UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended January 29, 2010

THE TORO COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**1-8649**	**41-0580470**
(State of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

8111 Lyndale Avenue South
Bloomington, Minnesota 55420
Telephone number: (952) 888-8801

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

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

Yes S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes £ No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer S	Accelerated filer £	Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No S

The number of shares of Common Stock outstanding as of February 26, 2010 was 33,626,015.

THE TORO COMPANY
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PART I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings (Unaudited)
(Dollars and shares in thousands, except per share data)

	Three Months Ended	
	January 29, 2010	January 30, 2009
Net sales	$ 331,358	$ 340,172
Cost of sales	214,967	221,912
Gross profit	116,391	118,260
Selling, general, and administrative expense	96,599	104,559
Earnings from operations	19,792	13,701
Interest expense	(4,245)	(4,358)
Other income, net	901	810
Earnings before income taxes	16,448	10,153
Provision for income taxes	5,530	3,422
Net earnings	$ 10,918	$ 6,731
Basic net earnings per share of common stock	$ 0.32	$ 0.19
Diluted net earnings per share of common stock	$ 0.32	$ 0.18
Weighted-average number of shares of common stock outstanding – Basic	34,030	36,366
Weighted-average number of shares of common stock outstanding – Diluted	34,294	36,805

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(Dollars in thousands)

	January 29, 2010	January 30, 2009	October 31, 2009
ASSETS			
Cash and cash equivalents	$ 158,210	$ 35,597	$ 187,773
Receivables, net	167,260	297,962	143,709
Inventories, net	191,071	238,704	176,275
Prepaid expenses and other current assets	18,441	23,813	14,914
Deferred income taxes	58,316	55,311	59,467
Total current assets	593,298	651,387	582,138
Property, plant, and equipment	560,001	526,938	551,747
Less accumulated depreciation	394,074	359,211	385,031
	165,927	167,727	166,716
Deferred income taxes	3,572	6,454	3,585
Other assets	12,774	7,686	10,512
Goodwill	86,427	86,385	86,407
Other intangible assets, net	22,636	18,548	23,324
Total assets	$ 884,634	$ 938,187	$ 872,682
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of long-term debt	$ 3,985	$ 3,377	$ 3,765
Short-term debt	700	25,000	4,529
Accounts payable	109,556	89,561	91,074
Accrued liabilities	205,651	214,403	217,433
Total current liabilities	319,892	332,341	316,801
Long-term debt, less current portion	224,062	226,396	225,046
Deferred revenue	7,904	8,785	8,510
Other long-term liabilities	7,526	6,227	7,113
Stockholders' equity:			
Preferred stock, par value $1.00 per share, authorized 1,000,000 voting and 850,000 non-voting shares, none issued and outstanding	—	—	—
Common stock, par value $1.00 per share, authorized 100,000,000 shares, issued and outstanding 33,615,011 shares as of January 29, 2010, 35,804,195 shares as of January 30, 2009, and 33,369,486 shares as of October 31, 2009	33,615	35,804	33,369
Retained earnings	300,750	342,081	291,246
Accumulated other comprehensive loss	(9,115)	(13,447)	(9,403)
Total stockholders' equity	325,250	364,438	315,212
Total liabilities and stockholders' equity	$ 884,634	$ 938,187	$ 872,682

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Three Months Ended	
	January 29, 2010	January 30, 2009
Cash flows from operating activities:		
Net earnings	$ 10,918	$ 6,731
Adjustments to reconcile net earnings to net cash used in operating activities:		
Equity losses from affiliates	143	32
Provision for depreciation, amortization, and impairment losses	11,248	10,389
Loss on disposal of property, plant, and equipment	45	18
Stock-based compensation expense	1,579	874
(Increase) decrease in deferred income taxes	(331)	238
Changes in operating assets and liabilities:		
Receivables, net	(28,629)	(42,970)
Inventories, net	(13,099)	(32,586)
Prepaid expenses and other assets	(3,492)	(4,947)
Accounts payable, accrued expenses, deferred revenue, and other long-term liabilities	11,082	(10,306)
Net cash used in operating activities	(10,536)	(72,527)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(10,218)	(9,499)
Proceeds from asset disposals	100	6
Increase in investment in affiliates	(3,118)	—
Decrease (increase) in other assets	533	(567)
Acquisition, net of cash acquired	(1,812)	—
Net cash used in investing activities	(14,515)	(10,060)
Cash flows from financing activities:		
Increase in short-term debt	—	22,675
Repayments of long-term debt, net of costs	(750)	(1,005)
Excess tax benefits from stock-based awards	2,078	2,023
Proceeds from exercise of options	4,986	2,073
Purchases of Toro common stock	(3,682)	(1,579)
Dividends paid on Toro common stock	(6,129)	(5,456)
Net cash (used in) provided by financing activities	(3,497)	18,731
Effect of exchange rates on cash	(1,015)	94
Net decrease in cash and cash equivalents	(29,563)	(63,762)
Cash and cash equivalents as of the beginning of the fiscal period	187,773	99,359
Cash and cash equivalents as of the end of the fiscal period	$ 158,210	$ 35,597

See accompanying notes to condensed consolidated financial statements.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. Unless the context indicates otherwise, the terms "company" and "Toro" refer to The Toro Company and its consolidated subsidiaries. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting primarily of recurring accruals, considered necessary for a fair presentation of the financial position and results of operations. Certain amounts from prior periods' financial statements have been reclassified to conform to this period's presentation. Since the company's business is seasonal, operating results for the three months ended January 29, 2010 cannot be annualized to determine the expected results for the fiscal year ending October 31, 2010. Additional factors that could cause our actual results to differ materially from our expected results, including any forward-looking statements made in this report, are described in our most recently filed Annual Report on Form 10-K (Item 1A) and later in this report under Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations– Forward-Looking Information.

The company's fiscal year ends on October 31, and quarterly results are reported based on three month periods that generally end on the Friday closest to the quarter end. For comparative purposes, however, the company's second and third quarters always include exactly 13 weeks of results so that the quarter end date for these two quarters is not necessarily the Friday closest to the quarter end.

For further information, refer to the consolidated financial statements and notes included in the company's Annual Report on Form 10-K for the fiscal year ended October 31, 2009. The policies described in that report are used for preparing quarterly reports.

Accounting Policies

In preparing the consolidated financial statements in conformity with U.S. GAAP, management must make decisions that impact the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures, including disclosures of contingent assets and liabilities. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. Estimates are used in determining, among other items, sales promotions and incentives accruals, inventory valuation, warranty accruals, allowance for doubtful accounts, pension and postretirement accruals, self-insurance accruals, useful lives for intangible assets, and future cash flows associated with impairment testing for goodwill and other long-lived assets. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances, including the current economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate. A number of these factors are discussed in our Annual Report on Form 10-K (Item 1A. Risk Factors) for the fiscal year ended October 31, 2009, which include, among others, economic conditions, foreign currency exchange rate impact, commodity costs, credit conditions, and consumer spending and confidence levels, all of which may increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual amounts could differ significantly from those estimated at the time the consolidated financial statements are prepared. Changes in those estimates resulting from changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Acquisition and Divestiture

On December 1, 2009, during the first quarter of fiscal 2010, the company's wholly owned domestic distribution company completed the acquisition of certain assets and the assumption of certain liabilities of one of the company's independent Midwestern-based distribution companies.

During the first quarter of fiscal 2009, the company completed the sale of a portion of the operations of our company-owned distributorship.

This acquisition and divestiture were immaterial based on the company's consolidated financial condition and results of operations.

Comprehensive Income

Comprehensive income and the components of other comprehensive income (loss) were as follows:

(Dollars in thousands)	Three Months Ended January 29, 2010	Three Months Ended January 30, 2009
Net earnings	$ 10,918	$ 6,731
Other comprehensive income (loss):		
Cumulative translation adjustments	(2,132)	(1,756)
Pension liability adjustment, net of tax	671	—
Unrealized gain (loss) on derivative instruments, net of tax	1,749	(3,147)
Comprehensive income	$ 11,206	$ 1,828

Stock-Based Compensation

Under the company's stock option plans, option awards are granted with an exercise price equal to the closing price of the company's common stock on the date of grant, as reported by the New York Stock Exchange. Options are generally granted to non-employee directors, officers, and other key employees in the first quarter of the company's fiscal year. Option awards vest one-third each year over a three-year period and have a ten-year term. Compensation expense equal to the grant date fair value is generally recognized for these awards over the vesting period. However, if a director has served on the company's Board of Directors for ten full fiscal years or longer, the fair value of the options granted is fully expensed as of the date of the grant. Similarly, options granted to officers and other key employees are also subject to accelerated expensing if the option holder meets the retirement definition set forth in The Toro Company 2000 Stock Option Plan. In that case, the fair value of the options is expensed in the year of grant because the option holder must be employed as of the end of the fiscal year in which the options are granted in order for the option to continue to vest following retirement. The company also has a long-term incentive plan called The Toro Company Performance Share Plan. Under this plan, key employees are granted the right to receive shares of common stock or deferred performance share units, contingent on the achievement of performance goals of the company, which are generally measured over a three-year period. The number of shares of common stock a participant receives will be increased (up to 200 percent of target levels) or reduced (down to zero) based on the level of achievement of performance goals and vest over a three-year period. Performance share awards are granted in the first quarter of the company's fiscal year. Compensation expense is recognized for these awards on a straight-line basis over the vesting period based on the fair value as of the date of grant and the probability of achieving performance goals. Total compensation expense for option and performance share awards for the first quarter of each of fiscal 2010 and 2009 was $1.6 million and $0.9 million, respectively.

The fair value of each share-based option is estimated on the date of grant using a Black-Scholes valuation method that uses the assumptions noted in the table below. The expected life is a significant assumption as it determines the period for which the risk-free interest rate, volatility, and dividend yield must be applied. The expected life is the average length of time over which the employee groups are expected to exercise their options, which is based on historical experience with similar grants. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Expected volatilities are based on the movement of the company's common stock over the most recent historical period equivalent to the expected life of the option. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate over the expected life at the time of grant. Dividend yield is estimated over the expected life based on the company's dividend policy, historical dividends paid, expected future cash dividends, and expected changes in the company's stock price. The following table illustrates the assumptions for options granted in the following fiscal periods.

	Fiscal 2010	Fiscal 2009
Expected life of option in years	6	6
Expected volatility	33.00% - 33.07%	30.57% - 30.60%
Weighted-average volatility	33.00%	30.60%
Risk-free interest rate	2.509% - 2.865%	2.26% - 3.155%
Expected dividend yield	1.52% - 1.68%	1.53%- 1.81%
Weighted-average dividend yield	1.54%	1.79%

The weighted-average fair value of options granted during the first quarter of each of fiscal 2010 and 2009 was $12.33 per share and $7.93 per share, respectively. The fair value of performance share awards granted during the first quarter of each of fiscal 2010 and 2009 was $40.73 per share and $28.62 per share, respectively.

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 and first-in, first-out (FIFO) method for all other inventories. The company establishes a reserve for excess, slow-moving, and obsolete inventory that is equal to the difference between the cost and estimated net realizable value for that inventory. These reserves are based on a review and comparison of current inventory levels to the planned production, as well as planned and historical sales of the inventory.

Inventories were as follows:

(Dollars in thousands)	January 29, 2010	January 30, 2009	October 31, 2009
Raw materials and work in process	$ 61,937	$ 66,039	$ 56,679
Finished goods and service parts	179,277	222,968	169,739
Total FIFO value	241,214	289,007	226,418
Less: adjustment to LIFO value	50,143	50,303	50,143
Total	$ 191,071	$ 238,704	$ 176,275

Per Share Data

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

	Three Months Ended	
(Shares in thousands)	January 29, 2010	January 30, 2009
Basic		
Weighted-average number of shares of common stock	34,022	36,350
Assumed issuance of contingent shares	8	16
Weighted-average number of shares of common stock and assumed issuance of contingent shares	34,030	36,366
Diluted		
Weighted-average number of shares of common stock and assumed issuance of contingent shares	34,030	36,366
Effect of dilutive securities	264	439
Weighted-average number of shares of common stock, assumed issuance of contingent shares, and effect of dilutive securities	34,294	36,805

Options to purchase an aggregate of 742,607 and 1,521,421 shares of common stock outstanding as of January 29, 2010 and January 30, 2009, respectively, were excluded from the diluted net earnings per share calculations because their exercise prices were greater than the average market price of the company's common stock during the same respective periods.

Goodwill

The changes in the net carrying amount of goodwill for the first quarter of fiscal 2010 were as follows:

(Dollars in thousands)	Professional Segment	Residential Segment	Total
Balance as of October 31, 2009	$ 75,514	$ 10,893	$ 86,407
Translation adjustment	8	12	20
Balance as of January 29, 2010	$ 75,522	$ 10,905	$ 86,427

Other Intangible Assets

The components of other amortizable intangible assets were as follows:

(Dollars in thousands) January 29, 2010	Estimated Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Patents	5-13	$ 8,653	$ (6,733)	$ 1,920
Non-compete agreements	2-10	2,839	(1,610)	1,229
Customer related	10-13	6,532	(1,584)	4,948
Developed technology	2-10	12,789	(3,531)	9,258
Other		800	(800)	—
Total amortizable		31,613	(14,258)	17,355
Non-amortizable - trade name		5,281	—	5,281
Total other intangible assets, net		$ 36,894	$ (14,258)	$ 22,636

(Dollars in thousands) October 31, 2009	Estimated Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Patents	5-13	$ 8,654	$ (6,641)	$ 2,013
Non-compete agreements	2-10	2,839	(1,517)	1,322
Customer related	10-13	6,549	(1,458)	5,091
Developed technology	2-10	12,799	(3,182)	9,617
Other		800	(800)	—
Total amortizable		31,641	(13,598)	18,043
Non-amortizable - trade name		5,281	—	5,281
Total other intangible assets, net		$ 36,922	$ (13,598)	$ 23,324

Amortization expense for intangible assets during the first quarter of fiscal 2010 was $0.7 million. Estimated amortization expense for the remainder of fiscal 2010 and succeeding fiscal years is as follows: fiscal 2010 (remainder), $1.9 million; fiscal 2011, $2.5 million; fiscal 2012, $2.5 million; fiscal 2013, $2.3 million; fiscal 2014, $1.9 million; fiscal 2015, $1.8 million; and after fiscal 2015, $4.5 million.

