schedule II

THE TORO COMPANY AND SUBSIDIARIES
Valuation and Qualifying Accounts

Signature	Title	Date
/s/ KENDRICK B. MELROSE Kendrick B. Melrose	Chairman, Chief Executive Officer, and Director (principal executive officer)	January 20, 2000
/s/ STEPHEN P. WOLFE Stephen P. Wolfe	Vice President—Finance, Treasurer and Chief Financial Officer (principal financial officer)	January 20, 2000
/s/ RANDY B. JAMES Randy B. James	Vice President, Controller (principal accounting officer)	January 20, 2000
/s/ RONALD O. BAUKOL Ronald O. Baukol	Director	January 20, 2000
/s/ ROBERT C. BUHRMASTER Robert C. Buhrmaster	Director	January 20, 2000
/s/ WINSLOW H. BUXTON Winslow H. Buxton	Director	January 20, 2000
/s/ JANET K. COOPER Janet K. Cooper	Director	January 20, 2000
Alex A. Meyer	Director	January 20, 2000
/s/ ROBERT H. NASSAU Robert H. Nassau	Director	January 20, 2000
/s/ DALE R. OLSETH Dale R. Olseth	Director	January 20, 2000
/s/ GREGG W. STEINHAFEL Gregg W. Steinhafel	Director	January 20, 2000
/s/ CHRISTOPHER A. TWOMEY Christopher A. Twomey	Director	January 20, 2000
/s/ EDWIN H. WINGATE Edwin H. Wingate	Director	January 20, 2000

(a) Provision, net of recoveries.

(b) Additions to allowance for doubtful accounts due to acquisitions.

(c) Uncollectible accounts charged off.

Description	Balance at beginning of year	Charged to costs and expenses(a)	Other(b)	Deductions(c)	Balance at end of year
Year Ended October 31, 1999					
Allowance for doubtful accounts and notes receivable reserves	$ 12,501,000	$ 1,113,000	$ 90,000	$ 1,748,000	$ 11,956,000
Year Ended October 31, 1998					
Allowance for doubtful accounts and notes receivable reserves	$ 14,416,000	$ 804,000	$ 250,000	$ 2,969,000	$ 12,501,000
Year Ended October 31, 1997					
Allowance for doubtful accounts and notes receivable reserves	$ 11,873,000	$ 1,364,000	$ 2,875,000	$ 1,696,000	$ 14,416,000

(c) Additions to accrued warranties due to acquisitions.

(d) Warranty claims processed.

QuickLinks

THE TORO COMPANY AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges

(Not Covered by Independent Auditors' Report)

Description	Balance at beginning of year	Charged to costs and expenses	Other(c)	Deductions(d)	Balance at end of year
Year Ended October 31, 1999					
Accrued warranties	$ 46,344,000	$ 42,057,000	$ 0	$ 36,535,000	$ 51,866,000
Year Ended October 31, 1998					
Accrued warranties	$ 40,792,000	$ 39,877,000	$ 951,000	$ 35,276,000	$ 46,344,000
Year Ended October 31, 1997					
Accrued warranties	$ 34,722,000	$ 35,045,000	$ 5,940,000	$ 34,915,000	$ 40,792,000

QuickLinks

Exhibit 13

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS THE TORO COMPANY

RESULTS OF OPERATIONS

Toro's financial results in fiscal 1999 greatly improved from fiscal 1998, with double-digit sales gains recorded by both the professional and residential segments. Overall, net sales increased 14.8 percent from fiscal 1998. The professional segment, which now makes up 63.3 percent of total consolidated sales, continued a solid upward trend in fiscal 1999. Shipments of commercial equipment and irrigation systems to the golf market around most of the world were robust for both new and renovation golf course construction. The landscape contractor market also continued its growth trend with significant sales increases for most product lines due to the continued movement towards outsourcing lawn maintenance needs. The residential segment had a dramatic recovery year in both sales and profitability compared to fiscal 1998, however, profitability did not reach the fiscal 1997 level. The improved performance of the residential segment was led by the successful introduction of the new Toro Personal Pace lawn mower and initial distribution of Toro brand lawn mowers through select home centers. The company is also continuing to realize the benefits of the profit improvement program implemented in fiscal 1998 that included repositioning portions of the residential business and selling non-performing product lines.

SUMMARY

	Years Ended				3 Months Ended	Year Ended
	10/31/99	10/31/98	10/31/97	10/31/96	10/31/95	7/31/95
Earnings before income taxes	$ 57,473,000	$ 6,761,000	$ 60,344,000	$ 60,180,000	$ 6,606,0000	$ 61,112,000
Plus: Fixed charges	28,345,000	29,375,000	23,186,000	16,728,000	3,266,000	14,892,000
Earnings available to cover fixed charges	$ 85,818,000	$ 36,136,000	$ 83,530,000	$ 76,908,000	$ 9,872,000	$ 76,004,000
Ratio of earnings to fixed charges	3.03	1.23	3.60	4.60	3.02	5.10
Interest Expense	$ 23,913,000	$ 25,428,000	$ 19,900,000	$ 13,590,000	$ 2,532,000	$ 11,902,000
Rentals (Interest factor)	4,432,000	3,987,000	3,286,000	3,138,000	734,000	2,990,000
Total fixed charges	$ 28,345,000	$ 29,375,000	$ 23,186,000	$ 16,728,000	$ 3,266,000	$ 14,892,000

NET SALES BY SEGMENT

	Years Ended October 31				
	1999	% Change	1998	% Change	1997
	(Dollars in millions, except per share data)				
Net sales	**$ 1,275.0**	14.8 %	$ 1,110.4	5.6 %	$ 1,051.2
Cost of sales	**815.4**	12.3	726.1	9.5	663.2
Gross profit	**459.6**	19.6	384.3	(1.0)	388.0
Gross profit percentage	**36.0 %**	1.4	34.6 %	(2.3)	36.9 %
Selling, general, and administrative expense	**383.0**	10.8	345.6	10.4	313.1
Restructuring and other unusual expense	**1.7**	(88.5)	15.0	478.5	2.6
Earnings from operations	**74.9**	215.8	23.7	(67.2)	72.3
Operating profit percentage	**5.9 %**	3.8	2.1 %	(4.8)	6.9 %
Interest expense	**(23.9)**	(6.0)	(25.4)	27.8	(19.9)
Other income, net	**6.5**	(23.3)	8.5	7.3	7.9
Earnings before income taxes and extraordinary loss	**57.5**	750.1	6.8	(88.8)	60.3
Provision for income taxes	**22.4**	739.2	2.7	(88.8)	23.8
Net earnings before extraordinary loss	**35.1**	757.2	4.1	(88.8)	36.5
Extraordinary loss, net of income tax benefits of $1.1	**—**	—	—	—	1.7
Net earnings	**$ 35.1**	757.2 %	$ 4.1	(88.3)%	$ 34.8
Basic net earnings per share of common stock before extraordinary loss	**$ 2.72**	750.0 %	$ 0.32	(89.4)%	$ 3.02
Extraordinary loss per share, net of income tax benefit	**—**	—	—	—	0.14
Basic net earnings per share of common stock	**$ 2.72**	750.0 %	$ 0.32	(88.9)%	$ 2.88
Dilutive net earnings per share of common stock before extraordinary loss	**$ 2.64**	751.6 %	$ 0.31	(89.4)%	$ 2.93
Extraordinary loss per share, net of income tax benefit	**—**	—	—	—	0.13
Dilutive net earnings per share of common stock	**$ 2.64**	751.6 %	$ 0.31	(88.9)%	$ 2.80

Overall, the outlook into fiscal year 2000 is promising. Toro's improved performance allowed it to pursue a greater number of strategic investments aimed at stronger future earnings capability. Key strategic alliances were made in fiscal 1999 with ClubCorp of America, the world's largest owner and operator of private clubs and golf resorts, and renewed with Maruyama Manufacturing Company, Inc., a leading global manufacturer of hand-held landscaping equipment. As part of its long-term strategy, Toro plans to continue to invest in brand equity, systems development, turf technologies, Internet applications, acquisitions, distribution and customer service, and other programs to fuel growth and improve earnings.

NET SALES

FISCAL 1999 COMPARED WITH FISCAL 1998

Worldwide net sales in fiscal 1999 were $1,275.0 million compared to $1,110.4 million in fiscal 1998, an increase of 14.8 percent. The following is a discussion of net sales by segment:

Professional—Net sales for the worldwide professional segment in fiscal 1999 were $807.4 million compared to $706.8 million in fiscal 1998, an increase of 14.2 percent. The sales increase was mainly due to increased volume arising from the rapidly growing landscape contractor market and acceptance of new products introduced in fiscal 1998. Toro's dual branding strategy of Toro and Exmark products has increased market share by providing broader coverage of that market. Sales for Toro's Dingo product line increased significantly in fiscal 1999 after its introduction in fiscal 1998 due to growing market reception as well as sales through new dealer outlets. In fiscal 1999, this product was also introduced into the international market, primarily in Europe. Worldwide sales of both new and replacement golf course equipment and irrigation systems increased due to the continued growth and popularity of the game of golf that has led to the increase in the number of golf courses over the past few years. Sales to the worldwide grounds care market were also strong during fiscal 1999 because of strong customer acceptance of new products. Sales of Irritrol Systems brand irrigation products increased because of dry weather in fiscal 1999 in many of Irritrol's markets. Toro-branded irrigation product sales for the residential/commercial market were also above fiscal 1998 due to dry weather conditions in key markets and new marketing programs designed to improve market share. Sales to the worldwide agricultural irrigation market grew in fiscal 1999 mainly due to the addition of sales from Drip In agricultural micro-irrigation products, acquired in the second quarter of fiscal 1998, plus increased sales for Aqua-TraXX drip tape product. Finally, Toro's market leadership position, coupled with good customer reception of new products and strong support systems, enabled the company to respond to increased retail demand in fiscal 1999.

Residential—Net sales for the worldwide residential segment in fiscal 1999 were $447.9 million compared to $397.5 million in fiscal 1998, an increase of 12.7 percent. Domestic sales of Toro walk power mowers nearly doubled from fiscal 1998 due to the positive reception of the new Toro Personal Pace lawn mower, slight price increases on select products, and the addition of 1,600 home center outlets now carrying this product, a new distribution channel for the Toro brand walk power mowers. Do-it-yourself (DIY) 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. This was offset by weak sales of DIY irrigation products in Australia due to wet weather conditions in the early part of the selling season. Sales of electric home solution products, including trimmers and blower vacuums, also did well for the year due to the warm fall weather in 1998 that extended the selling season into the first quarter of fiscal 1999, as well as additional placement and expanded retail outlets. Worldwide snowthrower sales increased substantially from abnormally low sales in fiscal 1998, due to the heavy snowfall in the winter of 1998-1999 that depleted field inventories to historically low levels. In addition, the timing of snowthrower shipments, which were moved from the fourth quarter of fiscal 1998 to the first quarter of fiscal 1999, also contributed to the increase. Toro also shifted snowthrower sales from the fiscal 1999 fourth quarter to the first quarter of fiscal 2000 to more closely reflect retail demand. In the future, Toro plans on managing snowthrower shipments in closer alignment with its channel demand. Offsetting those increases were lower worldwide shipments for riding products due to dry weather in key markets, continued slow retail demand for a new garden tractor, and lower shipments of riding products manufactured for a third party due to their soft retail sales and their management of field inventory levels. Management believes the riding product line continues to suffer from stiff competition from the market leader. Lawn-Boy walk power mower sales also decreased compared to fiscal 1998 due in part to dry weather conditions experienced in certain key markets and some movement of sales away from Lawn-Boy to the Toro brand after introducing Toro walk power mowers into the home center channel.

The company believes there is a continuing shift in consumer buying patterns throughout the industry. Therefore, Toro is continually evaluating its distribution channels to find ways to reach the consumer more quickly and cost effectively, including possible further expansion into equipment dealers, home centers, and mass retailers, as well as using the Internet.

Field inventory levels at Toro's distributors and dealers were down for domestic residential 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 and riding products to historically low levels.

In conclusion, fiscal 1999 saw a successful start to the residential segment recovery program. Increased profitability is expected in fiscal 2000 despite an expected slight reduction in sales due to planned discontinuation and sale of low profit margin products.

Other—Net sales for the other segment in fiscal 1999 were $19.7 million compared to $6.1 million in fiscal 1998, an increase of 223.8 percent. Net sales in the other segment include sales from Toro's wholly owned distribution companies less sales from the professional and residential segments to those distribution companies. These distribution companies sell Toro and non-Toro manufactured products. The sales increase was mainly due to additional volume arising from the acquisition of a midwestern-based distributor in fiscal 1999.

FISCAL 1998 COMPARED WITH FISCAL 1997

Effective November 1997, the company acquired Exmark, a leading manufacturer of equipment for the professional landscape contractor industry. Effective February 1998, the company acquired Drip In, a manufacturer of agricultural micro-irrigation products. These two acquisitions resulted in all of the increase in fiscal 1998 sales, from fiscal 1997.

Worldwide net sales in fiscal 1998 were $1,110.4 million compared to $1,051.2 million in fiscal 1997, an increase of 5.6 percent. The following is a discussion of net sales by segment:

Professional—Net sales for the worldwide professional segment in fiscal 1998 were $706.8 million compared to $569.3 million in fiscal 1997, a significant increase of 24.2 percent. The increase was

attributable to the additions of Exmark and Drip In products, new product introductions in the landscape contractor market, growth of worldwide agricultural irrigation product sales, and growth in sales to the golf course market. Despite strong competition, sales of equipment and irrigation systems to golf courses did well. Certain residential/commercial irrigation products rebounded well during fiscal 1998, which also contributed to the strong sales increase. International sales were slightly up due to strong worldwide agricultural irrigation sales and an increased demand in Canada and Europe for golf course equipment, irrigation systems, and landscape contractor products, offset by weak sales in Asia. The substantial sales increase for the professional businesses occurred despite aggressive competition and Asian market weakness, and Toro believes it maintained its market leadership position.