Investment in Joint Venture

On August 12, 2009, the company and TCF Inventory Finance, Inc. (TCFIF), a subsidiary of TCF National Bank, established a joint venture in the form of a Delaware limited liability company named Red Iron Acceptance, LLC (Red Iron) to provide inventory financing, including floor plan and open account receivable financing, to distributors and dealers of the company's products in the U.S. and to select distributors of the company's products in Canada. The initial term of the joint venture will continue until October 31, 2014, subject to unlimited automatic two-year extensions thereafter. Either the company or TCFIF may elect not to extend the initial term or any subsequent term by giving one-year notice to the other party of its intention not to extend the term. Red Iron began financing floor plan receivables during the company's fourth quarter of fiscal 2009.

The company sells to Red Iron certain inventory receivables, including floor plan and open account receivables, from distributors and dealers of the company's products, at a purchase price equal to the face value of the receivables. As the company sells receivables to Red Iron, the company derecognizes non-recourse receivables from its books upon receipt of cash from Red Iron for receivables sold. During the first quarter of fiscal 2010, the company sold to Red Iron open account receivables for customers whose floor plan receivables were sold to Red Iron during the fourth quarter of fiscal 2009, as well as for customers whose floor plan receivables were previously financed by a third party financing company, in the aggregate amount of $18.1 million.

The company owns 45 percent of Red Iron and TCFIF owns 55 percent of Red Iron. The company accounts for its investment in Red Iron under the equity method of accounting. Each of the company and TCFIF contributed a specified amount of the estimated cash required to enable Red Iron to purchase the company's inventory financing receivables and to provide financial support for Red Iron's inventory financing programs. Red Iron borrows the remaining requisite estimated cash utilizing a $450 million secured revolving credit facility established under a credit agreement between Red Iron and TCFIF. The company's total investment in Red Iron as of January 29, 2010 was $6.5 million. The company has not guaranteed the outstanding indebtedness of Red Iron. The company has agreed to repurchase products repossessed by Red Iron, up to a maximum aggregate amount of $7.5 million in a calendar year. In addition, the company provided recourse to Red Iron for certain outstanding receivables, which amounted to $0.7 million as of January 29, 2010.

Red Iron purchased $177.6 million of receivables from the company during the first quarter of fiscal 2010, which includes the initial purchase of open accounts receivable in the aggregate amount of $18.1 million. As of January 29, 2010, Red Iron's total assets were $127.9 million and total liabilities were $113.0 million. Red Iron's net loss from operations through January 29, 2010 was $0.9 million.

Segment Data

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 three reportable business segments: professional, residential, and distribution. The distribution segment, which consists of a wholly owned domestic distribution company, has been combined with our corporate activities and elimination of intersegment revenues and expenses that is shown as "Other" in the following tables.

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

(Dollars in thousands) Three months ended January 29, 2010	Professional	Residential	Other	Total
Net sales	$ 212,800	$ 116,756	$ 1,802	$ 331,358
Intersegment gross sales	2,112	262	(2,374)	—
Earnings (loss) before income taxes	25,810	13,427	(22,789)	16,448
Total assets	436,521	180,922	267,191	884,634

Three months ended January 30, 2009	Professional	Residential	Other	Total
Net sales	$ 229,369	$ 107,024	$ 3,779	$ 340,172
Intersegment gross sales	1,970	769	(2,739)	—
Earnings (loss) before income taxes	30,129	4,840	(24,816)	10,153
Total assets	500,937	210,398	226,852	938,187

The following table presents the details of the Other segment operating loss before income taxes:

(Dollars in thousands)	Three Months Ended January 29, 2010	Three Months Ended January 30, 2009
Corporate expenses	$ (17,944)	$ (22,378)
Finance charge revenue	—	178
Elimination of corporate financing expense	—	1,515
Interest expense	(4,245)	(4,358)
Other	(600)	227
Total	$ (22,789)	$ (24,816)

Warranty Guarantees

The company's products are warranted to ensure customer confidence in design, workmanship, and overall quality. Warranty coverage ranges from a period of six months to seven years, and generally covers parts, labor, and other expenses for non-maintenance repairs. Warranty coverage generally does not cover operator abuse or improper use. An authorized Toro distributor or dealer must perform warranty work. Distributors and dealers submit claims for warranty reimbursement and are credited for the cost of repairs, labor, and other expenses as long as the repairs meet prescribed standards. Warranty expense is accrued at the time of sale based on the estimated number of products under warranty, historical average costs incurred to service warranty claims, the trend in the historical ratio of claims to sales, the historical length of time between the sale and resulting warranty claim, and other minor factors. Special warranty reserves are also accrued for major rework campaigns. The company also sells extended warranty coverage on select products for a prescribed period after the factory warranty period expires.

Warranty provisions, claims, and changes in estimates for the first quarter of each of fiscal 2010 and 2009 were as follows:

(Dollars in thousands) Three Months Ended	Beginning Balance	Warranty Provisions	Warranty Claims	Changes in Estimates	Ending Balance
January 29, 2010	$ 54,273	$ 6,764	$ (7,089)	$ 827	$ 54,775
January 30, 2009	$ 58,770	$ 7,502	$ (8,131)	$ 732	$ 58,873

Postretirement Benefit and Deferred Compensation Plans

The following table presents the components of net periodic benefit costs of the company's postretirement medical and dental benefit plan:

(Dollars in thousands)	Three Months Ended January 29, 2010	Three Months Ended January 30, 2009
Service cost	$ 55	$ 54
Interest cost	101	175
Prior service cost	(48)	(48)
Amortization of losses	30	48
Net expense	$ 138	$ 229

As of January 29, 2010, the company contributed approximately $0.1 million to its postretirement medical and dental benefit plan in fiscal 2010. The company expects to contribute a total of $0.3 million in fiscal 2010, including contributions made through January 29, 2010.

The company maintains The Toro Company Investment, Savings and Employee Stock Ownership Plan for eligible employees. The company's expenses under this plan were $3.4 million for the first quarter of fiscal 2010 and $3.8 million for the first quarter of fiscal 2009.

The company also offers participants in the company's deferred compensation plans the option to invest their deferred compensation in multiple investment options. The fair value of the investment in the deferred compensation plans as of January 29, 2010 was $14.9 million, which reduced the company's deferred compensation liability reflected in accrued liabilities on the consolidated balance sheet.

Effective December 31, 2009, the company amended The Toro Company Retirement Plan for Office and Hourly Employees such that no additional benefits will be earned under this plan after December 31, 2009. This amendment resulted in a curtailment adjustment of $0.7 million, which reduced the company's pension expense in the first quarter of fiscal 2010.

Income Taxes

The company is subject to U.S. federal income tax, as well as income tax of numerous state and foreign jurisdictions. The company is generally no longer subject to U.S. federal tax examinations for taxable years before fiscal 2006 and with limited exceptions, state and foreign income tax examinations for fiscal years before 2005. The Internal Revenue Service is currently examining the company's income tax returns for the 2006 and 2007 fiscal years. It is possible that the examination phase of the audit may conclude in the next 12 months, and the related unrecognized tax benefits for tax positions taken may change from those recorded as liabilities for uncertain tax positions in the company's financial statements as of January 29, 2010. Although the outcome of this matter cannot currently be determined, the company believes adequate provisions have been made for any potential unfavorable financial statement impact.

As of January 29, 2010 and January 30, 2009, the company had $6.0 million and $5.5 million, respectively, of liabilities recorded related to unrecognized tax benefits. Accrued interest and penalties on these unrecognized tax benefits were $1.0 million and $0.8 million as of January 29, 2010 and January 30, 2009, respectively. The company recognizes potential interest and penalties related to income tax positions as a component of the provision for income taxes. To the extent interest and penalties are not assessed with respect to uncertain tax positions, the amounts accrued will be revised and reflected as an adjustment to the provision for income taxes. Included in the liability balance as of January 29, 2010 are approximately $4.0 million of unrecognized tax benefits that, if recognized, will affect the company's effective tax rate.

The company does not anticipate that the total amount of unrecognized tax benefits will significantly change during the next twelve months.

Derivative Instruments and Hedging Activities

The company is exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales to third party customers, sales and loans to wholly owned foreign subsidiaries, foreign plant operations, and purchases from suppliers. The company actively manages the exposure of its foreign currency market risk by entering into various hedging instruments, authorized under company policies that place controls on these activities, with counterparties that are highly rated financial institutions. The company's hedging activities involve the primary use of forward currency contracts. The company uses

derivative instruments only in an attempt to limit underlying exposure from foreign currency exchange rate fluctuations and to minimize earnings and cash flow volatility associated with foreign currency exchange rate changes. Decisions on whether to use such 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. The company's policy does not allow the use of derivatives for trading or speculative purposes. The company's primary foreign currency exchange rate exposures are with the Euro, the Australian dollar, the Canadian dollar, the British pound, the Mexican peso, and the Japanese yen against the U.S. dollar.

Cash flow hedges. The company recognizes all derivative instruments as either assets or liabilities at fair value on its consolidated balance sheet and formally documents relationships between cash flow hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives to the forecasted transactions, such as sales to third parties and foreign plant operations. Changes in the fair value of outstanding derivative instruments that are designated and qualify as a cash flow hedge are recorded in other comprehensive income (OCI), except for the ineffective portion, until net earnings is affected by the variability of cash flows of the hedged transaction. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in net earnings. The consolidated statement of earnings classification of effective hedge results is the same as that of the underlying exposure. Results of hedges of sales and foreign plant operations are recorded in net sales and cost of sales, respectively, when the underlying hedged transaction affects net earnings. The maximum amount of time the company hedges its exposure to the variability in future cash flows for forecasted trade sales and purchases is two years.

The company formally assesses at a hedge's inception and on an ongoing basis whether the derivatives that are used in the hedging transaction have been highly effective in offsetting changes in the cash flows of the hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the company discontinues hedge accounting prospectively. When the company discontinues hedge accounting because it is no longer probable, but it is still reasonably possible that the forecasted transaction will occur by the end of the originally expected period or within an additional two-month period of time thereafter, the gain or loss on the derivative remains in accumulated other comprehensive loss (AOCL) and is reclassified to net earnings when the forecasted transaction affects net earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in OCI are recognized immediately in net earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the company carries the derivative at its fair value on the balance sheet, recognizing future changes in the fair value in other income, net. For the first quarter of fiscal 2010, there were no gains or losses on contracts reclassified into earnings as a result of the discontinuance of cash flow hedges. As of January 29, 2010, the notional amount outstanding of forward contracts designated as cash flow hedges was $60.3 million.

Derivatives not designated as hedging instruments. The company also enters into forward currency contracts to mitigate the change in fair value of specific assets and liabilities on the consolidated balance sheet. These contracts are not designated as hedging instruments. Accordingly, changes in the fair value of hedges of recorded balance sheet positions, such as cash, receivables, payables, intercompany notes, and other various contractual claims to pay or receive foreign currencies other than the functional currency, are recognized immediately in other income, net, on the consolidated statements of earnings together with the transaction gain or loss from the hedged balance sheet position.

The following table presents the fair value of the company's derivatives and consolidated balance sheet location.

	Asset Derivatives				**Liability Derivatives**			
	January 29, 2010		**January 30, 2009**		**January 29, 2010**		**January 30, 2009**	
(Dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Hedging Instruments								
Foreign exchange contracts	Prepaid expenses	$ -	Prepaid expenses	$ 6,020	Accrued liabilities	$ 1,446	Accrued liabilities	$ -
Derivatives Not Designated as Hedging Instruments								
Foreign exchange contracts	Prepaid expenses	-	Prepaid expenses	4,009	Accrued liabilities	751	Accrued liabilities	-
Total Derivatives		$ -		$ 10,029		$ 2,197		$ -

The following table presents the impact of derivative instruments on the consolidated statements of earnings for the company's derivatives designed as cash flow hedging instruments for the three months ended January 29, 2010 and January 30, 2009, respectively.

(Dollars in thousands) For the three months ended	Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain (Loss) Reclassified from AOCL into Income (Effective Portion)	Gain (Loss) Reclassified from AOCL into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Excluded from Effectiveness Testing)	
	January 29, 2010	January 30, 2009		January 29, 2010	January 30, 2009		January 29, 2010	January 30, 2009
Foreign exchange contracts	$ (2,752)	$ 10	Net sales	$ (890)	$ 2,741	Other income, net	$ (123)	$ (1,228)
Foreign exchange contracts	(47)	1,307	Cost of sales	(39)	(910)			
Total	$ (2,799)	$ 1,317		$ (929)	$ 1,831			

As of January 29, 2010, the company expects to reclassify approximately $1.4 million of losses from AOCL to earnings during the next twelve months.

The following table presents the impact of derivative instruments on the consolidated statements of earnings for the company's derivatives not designated as hedging instruments.