Residential—Net sales for the worldwide residential segment in fiscal 1998 were $397.5 million compared to $478.1 million in fiscal 1997, a decrease of 16.8 percent. Domestic snowthrower sales, which accounted for a significant portion of this decrease, were down due to the lack of snow during the winter of 1997-1998. Shipments of domestic riding products were also below fiscal 1997 levels as a result of lower than expected demand for a new repositioned higher-priced garden tractor, along with increased competition. Toro also discontinued selling gas powered trimmers to certain retailers due to low product profitability. In addition, wet spring weather experienced in key Sun Belt markets resulted in lower do-it-yourself irrigation product sales. The company also discontinued certain low profit margin Lawn Genie irrigation products. Offsetting the negative points was an increase in sales for walk power mowers, due mainly to a favorable sales comparison to the previous spring, which was late and wet. In fiscal 1998, Toro reduced the price of certain Toro brand walk power mowers. Management believes this strategy maintained market share but did not increase market share as planned. Lawn-Boy also introduced its new DuraForce engine walk power mower, which had a strong first year in the marketplace. Startup delays with the DuraForce engine prevented Toro from fully capitalizing on the demand for this low-emissions product. As part of the company's profit improvement plan, the company introduced special marketing programs and reduced shipments of certain residential products in order to reduce field inventories to historically low levels.

International residential sales were down slightly from fiscal 1997. The main factor contributing to this decrease was lower Australian sales due to the conversion of Australian dollar denominated sales into U.S. dollars at a substantially lower exchange rate as a result of currency movements in fiscal 1998. Offsetting that factor were strong sales to the European market for new diesel riding products introduced in fiscal 1998.

Other—Net sales for the other segment in fiscal 1998 were $6.1 million compared to $3.8 million in fiscal 1997, an increase of 58.3 percent. The sales increase was attributable to the growth of Toro's wholly owned Texas-based distributor.

GROSS PROFIT

FISCAL 1999 COMPARED WITH FISCAL 1998

Gross profit was $459.6 million in fiscal 1999 compared to $384.3 million in fiscal 1998, an increase of 19.6 percent. As a percentage of net sales, gross profit was 36.0 percent in fiscal 1999 compared to 34.6 percent in fiscal 1998. The increase in gross profit resulted primarily from higher margins for the residential segment due to improved manufacturing processes at the company's El Paso, Texas facility that helped lower expenses, reduced costs for certain products, and slight price increases in fiscal 1999 for certain products. This increase was slightly offset by the reversal of gross profit previously recorded with respect to sales of Toro products to three Toro distributors. During the year, Toro acquired two of these distributors and signed a non-revocable agreement to purchase the other.

FISCAL 1998 COMPARED WITH FISCAL 1997

Gross profit was $384.3 million in fiscal 1998 compared to $388.0 million in fiscal 1997, a decrease of 1.0 percent. As a percentage of net sales, gross profit was 34.6 percent in fiscal 1998 compared to 36.9 percent in fiscal 1997. The decline was primarily due to manufacturing cost overruns related to the poor execution of the production transfer from Mound, Minnesota to El Paso, Texas, reduced sales of higher gross margin snowthrowers, and lower pricing of Toro brand walk power mowers due to competitive pressures.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE (SG&A)

FISCAL 1999 COMPARED WITH FISCAL 1998

SG&A expenses were $383.0 million in fiscal 1999 compared to $345.6 million in fiscal 1998, an increase of 10.8 percent. As a percentage of net sales, SG&A decreased to 30.0 percent from 31.1 percent in fiscal 1998. The addition of a midwestern-based distributor acquired in fiscal 1999 contributed $7.3 million of incremental SG&A expense during fiscal 1999. The dollar increase is mainly due to increases for marketing expenses, warehousing costs, and warranty expenses due to higher sales levels. Incentive compensation expenses rose substantially with the improved financial performance of the company, on which incentive compensation is based. Information systems costs were higher due to the continued implementation of an enterprise-wide software system and additional investments in the development of Internet applications.

FISCAL 1998 COMPARED WITH FISCAL 1997

SG&A expenses were $345.6 million in fiscal 1998 compared to $313.1 million in fiscal 1997, an increase of 10.4 percent. As a percentage of net sales, SG&A increased to 31.1 percent from 29.8 percent in fiscal 1997. The additions of Exmark and Drip In contributed $17.8 million of incremental SG&A expense during fiscal 1998. Without Exmark and Drip In, SG&A increased 2.1 percent as a percentage of net sales due to higher costs of administrative expenses related to information systems and higher warranty expense. The warranty expense increase was attributable to a change in the product mix. Sales of products with overall higher warranty occurrence rates increased as compared to the prior year. Special warranty reserves for product modifications also contributed to the increase in fiscal 1998.

RESTRUCTURING AND OTHER UNUSUAL EXPENSE

FISCAL 1999 COMPARED WITH FISCAL 1998

Restructuring and other unusual expense was $1.7 million in fiscal 1999 compared to $15.0 million in fiscal 1998. The restructuring expense in fiscal 1999 included a charge of $3.1 million for asset write-downs and severance costs for management, sales force changes and plant employees related to the closure of the company's Murray Bridge, Australia manufacturing facility. Offsetting that increase was a reduction in other unusual expense of $1.4 million related to the reversal for the unused portion of the one-time residential business marketing programs accrued in fiscal 1998.

FISCAL 1998 COMPARED WITH FISCAL 1997

Restructuring and other unusual expense was $15.0 million in fiscal 1998 compared to $2.6 million in fiscal 1997. The restructuring charge in fiscal 1998 consisted of $4.3 million for severance and asset write-down related to the closure of two manufacturing facilities, and $1.4 million for other severance costs. Other unusual expense consisted of $5.3 million representing an impairment loss on the expected sale of the recycling equipment business and portions of the professional fertilizer business, and $4.0 million for special residential business marketing programs. These programs consisted of rebates

and co-op advertising credits designed to reduce certain residential business field inventories by providing incentives to increase retail sales in preparation for anticipated changes in warehousing and transportation.

INTEREST EXPENSE

FISCAL 1999 COMPARED WITH FISCAL 1998

Interest expense was $23.9 million in fiscal 1999 compared to $25.4 million in fiscal 1998, a decrease of 6.0 percent. This decrease was due to lower average debt in fiscal 1999 compared to fiscal 1998 as a result of improved asset management. Management expects fiscal 2000 interest costs to rise compared to fiscal 1999 due to higher interest rates as well as anticipated higher average inventory levels and capital additions planned for fiscal 2000.

FISCAL 1998 COMPARED WITH FISCAL 1997

Interest expense was $25.4 million in fiscal 1998 compared to $19.9 million in fiscal 1997, an increase of 27.8 percent. Higher average working capital levels, as a result of higher inventory, and incremental cash and debt required for the acquisitions of Exmark and Drip In, contributed to the increase in interest expense.

OTHER INCOME, NET

FISCAL 1999 COMPARED WITH FISCAL 1998

Other income, net was $6.5 million in fiscal 1999 compared to $8.5 million in fiscal 1998. Higher amounts of currency losses in fiscal 1999 accounted for the decline as did the higher base in fiscal 1998 resulting from a favorable settlement of a trade secret lawsuit and recoveries of previous write-offs of note receivables. These decreases were partially offset by a payment for the sale of the residential lighting business and higher levels of interest income.

FISCAL 1998 COMPARED WITH FISCAL 1997

Other income, net, was $8.5 million in fiscal 1998 compared to $7.9 million in fiscal 1997. The increase was mainly attributed to a favorable settlement of a trade secret lawsuit.

OPERATING PROFIT (LOSS) BY SEGMENT

Operating profit (loss) by segment is defined as earnings (loss) from operations plus other income, net for the residential and professional segments. The other segment operating loss includes earnings (loss) from operations, corporate activities, other income, net, and interest expense.

FISCAL 1999 COMPARED WITH FISCAL 1998

Professional—Operating profit in fiscal 1999 was $112.9 million compared to $78.3 million in fiscal 1998, an increase of 44.3 percent. This profit improvement resulted from increased sales, higher gross margins mainly from improved manufacturing processes at the El Paso, Texas facility that helped reduce costs, lower levels of restructuring and other unusual expense, and the sale of nonprofitable product lines.

Residential—Operating profit in fiscal 1999 was $21.2 million compared to a loss of $15.1 million in fiscal 1998. This improvement resulted from increased volume, improved manufacturing processes at the company's El Paso, Texas facility that helped reduce costs, and lower levels of restructuring and other unusual expense. Overall, the residential business recovery plans put in place in fiscal 1998 are working well, resulting in significantly improved operating results for fiscal 1999.

Other—Operating loss in fiscal 1999 was $76.7 million compared to $56.4 million in fiscal 1998. This increase was due to higher incentive compensation expenses and information systems costs discussed above as well as the reversal of gross profit previously recorded with respect to sales of Toro products to three Toro distributors discussed previously.

FISCAL 1998 COMPARED WITH FISCAL 1997

Professional—Operating profit in fiscal 1998 was $78.3 million compared to $76.8 million in fiscal 1997, an increase of 2.0 percent. This increase was due to increased sales partially offset by higher manufacturing expenses related to cost overruns at the El Paso, Texas facility and costs related to restructuring and other unusual expense.

Residential—Operating loss in fiscal 1998 was $15.1 million compared to profit of $28.4 million in fiscal 1997. This change resulted from decreased sales levels, higher manufacturing expenses related to cost overruns at the El Paso, Texas facility, and higher costs related to restructuring and other unusual expense.

Other—Operating loss in fiscal 1998 was $56.4 million compared to $44.8 million in fiscal 1997. This was due to increased costs for corporate expenses and interest expense.

PROVISION FOR TAXES

FISCAL 1999 COMPARED WITH FISCAL 1998

The effective tax rate for fiscal 1999 was 39.0 percent compared to 39.5 percent in fiscal 1998. The decline in the tax rate was due to an increase in benefits received from the company's foreign sales corporation. The company has determined that it is not necessary to establish a valuation reserve for deferred income tax benefit because it believes that the net deferred income tax asset of $49.8 million will be realized principally through carrybacks to taxable income in prior years, future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income.

The tax rate for fiscal 2000 is expected to decline to 37.5 percent due to tax minimization projects. The company has implemented several tax-planning strategies, which the company believes will result in a lower effective tax rate in future years.

FISCAL 1998 COMPARED WITH FISCAL 1997

The effective tax rate for fiscal 1998 and fiscal 1997 was 39.5 percent.

NET EARNINGS

FISCAL 1999 COMPARED WITH FISCAL 1998

Net earnings were $35.1 million in fiscal 1999 compared to $4.1 million in fiscal 1998. Dilutive earnings per share were $2.64 in fiscal 1999 compared to $0.31 in fiscal 1998. Earnings were up significantly from fiscal 1998 due to increased sales, improved manufacturing efficiencies, and lower restructuring and other unusual expenses.

FISCAL 1998 COMPARED WITH FISCAL 1997

Net earnings were $4.1 million in fiscal 1998 compared to $34.8 million in fiscal 1997 after the effect of an extraordinary loss of $1.7 million on the early retirement of debt in fiscal 1997. Dilutive earnings per share were $0.31 in fiscal 1998 compared to $2.80 after the extraordinary loss of $0.13 in fiscal 1997. Earnings in fiscal 1998 were down sharply from fiscal 1997 due to a significant decrease in residential sales, restructuring and other unusual expense of $15.0 million, and lower operating margins

due to manufacturing inefficiencies experienced in the consolidation of manufacturing to the El Paso, Texas facility.

FINANCIAL POSITION

WORKING CAPITAL

Average working capital for fiscal 1999 was $226.6 million compared to $230.0 million for fiscal 1998, a decrease of 1.4 percent. Average working capital as a percent of sales was 17.8 percent in fiscal 1999 and 20.7 percent in fiscal 1998. The decrease in average working capital was due primarily to lower average inventory, increased accruals for incentive and profit sharing expenses, and higher marketing accruals related to increased sales. This was slightly offset by higher average net accounts receivable and lower average short-term debt.

Average working capital in fiscal 2000 is planned to increase compared to fiscal 1999. This increase is due to higher planned sales levels and the previously announced distributor acquisition in fiscal 2000. Toro also plans on carrying higher levels of average inventory during fiscal 2000 as compared to fiscal 1999 to address its manufacturing capacity constraints for certain product lines during the spring and summer months.

LONG TERM ASSETS

Long-term assets at October 31, 1999 were $255.4 million compared to $244.6 million at October 31, 1998, an increase of $10.8 million. Net property, plant, and equipment decreased by $3.0 million due to write-offs related to the closure of certain manufacturing facilities. Goodwill and other assets increased $8.7 million over fiscal 1998 mainly as a result of a contingent payment made in connection with the company's acquisition of Exmark in fiscal 1998.

CAPITAL STRUCTURE

Long-term debt at October 31, 1999 was $196.2 million compared to $197.4 million at October 31, 1998, a decrease of $1.2 million. The total debt to capital ratio was 47.5 percent in fiscal 1999 compared to 46.4 percent in fiscal 1998. The increase in debt to capital ratio was due mainly to the increase in working capital at October 31, 1999 compared to October 31, 1998.