(Dollars in thousands)	Location of Gain (Loss) Recognized in Net Earnings	Gain (Loss) Recognized in Net Earnings Three Months Ended	
		January 29, 2010	January 30, 2009
Foreign exchange contracts	Other income, net	$ 833	$ 3,729

Fair Value Measurements

The company categorizes its assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs reflecting management's assumptions about the inputs used in pricing the asset or liability.

Cash and cash equivalents are valued at their carrying amounts in the consolidated balance sheets, which are reasonable estimates of their fair value due to their short maturities. Foreign currency forward exchange contracts are valued at fair market value, which is the amount the company would receive or pay to terminate the contracts at the reporting date. The unfunded deferred compensation liability is primarily subject to changes in fixed-income investment contracts.

The company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" for nonfinancial assets and liabilities that are not required to be measured on a recurring basis during the first quarter of fiscal 2010, as required. The adoption of this provision had no impact on the company's financial position or results of operations for the first quarter of fiscal 2010.

Assets and liabilities measured at fair value on a recurring basis, as of January 29, 2010, are summarized below:

(Dollars in thousands)	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 158,210	$ 158,210	—	—
Total Assets	$ 158,210	$ 158,210	—	—
Liabilities:				
Foreign exchange contracts	$ 2,197	—	$ 2,197	—
Deferred compensation liabilities	5,601	—	5,601	—
Total Liabilities	$ 7,798	—	$ 7,798	—

Contingencies

Litigation

General. The company is party to litigation in the ordinary course of business. Litigation occasionally involves claims for punitive as well as compensatory damages arising out of use of the company's products. Although the company is self-insured to some extent, the company maintains insurance against certain product liability losses. The company is also subject to administrative proceedings with respect to claims involving the discharge of hazardous substances into the environment. Some of these claims assert damages and liability for remedial investigations and clean up costs. The company is also typically involved in commercial disputes, employment disputes, and patent litigation cases in the ordinary course of business. To prevent possible infringement of the company's patents by others, the company periodically reviews competitors' products. To avoid potential liability with respect to others' patents, the company regularly reviews certain patents issued by the United States Patent and Trademark Office (USPTO) and foreign patent offices. Management believes these activities help minimize its risk of being a defendant in patent infringement litigation. The company is currently involved in patent litigation cases, both where it is asserting patents and where it is defending against charges of infringement.

Lawnmower Engine Horsepower Marketing and Sales Practices Litigation. In June 2004, individuals who claim to have purchased lawnmowers in Illinois and Minnesota filed a class action lawsuit in Illinois state court against the company and other defendants alleging that the horsepower labels on the products the plaintiffs purchased were inaccurate. Those individuals later amended their complaint to add additional plaintiffs and an additional defendant. The plaintiffs asserted violations of the federal Racketeer Influenced and Corrupt Organizations Act (RICO) and state statutory and common law claims. The plaintiffs sought certification of a class of all persons in the United States who, beginning January 1, 1994 through the present, purchased a lawnmower containing a two-stroke or four-stroke gas combustible engine up to 30 horsepower that was manufactured or sold by the defendants. The amended complaint also sought an injunction, unspecified compensatory and punitive damages, treble damages under RICO, and attorneys' fees.

In May 2006, the case was removed to federal court in the Southern District of Illinois. In August 2006, the company, together with the other defendants other than MTD Products Inc. (MTD), filed a motion to dismiss the amended complaint. Also in August 2006, the plaintiffs filed a motion for preliminary approval of a settlement agreement with MTD and certification of a settlement class. In December 2006, another defendant, American Honda Motor Company ("Honda"), notified the company and the other defendants that it had reached a settlement agreement with the plaintiffs.

In May 2008, the court issued a memorandum and order that (i) dismissed the RICO claim in its entirety; (ii) dismissed all non-Illinois state-law claims but with instructions that such claims could be re-filed in local courts; and (iii) rejected the proposed settlement with MTD. The proposed Honda settlement was not under consideration by the court and was not addressed in the memorandum and order. Also in May 2008, the plaintiffs (i) re-filed the Illinois claims with the court; and (ii) filed non-Illinois claims in federal courts in the District of New Jersey and the Northern District of California with essentially the same state law claims.

In June 2008, the plaintiffs filed a motion with the United States Judicial Panel on Multidistrict Litigation (the "MDL Panel") that (i) stated their intent to file lawsuits in all 50 states and the District of Columbia; and (ii) sought to have all of the cases transferred for coordinated pretrial proceedings. In August 2008, the MDL Panel issued an order denying the transfer request. Additional lawsuits, some of which included additional plaintiffs, were filed in various federal and state courts asserting essentially the same state law claims. To date, lawsuits have been filed in federal and state courts throughout the United States, which collectively assert claims under the laws of each state.

In September 2008, the company and other defendants filed a motion with the MDL Panel that sought to transfer the multiple actions for coordinated pretrial proceedings. In early December 2008, the MDL Panel issued an order that; (i) transferred 23 lawsuits, which collectively asserted claims under the laws of 16 states, for coordinated or consolidated pretrial proceedings; (ii) selected the United States District Court for the Eastern District of Wisconsin as the transferee district, and (iii) provided that additional lawsuits will be treated as "tag-along" actions in accordance with its rules.

An initial hearing was held in the United States District Court for the Eastern District of Wisconsin in January 2009. At that hearing, the Court (i) appointed lead plaintiffs' counsel, and (ii) entered a stay of all litigation so that the parties could explore mediation. Formal mediation proceedings were commenced, settlement discussions were conducted, and as of the date hereof, all defendants have entered into settlement agreements with the plaintiffs. On February 24, 2010, the company and certain other defendants entered into a settlement agreement with the plaintiffs which provides for, among other things, (i) a monetary settlement, (ii) an additional warranty period for some engines that are subject to the litigation, and (iii) injunctive relief relating to power rating labeling practices. The plaintiffs filed a motion for preliminary approval of the settlement agreement and certification of a settlement class, and on February 26, 2010, the court granted the motion. The settlement is not final for all purposes until after members of the proposed settlement class receive notice of the settlement, the Court determines that the settlement is fair, and applicable appeal periods expire without appeal. At this time, management is unable to provide assurance that the settlement will become final.

Management continues to evaluate these lawsuits. If the settlement becomes final, the company's obligations under the settlement agreement will not have a material adverse effect on the company's operating results or financial position. The expected costs of the company's settlement obligations are consistent with accruals established in prior periods. In the event the settlement does not become final, management is unable to assess at this time whether these lawsuits would have a material adverse effect on the company's annual consolidated operating results or financial condition, although an unfavorable resolution or outcome could be material to the company's consolidated operating results for a particular period.

Textron Innovations Inc. v. The Toro Company. In July 2005, Textron Innovations Inc., the patent holding company of Textron, Inc., filed a lawsuit in Delaware Federal District Court against the company for patent infringement. Textron alleged that the company willfully infringed certain claims of three Textron patents by selling its Groundsmaster® commercial mowers. Textron sought damages for the company's past sales and an injunction against future infringement. In August and November 2005, management answered the complaint, asserting defenses and counterclaims of non-infringement, invalidity, and equitable estoppel. Following the Court's order in October 2006 construing the claims of Textron's patents, discovery in the case was closed in February 2007. In March 2007, following unsuccessful attempts to mediate the case, management filed with the USPTO to have Textron's patents reexamined. The reexamination proceedings are pending in the USPTO, and all of the claims asserted against the company in all three patents stand rejected. In April 2007, the Court granted the company's motion to stay the litigation and, in June 2007, denied Textron's motion for reconsideration of the Court's order staying the proceedings. On February 26, 2010, the company entered into a Settlement Agreement with Textron that provides that the Delaware lawsuit, as well as a related lawsuit filed by the company against Textron in Minnesota Federal District Court relative to certain of the company's patents, will each be dismissed in their entirety.

Subsequent Events

The company evaluated all subsequent events and concluded that no additional subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

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

Nature of Operations

The Toro Company is in the business of designing, manufacturing, and marketing professional turf maintenance equipment and services, turf and agricultural micro-irrigation systems, landscaping equipment, and residential yard and snow removal products. We sell our products through a network of distributors, dealers, hardware retailers, home centers, mass retailers, and over the Internet. Our businesses are organized into three reportable business segments: professional, residential, and distribution. Our distribution segment, which consists of our company-owned domestic distribution company, has been combined with our corporate activities. Our emphasis is to provide innovative, well-built, and dependable products supported by an extensive service network. A significant portion of our revenues has historically been, and we expect it to continue to be, attributable to new and enhanced products.

The Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for the first quarter of fiscal 2010 should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2009.

RESULTS OF OPERATIONS

Overview

For the first quarter of fiscal 2010, our net sales were down 2.6 percent, as compared to the first quarter of fiscal 2009. Professional segment net sales were down by 7.2 percent as shipments for most professional segment products were down as customers aligned their orders closer to retail demand, leading to a further reduction in field inventory levels. However, international sales of micro-irrigation products were up due to market growth and increased demand for water-conserving products and additional manufacturing capacity that was added to increase production and sales of our water conserving products to meet the growing market demand. Residential segment sales increased 9.1 percent for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, primarily as a result of higher net sales of Pope irrigation products in Australia and increased worldwide shipments of snow thrower products. Our net earnings were up 62.2 percent for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, primarily from gross margin improvement due mainly to lower commodity costs in the first quarter of fiscal 2010 compared to average prices paid for commodities in the first quarter of fiscal 2009. In addition, the improvement in net earnings was also attributable to lower selling, general, and administrative (SG&A) expenses as a result of our leaner cost structure from actions we took in fiscal 2009.

We continued to focus on reducing working capital and improving asset management. As a result of our efforts, our inventory levels were down 20 percent as of the end of the first quarter of fiscal 2010 compared to the end of the first quarter of fiscal 2009, and our customers’ field inventory levels decreased significantly from the same comparable period last fiscal year. Our receivables were also down, by 43.9 percent, as of the end of the first quarter of fiscal 2010 compared to the end of the first quarter of fiscal 2009 due mainly to the sale of certain receivables to Red Iron Acceptance, LLC (Red Iron), our recently established financing joint venture with TCFIF. The impact of our efforts to reduce working capital resulted in a significant improvement of our cash flows from operating activities for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. We also increased our first quarter cash dividend by 20 percent from $0.15 to $0.18 per share compared to the quarterly cash dividend paid in the first quarter of fiscal 2009.

After experiencing one of the most economically challenging years during fiscal 2009, we expect fiscal 2010 will provide opportunities to begin our anticipated recovery and return to higher profitability levels. We intend to take the best of what we learned from the past to launch our new initiative, “5 in One: Back on Course.” This one-year initiative is intended to guide us through this year of recovery with an even stronger focus on the customer and a single financial goal: five percent profit after tax as a percentage of net sales for fiscal 2010. We believe we have taken the necessary proactive measures through our continued focus on asset management, reducing our cost structure, and our commitment to product innovation to position us well to benefit from a recovery as our markets improve.

Our net sales and earnings for the first quarter of our fiscal year are typically lower than other quarters, and the results of our first quarter are not necessarily an indicator of spring season sales trends. Our focus as we enter our peak selling season is on generating customer demand for our innovative new products, while keeping production closely aligned with expected shipment volumes. We will continue to keep a cautionary eye on the global economies, retail demand, field inventory levels, commodity prices, weather, competitive actions, expenses, and other factors identified below under the heading “Forward-Looking Information,” which could cause our actual results to differ from our outlook.

Net Earnings

Net earnings for the first quarter of fiscal 2010 were $10.9 million, or $0.32 per diluted share, compared to $6.7 million, or $0.18 per diluted share, for the first quarter of fiscal 2009, an increase in net earnings per diluted share of 77.8 percent. The primary factor contributing to this increase was a decrease in SG&A expense, somewhat offset by lower net sales. In addition, fiscal 2010 first quarter diluted net earnings per share were benefited by approximately $0.02 per share compared to the fiscal 2009 first quarter as a result of reduced shares outstanding from repurchases of our common stock during the last twelve months.

The following table summarizes the major operating costs and other income as a percentage of net sales:

	Three Months Ended	
	January 29, 2010	January 30, 2009
Net sales	100.0%	100.0%
Cost of sales	(64.9)	(65.2)
Gross margin	35.1	34.8
SG&A expense	(29.2)	(30.7)
Interest expense	(1.3)	(1.3)
Other income, net	0.4	0.2
Provision for income taxes	(1.7)	(1.0)
Net earnings	3.3%	2.0%

Net Sales

Worldwide consolidated net sales for the first quarter of fiscal 2010 were $331.4 million compared to $340.2 million in the first quarter of fiscal 2009, a decrease of 2.6 percent. Worldwide professional segment net sales were down 7.2 percent, mainly from decreased sales of golf and grounds maintenance equipment resulting from customers aligning their orders closer to retail demand and leading to a further reduction in field inventory levels, as well as the timing of initial stocking orders in fiscal 2009 for new landscape contractor equipment products. However, international sales of micro-irrigation products were up due to market growth and increased demand for water-conserving products and additional manufacturing capacity that was added to increase production and sales of our water conserving products to meet the growing market demand. Residential segment sales increased 9.1 percent for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, primarily as a result of higher net sales of Pope irrigation products sold in Australia due to dry weather conditions in that region. In addition, worldwide shipments of snow thrower products were up due to the timing of the introduction of our new redesigned offering of snow thrower products that shipped to customers in the first quarter of fiscal 2010. International sales were down 1.5 percent, as compared to the first quarter of fiscal 2009. However, a weaker U.S. dollar compared to other worldwide currencies in which we transact business accounted for approximately $9 million of additional net sales for the first quarter of fiscal 2010.

Gross Profit

As a percentage of net sales, gross profit for the first quarter of fiscal 2010 increased to 35.1 percent compared to 34.8 percent in the first quarter of fiscal 2009. This improvement was due to the following factors: (i) lower average commodity costs in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009; (ii) a weaker U.S. dollar compared to other currencies in which we transact business; and (iii) cost reduction efforts. Somewhat offsetting those positive factors were lower sales of our higher-margin professional segment products and increased tooling expense from investments in tooling for new products.

Selling, General, and Administrative Expense

SG&A expense for the first quarter of fiscal 2010 decreased $8.0 million, or 7.6 percent, compared to the same period last fiscal year. SG&A expense as a percentage of net sales also decreased to 29.2 percent in the first quarter of fiscal 2010 compared to 30.7 percent in the first quarter of fiscal 2009. These declines were primarily attributable to our leaner cost structure from actions we took in fiscal 2009, many of which were implemented after last year’s first quarter, costs incurred in the first quarter of fiscal 2009 in the amount of $1.3 million for workforce adjustments, and a decrease in bad debt expense of $1.1 million. Somewhat offsetting those declines was an increase in incentive compensation expense of $1.7 million from anticipated improved financial performance in fiscal 2010, as compared to fiscal 2009.

Interest Expense

Interest expense for the first quarter of fiscal 2010 decreased 2.6 percent compared to the first quarter of fiscal 2009 due to lower average debt levels.

Other Income, Net

Other income, net for the first quarter of fiscal 2010 was $0.9 million compared to $0.8 million for the same period last fiscal year, an increase of $0.1 million. The increase was due primarily to higher currency exchange rate gains and the gain on the sale of a portion of the operations of our company-owned distributorship, somewhat offset by an increase in litigation settlement costs.

Provision for Income Taxes

The effective tax rate for the first quarter of fiscal 2010 was slightly down to 33.6 percent compared to 33.7 percent in the first quarter of fiscal 2009.

BUSINESS SEGMENTS

As described previously, we operate in three reportable business segments: professional, residential, and distribution. Our distribution segment, which consists of our wholly owned domestic distribution company, has been combined with our corporate activities that is shown as "Other" in the following tables. Operating earnings for our professional and residential segments are defined as earnings from operations plus other income, net. Operating loss for "Other" includes earnings (loss) from operations, corporate activities, other income, net, and interest expense.

The following table summarizes net sales by segment:

(Dollars in thousands)	Three Months Ended			
	January 29, 2010	January 30, 2009	$ Change	% Change
Professional	$ 212,800	$ 229,369	$ (16,569)	(7.2)%
Residential	116,756	107,024	9,732	9.1
Other	1,802	3,779	(1,977)	(52.3)
Total*	$ 331,358	$ 340,172	$ (8,814)	(2.6)%
* Includes international sales of:	$ 128,383	$ 130,391	$ (2,008)	(1.5)%

The following table summarizes segment earnings (loss) before income taxes:

(Dollars in thousands)	Three Months Ended			
	January 29, 2010	January 30, 2009	$ Change	% Change
Professional	$ 25,810	$ 30,129	$ (4,319)	(14.3)%
Residential	13,427	4,840	8,587	177.4
Other	(22,789)	(24,816)	2,027	8.2
Total	$ 16,448	$ 10,153	$ 6,295	62.0%

Professional

Net Sales. Worldwide net sales for the professional segment in the first quarter of fiscal 2010 were down 7.2 percent compared to the first quarter of fiscal 2009. Shipments declined mainly for golf and grounds maintenance equipment products as customers aligned their orders closer to retail demand, leading to a further reduction in field inventory levels. Sales of landscape contractor equipment were also down for the first quarter comparison due mainly to the timing of initial stocking orders in fiscal 2009 for new products. However, international sales of micro-irrigation products were up due to market growth and increased demand for water-conserving products and additional manufacturing capacity that was added to increase production and sales of our water conserving products to meet the growing market demand.

Operating Earnings. Operating earnings for the professional segment were $25.8 million in the first quarter of fiscal 2010 compared to $30.1 million in the first quarter of fiscal 2009, a decrease of 14.3 percent. Expressed as a percentage of net sales, professional segment operating margins decreased to 12.1 percent compared to 13.1 percent in the first quarter of fiscal 2009. These profit declines were primarily attributable to lower sales volumes and lower gross margins due to increased tooling expense from investments in tools for new products. Other income, net was also down due mainly to lower currency exchange rate gains in the first quarter of fiscal 2010 compared to the same period last year.

Residential

Net Sales. Worldwide net sales for the residential segment in the first quarter of fiscal 2010 were up by 9.1 percent compared to the first quarter of fiscal 2009. This increase was primarily the result of increased net sales of Pope irrigation products sold in Australia due to dry weather conditions in that region. In addition, worldwide shipments of snow thrower products were up due to the timing of the introduction of our new redesigned offering of snow thrower products that shipped to customers in the first quarter of fiscal 2010. Sales of riding products and parts were also up in the first quarter of fiscal 2010 compared to fiscal 2009 first quarter.

Operating Earnings. Operating earnings for the residential segment were $13.4 million in the first quarter of fiscal 2010 compared to $4.8 million in the first quarter of fiscal 2009, an increase of $8.6 million. Expressed as a percentage of net sales, residential segment operating margins increased to 11.5 percent compared to 4.5 percent in the first quarter of fiscal 2009. These increases were due to improved gross margins due to lower average commodity costs in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, a weaker U.S. dollar compared to other currencies in which we transact business, cost reduction efforts, and increased sales volumes of higher-margin products. Lower SG&A expense as a percent of net sales also contributed to the operating profit improvement as a result of budget reductions and leveraging fixed SG&A costs over higher sales volumes. In addition, an increase in other income, net from an increase in currency exchange rate gains for the first quarter comparison benefited residential segment operating earnings.

Other

Net Sales. Net sales for the other segment include sales from our wholly owned domestic distribution company less sales from the professional and residential segments to that distribution company. In fiscal 2009, “Other” also included elimination of the professional and residential segments’ floor plan interest costs from Toro Credit Company (TCC), our wholly owned financing company. With the establishment of Red Iron, net sales for the other segment no longer includes corporate financing activities, including the elimination of floor plan costs from TCC, which results in lower net sales for the other segment. The other segment net sales decreased $2.0 million, or 52.3 percent, in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009, since “Other” no longer includes elimination of TCC floor plan interest costs and from lower net sales at our company-owned distributorship.

Operating Losses. Operating losses for the other segment were down $2.0 million, or 8.2 percent, for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. This decrease was primarily attributable to our leaner cost structure from actions we implemented in fiscal 2009, primarily after the first quarter of fiscal 2009, costs incurred for workforce adjustments in fiscal 2009, and a decrease in bad debt expense. Somewhat offsetting those declines was an increase in incentive compensation expense due to anticipated improved financial performance in fiscal 2010, as compared to fiscal 2009.

FINANCIAL POSITION

Working Capital

We have taken proactive measures to improve working capital utilization, including adjusting production plans, controlling costs, and managing our assets. As such, our financial condition remains strong. We continue to place emphasis on asset management, with a focus on minimizing the amount of working capital in the supply chain and maintaining or improving order replenishment and service levels to end users. In connection with the establishment of Red Iron, our financing joint venture with TCFIF, we sold certain receivables, including floor plan and open account receivables, from most U.S. and Canadian distributors and dealers of our products at a purchase price equal to the face value of the receivables or the purchase price paid for such receivables. Red Iron generally began financing floor plan receivables in the fourth quarter of fiscal 2009. Red Iron also began financing open account receivables, as well as floor plan receivables previously financed by a third party financing company, during our first quarter of fiscal 2010. The sale of these receivables enables us to use our working capital for other strategic purposes, such as strategic acquisitions, research and development of innovative new products, improvements in the quality and performance of existing products, and general corporate purposes.

Receivables as of the end of the first quarter of fiscal 2010 were down 43.9 percent compared to the end of the first quarter of fiscal 2009 and our average days sales outstanding for receivables improved to 60 days based on sales for the last twelve months ended January 29, 2010, compared to 68 days for the twelve months ended January 30, 2009. These improvements were due mainly to the sale of our floor plan receivables and certain open account receivables to Red Iron. Inventory was also down as of the end of the first quarter of fiscal 2010 by 20.0 percent compared to the end of the first quarter of fiscal 2009, and average inventory turnover improved 7.5 percent for the twelve months ended January 29, 2010 compared to the twelve months ended January 30, 2009. In addition, as part of our working capital initiative, accounts payable increased as of the end of our first quarter of fiscal 2010, by $20.0 million or 22.3 percent, driven by our supply chain initiatives.

Liquidity and Capital Resources

Our businesses are working capital intensive and require funding for purchases of raw materials used in production, replacement parts inventory, payroll and other administrative costs, capital expenditures, expansion and upgrading of existing facilities, as well as receivables from customers that are not financed with Red Iron. We believe that anticipated cash generated from operations, together with our fixed rate long-term debt, bank credit lines, and cash on hand, will provide us with adequate liquidity to meet our anticipated operating requirements. One of the purposes of establishing Red Iron was to free up our working capital for other strategic purposes, which may include, among other things, strategic acquisitions, research and development of innovative new products, improvements in the quality and performance of existing products, and general corporate purposes. We believe that the funds available through existing financing arrangements and forecasted cash flows will be sufficient to provide the necessary capital resources for our anticipated working capital needs, capital expenditures, investments, debt repayments, and quarterly cash dividend payments for at least the next twelve months.

Our Board of Directors approved a cash dividend of $0.18 per share for the first quarter of fiscal 2010 paid on January 12, 2010, which was an increase of 20 percent over our cash dividend of $0.15 per share for the first quarter of fiscal 2009.

Cash Flow. Our first fiscal quarter historically uses more operating cash than other fiscal quarters due to the seasonality of our business. Cash used in operating activities for the first three months of fiscal 2010 was $10.5 million for the first three months of fiscal 2009 compared to $72.5 million for the first three months of fiscal 2009, a reduction of $62.0 million, or 85.5 percent. This decrease was due to declines in receivables and inventory levels and an increase in accounts payable, as previously discussed, as well as higher net earnings, all for the first three months of fiscal 2010 compared to the first three months of fiscal 2009. Cash used in investing activities was up by $4.5 million compared to the first quarter of fiscal 2009, due mainly to an increase in investments in affiliates and cash utilized for an acquisition of an independent distribution company. Cash used in financing activities for the first quarter of fiscal 2010 was $3.5 million compared to cash provided by financing activities of $18.7 million for the first quarter of fiscal 2009. This change was due mainly to short-term borrowing under our revolving credit facility as of the end of the first quarter of fiscal 2009, whereas we did not have any short-term debt outstanding under our revolving credit facility as of the end of the first quarter of fiscal 2010.

Credit Lines and Other Capital Resources. Our businesses are seasonal, with accounts receivable balances historically increasing between January and April, as a result of higher sales volumes and payment terms made available to our customers and decreasing between May and December when payments are received. The seasonality of production and shipments causes our working capital requirements to fluctuate during the year. Seasonal cash requirements are financed from operations, cash on hand, and with short-term financing arrangements, including a $225.0 million unsecured senior five-year revolving credit facility that expires in January 2012. Interest expense on this credit line is determined based on a LIBOR rate plus a basis point spread

defined in the credit agreement. In addition, our non-U.S. operations maintain unsecured short-term lines of credit of approximately $20 million. These facilities bear interest at various rates depending on the rates in their respective countries of operation. We also have a letter of credit subfacility as part of our credit agreement. As of January 29, 2010, we had $10.1 million of outstanding standby letters of credit. We had no outstanding short-term debt as of January 29, 2010 and $25.0 million outstanding short-term debt as of January 30, 2009, under these lines of credit. As of January 29, 2010, we had $255.6 million of unutilized availability under our credit agreements. In addition, we had $0.7 million in short-term debt for certain receivables we provided recourse to Red Iron as of January 29, 2010.

Significant financial covenants in our credit agreement include interest coverage and debt-to-capitalization ratios. We were in compliance with all covenants related to our credit agreements as of January 29, 2010, and expect to be in compliance with all covenants during the remainder of fiscal 2010.

Customer Financing Arrangements and Contractual Obligations

Third party financing companies and Red Iron purchased $190.6 million of receivables from us during the first three months of fiscal 2010, and $180.4 million was outstanding as of January 29, 2010. See our most recently filed Annual Report on Form 10-K for further details regarding our customer financing arrangements and contractual obligations.

Inflation

We are subject to the effects of inflation and changing prices. In the first quarter of fiscal 2010, average prices paid for commodities we purchase were lower compared to the average prices paid for commodities in the first quarter of fiscal 2009, which benefited our gross margin rate in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. We will continue to closely follow the commodities that affect our product lines, and we anticipate average prices paid for commodities to be lower for the remainder of fiscal 2010 as compared to fiscal 2009. We plan to attempt to mitigate the impact of any inflationary pressures by engaging in proactive vendor negotiations, reviewing alternative sourcing options, substituting materials, engaging in internal cost reduction efforts, and increasing prices on some of our products, as appropriate.

Significant Accounting Policies and Estimates

See our most recent Annual Report on Form 10-K for the fiscal year ended October 31, 2009 for a discussion of our critical accounting policies.

New Accounting Pronouncements to be Adopted

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820).” ASU No. 2010-06 requires new disclosures about recurring and nonrecurring fair-value measurements including significant transfers in and out of Level 1 and Level 2 fair-value measurements and a description of the reasons for the transfers. In addition, ASU No. 2010-06 requires new disclosures regarding activity in Level 3 fair value measurements, including information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. We will adopt the provision of ASU No. 2010-06 for Level 1 and Level 2 fair-value measurements for our second fiscal quarter beginning on January 30, 2010, as required. We will adopt the provision of ASU No. 2010-06 for Level 3 fair-value measurements for our second fiscal quarter beginning on January 30, 2011, as required. We do not expect the adoption of ASU No. 2010-06 will have a material impact on our disclosures for fair-value measurements.