Total capitalization at October 31, 1999 consisted of $196.2 million of long-term debt, $56.5 million of short-term debt, and $279.7 million of stockholders' equity.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow—Cash provided by operating activities decreased by $7.5 million from fiscal 1998 due primarily to the increase in accounts receivable as a result of higher sales volumes in the fourth quarter of fiscal 1999 compared to the fourth quarter of fiscal 1998. In addition, the accounts receivable balance at October 31, 1998 was abnormally low. This was partially offset by higher net earnings in fiscal 1999 compared to fiscal 1998.

Cash used in investing activities was lower in fiscal 1999 compared to fiscal 1998 due to $17.2 million in cash purchase prices for Exmark and Drip In. In addition, property, plant, and equipment expenditures were down comparatively by $4.1 million due mainly to lower spending for corporate facility remodeling projects.

Cash used in financing activities decreased due to higher levels of stock repurchases during fiscal 1999 offset by higher short-term debt at October 31, 1999 compared to short-term debt at October 31, 1998. However, average short-term debt in fiscal 1999 was $121.8 million compared to $143.2 million in fiscal 1998, an improvement of $21.4 million.

Cash and cash equivalents were $11.9 million higher at October 31, 1999 compared to October 31, 1998 due to the timing of year end, which ended on a Sunday resulting in cash received on Saturday that was not available to pay down short-term debt. This also contributed to the higher short-term debt at October 31, 1999 compared to October 31, 1998.

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 the company's anticipated working capital, capital additions, acquisitions, and stock repurchases in the next fiscal year.

Capital Spending for Fiscal 2000—Capital spending in fiscal 2000 is planned to be approximately $51.0 million. Significant planned expenditures include investments in manufacturing equipment and tooling. It is anticipated that fiscal 2000 capital expenditures will be financed primarily with funds from operations.

Share Repurchase Plan—In October 1998, the Board of Directors authorized the company to repurchase 1.0 million shares of common stock. At October 31, 1999, the company had approximately 223,100 shares remaining under the repurchase authorizations. This repurchase program is used to issue shares in connection with acquisitions and employee compensation plans so that outstanding shares are kept constant and the impact on net earnings per share is minimal.

In fiscal 1999, the company repurchased 876,800 shares of common stock on the open market for $29.2 million at an average price of $33.26 per share. The company repurchased 100,000 shares for $1.7 million in fiscal 1998 and 232,000 shares for $8.0 million in fiscal 1997.

Credit Lines and Other Capital Resources—The company's U.S. seasonal working capital requirements are funded with $267.0 million of committed unsecured bank credit lines. In addition, the company's non-U.S. operations maintained unsecured short-term lines of credit of $18.7 million. The company also has bankers' acceptance agreements under which an additional $40.0 million of credit lines are available. At October 31, 1999, the company had $269.2 million of unutilized availability under these credit lines. Average borrowings under these lines were $121.8 million in fiscal 1999 and $143.2 million in fiscal 1998. The decrease in average short-term debt was mainly the result of improved asset management in fiscal 1999. Interest expense on these credit lines are based on LIBOR plus a basis point spread defined in the current loan agreements.

The company's business is seasonal, with accounts receivable balances historically increasing between January and April as a result of extended payment terms made available to the company's customers, and decreasing between May and December when payments become due. The company's peak borrowing usually occurs between February and May. The seasonal working capital requirements are financed primarily with short-term financing arrangements described above.

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.

ACQUISITIONS AND STRATEGIC ALLIANCES

During fiscal 1999, Toro completed a number of acquisitions and strategic alliances. The company completed the purchase of two U.S. midwestern-based distributors and signed an agreement to purchase another midwestern-based distributor, which was completed in the first quarter of fiscal 2000. These companies distribute outdoor beautification equipment and systems to the professional market, and two of these companies also distribute products to the residential market.

Toro also became an equity partner in ProShot Golf, Inc., a California-based provider of information and communication products to the golf industry, featuring Global Positioning Satellite (GPS)-based measurement and course management systems, primarily for golf carts.

Toro also purchased the assets of Multi-Core Aerators Limited, a European distributor of large turf aeration equipment. Multi-Core Aerators augments Toro's full-line of turf aeration equipment and is expected to have an immediate appeal to the company's customer base. Toro also acquired the technology and manufacturing rights for battery-operated valves and remote, hand-held controllers for irrigation products from a French manufacturer. The technology will be incorporated into both the Toro and Irritrol Systems product lines.

Also in fiscal 1999, Toro and Maruyama Manufacturing Company, Inc. announced a four-year extension of their 1996 agreement to sell hand-held landscaping equipment under the Toro brand through the year 2003. Toro also announced an alliance with Hardi International, a subsidiary of Denmark-based Cheminova Holding A/S, to expand the Toro sprayer line to the turf market.

In fiscal 1998, the company completed the acquisition of Drip In. Headquartered in Madera, California, Drip In manufactures agricultural micro-irrigation products. In addition, the company acquired Exmark, a leading manufacturer of equipment for the professional landscape contractor industry. Exmark is headquartered in Beatrice, Nebraska and produces mid-sized walk power mowers and zero-turning radius riding mowers for professional contractors.

MARKET CONDITIONS AND OUTLOOK

Toro expects the markets it serves to continue to be healthy in fiscal 2000, assuming somewhat normal weather and economic conditions. Toro is focused foremost on serving its customers and plans to accomplish this through an integrated business plan incorporating new product introductions, new and refined distribution channel strategies, expansion of markets, and acquisitions.

The professional markets in which Toro operates are generally healthy and expected to grow. A comprehensive array of new products in the professional business should provide strong growth in this segment in fiscal 2000 and the near term. The golf course industry, Toro's oldest customer, continues to expand as the game of golf gains popularity with traditional and new player groups. New course openings are expected to be at or near the record rate of the past several years, and Toro also expects to benefit from renovations of existing courses. Toro partnered with the governing bodies of golf to help create The First Tee, a program to make golf affordable and accessible for young people today and foster a healthy market in the future.

Toro has a strategic multi-brand strategy for the landscape industry, one of the fastest growing markets in the professional sector. Toro brand maintenance equipment has a solid share of the market and a bright outlook, as does the Toro Dingo compact utility loader. In 2000, Toro will expand the Dingo line with the Dingo TX, a tracked version of the compact utility loader. Exmark, Toro's other brand of landscape maintenance equipment, has strong relationships with its customers and is positioned to continue its outstanding sales and profitability contribution. The market for contractor-installed irrigation products is expected to continue to be strong during the upcoming fiscal 2000 season, and Toro and Irritrol brands are positioned for strong seasons. These multi-brand approaches give Toro a diversity and breadth of product lines and delivery systems for a balanced approach to the market.

The growth potential of the agricultural irrigation industry is promising and Toro remains committed to being a vital supplier of water management products to this growing industry. Although this market continues to feel pricing pressures, Toro Ag Irrigation has expanded and diversified manufacturing around the world and is positioned to grow in this industry.

Toro's residential segment rebounded strongly in fiscal 1999 with a dramatic sales and profitability turnaround. Toro's residential segment benefited from a profit improvement program begun by Toro in fiscal 1998. Toro's profit improvement program delivered $15 million of an estimated $20 million of annual savings expected to be achieved by the end of fiscal 2000. Consumers enthusiastically received Toro's revolutionary new lawn mower, the Toro Personal Pace. In fiscal 2000, the company hopes to continue this positive momentum by introducing the Toro Personal Pace lawn mower into international markets, primarily in Europe. Toro is also committed to support channel growth strategies, and intends to build upon its multi-channel distribution strategy as home centers expand, which could add as many as 300 new outlets in fiscal 2000 for the Toro Personal Pace. Toro electric home solutions and DIY irrigation products also benefited from expansion of product placement into new and existing outlets in fiscal 1999, which is expected to continue into fiscal 2000. This combined with new products should benefit future sales. Toro snowthrower sales were up in fiscal 1999, reducing inventory levels and positioning the company for another good snowthrower season in 1999-2000, even if snowfalls are moderate.

The outlook for the international sector is cautiously optimistic for fiscal 2000. The European and Canadian markets are expected to be strong, particularly for professional equipment. Toro was recently named the official provider of turf equipment and irrigation to the European PGA Tour. Toro expects its Australian operations to benefit from restructuring actions undertaken in fiscal 1999. Asian markets also appear to be showing some signs of strengthening for fiscal 2000.

Toro's distribution network is an important part of its growth, and the company has taken aggressive plans to ensure this worldwide network is viable for the future. Toro owned three distributors at year end and completed the purchase of a fourth distributor in the first quarter of fiscal 2000. Ultimately, the company plans to use these Toro-owned distributors to develop a model of distribution intended to define best practices for customer service and train professional managers for the future. This model is intended to be adopted throughout the Toro independently owned network of domestic and international distributors.

Overall, Toro is expecting a year of balanced growth in sales and profitability in fiscal 2000, while keeping a cautionary eye on the weather and world economies.

MARKET RISK

Toro is exposed to market risk stemming from changes in interest rates, foreign exchange rates, and commodity prices. Changes in these factors could cause fluctuations in the company's net earnings and cash flows. In the normal course of business, Toro actively manages the exposure of certain market risks by entering into various hedging transactions, authorized under company policies that place controls on these activities. The company's hedging transactions involve the use of a variety of derivative instruments. Toro uses derivatives only to attempt to limit underlying exposure to interest rate or currency fluctuations, and not for trading or speculative purposes.

Foreign Exchange Rate Risk—The company is exposed to foreign currency exchange risk arising from transactions entered into in the normal course of business. To mitigate the risk from foreign currency exchange rate fluctuations in those transactions, the company will generally enter into forward currency exchange contracts for the purchase or sale of a currency. Decisions on whether to use such forward currency exchange contracts are made based on the amount of exposure to the currency involved, and an assessment of the near-term market value for each currency. These hedge instruments are managed to reduce the risk associated with the exposure being hedged and are designated as a hedge at the inception of the contract. Accordingly, changes in market values of these hedge instruments are highly correlated with changes in market values of underlying hedged items both at inception of the hedge and over the life of the hedge contract. The company's primary exchange rate exposure is with various European currencies, including the euro, the Japanese yen, the Australian dollar, and the Canadian dollar against the U.S. dollar. Gains and losses on foreign currency contracts are recorded in the Consolidated Statements of Earnings and Comprehensive Income.

The following forward exchange contracts held by the company all have maturity dates in fiscal 2000. All items are non-trading and stated in U.S. dollars. The average contracted rate, notional amount, and fair value impact at October 31, 1999 were as follows:

	1999	% Change	1998	% Change	1997
			(Dollars in millions)		
Professional	$ **807.4**	14.2%	$ 706.8	24.2%	$ 569.3
Residential	**447.9**	12.7	397.5	(16.8)	478.1
Other	**19.7**	223.8	6.1	58.3	3.8
Total*	$ **1,275.0**	14.8%	$ 1,110.4	5.6%	$ 1,051.2
***Includes international sales of**	$ **252.5**	7.0%	$ 235.9	1.3%	$ 232.8

Interest Rate Risk—The company's interest rate exposure results from short-term rates, primarily LIBOR-based debt from commercial banks. Toro currently does not use interest rate swaps to mitigate the impact of fluctuations in interest rates because the existing agreement is favorable compared to similar types of borrowing arrangements at current market credit spreads based on points over LIBOR. At October 31, 1999, the financial liabilities of the company exposed to changes in interest rates consisted mainly of $56.5 million of short-term debt outstanding. Assuming a hypothetical increase of 1 percent (100 basis points) in short-term interest rates with all other variables remaining constant, interest expense would have increased $1.2 million in fiscal 1999. Included in long-term debt is $196.2 million of fixed rate debt, which is not subject to interest rate risk. At October 31, 1999, the estimated fair value of long-term debt with fixed interest rates was $185.9 million compared to its carrying value of $196.2 million. The fair value is estimated by discounting the projected cash flows using the rate at which similar amounts of debt could currently be borrowed. Assuming a hypothetical increase of 1 percent (100 basis points) in applicable interest rates, the estimated fair value of long-term debt would decrease by $13.8 million.

Commodities—Certain raw materials used in the company's products are exposed to commodity price changes. Toro manages this risk by using purchase orders and long-term agreements. The primary commodity price exposures are with aluminum, steel, and plastic resin.

YEAR 2000 ISSUE

During 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 would properly and accurately process information when the year changed to 2000.

At the date of this report, the company had not yet experienced any material problems related to the year 2000. A few issues were discovered, but the problems were resolved with no major disruption to the company's business operations. The company has not become aware of any significant year 2000 issues affecting the company's major customers or suppliers. The company also has not received any material complaints regarding any year 2000 issues related to its products.

Year 2000 related costs through January 7, 2000 were approximately $2.5 million and have been expensed as incurred. These costs included contractor support, implementation of an Enterprise Resource Planning (ERP) software package for the company's recently acquired businesses, telephone system upgrades, software modifications for irrigation systems, and business unit system upgrades. The remaining estimated cost to address any additional year 2000 problems is deemed immaterial. No significant information system projects were deferred to accommodate the year 2000 issues.

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 is being introduced in participating countries. Initially, this new currency is being 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 has involved 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 the euro currency will have on the marketplace, including more transparent price differences on goods in the European countries.