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 167, “Amendments to FASB Interpretation No. 46(R),” and SFAS No. 166, “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140.” SFAS No. 167 amends FASB Interpretation 46(R) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS No. 166 amends SFAS No. 140 by removing the exemption from consolidation for Qualifying Special Purpose Entities. SFAS No. 166 also limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. We will adopt both SFAS No. 167 and SFAS No. 166 on November 1, 2010, as required. We are currently evaluating the impact the adoption of these standards will have on our consolidated financial statements and related disclosures.

No other new accounting pronouncement that has been issued but not yet effective for us during fiscal 2010 has had or is expected to have a material impact on our consolidated financial statements.

Forward-Looking Information

This Quarterly Report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and that are subject to the safe harbor created by those sections. In addition, we or others on our behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences and/or web casts open to the public, in press releases or reports, on our web sites, or otherwise. Statements that are not historical are forward-looking and reflect expectations and assumptions. We try to identify forward-looking statements in this report and elsewhere by using words such as "expect," "strive," "looking ahead," "outlook," "forecast," "optimistic," "plan," "anticipate," "continue," "estimate," "believe," "could," "should," "will," "would," "may," "possible," "likely," "intend," and similar expressions. Our forward-looking statements generally relate to our future performance, including our anticipated operating results and liquidity requirements, our business strategies and goals, and the effect of laws, rules, regulations, and new accounting pronouncements and outstanding litigation, on our business, operating results, and financial condition.

Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or implied. These risks and uncertainties include factors that affect all businesses operating in a global market as well as matters specific to Toro. The following are some of the factors known to us that could cause our actual results to differ materially from what we have anticipated in our forward-looking statements:

- Economic conditions and outlook in the United States and around the world could adversely affect our net sales and earnings, which includes but is not limited to recessionary conditions in the U.S. and other regions around the world and worldwide slow or negative economic growth rates; slow down or reductions in levels of golf course development, renovation, and improvement; slow down or reductions in levels of home ownership, construction, and home sales; consumer spending levels; credit availability or credit terms for our distributors, dealers, and end-user customers; short-term, mortgage, and other interest rates; unemployment rates; inflation; consumer confidence; and general economic and political conditions and expectations in the U.S. and the foreign economies in which we conduct business.
- Increases in the cost or disruption in the availability of raw materials and components that we purchase and increases in our other costs of doing business, including transportation costs, may adversely affect our profit margins and business.
- Weather conditions may reduce demand for some of our products and adversely affect our net sales.
- Our professional segment net sales are dependent upon the level of residential and commercial construction, the level of homeowners' outsourcing lawn care, the amount of investment in golf course renovations and improvements, new golf course development, golf course closures, availability of credit on acceptable credit terms to finance product purchases, and the level of government and municipal revenue, budget, and spending levels for grounds maintenance equipment and other factors.
- Our residential segment net sales are dependent upon consumer spending levels, the amount of product placement at retailers, changing buying patterns of customers, and The Home Depot, Inc. as a major customer.
- If we are unable to continue to enhance existing products and develop and market new products that respond to customer needs and preferences and achieve market acceptance, or if we experience unforeseen product quality or other problems in the development, production, or use of new and existing products, we may experience a decrease in demand for our products, and our business could suffer.
- We face intense competition in all of our product lines with numerous manufacturers, including from some competitors that have greater operations and financial resources than us. We may not be able to compete effectively against competitors' actions, which could harm our business and operating results.
- A significant percentage of our consolidated net sales are generated outside of the United States, and we intend to continue to expand our international operations. Our international operations require significant management attention and financial resources, expose us to difficulties presented by international economic, cultural, political, legal, accounting, and business factors; and may not be successful or produce desired levels of net sales.
- Fluctuations in foreign currency exchange rates could result in declines in our reported net sales and net earnings.
- We manufacture our products at and distribute our products from several locations in the United States and internationally. Any disruption at any of these facilities or our inability to cost-effectively expand existing and/or move production between manufacturing facilities could adversely affect our business and operating results.

- We intend to grow our business in part through additional acquisitions, alliances, stronger customer relations, and new joint ventures and partnerships, which are risky and could harm our business, particularly if we are not able to successfully integrate such acquisitions, alliances, joint ventures, and partnerships.
- We rely on our management information systems for inventory management, distribution, and other functions. If our information systems fail to adequately perform these functions or if we experience an interruption in their operation, our business and operating results could be adversely affected.
- As a result of our recently established financing joint venture with TCFIF, we are dependent upon the joint venture to provide competitive inventory financing programs, including floor plan and open account receivable financing, to certain distributors and dealers of our products. Any difficulty in transitioning our inventory financing programs to the joint venture, any material change in the availability or terms of credit offered to our customers by the joint venture, any termination or disruption of our joint venture relationship or any delay in securing replacement credit sources could adversely affect our net sales and operating results.
- A portion of our international net sales are financed by third parties. The termination of our agreements with these third parties, any material change to the terms of our agreements with these third parties or in the availability or terms of credit offered to our international customers by these third parties, or any delay in securing replacement credit sources, could adversely affect our sales and operating results.
- Our reliance upon patents, trademark laws, and contractual provisions to protect our proprietary rights may not be sufficient to protect our intellectual property from others who may sell similar products. Our products may infringe the proprietary rights of others.
- Our business, properties, and products are subject to governmental regulation with which compliance may require us to incur expenses or modify our products or operations and non-compliance may expose us to penalties. Governmental regulation may also adversely affect the demand for some of our products and our operating results.
- Legislative enactments could impact the competitive landscape within our markets and affect demand for our products.
- We are subject to product liability claims, product quality issues, and other litigation from time to time that could adversely affect our operating results or financial condition, including without limitation the pending litigation against us and other defendants that challenges the horsepower labels on the products the plaintiffs purchased were inaccurate. In the event that settlement discussions do not result in an executed or court approved settlement agreement and these lawsuits go to trial, even if the plaintiffs' claims are found to be without merit, we have incurred, and expect to continue to incur, substantial costs in defending the lawsuit. The lawsuit could divert the time and attention of our management and could result in adverse publicity, either of which could significantly harm our operating results and financial condition. In addition, an unfavorable resolution or outcome could have a material adverse effect on our operating results or financial condition.
- If we are unable to retain our key employees, and attract and retain other qualified personnel, we may not be able to meet strategic objectives and our business could suffer.
- The terms of our credit arrangements and the indentures governing our senior notes and debentures could limit our ability to conduct our business, take advantage of business opportunities, and respond to changing business, market, and economic conditions. Additionally, we are subject to counterparty risk in our credit arrangements. If we are unable to comply with the terms of our credit arrangements and indentures, especially the financial covenants, our credit arrangements could be terminated and our senior notes and debentures could become due and payable.
- Our business is subject to a number of other factors that may adversely affect our operating results, financial condition, or business, such as natural or man-made disasters or global pandemics that may result in shortages of raw materials, higher fuel costs, and an increase in insurance premiums; financial viability of our distributors and dealers, changes in distributor ownership, changes in channel distribution of our products, relationships with our distribution channel partners, our success in partnering with new dealers, and our customers' ability to pay amounts owed to us; ability of management to adapt to unplanned events; drug cartel-related violence, which may disrupt our production activities and maquiladora operations based in Juarez, Mexico; and continued threat of terrorist acts and war that may result in heightened security and higher costs for import and export shipments of components or finished goods, reduced leisure travel, and contraction of the U.S. and world economies.

For more information regarding these and other uncertainties and factors that could cause our actual results to differ materially from what we have anticipated in our forward-looking statements or otherwise could materially adversely affect our business, financial condition, or operating results, see our most recently filed Annual Report on Form 10-K, Part I, Item 1A, "Risk Factors."

All forward-looking statements included in this report are expressly qualified in their entirety by the foregoing cautionary statements. We wish to caution readers not to place undue reliance on any forward-looking statement which speaks only as of the date made and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. 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 that we may consider immaterial or do not anticipate at this time. The foregoing risks and uncertainties are not exclusive and further information concerning the company and our businesses, including factors that potentially could materially affect our financial results or condition, may emerge from time to time. We assume no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. We advise you, however, to consult any further disclosures we make on related subjects in our future annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K we file with or furnish to the Securities and Exchange Commission.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk stemming from changes in foreign currency exchange rates, interest rates, and commodity prices. Changes in these factors could cause fluctuations in our net earnings and cash flows. See further discussions on these market risks below. We are also exposed to equity market risk pertaining to the trading price of our common stock.

Foreign Currency Exchange Rate Risk. In the normal course of business, we actively manage the exposure of our foreign currency exchange rate market risk by entering into various hedging instruments, authorized under company policies that place controls on these activities, with counterparties that are highly rated financial institutions. Our hedging activities involve the primary use of forward currency contracts. We use derivative instruments only in an attempt to limit underlying exposure from currency fluctuations and to minimize earnings and cash flow volatility associated with foreign currency exchange rate changes and not for trading purposes. We are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales and loans to wholly owned foreign subsidiaries, foreign plant operations, and purchases from suppliers. Because our products are manufactured or sourced primarily from the United States and Mexico, a stronger U.S. dollar and Mexican peso generally has a negative impact on our results from operations, while a weaker dollar and peso generally has a positive effect. Our primary currency exchange rate exposures are with the Euro, the Australian dollar, the Canadian dollar, the British pound, the Mexican peso, and the Japanese yen against the U.S. dollar.

We enter into various contracts, principally forward contracts that change in value as foreign currency exchange rates change, to protect the value of existing foreign currency assets, liabilities, anticipated sales, and probable commitments. Decisions on whether to use such contracts are made based on the amount of exposures to the currency involved and an assessment of the near-term market value for each currency. Worldwide foreign currency exchange rate exposures are reviewed monthly. The gains and losses on these contracts offset changes in market values of the related exposures. Therefore, 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. Additional information regarding gains and losses on our derivative instruments is presented in the Notes to Condensed Consolidated Financial Statements (Unaudited) in Item 1 of this Quarterly Report on Form 10-Q, in the section entitled "Derivative Instruments and Hedging Activities."

The following foreign currency exchange contracts held by us have maturity dates in fiscal 2010 and 2011. All items are non-trading and stated in U.S. dollars. Some derivative instruments we enter into do not meet the cash flow hedging criteria; therefore, changes in fair value are recorded in other (expense) income, net. The average contracted rate, notional amount, pre-tax value of derivative instruments in accumulated other comprehensive loss, and fair value impact of derivative instruments in other income, net as of and for the fiscal period ended January 29, 2010 were as follows:

Dollars in thousands (except average contracted rate)	**Average Contracted Rate**	**Notional Amount**	**Value in Accumulated Other Comprehensive Income (Loss)**	**Fair Value Impact Gain (Loss)**
Buy US dollar/Sell Australian dollar	0.8330	$ 45,276.5	$ (1,828.4)	$ (1,614.8)
Buy US dollar/Sell Canadian dollar	0.9312	8,148.2	(75.8)	(32.8)
Buy US dollar/Sell Euro	1.4089	65,018.7	41.8	(54.8)
Buy US dollar/Sell British pound	1.6164	3,394.4	—	—
Buy Mexican peso/Sell US dollar	13.2888	13,771.0	(7.7)	(128.4)

Our net investment in foreign subsidiaries translated into U.S. dollars is not hedged. Any changes in foreign currency exchange rates would be reflected as a foreign currency translation adjustment, a component of accumulated other comprehensive loss in stockholders' equity, and would not impact net earnings.

Interest Rate Risk. Our market risk on interest rates relates primarily to LIBOR-based short-term debt from commercial banks, as well as the potential increase in fair value of long-term debt resulting from a potential decrease in interest rates. However, we do not have a cash flow or earnings exposure due to market risks on long-term debt. We generally do not use interest rate swaps to mitigate the impact of fluctuations in interest rates. See our most recently filed Annual Report on Form 10-K (Item 7A). There has been no material change in this information.

Commodity Price Risk. Some raw materials used in our products are exposed to commodity price changes. The primary commodity price exposures are with steel, aluminum, fuel, petroleum-based resin, and linerboard. In addition, we are a purchaser of components and parts containing various commodities, including steel, aluminum, copper, lead, rubber, and others which are integrated into our end products. Further information regarding rising prices for commodities is presented in Item 2 of this Quarterly Report on Form 10-Q, in the section entitled "Inflation."

We enter into fixed-price contracts for future purchases of natural gas in the normal course of operations as a means to manage natural gas price risks. These contracts meet the definition of "normal purchases and normal sales" and, therefore, are not considered derivative instruments for accounting purposes.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to reasonably ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we are required to apply our judgment in evaluating the cost-benefit relationship of possible internal controls. Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered in this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that material information relating to our company and our consolidated subsidiaries is made known to management, including our Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared. There was no change in our internal control over financial reporting that occurred during our fiscal first quarter ended January 29, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
Item 1. LEGAL PROCEEDINGS

General. The company is party to litigation in the ordinary course of business. Litigation occasionally involves claims for punitive as well as compensatory damages arising out of use of the company's products. Although the company is self-insured to some extent, the company maintains insurance against certain product liability losses. The company is also subject to administrative proceedings with respect to claims involving the discharge of hazardous substances into the environment. Some of these claims assert damages and liability for remedial investigations and clean up costs. The company is also typically involved in commercial disputes, employment disputes, and patent litigation cases in the ordinary course of business. To prevent possible infringement of the company's patents by others, the company periodically reviews competitors' products. To avoid potential liability with respect to others' patents, the company regularly reviews certain patents issued by the United States Patent and Trademark Office (USPTO) and foreign patent offices. Management believes these activities help minimize its risk of being a defendant in patent infringement litigation. The company is currently involved in patent litigation cases, both where it is asserting patents and where it is defending against charges of infringement.