One of the issues for the company is the competitive impact on Toro distributor sales and Toro direct sales, and financial support given to distributors amongst the countries in the European Union (EU). The company is planning on proposing a euro list price strategy to its European distribution affected by this change in 2000. The company does not have sufficient experience with the new currency to predict how it 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 and will continue with that process into fiscal 2000. The current plan is to begin parallel reporting with the current functional currency of the European subsidiary and euros in 2000.

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.

FORWARD-LOOKING STATEMENTS

This annual report contains not only historical information, but also forward-looking statements regarding expectations for future company performance. Statements that are not historical are forward-looking and are made pursuant to the Private Securities Litigation Reform Act of 1995. 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 and rising interest rates that could slow the economic growth that has been important to the growth of the company's professional businesses, including golf, agricultural irrigation, and landscape contractor markets; the company's ability to develop and manufacture new and existing products based on existing investments in manufacturing capacity and engineering; market acceptance of existing and new products relative to expectations and based on current commitments to fund advertising and promotions; the company's ability to acquire, develop, and integrate new businesses and manage alliances successfully; increased competition in the company's businesses from competitors that have greater financial resources, including competitive pricing pressures; changing buying patterns affecting the company's residential segment, including but not limited to a trend away from purchases at dealer outlets to price and value sensitive purchases at hardware stores, home centers, 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; unforeseen difficulties in the implementation of strategies to use outside providers for

warehousing and transportation services; changes in distributors', dealers', home centers', or mass retailers' purchasing practices; loss of, or a significant reduction in, sales through a significant distribution channel; the company's ability to cost-effectively open new, and expand existing, manufacturing facilities; the company's ability to manage costs and capacity constraints at its manufacturing facilities; socio-economic conditions in certain international markets; the degree of success from restructuring actions undertaken at the Australian subsidiary; the continuing relative strength of the dollar against certain currencies, which increases the cost of the company's products in foreign markets and impairs its ability to increase prices; the decline of the U.S dollar against the Japanese yen, which increases costs of certain inventory components that in turn could negatively affect gross margins; competitive implications and price transparencies related to the euro conversion; whether the 1998 profit improvement plan will continue to be successful in reducing costs and improving margins and use of assets; the ability to retain and hire quality employees; the impact of new accounting standards; and threatened or pending litigation on matters relating to patent infringement.

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; 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; changes in market demographics; actions of competitors; any material, undisclosed problems with the company's suppliers, customers, creditors, government agencies, public utility providers, and financial service organizations related to year 2000 problems; 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; availability of raw materials; and the company's ability to maintain good relations with its union employees.

The company wishes to caution readers not to place undo 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 have been involved in developing forward-looking statements. Toro assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

THE TORO COMPANY
SELECTED FINANCIAL DATA

Dollars in thousands (except average contracted rate)	Average Contracted Rate	Notional Amount	Fair Value Impact Gain (Loss)
Buy US $/Sell Australian dollar	.6502	$ 11,159.3	$ 178.1
Buy US $/Sell Canadian dollar	1.4872	6,253.4	(100.9)
Buy US $/Sell British pound	.6225	1,478.0	(34.4)
Buy German mark/Sell US $	1.8436	1,627.3	5.8
Buy Japanese yen/Sell US $	114.8800	6,963.6	889.3

(1) Fiscal 1999, 1998, and 1997 earnings from operations and EBITDA includes restructuring and other unusual expense of $1.7 million, $15.0 million, and $2.6 million, respectively.

(2) The company's consolidated financial statements include results of operations of Exmark from November 1, 1997 and Drip In from February 1, 1998, the dates of acquisition.

(3) The company's consolidated financial statements include results of operations of the James Hardie Irrigation Group from December 1, 1996, the date of acquisition.

(4) Fiscal 1997 net earnings and dilutive earnings per share data includes the extraordinary loss on early retirement of debt of $1.7 million or $0.13 per dilutive share.

(5) Sales growth from prior year for October 31, 1996 was compared to that year ended July 31, 1995.

(6) Earnings before interest, taxes, depreciation, amortization, and extraordinary loss.

THE TORO COMPANY
REPORT OF MANAGEMENT

The Stockholders and Board of Directors

The Toro Company:

Management is responsible for the integrity and objectivity of the financial information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles. Where necessary, the financial statements reflect estimates based on management judgment.

Established accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, transactions are appropriately authorized and included in the financial records in all material aspects, and that policies and procedures are implemented by qualified personnel. This system of financial controls and procedures is reviewed, modified, and improved as changes occur in business conditions and operations, and as a result of suggestions from independent auditors.

Our independent auditors, KPMG LLP, in their audit of The Toro Company's consolidated financial statements, considered the internal control structure of the company to gain a basic understanding of the accounting system in order to design an effective and efficient audit approach, not for the purpose of providing assurance on the system of internal control.

The Audit Committee, comprised of members of the Board of Directors who are not employees of the company, meets periodically with the independent auditors and management of the company to monitor the functioning of the accounting control systems and discuss auditing and financial reporting matters.

The Audit Committee recommends the selection of the independent auditors, who are then appointed by the board of directors, subject to ratification by the shareholders.

The independent auditors conduct an independent audit of the consolidated financial statements.

/s/ Kendrick B. Melrose

Kendrick B. Melrose

Chairman of the Board

and Chief Executive Officer

/s/ Stephen P. Wolfe

Stephen P. Wolfe

Vice President Finance, Treasurer

and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors

The Toro Company:

We have audited the accompanying consolidated balance sheets of The Toro Company and subsidiaries as of October 31, 1999 and 1998, and the related consolidated statements of earnings and comprehensive income, and cash flows for each of the years in the three year period ended October 31, 1999. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Toro Company and subsidiaries as of October 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three year period ended October 31, 1999 in conformity with generally accepted accounting principles.

Minneapolis,
Minnesota

December 13, 1999

/s/ KPMG LLP

THE TORO COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

	Years Ended				3 Months Ended	Year Ended
	October 31 1999	October 31 1998(2)	October 31 1997(3)	October 31 1996	October 31 1995	July 31 1995
	(Dollars and shares in thousands, except per share data)					
OPERATING RESULTS:						
Net sales	**$ 1,274,997**	$ 1,110,434	$ 1,051,204	$ 930,909	$ 192,278	$ 932,853
Net sales growth from prior year(5)	**14.8%**	5.6%	12.9%	(0.2)%	—	17.4%
Gross profit percentage	**36.0%**	34.6%	36.9%	36.7%	37.3%	35.9%
Earnings from operations(1)	**$ 74,888**	$ 23,716	$ 72,347	$ 63,439	$ 6,655	$ 64,821
Interest expense	**23,913**	25,428	19,900	13,590	2,532	11,902
Net earnings, before extraordinary loss	**35,059**	4,090	36,508	36,409	3,997	36,667
Percentage of net sales	**2.7%**	0.4%	3.5%	3.9%	2.1%	3.9%
Net earnings(4)	**$ 35,059**	$ 4,090	$ 34,845	$ 36,409	$ 3,997	$ 36,667
Basic earnings per share	**2.72**	0.32	2.88	3.00	0.33	2.92
Dilutive earnings per share(4)	**2.64**	0.31	2.80	2.90	0.32	2.81
Return on average stockholders' equity	**12.9%**	1.6%	15.3%	18.0%	2.1%	20.7%
SUMMARY OF FINANCIAL POSITION:						
Current assets	**$ 531,742**	$ 479,437	$ 472,044	$ 405,001	$ 386,259	$ 381,610
Current liabilities	**305,805**	258,210	237,833	207,857	221,173	212,659
Working capital	**225,937**	221,227	234,211	197,144	165,086	168,951
Total assets	**787,178**	723,991	661,634	496,877	472,653	468,315
Long-term debt	**196,237**	197,424	178,015	53,365	68,699	81,025
Stockholders' equity	**279,663**	263,399	241,163	213,567	190,892	185,471
Debt to capitalization ratio	**47.5%**	46.4%	47.6%	30.7%	36.6%	35.8%
OTHER STATISTICAL DATA:						
EBITDA(1)(6)	**$ 120,491**	$ 69,229	$ 111,122	$ 91,940	$ 12,728	$ 90,254
Capital expenditures	**29,842**	33,893	37,023	21,389	3,302	28,162
Depreciation and amortization expense	**39,105**	37,040	30,878	18,170	3,590	17,240
Book value per share of common stock	**22.25**	20.63	19.79	17.75	15.69	15.40
Dividends per share of common stock	**.48**	.48	.48	.48	.12	.48
Number of shares of common stock outstanding	**12,569**	12,770	12,189	12,032	12,168	12,040
Number of common stockholders	**6,162**	6,364	6,560	6,841	7,243	7,347
Market price range—						
High	**$ 39 1/2**	$ 46 5/16	$ 43 3/4	$ 36 1/4	$ 32 1/4	$ 30 3/8
Low	**22 3/16**	16 1/2	31 1/2	28 3/8	28 1/8	21 5/8
Average number of employees	**4,923**	4,695	4,309	3,610	3,638	3,626

The financial statements should be read in conjunction with the

Notes to Consolidated Financial Statements.

THE TORO COMPANY
CONSOLIDATED BALANCE SHEETS

	Years ended October 31		
	1999	1998	1997
	(Dollars and shares in thousands, except per share data)		
Net sales	**$ 1,274,997**	$ 1,110,434	$ 1,051,204
Cost of sales	**815,408**	726,118	663,167
Gross profit	**459,589**	384,316	388,037
Selling, general, and administrative expense	**382,969**	345,558	313,090
Restructuring and other unusual expense	**1,732**	15,042	2,600
Earnings from operations	**74,888**	23,716	72,347
Interest expense	**(23,913)**	(25,428)	(19,900)
Other income, net	**6,498**	8,473	7,897
Earnings before income taxes and extraordinary loss	**57,473**	6,761	60,344
Provision for income taxes	**22,414**	2,671	23,836
Net earnings before extraordinary loss	**35,059**	4,090	36,508
Extraordinary loss, net of income tax benefits of $1,087	**—**	—	1,663
Net earnings	**$ 35,059**	$ 4,090	$ 34,845
Basic net earnings per share of common stock before extraordinary loss	**$ 2.72**	$ 0.32	$ 3.02
Extraordinary loss per share, net of income tax benefit	**—**	—	0.14
Basic net earnings per share of common stock	**$ 2.72**	$ 0.32	$ 2.88
Dilutive net earnings per share of common stock before extraordinary loss	**$ 2.64**	$ 0.31	$ 2.93
Extraordinary loss per share, net of income tax benefit	**—**	—	0.13
Dilutive net earnings per share of common stock	**$ 2.64**	$ 0.31	$ 2.80

Weighted average number of shares of common stock outstanding— Basic	**12,879**	12,794	12,095
Weighted average number of shares of common stock outstanding— Dilutive	**13,278**	13,198	12,466
COMPREHENSIVE INCOME:			
Net earnings	**$ 35,059**	$ 4,090	$ 34,845
Other comprehensive loss	**(1,255)**	(1,448)	(4,521)
Comprehensive income	**$ 33,804**	$ 2,642	$ 30,324

The financial statements should be read in conjunction with the

Notes to Consolidated Financial Statements.

THE TORO COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	October 31	
	1999	1998
	(Dollars in thousands, except per share data)	
ASSETS		
Cash and cash equivalents	**$ 11,960**	$ 90
Receivables:		
Customers	**272,554**	246,504
Other	**3,013**	4,246
Subtotal	**275,567**	250,750
Less allowance for doubtful accounts	**7,223**	9,324
Total receivables	**268,344**	241,426
Inventories, net	**204,430**	184,306
Prepaid expenses and other current assets	**6,116**	14,618
Deferred income taxes	**40,892**	38,997
Total current assets	**531,742**	479,437
Property, plant, and equipment:		
Land and land improvements	**12,397**	12,130
Buildings and leasehold improvements	**85,244**	85,392
Equipment	**256,167**	233,017
Subtotal	**353,808**	330,539
Less accumulated depreciation	**229,636**	203,402
Total property, plant, and equipment	**124,172**	127,137
Deferred income taxes	**8,876**	3,763
Goodwill and other assets	**122,388**	113,654
Total assets	**$ 787,178**	$ 723,991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	**$ 637**	$ 580
Short-term debt	**56,461**	31,000
Accounts payable	**65,543**	65,273
Accrued warranties	**51,866**	46,344
Accrued advertising and marketing programs	**36,820**	30,118
Accrued compensation and benefit costs	**53,354**	36,344
Other accrued liabilities	**41,124**	48,551
Total current liabilities	**305,805**	258,210
Long-term debt, less current portion	**195,600**	196,844
Other long-term liabilities	**6,110**	5,538
Stockholders' equity:		
Common stock, par value $1.00, authorized 35,000,000 shares, issued and outstanding 12,569,309 shares at October 31, 1999 (net of 938,746 treasury shares) and 12,769,560 shares at October 31, 1998 (net of 738,495 treasury shares)	**12,569**	12,770
Additional paid-in capital	**45,343**	56,546
Retained earnings	**229,532**	200,609
Accumulated comprehensive loss	**(7,781)**	(6,526)
Total stockholders' equity	**279,663**	263,399
Total liabilities and stockholders' equity	**$ 787,178**	$ 723,991

The financial statements should be read in conjunction with the

Notes to Consolidated Financial Statements.

THE TORO COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED DATA

NATURE OF OPERATIONS

The principal business of The Toro Company and all wholly owned and majority-owned domestic and foreign subsidiaries ("Toro" or "the company") is the development, manufacture, and selling of outdoor beautification equipment and systems used in the residential and professional markets. Toro products are sold through a network of distributors, dealers, hardware stores, home centers, and mass retailers.

BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the company. The company records its investment in each unconsolidated affiliated company (20 to 50 percent ownership) at its related equity in the net assets of such affiliate and other investments (less than 20 percent ownership) are recorded at cost. All material intercompany accounts and transactions have been eliminated from the consolidated financial statements.

CASH AND CASH EQUIVALENTS

The company considers all highly liquid investments purchased with a maturity of 3 months or less to be cash equivalents. At October 31, 1998, the company had $12,951,000 included in trade payables that represented the reclassification of outstanding checks in excess of related bank balances. There were no such amounts on October 31, 1999.

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 at October 31 were as follows:

	Years ended October 31		
	1999	1998	1997
		(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	**$ 35,059**	$ 4,090	$ 34,845
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Extraordinary loss on early extinguishment of debt	**—**	—	1,663
Provision for depreciation and amortization	**39,105**	37,040	30,878
Loss on disposal of property, plant, and equipment	**193**	789	573
Change in deferred income taxes	**(7,008)**	1,229	2,053
Tax benefits related to employee stock option transactions	**573**	491	2,611
Changes in operating assets and liabilities:			
Receivables, net	**(23,093)**	26,391	15,067
Inventories, net	**(12,603)**	(12,755)	1,353
Prepaid expenses and other current assets	**8,563**	(3,629)	(6,595)
Accounts payable and accrued expenses	**20,823**	15,448	1,425
Net cash provided by operating activities	**61,612**	69,094	83,873

CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	**(29,842)**	(33,893)	(37,023)
Proceeds from disposal of property, plant, and equipment	**541**	3,956	1,163
(Increase) decrease in investments in affiliates	**(3,017)**	(944)	119
(Increase) decrease in other assets	**(769)**	15	(12,903)
Acquisition of James Hardie Irrigation, net of cash acquired	**—**	—	(118,030)
Other acquisitions, net of cash acquired	**(4,067)**	(17,173)	—
Net cash used in investing activities	**(37,154)**	(48,039)	(166,674)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (repayments) of short-term debt	**20,841**	(10,000)	(2,627)
Proceeds from issuance of long-term debt	**—**	—	175,000
Repayments of long-term debt	**(1,578)**	(3,808)	(50,350)
Payments of debt issue costs and prepayment penalty	**—**	—	(5,770)
Increase (decrease) in other long-term liabilities	**572**	(50)	—
Net payments for termination of interest rate swap agreements	**—**	—	(23,650)
Proceeds from exercise of stock options	**4,133**	2,219	8,407
Purchases of common stock	**(29,165)**	(1,724)	(7,952)
Dividends on common stock	**(6,136)**	(6,162)	(5,794)
Net cash (used in) provided by financing activities	**(11,333)**	(19,525)	87,264
Foreign currency translation adjustment	**(1,255)**	(1,448)	(4,521)
Net increase (decrease) in cash and cash equivalents	**11,870**	82	(58)
Cash and cash equivalents at beginning of the fiscal year	**90**	8	66
Cash and cash equivalents at end of the fiscal year	**$ 11,960**	$ 90	$ 8
Supplemental disclosures of cash flow information:			
Cash paid during the fiscal year for:			
Interest	**$ 24,090**	$ 24,363	$ 16,829
Income taxes	**21,838**	3,345	25,459
Stock issued in connection with an acquisition	**13,055**	24,770	—
Debt issued in connection with an acquisition	**—**	15,761	—

PROPERTY AND DEPRECIATION

Property, plant, and equipment are carried at cost. The company provides for depreciation of plant and equipment utilizing the straight-line method over the estimated useful lives of the assets. Buildings, including leasehold improvements, are generally depreciated over 10 to 45 years, and equipment over 3 to 7 years. Tooling costs are generally amortized over 3 to 5 years using the units of production method. Expenditures for major renewals and betterments, which substantially increase the useful lives of existing assets, are capitalized, and maintenance and repairs are charged to operating expenses as incurred. Software is expensed at the time of purchase. Interest is capitalized during the construction

period for significant capital projects. During the years ended October 31, 1999 and 1998, the company capitalized $156,000 and $447,000 of interest, respectively.

GOODWILL

Goodwill is amortized on a straight-line basis over periods ranging from 3 to 20 years. Goodwill totaled $101,986,000 and $91,433,000 at October 31, 1999 and 1998, respectively, net of accumulated amortization of $25,329,000 at October 31, 1999 and $19,368,000 at October 31, 1998.

IMPAIRMENT OF LONG-LIVED ASSETS

The company reviews long-lived assets, including identifiable intangibles and associated goodwill, for impairment when events or changes in circumstances warrant such a review. An asset is deemed impaired and written down to its fair value if expected associated undiscounted future cash flows are less than its carrying value.

ACCRUED WARRANTIES

The company provides an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to sales by product line and specific known future costs.

DERIVATIVES

Derivative financial instruments are used by the company to manage a portion of foreign exchange risks. These financial exposures are managed in accordance with the company's policies and procedures. The company does not hold or issue derivative financial instruments for speculative or trading purposes.

Foreign exchange contracts are accounted for as hedges to the extent they are designated as, and are effective as, hedges of firm foreign currency commitments. Foreign currency exchange contract gains and losses are included in other income, net on the Consolidated Statements of Earnings and Comprehensive Income.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The functional currency of the company's foreign operations is the applicable local currency. The functional currency is translated into U.S. dollars for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The translation adjustments are deferred as a separate component of stockholders' equity captioned accumulated comprehensive loss. Gains or losses resulting from transactions denominated in foreign currencies are included in other income, net on the Consolidated Statements of Earnings and Comprehensive Income.

COMPREHENSIVE INCOME

In fiscal 1999, the company adopted Statement of Financial Accounting Standard (SFAS) No. 130, Reporting Comprehensive Income. This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income for the company consists of net earnings and

foreign currency translation adjustments. The adoption of SFAS No. 130 by the company had no impact on total stockholders' equity. Prior year financial statements have been reclassified to conform to the SFAS No. 130 requirements.

STOCK-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation," requires companies to measure employee stock compensation plans based on the fair value method of accounting or to continue to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), and provide pro forma footnote disclosures under the fair value method in SFAS No. 123. The company continues to apply the principles of APB No. 25 and has provided pro forma fair value disclosures in Note 9.

ACCOUNTING FOR REVENUES

Revenue is recognized at the time products are shipped to customers.

ADVERTISING

General advertising expenditures and the related production are expensed in the period in which costs are incurred or the first time advertising takes place. Cooperative advertising represents expenditures for advertising costs that the company reimburses customers for some or all of their advertising costs. These obligations are accrued and expensed when the related revenues are recognized in accordance with the program established for the various product lines. Advertising costs were $36,209,000, $36,055,000, and $35,220,000 for the fiscal years ended 1999, 1998, and 1997, respectively.

COST OF FINANCING DISTRIBUTOR/DEALER INVENTORY

As part of distributor/dealer agreements, the company enters into certain inventory repurchase agreements with third party financing companies. The company records sales when product is shipped to distributors, and the distributors then sell product to dealers. The company has only repurchased immaterial amounts of inventory from third party financing companies over the last three years. Any expected inventory that would need to be repurchased has been provided for in the allowance for doubtful accounts. The company was contingently liable to repurchase $3,704,000 at October 31, 1999 of inventory relating to receivables under distributor/dealer financing arrangements.

Included in selling, general, and administrative expense are costs associated with programs in which the company shares the expense of financing distributor and dealer inventories. This charge represents interest for a pre-established length of time at a predefined rate from a contract with a third party financing source to finance distributor and dealer inventory purchases. These financing arrangements are used by the company as a marketing tool to enable customers to buy inventory. The financing costs for distributor and dealer inventories were $8,497,000, $10,499,000, and $10,192,000 for the fiscal years ended 1999, 1998, and 1997, respectively.

DISTRIBUTION

Included in selling, general, and administrative expense are costs associated with changes in the company's independent distribution channels. These costs were $577,000, $510,000, and $898,000 for

the fiscal years ended 1999, 1998, and 1997, respectively. Those costs associated with business changes are accrued on the basis of historical experience, while costs related to specific changes to the company's independent distribution system are recorded when authorized.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The company has reflected the necessary deferred tax asset/liability in the accompanying balance sheets. Management believes the future tax deductions will be realized principally through carryback to taxable income in prior years, future reversals of existing taxable temporary differences, and to a lesser extent, future taxable income.

NET EARNINGS PER SHARE

Basic earnings per share is calculated using net earnings available to common stockholders divided by the weighted average number of shares of common stock outstanding during the year plus the assumed issuance of contingent shares. Dilutive earnings per share is similar to basic earnings per share except that the weighted average number of shares of common stock outstanding plus the assumed issuance of contingent shares is increased to include the number of additional shares of common stock that would have been outstanding, such as stock to be issued upon exercise of options, contingently issuable shares, and assumed issuance of restricted shares.

Reconciliations of basic and dilutive weighted average shares of common stock outstanding are as follows:

BASIC

	1999	**1998**
	(Dollars in thousands)	
Raw materials and work in progress	**$ 104,676**	$ 97,248
Finished goods	**142,028**	128,747
	246,704	225,995

Less LIFO and other reserves	**42,274**	41,689
Total	**$ 204,430**	$ 184,306

DILUTIVE

	Years ended October 31		
	1999	**1998**	**1997**
Weighted average number of shares of common stock outstanding	**12,752,700**	12,794,128	12,095,475
Assumed issuance of contingent shares	**126,591**	—	—
Weighted average number of shares of common stock and assumed issuance of contingent shares	**12,879,291**	12,794,128	12,095,475

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that
could affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses
during the reporting period. Actual results could differ from those estimates.

BASIS OF PRESENTATION

Certain amounts from prior year's financial statements have been reclassified to conform with the current year presentation.

NEW ACCOUNTING PRONOUNCEMENTS

During fiscal 1998, the Financial Accounting Standards Board (FASB) issued 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
adopted 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 with SOP 98-1. The
adoption of SOP 98-1 is not expected to have a material impact on the company's consolidated financial statements.

Effective
for fiscal 1999, the company adopted SFAS No. 131, which requires reporting information about operating segments, products and services, geographic areas, and major
customers. The presentation of segment information reflects the manner in which management organizes segments for

making operating decisions and assessing performance. On this basis, the company has determined it has two reportable business segments: Professional and Residential. Prior year amounts have been
restated to conform to the current presentation format.

2. BUSINESS ACQUISITIONS, INVESTMENTS IN AFFILIATES, AND DIVESTITURES

In fiscal 1999, the company completed the purchase of two midwestern-based distributors and signed an agreement to purchase another midwestern-based
distributor, which was completed in the first quarter of fiscal 2000. These companies distribute outdoor beautification equipment and systems to the professional market, and two of these companies
also distribute products to the residential market.

In
fiscal 1999, Toro became an equity partner in ProShot Golf, Inc. (ProShot). ProShot is a California-based provider of information and communication products to the golf industry,
featuring Global Positioning Satellite (GPS)-based measurement and course management systems, primarily for golf carts.

In
fiscal 1999, Toro purchased the assets of Multi-Core Aerators Limited, a European distributor of large turf aeration equipment. The purchase of Multi-Core
Aerators augments Toro's full-line of turf aeration equipment that is expected to have an immediate appeal to the company's customer base. Toro also acquired the technology and
manufacturing rights for battery-operated valves and remote, hand-held controllers for irrigation products from a French manufacturer. The technology will be incorporated into both the
Toro and Irritrol Systems product lines.

In
fiscal 1998, the company completed the acquisition of Drip In, which manufactures agricultural micro-irrigation products, headquartered in Madera, California.

In
fiscal 1998, the company completed the acquisition of Exmark, a leading manufacturer of equipment for the professional landscape contractor industry. In exchange for all of the
capital stock of Exmark, the company issued 598,051 shares of its common stock and paid $5.5 million in cash. In addition, under the terms of the purchase agreement, the company was required to
make contingent payments to Exmark shareholders if Exmark's post-acquisition earnings and sales growth from November 1, 1997 through October 31, 1999 exceed minimum levels
established in the purchase agreement. The maximum amount of these contingent payments was $28.0 million. Contingent payments were paid with a combination of cash and the company's common
stock. The company issued 511,991 shares of Toro Common Stock valued at $13.1 million and paid $1.8 million of cash in January 1999 for the fiscal 1998
contingent payment. The company issued 309,309 shares of Toro Common Stock valued at $10.5 million and paid $1.6 million of cash in January 2000 related to the fiscal 1999
contingent payment.

The
acquisitions described above, except for the equity investment in ProShot, were accounted for using the purchase accounting method and, accordingly, the purchase price was
allocated based on the estimated fair values of assets acquired and liabilities assumed on the date of acquisition. The excess purchase price over the estimated fair value of net tangible assets
acquired was recorded as goodwill, and is being amortized on a straight-line basis over a 5 to 20 year period.

During
fiscal 1999, Toro sold the licensing rights and certain assets of its outdoor lighting business. The company also completed the sale of its professional fertilizer and
recycling equipment businesses,

of which a $5.3 million impairment loss was recorded in fiscal 1998 related to the restructuring of portions of these businesses.

3. SPECIAL CHARGES

In fiscal 1999, the company recorded a restructuring charge of $3,118,000 for asset write-downs and severance costs for management, sales force changes and
plant employees related to the closure of an Australian manufacturing facility. Other unusual expense was reduced by $1,386,000 relating to the reversal for the unused portion of the
one-time residential marketing programs accrued in fiscal 1998 discussed below. Restructuring expenses included approximately $1,549,000 of cash charges primarily related to severance
costs, and approximately $1,569,000 of net non-cash charges related to the write-down of assets.