Lawnmower Engine Horsepower Marketing and Sales Practices Litigation. In June 2004, individuals who claim to have purchased lawnmowers in Illinois and Minnesota filed a class action lawsuit in Illinois state court against the company and

other defendants alleging that the horsepower labels on the products the plaintiffs purchased were inaccurate. Those individuals later amended their complaint to add additional plaintiffs and an additional defendant. The plaintiffs asserted violations of the federal Racketeer Influenced and Corrupt Organizations Act (RICO) and state statutory and common law claims. The plaintiffs sought certification of a class of all persons in the United States who, beginning January 1, 1994 through the present, purchased a lawnmower containing a two-stroke or four-stroke gas combustible engine up to 30 horsepower that was manufactured or sold by the defendants. The amended complaint also sought an injunction, unspecified compensatory and punitive damages, treble damages under RICO, and attorneys' fees.

In May 2006, the case was removed to federal court in the Southern District of Illinois. In August 2006, the company, together with the other defendants other than MTD Products Inc. (MTD), filed a motion to dismiss the amended complaint. Also in August 2006, the plaintiffs filed a motion for preliminary approval of a settlement agreement with MTD and certification of a settlement class. In December 2006, another defendant, American Honda Motor Company ("Honda"), notified the company and the other defendants that it had reached a settlement agreement with the plaintiffs.

In May 2008, the court issued a memorandum and order that (i) dismissed the RICO claim in its entirety; (ii) dismissed all non-Illinois state-law claims but with instructions that such claims could be re-filed in local courts; and (iii) rejected the proposed settlement with MTD. The proposed Honda settlement was not under consideration by the court and was not addressed in the memorandum and order. Also in May 2008, the plaintiffs (i) re-filed the Illinois claims with the court; and (ii) filed non-Illinois claims in federal courts in the District of New Jersey and the Northern District of California with essentially the same state law claims.

In June 2008, the plaintiffs filed a motion with the United States Judicial Panel on Multidistrict Litigation (the "MDL Panel") that (i) stated their intent to file lawsuits in all 50 states and the District of Columbia; and (ii) sought to have all of the cases transferred for coordinated pretrial proceedings. In August 2008, the MDL Panel issued an order denying the transfer request. Additional lawsuits, some of which included additional plaintiffs, were filed in various federal and state courts asserting essentially the same state law claims. To date, lawsuits have been filed in federal and state courts throughout the United States, which collectively assert claims under the laws of each state.

In September 2008, the company and other defendants filed a motion with the MDL Panel that sought to transfer the multiple actions for coordinated pretrial proceedings. In early December 2008, the MDL Panel issued an order that; (i) transferred 23 lawsuits, which collectively asserted claims under the laws of 16 states, for coordinated or consolidated pretrial proceedings; (ii) selected the United States District Court for the Eastern District of Wisconsin as the transferee district, and (iii) provided that additional lawsuits will be treated as "tag-along" actions in accordance with its rules.

An initial hearing was held in the United States District Court for the Eastern District of Wisconsin in January 2009. At that hearing, the Court (i) appointed lead plaintiffs' counsel, and (ii) entered a stay of all litigation so that the parties could explore mediation. Formal mediation proceedings were commenced, settlement discussions were conducted, and as of the date hereof, all defendants have entered into settlement agreements with the plaintiffs. On February 24, 2010, the company and certain other defendants entered into a settlement agreement with the plaintiffs which provides for, among other things, (i) a monetary settlement, (ii) an additional warranty period for some engines that are subject to the litigation, and (iii) injunctive relief relating to power rating labeling practices. The plaintiffs filed a motion for preliminary approval of the settlement agreement and certification of a settlement class, and on February 26, 2010, the court granted the motion. The settlement is not final for all purposes until after members of the proposed settlement class receive notice of the settlement, the Court determines that the settlement is fair, and applicable appeal periods expire without appeal. At this time, management is unable to provide assurance that the settlement will become final.

Management continues to evaluate these lawsuits. If the settlement becomes final, the company's obligations under the settlement agreement will not have a material adverse effect on the company's operating results or financial position. The expected costs of the company's settlement obligations are consistent with accruals established in prior periods. In the event the settlement does not become final, management is unable to assess at this time whether these lawsuits would have a material adverse effect on the company's annual consolidated operating results or financial condition, although an unfavorable resolution or outcome could be material to the company's consolidated operating results for a particular period.

Textron Innovations Inc. v. The Toro Company. In July 2005, Textron Innovations Inc., the patent holding company of Textron, Inc., filed a lawsuit in Delaware Federal District Court against the company for patent infringement. Textron alleged that the company willfully infringed certain claims of three Textron patents by selling its Groundsmaster® commercial mowers. Textron sought damages for the company's past sales and an injunction against future infringement. In August and November 2005, management answered the complaint, asserting defenses and counterclaims of non-infringement, invalidity, and equitable estoppel. Following the Court's order in October 2006 construing the claims of Textron's patents, discovery in the case was closed in February 2007. In March 2007, following unsuccessful attempts to mediate the case, management filed with the USPTO to have Textron's patents reexamined. The reexamination proceedings are pending in the USPTO, and all of the claims asserted against the company in all three patents stand rejected. In April 2007, the Court granted the company's motion to stay the litigation and, in June 2007, denied Textron's motion for reconsideration of the Court's order staying the proceedings. On February 26, 2010, the company entered into a Settlement Agreement with Textron that provides that the Delaware lawsuit, as well as a related lawsuit filed by the company against Textron in Minnesota Federal District Court relative to certain of the company's patents, will each be dismissed in their entirety.

Item 1A. RISK FACTORS

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition, or operating results or could cause our actual results to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statement made in this report, are described in our most recently filed Annual Report on Form 10-K (Item 1A). There has been no material change in those risk factors.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table shows our first quarter of fiscal 2010 stock repurchase activity:

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
November 1, 2009 through November 27, 2009	42,398	$ 40.03	42,398	3,965,314
November 28, 2009 through January 1, 2010	48,947	40.55	48,947	3,916,367
January 2, 2010 through January 29, 2010	2,402(2)	43.59	—	3,916,367
Total	93,747	$ 40.39	91,345	

(1) On July 21, 2009, the company's Board of Directors authorized the repurchase of 5,000,000 shares of the company's common stock in open-market or in privately negotiated transactions. This program has no expiration date but may be terminated by the company's Board of Directors at any time.

(2) Includes 2,402 units (shares) of the company's common stock purchased in open-market transactions at an average price of $43.59 per share on behalf of a rabbi trust formed to pay benefit obligations of the company to participants in deferred compensation plans. These 2,402 shares were not repurchased under the company's repurchase program described in footnote 1 above.

Item 6. EXHIBITS

(a) Exhibits

3.1 and 4.1	Restated Certificate of Incorporation of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated June 17, 2008, Commission File No. 1-8649).
3.2 and 4.2	Amended and Restated Bylaws of The Toro Company (incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K dated June 17, 2008, Commission File No. 1-8649).
4.3	Specimen Form of Common Stock Certificate (incorporated by reference to Exhibit 4(c) to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended August 1, 2008).
4.4	Indenture dated as of January 31, 1997, between Registrant and First National Trust Association, as Trustee, relating to The Toro Company's 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K dated June 24, 1997, Commission File No. 1-8649).
4.5	Indenture dated as of April 20, 2007, between Registrant and The Bank of New York Trust Company, N.A., as Trustee, relating to The Toro Company's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.3 to Registrant's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on April 23, 2007, Registration No. 333-142282).
4.6	First Supplemental Indenture dated as of April 26, 2007, between Registrant and The Bank of New York Trust Company, N.A., as Trustee, relating to The Toro Company's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K dated April 23, 2007, Commission File No. 1-8649).
4.7	Form of The Toro Company 6.625% Note due May 1, 2037 (incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K dated April 23, 2007, Commission File No. 1-8649).
10.1	Amended and Restated Repurchase Agreement (Two Step) effective as of January 29, 2010, by and between The Toro Company and Red Iron Acceptance, LLC (filed herewith).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.1	Stipulation of Settlement dated as of February 24, 2010 In Re: Lawnmower Engine Horsepower Marketing and Sales Practices Litigation (filed herewith).

SIGNATURES

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

THE TORO COMPANY
(Registrant)

Date: March 5, 2010

By /s/ Stephen P. Wolfe
Stephen P. Wolfe
Vice President, Finance
and Chief Financial Officer
(duly authorized officer and principal financial officer)

Exhibit 10.1

AMENDED AND RESTATED REPURCHASE AGREEMENT

(Two Step)

This Amended and Restated Repurchase Agreement ("**Agreement**") is entered into as of January 29, 2010 ("**Effective Date**") by and between **THE TORO COMPANY**, a Delaware corporation, a manufacturer (hereinafter "**Seller**"), and **RED IRON ACCEPTANCE, LLC**, a Delaware limited liability company ("**Red Iron**"), to set forth the terms and conditions under which Red Iron will provide financing for certain dealers and distributors as set forth below. This Agreement amends and restates in its entirety that certain Repurchase Agreement (Two Step) dated as of October 1, 2009 by and between Seller and Red Iron. In consideration of the matters and mutual agreements herein contained, Red Iron and Seller agree as follows:

1. Definitions.

(a) **"Approval"** herein shall mean Red Iron's agreement, whether in writing, by electronic transmission or orally (provided, however, that such oral agreement be promptly confirmed in writing), to provide floorplan inventory financing for the sale of Inventory by Seller or an affiliate of Seller to a Dealer and/or Distributor, which agreement shall be in effect for a period of sixty (60) days from the date issued.

(b) **"Average Receivables"** herein shall mean, with respect to an annual period (or such shorter period at the end of the term of this Agreement or as otherwise specified herein), the sum of the ending receivable balances of Red Iron associated with the Challenged Dealers for each month included in such annual period (or of each month in the current calendar year in the case of the calculation for the end of the term of this Agreement or as otherwise specified herein) divided by 12 or such lesser number of months for any period of less than one year. Receivable balances for the purposes of this definition shall be the unpaid principal balances of the receivables without taking into account any provision for credit loss, interest due thereon or any miscellaneous amounts payable in connection with the collection thereof.

(c) **"Challenged Dealer Invoice"** herein shall mean Invoices associated with a Challenged Dealer.

(d) **"Dealer"** herein shall mean any person, firm or corporation which buys Inventory at wholesale from Seller or an affiliate of Seller and sells Inventory at retail.

(e) **"Dealer Invoice"** herein shall mean an invoice, bill of sale or other evidence, whether in writing or electronically transmitted, of the sale or delivery of Inventory by Seller or an affiliate of Seller to a Dealer.

(f) **"Distributor"** herein shall mean any person, firm, corporation or buying group which buys Inventory from Seller or an affiliate of Seller and sells Inventory at wholesale.

(g) **"Distributor Dealer"** herein shall mean any person, firm or corporation which buys Inventory at wholesale from a Distributor and sells Inventory at retail.

(h) **"Distributor Invoice"** herein shall mean an invoice, bill of sale or other evidence, whether in writing or electronically transmitted, of the sale or delivery of Inventory by Seller or an affiliate of Seller to a Distributor.

(i) **"Distributor to Dealer Invoice"** herein shall mean an invoice, bill of sale or other evidence, whether in writing or electronically transmitted, of the sale or delivery of Inventory by a Distributor to a Dealer or a Distributor Dealer.

(j) **"Inventory"** herein shall mean any and all products, including parts and accessories, software and related services manufactured, distributed or sold at wholesale by Seller or an affiliate of Seller.

(k) **"Invoice"** herein shall mean a Dealer Invoice, a Distributor Invoice and/or a Distributor to Dealer Invoice, either collectively or individually, as the case may be.

(l) **"Wholesale Instrument"** herein shall mean an Invoice, billing statement, inventory schedule or other evidence of indebtedness, including the books and records of Red Iron, arising out of the financing by Red Iron of an Invoice.

2. Financing Program.

(a) If Seller or an affiliate of Seller requests an Approval or sends to Red Iron an Invoice, and the Dealer and/or Distributor related to such Approval or Invoice is eligible for floorplan inventory financing in accordance with the credit and operational policies of Red Iron, then Red Iron shall, from time to time in its commercially reasonable discretion consistent with such credit and operational policies, issue such Approvals and advance against such Invoices, all under the terms of this Agreement. Upon issuance of an Approval by Red Iron, Seller shall (or, as applicable, shall cause its affiliate to) deliver an original Invoice to Red Iron. Provided Red Iron receives the Invoice within sixty (60) days of the date Red Iron issued the Approval and within thirty (30) days of the ship date referred to in the Invoice, Red Iron shall pay Seller or its affiliate, as applicable, the amount of the Invoice, subject to the terms of the financing program then in effect between Seller and Red Iron. If the Invoice is not received within said 60- and 30-day periods, or is not acceptable in form or content once received, Red Iron has the right, without notice to Seller or its affiliate, as applicable, to cancel the Approval related to said Invoice. Prior to funding any Approval, Red Iron has the right to cancel said Approval upon oral or written notice (provided, however, that oral notice be promptly confirmed in writing) to Seller or its affiliate, as applicable, should Dealer or Distributor be in default of any of its obligations to Red Iron and provided that Seller or its affiliate, as applicable, has not shipped Inventory in reliance on Red Iron's Approval. Advances on Invoices and Approvals for such advances issued by Red Iron as provided hereunder shall

constitute an acceptance of the terms and conditions hereof by Seller (for itself or on behalf of its affiliate, as applicable) and Red Iron as to each such advance, and no other act or notice shall be required on the part of Red Iron or Seller (or its affiliate, as applicable) to entitle such advances and Approvals to the benefits of this Agreement. Red Iron may deduct, set-off, withhold and/or apply any sums from payments due to Seller (either on behalf of itself or its affiliate, as applicable) from Red Iron under this Agreement any sums or payments due to Red Iron from Seller and/or its affiliates in respect of any advance to be made by Red Iron against any Invoice. Seller and Red Iron may from time to time enter into written agreements for any Seller sponsored special financing program for Dealers and/or Distributors.