In
fiscal 1998, the company recorded a charge of $15,042,000 for restructuring and other unusual expenses. The restructuring charges of $5,770,000 consisted of $4,359,000 for the
severance and asset write-down related to the closure of two manufacturing facilities and $1,411,000 for other severance costs. Other unusual expenses consisted of $5,321,000 for the
impairment loss related to the expected sale of the recycling equipment business and portions of the professional fertilizer business, and $3,951,000 for special marketing programs. These programs
consisted of one-time rebates and co-op advertising credits designed to reduce certain residential field inventories by providing incentives to increase retail sales in
preparation for anticipated changes in warehousing and transportation. Restructuring and other unusual expenses included approximately $8,600,000 of cash charges primarily related to severance and
marketing programs, and approximately $6,400,000 of non-cash charges related to the write-down of assets.

At
October 31, 1998, the company had $10,716,000 of restructuring and other unusual expense remaining in other accrued liabilities. During fiscal 1999, the company utilized or
reversed $11,565,000 of these reserves and accrued an additional $3,118,000 of restructuring charges, leaving $2,269,000 remaining in accrued liabilities for restructuring and other unusual expense at
October 31, 1999. The company expects most of these reserves to be utilized by the first quarter of fiscal 2000, except for its closed facilities available for sale.

4. OTHER INCOME, NET

Other income (expense) is as follows:

	Years ended October 31		
	1999	**1998**	**1997**
Weighted average number of shares of common stock and assumed issuance of contingent shares	**12,879,291**	12,794,128	12,095,475
Assumed conversion of stock options, contingently issuable shares, and assumed issuance of restricted shares	**398,306**	403,548	371,007
Weighted average number of shares of common stock, assumed issuance of contingent and restricted shares, contingently issuable shares, and assumed conversion of options outstanding	**13,277,597**	13,197,676	12,466,482

5. SHORT-TERM CAPITAL RESOURCES

At October 31, 1999, the company had available committed unsecured lines of credit with domestic banks in the aggregate of $267,000,000. Interest
expense on these credit lines are based on LIBOR plus a basis point spread defined in the current loan agreements. Most of these agreements also require the company to pay a fee of
0.175 - 0.200 percent per year on the available lines of credit, which is included in interest expense. The company also has bankers' acceptance agreements under which
an additional
$40,000,000 of credit lines are available. The company's non-U.S. operations maintain unsecured short-term lines of credit of $18,705,000. These facilities bear interest at
various rates depending on the rates in their respective countries of operations.

The
company had $56,461,000 outstanding at October 31, 1999 and $31,000,000 outstanding at October 31, 1998 under these lines of credit. The weighted-average interest
rate on short-term debt outstanding at October 31, 1999 and 1998 was 5.82 percent and 5.64 percent, respectively.

6. LONG-TERM DEBT

A summary of long-term debt is as follows:

	Years ended October 31		
	1999	**1998**	**1997**
	(Dollars in thousands)		

Interest income	$ 2,015	$ 853	$ 1,129
Gross finance charge revenue	4,082	4,489	4,633
Royalties	1,930	1,815	1,870
Exchange rate losses	(1,691)	(602)	(328)
Miscellaneous	162	1,918	593
Total	$ 6,498	$ 8,473	$ 7,897

In June 1997, the company issued $175.0 million of debt securities consisting of $75.0 million of 7.125 percent coupon 10-year Notes and $100.0 million of 7.800 percent coupon 30-year Debentures. The proceeds from the debt securities issued were used, in part, to repay short-term indebtedness, which was primarily related to the acquisition of James Hardie Irrigation Group, and to redeem on August 1, 1997 the company's $50.0 million principal amount of 11% Sinking Fund Debentures. The company paid a prepayment penalty of $2.8 million for the early retirement of the 11% Debentures. This penalty is reported in the Consolidated Statements of Earnings and Comprehensive Income as an extraordinary loss, net of the related income tax benefit.

In connection with the issuance of the $175.0 million in long-term debt securities, the company paid $23.7 million to terminate three forward-starting interest rate swap agreements with notional amounts totaling $125.0 million. These swap agreements had been entered into to reduce exposure to interest rate risk prior to the issuance of the new long-term debt securities. At the inception of one of the swap agreements, the company had received payments, which were recorded as deferred income to be recognized as an adjustment to interest expense over the term of the new debt securities. At the date the swaps were terminated, this deferred income totaled $18.7 million. The excess termination fees

over the deferred income recorded has been deferred and is being recognized as an adjustment to interest expense over the term of the new debt securities issued.

Principal payments required on long-term debt in each of the next five years ending October 31 are as follows: 2000, $637,000; 2001, $461,000; 2002, $471,000; 2003, $16,068,000; 2004, $0; and after 2004, $178,600,000.

7. INCOME TAXES

A reconciliation of the statutory federal income tax rate to the company's consolidated effective tax rate is summarized as follows:

	October 31	
	1999	1998
	(Dollars in thousands)	
Industrial Revenue Bond due June 1999-2004 with various interest rates	$ 1,565	$ 2,650
7.000% Notes, due February 17, 2003	15,761	15,761
7.125% Notes, due June 15, 2007	75,000	75,000
Industrial Revenue Bond due November 1, 2017 at 4.500%	3,600	3,600
7.800% Debentures, due June 15, 2027	100,000	100,000
Other	311	413
	196,237	197,424
Less current portion	637	580
Long-term debt, less current portion	$ 195,600	$ 196,844

Components of the provision for income taxes are as follows:

	Years ended October 31		
	1999	1998	1997
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (reduction) in income taxes resulting from:			
Benefit from foreign sales corporation	(3.0)	(17.6)	(1.4)
State and local income taxes, net of federal income tax benefit	2.8	1.7	2.9
Effect of foreign source income	0.1	(10.0)	0.9
Goodwill amortization	3.5	26.0	2.3
Other, net	0.6	4.4	(0.2)
Consolidated effective tax rate	39.0%	39.5%	39.5%

The tax effects of temporary differences that give rise to the net deferred income tax assets at October 31, 1999 and 1998 are presented below:

	Years ended October 31		
	1999	1998	1997
	(Dollars in thousands)		
Current:			
Federal	$ 25,864	$ 4,558	$ 15,985
State	3,342	345	1,445
Current provision	29,206	4,903	17,430
Deferred:			
Federal	(5,911)	(2,060)	4,182
State	(881)	(172)	1,137
Deferred provision	(6,792)	(2,232)	5,319
Total provision for income taxes	$ 22,414	$ 2,671	$ 22,749

During the years ended October 31, 1999, 1998 and 1997, respectively, $573,000, $491,000 and $2,611,000 was added to additional paid-in capital in accordance with APB No. 25 reflecting the permanent book to tax difference in accounting for tax benefits related to employee stock option transactions.

8. STOCKHOLDERS' EQUITY

Changes in the components of stockholders' equity during the fiscal years ended 1999, 1998, and 1997 were as follows:

	1999	1998
	(Dollars in thousands)	
Allowance for doubtful accounts	$ 4,210	$ 4,357
Inventory items	4,730	3,435
Depreciation	8,882	3,763
Warranty reserves	18,448	16,944
Employee benefits	7,346	6,491
Other nondeductible accruals	6,152	7,770
Deferred income tax assets	$ 49,768	$ 42,760

Under the terms of a Rights Agreement effective May 20, 1998, each share of the company's common stock entitles its holder to one preferred share purchase right. Each right entitles the registered holder to purchase from the company one one-hundredth of a share of Series B Junior Participating Voting Preferred Stock, $1.00 par value, at a price of $180 per one one-hundredth of a Preferred Share. The rights become exercisable and tradable 10 days after a person or a group acquires 15 percent or more, or makes an offer to acquire 15 percent or more, of the company's outstanding common stock. At no time do the rights have any voting power. The rights may be redeemed by the company for $0.01 per right at any time prior to the time that a person or group has acquired beneficial ownership of 15 percent or more of the common shares.

9. STOCK-BASED COMPENSATION PLANS

Under the company's stock option plans, certain employees and non-employee directors have been granted options to purchase shares of common stock at prices equal to the fair market value on the date the option was granted. The stock options are generally exercisable immediately, and expire five to ten years after the date of grant.

Under The Toro Company 1993 Stock Option Plan, 1,600,000 shares are authorized for issuance, and under The Toro Company Directors Stock Option Plan, 65,000 shares are authorized for issuance. At October 31, 1999, 339,565 shares were available for future grants under The Toro Company 1993 Stock Option Plan, and 26,121 shares were available for future grants under The Toro Company Directors Stock Option Plan.

In connection with the acquisition of Drip In in fiscal 1998, the company granted Drip In's former owner an option to purchase 80,000 shares of common stock at a price based on the fair market value prior to the closing of the acquisition. In fiscal 1999, the option was cancelled due to the voluntary employment termination of the former owner of Drip In.

Performance-based stock options were previously granted under the Continuous Performance Award Plan (CPAP), which was terminated in fiscal 1999. The company cancelled all unvested options. Options granted under this plan totaled 53,871 and 40,474 in the fiscal years 1998 and 1997, respectively. CPAP options cancelled were 104,806, 26,607, and 33,812 during the fiscal years 1999, 1998, and 1997, respectively.

The company applies APB Opinion No. 25 and related interpretations in accounting for its stock options. Accordingly, no compensation expense has been recognized for stock option grants, except with respect to performance-based options. The company recognized compensation expense of $0, $267,000, and $545,000 for the fiscal years ended 1999, 1998, and 1997, respectively. If the company elected to recognize compensation expense consistent with the methodology prescribed in SFAS 123, "Accounting for Stock-Based Compensation," the company's net earnings and dilutive earnings per share would have been as follows:

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Comprehensive Loss	Total
	(Dollars in thousands, except per share data)				
Balance at October 31, 1996	$ 12,032	$ 28,462	$ 173,630	$ (557)	$ 213,567
Dividends paid on common stock ($0.48 per share)	—	—	(5,794)	—	(5,794)
Issuance of 389,101 shares under stock option plans	389	8,018	—	—	8,407
Purchase of 232,000 shares of common stock	(232)	(7,720)	—	—	(7,952)
Other comprehensive loss	—	—	—	(4,521)	(4,521)
Tax benefits related to employee stock option transactions	—	2,611	—	—	2,611
Net earnings	—	—	34,845	—	34,845
Balance at October 31, 1997	$ 12,189	$ 31,371	$ 202,681	$ (5,078)	$ 241,163
Dividends paid on common stock ($0.48 per share)	—	—	(6,162)	—	(6,162)
Issuance of 82,386 shares under stock option plans	83	2,136	—	—	2,219
Issuance of 598,051 shares of common stock for acquisition of Exmark	598	24,172	—	—	24,770
Purchase of 100,000 shares of common stock	(100)	(1,624)	—	—	(1,724)
Other comprehensive loss	—	—	—	(1,448)	(1,448)
Tax benefits related to employee stock option transactions	—	491	—	—	491
Net earnings	—	—	4,090	—	4,090
Balance at October 31, 1998	$ 12,770	$ 56,546	$ 200,609	$ (6,526)	$ 263,399
Dividends paid on common stock ($0.48 per share)	—	—	(6,136)	—	(6,136)
Issuance of 164,612 shares under stock option plans	164	3,969	—	—	4,133
Issuance of 511,991 shares of common stock for Exmark contingent payment	512	12,543	—	—	13,055
Purchase of 876,852 shares of common stock	(877)	(28,288)	—	—	(29,165)
Other comprehensive loss	—	—	—	(1,255)	(1,255)
Tax benefits related to employee stock option transactions	—	573	—	—	573
Net earnings	—	—	35,059	—	35,059
Balance at October 31, 1999	$ 12,569	$ 45,343	$ 229,532	$ (7,781)	$ 279,663

The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Years ended October 31		
	1999	1998	1997
	(Dollars in thousands, except per share data)		
Net earnings, as reported	**$ 35,059**	$ 4,090	$ 34,845
Pro forma net earnings	**33,150**	2,626	34,289
Dilutive earnings per share, as reported	**$ 2.64**	$ 0.31	$ 2.80
Pro forma dilutive earnings per share	**2.50**	0.20	2.75

The weighted average fair market value of options was estimated to be $6.85, $10.01, and $6.14 per share for the years ended October 31, 1999, 1998, and 1997, respectively.

A summary of stock option activity under the plans described above is presented below:

	Years ended October 31		
	1999	1998	1997
Risk-free interest rate	**4.67%**	5.71%	5.75%
Expected life of option in years	**4.4**	3.9	3.1
Expected dividend yield	**1.5%**	0.8%	1.5%
Expected stock volatility	**30%**	21%	20%

The table below presents the number, weighted average remaining contractual life, and weighted average exercise price for options outstanding at October 31, 1999:

	Options outstanding	Weighted average exercise price
October 31, 1996	1,107,858	$ 21.25
Granted	251,620	32.74
Exercised	(443,516)	21.93
Cancelled	(33,812)	24.49
October 31, 1997	882,150	$ 24.06
Granted	397,882	41.97
Exercised	(103,792)	25.37
Cancelled	(64,514)	31.55
October 31, 1998	1,111,726	$ 29.92
Granted	**379,976**	**24.88**
Exercised	**(172,474)**	**25.63**
Cancelled	**(227,595)**	**37.32**
October 31, 1999	**1,091,633**	**$ 27.30**

In fiscal 1999, the company's stockholders adopted The Toro Company Performance Share Plan (long-term incentive plan). Under this long-term incentive plan, Performance Shares are granted to key employees of the company. A Performance Share is the right to receive shares of Common Stock or deferred Common Stock units, contingent on the achievement of performance goals of the company, generally over a three-year period. The number of shares of Common Stock authorized for issuance under the long-term incentive plan is 500,000. The number of shares of common stock a participant will receive will be increased (up to 200 percent) or reduced (down to zero) from target levels based on the level of achievement of performance goals. During fiscal 1999, 274,600 Performance Shares were granted for one year and two year transition periods and the usual three year period. The company recognized compensation expense related to this plan of $3,502,000 in fiscal 1999.