(b) If Seller or an affiliate of Seller delivers to Red Iron an original Invoice that is the subject of open account financing of inventory and related items and the amount of such Invoice is within (i) pre-established credit limits applicable to the Dealer and/or Distributor related to such Invoice and (ii) unsecured credit limits established by Red Iron from time to time (which shall not be less than $4,000,000 in the aggregate at any time unless otherwise agreed by the parties hereto), then Red Iron shall, from time to time in its commercially reasonable discretion consistent with the credit and operational policies of Red Iron, make an advance against such Invoice under the terms of this Agreement. Subject to the foregoing, if Red Iron receives the Invoice within thirty (30) days of the ship date referred to in the Invoice, Red Iron shall pay Seller or its affiliate, as applicable, the amount of the Invoice, subject to the terms of the financing program then in effect between Seller and Red Iron. Advances on Invoices issued by Red Iron as provided hereunder shall constitute an acceptance of the terms and conditions hereof by Seller (for itself or on behalf of its affiliate, as applicable) and Red Iron as to each such advance, and no other act or notice shall be required on the part of Red Iron or Seller (or its affiliate, as applicable) to entitle such advances to the benefits of this Agreement. Red Iron may deduct, set-off, withhold and/or apply any sums from payments due to Seller (either on behalf of itself or its affiliate, as applicable) from Red Iron under this Agreement any sums or payments due to Red Iron from Seller and/or its affiliates in respect of any advance to be made by Red Iron against any Invoice.

(c)

(1) If (i) Seller or an affiliate of Seller requests an Approval or sends to Red Iron an Invoice or requests that Red Iron accept a group of Invoices attributable to a single Dealer or Distributor, which would otherwise be subject to Section 2(a) above but for the fact that the Dealer and/or Distributor related to such Approval or Invoice is not eligible for floorplan inventory financing in accordance with the credit and operational policies of Red Iron or (ii) Seller or an affiliate of Seller delivers to Red Iron an original Invoice or requests that Red Iron accept a group of Invoices attributable to a single Dealer or Distributor, which would otherwise be subject to Section 2(b) above but for the fact that such Invoice fails to

meet the requirements of Section 2(b) (in either case whether as part of an individual request or group request a **"Non-conforming Invoice"**), then, provided such request indicates that any such Non-conforming Invoice is subject to the Non-conforming Invoice Recourse Obligation set forth below, Red Iron shall, from time to time in its commercially reasonable discretion, issue such Approval and advance against such Non-conforming Invoice, all under the terms of this Agreement including the applicable terms set forth in Section 2(a) and 2(b) above but subject to the Non-conforming Invoice Recourse Obligation. Seller hereby requests that Red Iron accept all Invoices which would otherwise be subject to Section 2(a) or Section 2(b) with respect to the Dealers/Distributors listed on Schedule 1 attached hereto and agrees that all such Invoices are subject to the Non-conforming Invoice Recourse Obligation.

(2) If a Dealer or Distributor shall default in the payment of any Non-conforming Invoice, after the expiration of any cure period applicable to such Non-conforming Invoice and upon demand by Red Iron which shall set forth in reasonable detail the nature of such default, Seller shall repurchase such Non-conforming Invoice from Red Iron as provided below, which repurchase, subject to Seller's performance thereof, shall be Red Iron's sole and exclusive remedy with respect to such defaulted Non-conforming Invoice (such repurchase obligation being referred to herein as the **"Non-conforming Invoice Recourse Obligation"**). In connection with such repurchase, Seller shall pay to Red Iron in immediately available funds not later than five (5) business days after Seller's receipt from Red Iron of demand for the repurchase of such Non-conforming Invoice, in payment for such repurchase, an amount equal to the outstanding balance (including accrued but unpaid interest) remaining unpaid under such Non-conforming Invoice. The payment of such amount in immediately available funds shall otherwise be considered payment in full of such Non-conforming Invoice.

(3) Upon the payment required to be made to Red Iron as provided in clause (c)(2), Red Iron shall automatically and without further action be deemed to transfer, assign, set over and otherwise convey to Seller or its designee, without recourse, representation or warranty, except as set forth in the immediately following sentence, all the right, title and interest of Red Iron in and to the applicable Non-conforming Invoice and any related Wholesale Instrument, all moneys due or to become due and all collateral security with respect thereto and all amounts received with respect thereto and all proceeds thereof. Such transfer shall be free and clear of any liens created by or through Red Iron. Any collections received by Red Iron after the date of transfer with respect to any Non-conforming Invoices transferred to Seller or its designee pursuant to this clause (c)(3), as well as any amounts received by Red Iron after the date of transfer from an account debtor with respect thereto shall be deemed held by Red Iron in trust and as fiduciary for Seller or its designee and Red Iron shall pay the

same over to Seller or its designee promptly upon receipt. Red Iron will irrevocably instruct any account debtor with respect to such repurchased Non-conforming Invoice to make all payments on account thereof after such assignment to Seller or its designee. Red Iron shall execute such documents and instruments of transfer or assignment and take such other actions as shall reasonably be requested by Seller or its designee to effect the conveyance of such Non-conforming Invoice pursuant to this clause (c)(3).

(4) Seller and Red Iron acknowledge and agree that Red Iron's rights under Section 2(c) of this Agreement with regard to Non-conforming Invoices are in lieu of Red Iron's rights under the provisions of Sections 3(a) and 3(b) of this Agreement and are not subject to the limitation set forth in Section 4(a) of this Agreement.

(5) Notwithstanding the foregoing, if Red Iron notifies Seller, as a result of its own determination or in response to a request from Seller, that due to changed circumstances any Non-conforming Invoice or any group of Non-conforming Invoices attributable to a single Dealer or Distributor sold to Red Iron pursuant to this Section 2(c) is no longer subject to any condition requiring that it or they be treated as Non-conforming Invoice(s) such that it or they would qualify for sale pursuant to either Section 2(a) or 2(b) above, the subject Invoice(s) shall no longer be considered as Non-conforming Invoice(s) and Seller shall no longer be subject to the Recourse Obligation with respect thereto; provided, however, that such Invoice shall be subject to the provisions of Section 3(a), 3(b) and 4(a) of this Agreement. Red Iron agrees to respond to any request from Seller made pursuant to the preceding sentence, which request shall specify with reasonable detail the basis for such request, indicating Red Iron's acceptance of such request or rejection of such request and the reason for such rejection, in writing within five (5) business days after Red Iron's receipt of such request from Seller. At such time as all Invoices due from any of the Dealers/Distributors listed on Schedule 1 attached hereto are determined in accordance with the foregoing procedure no longer to be Non-conforming Invoices, such Schedule 1 shall be amended to delete reference to such Dealer/Distributor. Likewise, at such time as Seller requests that Red Iron accept a group of Invoices attributable to a single Dealer or Distributor as Non-conforming Invoices in accordance with the provisions of this Section 2(c), such Schedule 1 shall be amended to add a reference to such Dealer/Distributor. Such amendments to Schedule 1, and any other updates, amendments, supplements or modifications to Schedule 1 as may be mutually agreed upon by the parties from time to time, shall be in writing and initialed by an authorized representative of each party.

(d) Upon Red Iron's payment to Seller or an affiliate of Seller of the amount of an Invoice pursuant to the terms of the preceding Sections 2 (a), (b) or (c), Seller or its affiliate, as applicable, shall be deemed, without the necessity of any further

action, to have transferred, assigned, set over and otherwise conveyed to Red Iron, without recourse except as provided herein, all of its right to receive payment under or in respect of such Invoice and any related Wholesale Instrument, any collateral security securing payment thereof and any other credit support together with all monies due or to become due and all amounts received or receivable with respect thereto, including all rights to receive payments thereon from any Dealer and/or Distributor. For accounting purposes, no Seller or affiliate of Seller, as applicable, shall account for the transactions contemplated by this Agreement in any manner other than, with respect to the sale of the right to receive payment of each Invoice, as a true sale to Red Iron. Seller and its affiliates shall also maintain their respective records and books of account in a manner which clearly reflects each such sale of the right to receive payment of such Invoices to Red Iron.

(e)

(1) From time to time, Seller and Red Iron may agree to list a Dealer or Distributor Dealer on Schedule 2 attached hereto (each, a **"Challenged Dealer"**). Red Iron agrees to provide Seller with monthly reports setting forth unpaid principal balances of Challenged Dealer Invoices due Red Iron from each Challenged Dealer as of the end of each month, past due status of any such balances and such other information as Seller may reasonably request. If a Challenged Dealer shall default in the payment of any Challenged Dealer Invoice, after the expiration of any cure period applicable to such Challenged Dealer Invoice, Red Iron shall (i) attempt to collect from the Challenged Dealer the Inventory and amounts due under such Challenged Dealer Invoice through customary collection efforts deemed appropriate by Red Iron to the extent legally feasible and in its commercially reasonable discretion; (ii) attempt to cause the relevant Distributor to repurchase any such collected Inventory and honor any recourse obligation which such Distributor may have to Red Iron; and (iii) attempt to tender to Seller or an affiliate of Seller any such collected Inventory eligible under Section 3(a) or 3(b) of this Agreement. Notwithstanding the foregoing, Red Iron shall not commence litigation in an attempt to collect amounts due under a Challenged Dealer Invoice pursuant to this clause (e)(1) unless (x) such litigation is approved by Seller or (y) Red Iron determines, in its reasonable judgment, that its rights would be prejudiced by any delay caused by the need to obtain Seller's approval, in which case it may commence litigation upon notice to Seller. Seller shall pay Red Iron upon demand all costs and expenses actually incurred by Red Iron in connection with collection efforts described in this clause (e)(1)) or to the extent such costs and expenses are otherwise approved in advance by Seller.

(2) In the event any amounts remain unpaid with respect to such Challenged Dealer Invoice after Red Iron has undertaken commercially reasonable efforts to comply with the provisions of the preceding clause (e)(1), upon demand by Red Iron which shall set forth in reasonable detail the nature of

such default, subject to the limits set forth in clause (4) below, Seller shall repurchase such Challenged Dealer Invoice from Red Iron for an amount equal to the outstanding balance (including accrued but unpaid interest for a period not to exceed ninety (90) days after the Invoice due date) remaining unpaid under such Challenged Dealer Invoice after applying any amounts received by Red Iron pursuant to the actions described in clause (e)(1) (such repurchase obligation being referred to herein as the **"Challenged Dealer Recourse Obligation"**). The Challenged Dealer Recourse Obligation shall be paid to Red Iron in immediately available funds not later than five (5) business days after Seller's receipt from Red Iron of demand for the repurchase of such Challenged Dealer Invoice, which payment shall be considered payment in full of such Challenged Dealer Invoice.

(3) Upon the payment required to be made to Red Iron as provided in clause (e)(2), Red Iron shall automatically and without further action be deemed to transfer, assign, set over and otherwise convey to Seller or its designee, without recourse, representation or warranty, except as set forth in the immediately following sentence, all the right, title and interest of Red Iron in and to the applicable Challenged Dealer Invoice and any related Wholesale Instrument, all moneys due or to become due and all collateral security, if any, with respect thereto and all amounts received with respect thereto and all proceeds thereof. Such transfer shall be free and clear of any liens created by or through Red Iron. Any collections received by Red Iron after the date of transfer with respect to any Challenged Dealer Invoices transferred to Seller or its designee pursuant to this clause (e)(3) as well as any amounts received by Red Iron after the date of transfer from an account debtor with respect thereto shall be deemed held by Red Iron in trust and as fiduciary for Seller or its designee and Red Iron shall pay the same over to Seller or its designee promptly upon receipt. Red Iron will irrevocably instruct any account debtor with respect to such purchased Challenged Dealer Invoice to make all payments on account thereof after such assignment to Seller or its designee. Red Iron shall execute such documents and instruments of transfer or assignment and take such other actions as shall reasonably be requested by Seller or its designee to effect the conveyance of such Challenged Dealer Invoice pursuant to this clause (e)(3).

(4) Notwithstanding the foregoing, neither Seller nor any affiliate of Seller shall have any obligation to purchase a Challenged Dealer Invoice during any calendar year under the terms of this Agreement if any of the following are applicable:

(i) the aggregate amount of Challenged Dealer Recourse Obligations fully and finally paid hereunder to Red Iron with respect to Challenged Dealer Invoices in such calendar year equals or exceeds One Million Dollars ($1,000,000);

(ii) the aggregate amount of Challenged Dealer Recourse Obligations fully and finally paid hereunder to Red Iron exceeds (A) during 2010, the greater of $100,000 or ten percent (10%) of Average Receivables for the period to date in 2010 or (B) during 2011, ten percent (10%) of Average Receivables for the period to date in 2011 or (C) in 2012 and thereafter, ten percent (10%) of Average Receivables for the most recently completed twelve month period; or

(iii) with respect to a particular Challenged Dealer, to the extent the Challenged Dealer Recourse Obligations fully and finally paid hereunder would exceed 110% of the credit line reflected on Schedule 2 for such Challenged Dealer (as in effect at the time of such purchase).