In fiscal 1998, the company's stockholders amended The Toro Company Annual Management Incentive Plan II (annual incentive plan) to add a Common Stock acquisition and retention feature (Stock Retention Award). If the Compensation Committee of the Board of Directors grants a Stock Retention Award, the participant may elect to convert up to 50 percent of a cash bonus award into Common Stock. The participant may alternatively elect to defer up to 50 percent of the cash bonus through The Toro Company Deferred Compensation Plan for Officers into units having a value based on shares of Common Stock. In either case, the participant receives additional compensation in the form of one additional share or unit of Common Stock for every two shares or units acquired upon conversion. This match vests in increments of 25 percent of the total number of matching shares or units at the end of each of the second, third, fourth, and fifth years. Compensation expense related to this plan was $2,322,000 and $0 for fiscal years 1999 and 1998, respectively.

On July 31, 1995, the company issued 17,467 shares of restricted stock and 17,467 performance units to the CEO under the terms of the Chief Executive Officer Succession Plan. The value of each performance unit is equal to the fair market value of a share of common stock. The restricted stock and performance units vest based upon achievement of specified succession planning goals. Dividends are paid with respect to the restricted stock and those shares may be voted. Portions of the restricted stock and performance unit awards will be forfeited if specified goals are not achieved at various dates, ending on October 31, 2003 or termination of employment. 2,620 shares and units vested as of October 31, 1999. Compensation expense related to this plan was $178,000, $89,000, and $350,000 for the fiscal years ended 1999, 1998, and 1997, respectively.

10. EMPLOYEE BENEFIT PROGRAMS

The company maintains the following significant plans for eligible employees:

- The Toro Company Investment and Savings Plan

- The Toro Company Employee Stock Ownership Plan

The company's expenses under these plans were $12,370,000, $11,245,000, and $10,797,000 for fiscal years ended 1999, 1998, and 1997, respectively.

In addition, the company and its subsidiaries have supplemental and other retirement plans covering certain employees. The expense related to these plans was not significant.

11. SEGMENT DATA

Toro develops, manufactures, and sells a wide variety of turf maintenance products used in the professional and residential markets. The company's principal businesses are based on Toro's ability to provide comprehensive, integrated solutions that create, maintain, enhance, and conserve beautiful landscapes. The company's reportable segments are strategic business units that offer different products and services and are managed separately based on the fundamental differences in their operations.

REPORTABLE SEGMENTS

The professional segment consists of turf equipment and irrigation products. Turf equipment products include golf mowing equipment, landscape contractor mowing equipment, and other maintenance equipment. Irrigation products consist of sprinkler heads, electric and hydraulic valves, controllers, computer irrigation central control systems, and agricultural drip tape and hose products. These products are sold mainly through a network of distributors to professionals who maintain golf courses, sports fields, municipal properties, agricultural grounds, and commercial and residential landscapes.

The residential segment consists of walk power mowers, riding mowers and tractors, snowthrowers, homeowner-installed irrigation systems, replacement parts, and electric home solution products, including trimmers, blower vacuums, and hedge trimmers. These products are sold to homeowners through a network of distributors and dealers, and through a broad array of hardware stores, home centers, and mass retailers.

The other segment consists of company-owned distributor operations and corporate activities, including corporate financing activities and elimination of intersegment revenues and expenses. Corporate activities include general corporate expenditures (finance, human resources, legal, information services, public relations, and similar activities) and certain unallocated corporate assets and liabilities, including corporate facilities, financing receivables, and deferred tax assets.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The company evaluates the performance of its professional and residential business segment results based on earnings (loss) before income taxes, interest expense, and extraordinary charges. The other segment operating loss includes earnings (loss) from operations, corporate activities, other income, net, and interest expense. The business segment's operating profits or losses include direct costs incurred at the segment's operating level plus allocated expenses including profit sharing and manufacturing expenses. The allocated expenses represent costs, which these

operations would have incurred otherwise, but do not include general corporate expenses, interest expense, and income taxes. The company accounts for intersegment sales at current market prices.

The following table shows the summarized financial information concerning the company's reportable segments:

Exercise price range	Number of options	Weighted average exercise price	Weighted average remaining contractual life
Options exercisable at October 31, 1999			
$14.750	300,000	$ 14.75	2.1 years
$22.563—$24.938	184,796	24.84	4.1 years
$24.938	140,400	24.94	9.1 years
$29.000—$29.125	120,267	29.00	0.8 years
$31.750—$36.375	130,662	33.85	2.0 years
$43.375—$43.500	215,508	43.50	3.1 years
Total	1,091,633	$ 27.30	3.4 years

(1) Includes restructuring and other unusual expense of $1.2 million in fiscal 1999 and $7.5 million in fiscal 1998.

(2) Includes restructuring and other unusual expense of $0.5 million in fiscal 1999, $6.7 million in fiscal 1998, and $2.6 million in fiscal 1997. The following table presents the details of the other segment profit (loss) before income taxes and extraordinary loss:

	Years ended October 31			
	Professional(1)	Residential(2)	Other	Total
	(Dollars in thousands)			
1999				
Net sales	$ 807,382	$ 447,866	$ 19,749	$ 1,274,997
Intersegment net sales	45,968	11,531	(57,499)	—
Segment profit (loss) before income tax and extraordinary loss	112,928	21,215	(76,670)	57,473
Total assets	439,271	148,070	199,837	787,178
Capital expenditures	23,674	4,244	1,924	29,842
Depreciation and amortization	21,187	13,923	3,995	39,105
1998				
Net sales	$ 706,771	$ 397,564	$ 6,099	$ 1,110,434
Intersegment net sales	20,575	2,923	(23,498)	—
Segment profit (loss) before income tax and extraordinary loss	78,262	(15,077)	(56,424)	6,761
Total assets	387,267	175,582	161,142	723,991
Capital expenditures	16,624	7,855	9,414	33,893
Depreciation and amortization	23,207	13,368	465	37,040
1997				
Net sales	$ 569,258	$ 478,093	$ 3,853	$ 1,051,204
Intersegment net sales	17,640	3,234	(20,874)	—
Segment profit (loss) before income tax and extraordinary loss	76,758	28,355	(44,769)	60,344
Total assets	307,933	164,164	189,537	661,634
Capital expenditures	6,493	15,753	14,777	37,023
Depreciation and amortization	20,384	9,117	1,377	30,878

GEOGRAPHIC DATA

The following geographic area data includes net sales based on product shipment destination, and net property, plant, and equipment is based on physical location in addition to allocated capital tooling from United States plant facilities.

	Years ended October 31		
	1999	1998	1997
	(Dollars in thousands)		
Corporate expenses	$ (70,090)	$ (55,657)	$ (49,814)
Restructuring and other unusual expenses	—	(858)	—
Interest expense, net	(23,913)	(25,428)	(19,900)
Finance charge revenue	4,082	4,489	4,633
Elimination of corporate financing expense	16,804	17,551	17,388
Other	(3,553)	3,479	2,924
Total	$ (76,670)	$ (56,424)	$ (44,769)

12. COMMITMENTS AND CONTINGENT LIABILITIES

As of October 31, 1999, future minimum lease payments under capital leases totaled $611,000. Total rental expense for operating leases was $13,297,000, $11,962,000, and $12,467,000 for the fiscal years ended 1999, 1998, and 1997, respectively. At October 31, 1999, future minimum lease payments under noncancelable operating leases amounted to $26,880,000 as follows: 2000, $8,894,000; 2001, $7,546,000; 2002, $5,045,000; 2003, $3,060,000; 2004, $1,328,000; and beyond, $1,007,000.

Debts incurred by certain distributors, aggregating $3,676,000 at October 31, 1999 and $4,172,000 at October 31, 1998, have been guaranteed by the company.

In the ordinary course of business, the company may become liable with respect to pending and threatened litigation, tax, environmental, and other matters. While the ultimate results of investigations, lawsuits, and claims involving the company cannot be determined, management does not expect that these matters will have a material adverse effect on the consolidated financial position of the company.

To prevent possible infringement of its patents by others, the company periodically reviews competitors' products. Furthermore, to avoid potential liability with respect to others' patents, the company regularly reviews patents issued by the U.S. Patent Office and foreign patent offices as needed. This patent program, consisting of both types of activities, helps the company take action against others when deemed necessary and helps minimize risk. The company is currently involved both in cases where it is the plaintiff and cases where it is the defendant. While the ultimate results of these cases are unknown at this time, management believes that the outcome of these cases is unlikely to have a material adverse effect on the consolidated financial results of the company but could potentially have a positive impact.

13. FINANCIAL INSTRUMENTS

OFF-BALANCE SHEET RISK

Letters of credit are issued by the company during the ordinary course of business, as required by certain vendor contracts, through major domestic banks. As of October 31, 1999 and 1998, the company had $20,165,000 and $28,007,000, respectively, in outstanding letters of credit.

CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the company to concentrations of credit risk, consist principally of accounts receivable, which are concentrated in two business segments, professional and residential markets for outdoor maintenance equipment. The credit risk associated with these segments is limited because of the large number of customers in the company's customer base and their geographic dispersion.

FOREIGN CURRENCY INVESTMENTS

The company has entered into various foreign currency exchange contracts designed to manage its exposure to exchange rate fluctuations on foreign currency transactions. These instruments used as hedges are managed to reduce the risk associated with the exposure being hedged and are designated as a hedge at the inception of the contract. Accordingly, changes in market values of hedge instruments must be highly correlated with changes in market values of underlying hedged items both at inception of the hedge and over the life of the hedge contract. Gains and losses on foreign currency contracts are

recorded in the Consolidated Statements of Earnings and Comprehensive Income. The company also enters into forward currency exchange contracts on behalf of certain distributors in order to cover a portion of the payments owed by the distributor to the company. Any currency losses incurred by the company are reimbursed by the distributor.

The following forward exchange contracts held by the company have maturity dates in fiscal year 2000. All items are non-trading and stated in U.S. dollars. The average contracted rate, notional amount, and fair value impact at October 31, 1999 were as follows:

	Years ended October 31		
	United States	Foreign Countries	Total
		(Dollars in thousands)	
1999			
Net sales	**$ 1,022,499**	**$ 252,498**	**$ 1,274,997**
Net property, plant, and equipment	**116,361**	**7,811**	**124,172**
1998			
Net sales	$ 874,494	$ 235,940	$ 1,110,434
Net property, plant, and equipment	115,729	11,408	127,137
1997			
Net sales	$ 818,396	$ 232,808	$ 1,051,204
Net property, plant, and equipment	107,177	9,675	116,852

FAIR VALUE

Estimated fair value amounts have been determined using available information and appropriate valuation methodologies. Because considerable judgment is required in developing the estimates of fair value, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. For cash and cash equivalents, receivables, and accounts payable, carrying value is a reasonable estimate of fair value.

At October 31, 1999, the estimated fair value of long-term debt with fixed interest rates was $185,900,000 compared to its carrying value of $196,237,000. The fair value is estimated by discounting the projected cash flows using the rate at which similar amounts of debt could currently be borrowed.

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for fiscal 1999 and fiscal 1998 is as follows:

Dollars in thousands (except average contracted rate)	Average Contracted Rate	Notional Amount	Fair Value Impact Gain (Loss)
Buy US $/Sell Australian dollar	**.6502**	**$ 11,159.3**	**$ 178.1**
Buy US $/Sell Canadian dollar	**1.4872**	**6,253.4**	**(100.9)**
Buy US $/Sell British pound	**.6225**	**1,478.0**	**(34.4)**
Buy German mark/Sell US $	**1.8436**	**1,627.3**	**5.8**
Buy Japanese yen/Sell US $	**114.8800**	**6,963.6**	**889.3**

	Fiscal Year Ended October 31, 1999			
Quarter (Dollars in thousands, except per share data)	First	Second	Third	Fourth
Net sales	**$ 250,761**	**$ 433,108**	**$ 325,317**	**$ 265,811**
Gross profit	**87,944**	**152,853**	**125,839**	**92,953**
Restructuring and other unusual expense	**—**	**—**	**722**	**1,010**
Net earnings (loss)	**796**	**24,090**	**10,323**	**(150)**
Basic net earnings (loss) per share	**0.06**	**1.86**	**0.80**	**(0.01)**
Dilutive net earnings (loss) per share	**0.06**	**1.83**	**0.78**	**(0.01)**
Dividends per share of common stock	**0.12**	**0.12**	**0.12**	**0.12**
Market price of common stock—				
High sales price	**35 1/8**	**35 5/16**	**39 1/2**	**38 1/4**
Low sales price	**22 3/16**	**28 3/4**	**32 7/16**	**34 1/4**

As of January 7, 2000, the company had 6,073 stockholders of record.

(1) The company's consolidated financial statements include results of operations of Exmark from November 1, 1997, date of acquisition.

(2) The company's consolidated financial statements include results of operations of Drip In from February 1, 1998, date of acquisition.

THE TORO COMPANY

ELEVEN-YEAR SELECTED FINANCIAL DATA

	Fiscal Year Ended October 31, 1998			
Quarter (Dollars in thousands, except per share data)	First(1)	Second(2)	Third	Fourth
Net sales	$ 210,059	$ 379,686	$ 290,993	$ 229,696
Gross profit	73,052	132,949	101,280	77,035
Restructuring and other unusual expense	—	—	10,452	4,590
Net earnings (loss)	(1,061)	20,053	(2,553)	(12,349)
Basic net earnings (loss) per share	(0.08)	1.56	(0.20)	(0.96)
Dilutive net earnings (loss) per share	(0.08)	1.53	(0.20)	(0.96)
Dividends per share of common stock	0.12	0.12	0.12	0.12
Market price per share of common stock—				
High sales price	46 5/16	40 15/16	37 10/16	27 9/16
Low sales price	38 1/2	36 3/16	26 3/4	16 1/2

(1) In 1995, the company changed its fiscal year end from July 31 to October 31. Therefore, actual date of the year-end for years prior to 1995 are unaudited and were restated to include twelve months of data through the Friday closest to October 31 for comparative purposes.

(2) 1999, 1998, 1997, and 1992 includes restructuring and other unusual expense of $1.7 million, $15.0 million, $2.6 million, and $24.9 million, respectively.

(3)

The company's consolidated financial statements include results of operations of Exmark from November 1, 1997 and Drip In from February 1, 1998, dates of acquisition.

(4) 1997 net earnings and dilutive earnings per share after extraordinary loss on early retirement of debt of $1,663,000, or $0.13 per dilutive share, were $34,845,000 and $2.80, respectively.

(5) The company's consolidated financial statements include results of operations of the James Hardie Irrigation Group from December 1, 1996, the date of acquisition.

(6) The company's consolidated financial statements include results of operations of Lawn-Boy Inc. from November 7, 1989, the date of acquisition.

(7) Earnings before interest, taxes, depreciation, amortization, and extraordinary loss.

(8) Represents the number of stockholders at July 31 for the years starting in 1989 and ending in 1994.

	Years ended October 31(1)										
	1999	1998(3)	1997(5)	1996	1995	1994	1993	1992	1991	1990(6)	1989
	(Dollars and shares in thousands, except per share data)										
OPERATING RESULTS:											
Net sales	**$ 1,275,000**	$ 1,110,400	$ 1,051,200	$ 930,900	$ 919,400	$ 864,300	$ 706,600	$ 638,700	$ 706,200	$ 747,300	$ 639,200
Net sales growth from prior year	**14.8%**	5.6%	12.9%	1.3%	6.4%	22.3%	10.6%	(9.6)%	(5.5)%	16.9%	2.1%
Net earnings (loss), before extraordinary loss(2)(4)	**$ 35,100**	$ 4,100	$ 36,500	$ 36,400	$ 32,400	$ 32,400	$ 15,300	$ (21,700)	$ 9,100	$ 8,400	$ 20,000
Percentage of net sales	**2.7%**	0.4%	3.5%	3.9%	3.5%	3.8%	2.2%	(3.4)%	1.3%	1.1%	3.1%
Net earnings (loss)(2)	**$ 35,100**	$ 4,100	$ 34,800	$ 36,400	$ 32,400	$ 32,400	$ 15,300	$ (21,700)	$ 9,100	$ 8,400	$ 20,000
Dilutive earnings (loss) per share, before extraordinary loss(2)(4)	**2.64**	0.31	2.93	2.90	2.50	2.49	1.22	(1.81)	0.77	0.84	1.90
Return on average stockholders' equity	**12.9%**	1.6%	15.3%	18.0%	17.5%	20.2%	11.4%	(15.5)%	6.1%	6.8%	21.7%
SUMMARY OF FINANCIAL POSITION:											
Current assets	**$ 531,700**	$ 479,400	$ 472,000	$ 405,000	$ 386,300	$ 373,400	$ 326,100	$ 324,200	$ 322,000	$ 306,800	$ 271,200
Current liabilities	**305,800**	258,200	237,800	207,900	221,200	197,200	169,200	132,500	103,800	133,000	125,000
Working capital	**225,900**	221,200	234,200	197,100	165,100	176,200	156,900	191,700	218,200	173,800	146,200
Long-term debt, less current portion	**195,600**	196,800	177,700	53,000	53,400	70,400	87,300	147,900	154,100	125,300	95,600
Stockholders' equity	**279,700**	263,400	241,200	213,600	190,900	178,700	141,900	126,400	153,400	146,300	99,300
Debt to capitalization ratio	**47.5%**	46.4%	47.6%	30.7%	36.6%	33.8%	46.5%	56.5%	51.9%	54.3%	54.7%
OTHER STATISTICAL DATA:											
EBITDA(2)(7)	**$ 120,500**	$ 69,200	$ 111,100	$ 91,900	$ 82,700	$ 85,400	$ 59,000	$ 8,500	$ 54,800	$ 51,100	$ 60,200
Book value per share of common stock	**22.25**	20.63	19.79	17.75	15.69	14.05	11.47	10.50	12.84	12.34	9.98
Dividends per share of common stock	**0.48**	0.48	0.48	0.48	0.48	0.48	0.48	0.48	0.48	0.48	0.48
Number of shares of common stock outstanding	**12,569**	12,770	12,189	12,032	12,168	12,720	12,370	12,041	11,950	11,859	9,946
Number of common stockholders(8)	**6,162**	6,364	6,560	6,841	7,243	7,541	7,968	8,386	8,503	7,706	7,527
Market price range—											
High price	**$ 39 1/2**	$ 46 5/16	$ 43 3/4	$ 36 1/4	$ 32 1/4	$ 30 1/2	$ 26 3/4	$ 17 1/2	$ 20 1/2	$ 30	$ 24 3/8
Low price	**22 3/16**	16 1/2	31 1/2	28 3/8	25 5/8	20 7/8	14 1/8	11 3/8	11	12	17 7/8
Average number of employees	**4,923**	4,695	4,309	3,610	3,638	3,434	3,117	3,084	3,580	3,771	3,068

BOARD OF DIRECTORS

Ronald O. Baukol (C/E/N)
Executive Vice President
International Operations
3M
St. Paul, Minnesota

Robert C. Buhrmaster (A/E/N)
Chairman, President, and
Chief Executive Officer
Jostens, Inc.
Minneapolis, Minnesota

Winslow H. Buxton (A/E/N)
Chairman and Chief Executive Officer
Pentair, Inc.
St. Paul, Minnesota

Janet K. Cooper (A*/C)
Vice President, Finance and Controller
U.S. West
Denver, Colorado

Kendrick B. Melrose (E*/N**)
Chairman and Chief Executive Officer
The Toro Company

Alex A. Meyer (A/C)
Retired
Amana Refrigeration, Inc.
Amana, Iowa

Robert H. Nassau (C/N)
Former President and Chief Executive Officer
St. Raymond Wood Products Holding Limited
Boston, Massachusetts

Dale R. Olseth (C*/E)
Chairman and Chief Executive Officer
SurModics, Inc.
Minneapolis, Minnesota

Gregg W. Steinhafel (A/E)
President
Target Stores
Minneapolis, Minnesota

Christopher A. Twomey (C/N)
President and Chief Executive Officer
Arctic Cat Inc.
Thief River Falls, Minnesota

Edwin H. Wingate (A/N*)
Retired
Dayton Hudson Corporation
Minneapolis, Minnesota

(A) Audit Committee Member
(C) Compensation Committee Member
(E) Executive Committee Member
(N) Nominating Committee Member
* Committee Chairman
** Ex-officio Non-voting Member

OFFICERS

Kendrick B. Melrose
Chairman and Chief Executive Officer†

J. David McIntosh
Executive Vice President
Professional Businesses and International†

Dennis P. Himan
Vice President and General Manager
Landscape Contractor Businesses†

Michael J. Hoffman
Vice President and General Manager
Commercial Business†

William D. Hughes
Vice President and General Manager
Consumer Business†

Randy B. James
Vice President and Controller†

Stephen D. Keating
Assistant Treasurer, Investor Relations

Ram N. Kumar
Vice President, Distributor Development
and New Businesses

J. Lawrence McIntyre
Vice President, Secretary and General Counsel†

Karen M. Meyer
Vice President, Administration†

Richard W. Parod
Vice President and General Manager
U.S. Irrigation Business†

N. Jeanne Ryan
Assistant Secretary

Stephen P. Wolfe
Vice President Finance, Treasurer and
Chief Financial Officer†

† Executive officers subject to Section 16

QuickLinks

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS THE TORO COMPANY

THE TORO COMPANY SELECTED FINANCIAL DATA

THE TORO COMPANY REPORT OF MANAGEMENT

INDEPENDENT AUDITORS' REPORT

THE TORO COMPANY CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

THE TORO COMPANY CONSOLIDATED BALANCE SHEETS

THE TORO COMPANY CONSOLIDATED STATEMENTS OF CASH FLOWS

QuickLinks

Exhibit 21

THE TORO COMPANY
Subsidiaries of Registrant

The following are significant subsidiaries of The Toro Company as of January 7, 2000.

STOCKHOLDERS' INFORMATION

DIVIDENDS
Communications concerning transfer requirements, address changes, dividends and lost certificates should be addressed to:

Shareholder Assistance
Norwest Bank Minnesota, N.A.
P.O. Box 64854
St. Paul, Minnesota 55164-0854
651-450-4064
1-800-468-9716
email: stocktransfer@norwest.com

DIVIDEND REINVESTMENT
The company sponsors an Automatic Dividend Reinvestment Plan. For enrollment information contact:

Investor Relations
The Toro Company
8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196

Inquiries about existing dividend reinvestment accounts should be addressed to:

Dividend Reinvestment Plan
The Toro Company
Norwest Bank Minnesota, N.A.
P.O. Box 64854
St. Paul, Minnesota 55164-0854
651-450-4064
1-800-468-9716

FORM 10-Q
To obtain a copy of the quarterly financial results, contact:

Investor Relations
The Toro Company
8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196
E-mail: invest@toro.com
Phone: 612-887-7141

FORM 10-K
The annual report on Form 10-K filed with the Securities and Exchange Commission is available without charge upon written request by a stockholder to:

Investor Relations
The Toro Company
8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196
E-mail: invest@toro.com

STOCK LISTING
New York Stock Exchange (TTC)

ANNUAL MEETING
March 29, 2000, 3:00 p.m. (CST)
The Toro Company Corporate Offices
8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196

WORLDWIDE LOCATIONS

UNITED STATES
Abilene, Texas
Baraboo, Wisconsin
Beatrice, Nebraska
Bloomington, Minnesota
Dallas, Texas
El Cajon, California
El Paso, Texas
Evansville, Indiana
Houston, Texas
Itaska, Illinois
Laguna, California
Lakeville, Minnesota
Lincoln, Nebraska
Madera, California
Mountaintop, Pennsylvania
Oxford, Mississippi
Plymouth, Minnesota
Plymouth, Wisconsin
Riverside, California
San Antonio, Texas
Sanford, Florida
Shakopee, Minnesota
Tomah, Wisconsin
Windom, Minnesota

AROUND THE WORLD
Balcatta, Australia
Beverley, Australia
Braeside, Australia
Eagle Farm, Australia
Fiano Romano, Italy
Juarez, Mexico
Monterotondo, Italy
Oevel, Belgium
Parramatta, Australia

QuickLinks

Exhibit 23

Independent Auditors' Consent

The Board of Directors
The Toro Company:

We consent to incorporation by reference in the Registration Statements (Nos. 33-31586, 33-38308, 33-44668, 33-51563, 33-55550, 33-59563, 333-44879, 333-87461, and 333-20901) on Forms S-3 and S-8 of The Toro Company of our reports dated December 13, 1999, relating to the consolidated balance sheets of The Toro Company and subsidiaries as of October 31, 1999 and 1998, and the related consolidated statements of earnings and comprehensive income, and cash flows and related financial statement schedule for each of the years in the three year period ended October 31, 1999, which reports are included in or incorporated by reference in the annual report on Form 10-K of The Toro Company.

KPMG LLP

Minneapolis, Minnesota

January 25, 2000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME, CONSOLIDATED BALANCE SHEETS, AND 10-K SCHEDULE II, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR
OCT-31-1999
NOV-01-1998
OCT-31-1999
11,960
0
275,567
7,223
204,430
531,742
353,808
229,636
787,178
305,805
196,237
0
0
12,569
267,094
787,178
1,274,997
1,274,997
815,408
384,701
(6,498)
1,183
23,913
57,473
22,414
35,059
0
0
0
35,059
2.72
2.64

TOTAL LONG-TERM DEBT
DOES NOT INCLUDE ADDITIONAL PAID-IN-CAPITAL
OTHER INCOME, NET

Name	State or Other Jurisdiction of Incorporation	Percentage of Voting Securities Owned
Toro Credit Company	Minnesota	100%
Toro Factoring Company N.V.	Netherlands Antilles	100%
Toro Foreign Sales Corporation	Barbados	100%
MTI Distributing, Inc.	Minnesota	100%
Turf Professionals Equipment Company	Minnesota	100%
Toro Sales Company	Minnesota	100%
Toro Distributing Company	California	100%
Toro Mexico Holdings, LLC	Minnesota	100%
Hahn Equipment Co.	Minnesota	100%
Professional Turf Products of Texas, Inc.	Texas	100%
Toro Warranty Company	Minnesota	100%
Toro Australia Pty. Limited	Australia	100%
Irritrol Systems Europe, S.r.L.	Italy	100%
Toro Europe	Belgium	100%
Exmark Manufacturing Company Incorporated	Nebraska	100%