Seller acknowledges that as additional Challenged Dealer Invoices are purchased by Red Iron during the course of a calendar year, Seller may be obligated to honor the purchase obligations with respect to Challenged Dealer Invoices that were exempt from such purchase obligation in prior months as a result of the application of clause (ii) of the preceding sentence and agrees to do so promptly upon demand by Red Iron following the close of any calendar month in which such purchase obligation arises. Beginning December 31, 2010, Red Iron shall, within forty-five (45) days following each December 31 and the expiration date of this Agreement, calculate Average Receivables for the calendar year then ending (or the period ending on such expiration date). Red Iron will thereafter promptly remit to Seller the amount, if any, by which the Challenged Dealer Recourse Obligations fully and finally paid by Seller hereunder with respect to such immediately preceding calendar year (or the current calendar year period ending on the expiration date) exceeded ten percent (10%) of Average Receivables for such period.

(5) Seller and Red Iron acknowledge and agree that Red Iron's rights under Section 2(e) of this Agreement with regard to Challenged Dealer Invoices are in addition to Red Iron's rights under the provisions of Sections 3(a) and 3(b) of this Agreement (provided, however, that upon the payment in full of any Challenged Dealer Recourse Obligations with respect to any Challenged Dealer Invoice, Red Iron shall thereafter not be entitled to exercise its rights under Sections 3(a) and 3(b) with respect to such Challenged Dealer Invoice and any related Inventory) and are not subject to the limitation set forth in Section 4(a) of this Agreement.

(6) Notwithstanding the foregoing, if Red Iron notifies Seller, as a result of its own determination or in response to a request from Seller, that due to changed circumstances any Challenged Dealer is no longer subject to any condition requiring that it be treated as a Challenged Dealer, including, but not limited to, a determination that a Challenged Dealer has become

eligible for floorplan inventory financing in accordance with the credit and operational policies of Red Iron, any Invoices of such former Challenged Dealer shall no longer qualify for the provisions of this Section 2(e) and Seller shall no longer be subject to the Challenged Dealer Recourse Obligation with respect thereto; provided, however, that such Invoices shall be subject to the provisions of Sections 3(a), 3(b) and 4(a) of this Agreement. Red Iron agrees to respond to any request from Seller made pursuant to the preceding sentence, which request shall specify with reasonable detail the basis for such request, indicating Red Iron's acceptance of such request or rejection of such request and the reason for such rejection, in writing within ten (10) business days after Red Iron's receipt of such request from Seller. At such time Schedule 2 shall be amended to delete reference to such former Challenged Dealer. Likewise, at such time as Seller and Red Iron determine that future Invoices related to any other Dealer or Distributor Dealer are to be subject to the provisions of this Section 2(e), such Schedule 2 shall be amended to add a reference to such Dealer or Distributor Dealer such that any Challenged Dealer Invoices acquired by Red Iron with respect to such Dealer or Distributor Dealer after the date of such amendment will be subject to the provisions of this Section 4(e). Such amendments to Schedule 2, and any other updates, amendments, supplements or modifications to Schedule 2 as may be mutually agreed upon by the parties from time to time, shall be in writing and initialed by an authorized representative of each party. Seller and Red Iron anticipate that Schedule 2 may be updated on at least a monthly basis throughout the term of this Agreement.

(f) Seller (on behalf of itself and its affiliates) hereby grants to Red Iron a limited power of attorney for the sole purpose of endorsing checks, drafts and other instruments received by Red Iron payable to the order of Seller and its affiliates and relating, in whole or in part, to receivables held by Red Iron.

3. Repurchase of Inventory; Extended Service Contract Recourse.

(a) **Seller's Repurchase of Inventory Sold by Seller or its Affiliates Directly to a Dealer or Distributor**. Subject to Section 4, if Red Iron shall repossess or come into possession of any Inventory, or any part thereof, covered by any Dealer Invoice or Distributor Invoice, Seller agrees to repurchase such Inventory from Red Iron in a condition that is new and unused, subject to normal wear and tear resulting from display or demonstration, and wherever located. Seller shall pay Red Iron, within thirty (30) days of request therefor and in good funds, the outstanding balance (including accrued but unpaid interest) remaining unpaid under such Invoice. In addition, Seller shall pay Red Iron for all costs and expenses actually incurred by Red Iron in taking possession or in the repossession of such Inventory, including shipping and storage costs (not to exceed 10% of the original Invoice) plus reasonable attorneys' fees and court costs actually incurred. Seller shall not assert any interest in or title to such Inventory until it has paid Red Iron all amounts as specified herein in full.

(b) **Seller's Repurchase of Inventory Sold by a Distributor to a Dealer**. Subject to Section 4, if Red Iron shall repossess or come into possession of any Inventory, or any part thereof, covered by any Distributor to Dealer Invoice, and Distributor fails to repurchase such Inventory from Red Iron within thirty (30) days of Red Iron's demand therefor, Seller agrees to repurchase such Inventory from Red Iron in a condition that is new and unused, subject to normal wear and tear resulting from display or demonstration, and wherever located. Subject to Section 3(h), Seller shall pay Red Iron, within thirty (30) days of request therefor and in good funds, the outstanding balance (including accrued but unpaid interest) amount remaining unpaid under such Distributor to Dealer Invoice. In addition, Seller shall pay Red Iron for all costs and expenses actually incurred by Red Iron in taking possession or in the repossession of such Inventory, including shipping and storage costs (not to exceed 10% of the original Invoice) plus reasonable attorneys' fees and court costs actually incurred. Seller shall not assert any interest in or title to such Inventory until it has paid Red Iron all amounts as specified herein in full.

(c) Seller and Red Iron agree that the repurchase of Inventory hereunder shall not be deemed to be a transfer subject to Sections 9-615(f) or 9-618 of the Illinois Uniform Commercial Code or any similar provision of any other applicable law.

(d) If an Invoice delivered to Red Iron by Seller does not identify the covered Inventory by serial number, but only by model number, and Seller cannot prove to Red Iron's reasonable satisfaction that an item of Inventory is covered by a particular Invoice, then for purposes of determining the age or price of an item of Inventory under this Agreement, the item of Inventory shall be deemed to be covered by the most recent Invoice which has an item with the same model number as the item of Inventory tendered for repurchase.

(e) Seller further agrees that in the event Red Iron refinances Inventory pursuant to a buyout of debt from another financing source or otherwise, such Inventory will be subject to repurchase by Seller under this Section 3, notwithstanding the fact that Red Iron did not finance the initial purchase of such Inventory from Seller.

(f) Seller agrees (and Seller will cause its affiliates, as applicable) to execute any additional agreements, instruments, and documents which Red Iron may reasonably require to maintain Red Iron's rights and interests in any Inventory.

(g) To the extent reasonably feasible, and without prejudicing Red Iron's rights, Red Iron shall provide Seller prior written notice of Red Iron's intent to commence litigation against a Dealer or Distributor.

(h) Red Iron shall provide Seller contemporaneous written notice of any action by Red Iron against a Dealer or Distributor with respect to any amounts unpaid under a Distributor to Dealer Invoice. Red Iron shall not make a demand on Seller to perform its obligations under Section 3(b) above until at least ten (10) days after providing such notice to Seller or, in the case where the Dealer or Distributor

disputes such amounts in good faith, until at least thirty (30) days after providing such notice to Seller.

(i) If an Invoice for an extended service contract is not paid when due, then Red Iron shall have the benefit of recourse to Seller with respect to such Invoice on such terms as Red Iron and Seller shall mutually agree from time to time.

4. Net Repurchase Limit; Remarketing.

(a) Neither Seller nor any affiliate of Seller shall have any obligation under Section 3 of this Agreement, Section 3 of that certain Repurchase Agreement dated November 25, 2009 (**"Canada Repurchase Agreement"**) by and between Seller and TCF Commercial Finance Canada, Inc., a Canadian Federal corporation (**"TCFCFC"**), or under similar provisions of any other repurchase agreement entered into by and between Seller or an affiliate of Seller, on the one hand, and Red Iron on the other, to repurchase any additional Inventory in a calendar year once the aggregate amount of repurchase obligations fully and finally paid hereunder to Red Iron during such calendar year, together with the aggregate amount of any repurchase obligations fully and finally paid by Seller or any affiliate of Seller to TCFCFC under Section 3 of the Canada Repurchase Agreement, equals or exceeds the Net Repurchase Limit for such calendar year. **"Net Repurchase Limit"** shall mean Seven and One-Half Million Dollars ($7,500,000) for each calendar year during the term of this Agreement. The foregoing Net Repurchase Limit shall not relieve Seller or its affiliates from (i) any obligation to repurchase or otherwise acquire any Inventory pursuant to any separate agreement between Seller or an affiliate of Seller and any Distributor or (ii) any other recourse obligation Seller or an affiliate of Seller may have to Red Iron (including the recourse described in Sections 2(c), 2(e) and 3(i) hereof). The value in United States Dollars of Inventory repurchased pursuant to Section 4(a) of the Canadian Repurchase Agreement shall be determined using the Canada dollar exchange rate printed in the Wall Street Journal on the effective date of the applicable repurchase transaction.

(b) Once the Net Repurchase Limit has been reached in a calendar year, Seller agrees to use its best efforts to remarket any additional repossessed Inventory on behalf of Red Iron on a non-discriminatory, non-priority basis for an amount not less than the outstanding balance (including accrued but unpaid interest) remaining due Red Iron on such Inventory. As used herein, such best efforts shall include advertising and using the same methods to market such Inventory as Seller uses to market similar products in the course of conducting its own business, subject to Red Iron's rights to approve all aspects of any resale of such Inventory. Red Iron acknowledges that Seller in the ordinary course of its business will be engaged in the marketing of other similar Inventory and that such activity shall not constitute a breach of any duty of Seller under the terms of this Section 4(b) so long as Seller complies with the two immediately preceding sentences. Red Iron will reimburse Seller for reasonable out-of-pocket, third party expenses, including

reasonable commissions (if any), incurred by Seller in providing remarketing services pursuant to this Section 4(b).

5. Seller Representations and Warranties.

(a) Seller represents and warrants, at the time of any Red Iron Approval and/or advance against any Invoice as provided hereunder, that: (i) each and every Invoice issued by Seller or its affiliate, as applicable, represents valid obligations of a Dealer and/or Distributor, is legally enforceable according to its terms and relates to bona fide, original acquisition sales of Inventory by Seller or its affiliate, as applicable, to a Dealer and/or Distributor without any claim, offset or defense to payment by Dealer and/or Distributor and that Dealer and/or Distributor requested that the acquisition of Inventory be financed by Red Iron; (ii) Seller's (or, as applicable, its affiliate's) title to all Inventory is free and clear of all security interests, liens and encumbrances when transferred to Dealer and/or Distributor and Seller or its affiliate, as applicable, transfers to Dealer and/or Distributor all its right, title and interest in and to the Inventory; (iii) the Inventory is in new and unused condition; it is of the kind, quality and condition represented or warranted to Dealer and/or Distributor; it meets or exceeds all applicable federal, state and local safety, manufacturing and other standards; and if it is a type of Inventory customarily crated or boxed, such crate or box is factory sealed.

(b) In the event of breach of any of the foregoing representations or warranties, Seller will, immediately upon demand, purchase from Red Iron the Wholesale Instrument relating to the Invoice or Inventory with respect to which the representation/warranty was breached and pay, in good immediately available funds, the unpaid balance amount of the Wholesale Instrument, plus all charges owing by Dealer and/or Distributor with respect thereto, and all of Red Iron's costs and expenses, including reasonable attorneys' fees, actually incurred in connection with such breach.

6. Seller Covenants and Indemnity. Seller covenants as follows:

(a) All Inventory financed by Red Iron shall be subject to applicable product warranties of Seller (or its affiliate, as applicable), and Seller agrees to perform, or cause to be performed, all repairs, modifications and/or other acts required of Seller or its affiliate, as applicable, pursuant to said product warranties. All expenses of performance under this covenant shall be paid by Seller.

(b) If Seller or its affiliate, as applicable, accepts the return from any Dealer and/or Distributor of any Inventory covered by any Wholesale Instrument, voluntarily or otherwise, whether or not any substitution is made for such returned Inventory, Seller will reimburse Red Iron for the unpaid balance amount of the Wholesale Instrument within thirty (30) days of the return.

(c) At any time at which Seller is not required to file reports with the U.S. Securities Exchange Commission pursuant to Section 13 or Section 15(d) of the Securities

Exchange Act of 1934, as amended, Seller will, upon request, promptly provide Red Iron with Seller's year-end balance sheet and annual profit and loss statement for each fiscal year prepared in accordance with generally accepted accounting principles, consistently applied.

(d) All transactions of Seller and its affiliates related to the sale of Inventory financed by Red Iron shall comply with all applicable laws, rules, regulations and orders of all governmental entities having jurisdiction over such transactions. Seller agrees to indemnify and hold Red Iron harmless from and against any and all claims, damages, costs, expenses, penalties and judgments asserted or imposed upon, or incurred by, Red Iron as a result of breach by Seller or its affiliates of any provision of this Section 6.

(e) Seller will notify Red Iron promptly (i) if Seller or its affiliate, as applicable, terminates, or gives notice of its intent to terminate, its agreement with any Distributor or (ii) if any Distributor terminates, or gives notice of its intent to terminate, its agreement with Seller or one of its affiliates.

7. Waivers.

(a) Seller (on behalf of itself and its affiliates) waives: notice of non-payment; protest and dishonor and notice of protest and dishonor of any Wholesale Instrument; notice of Red Iron's acceptance of this Agreement; and all other notices to which Seller or its affiliates might otherwise be entitled to by law. Red Iron may, at any time or times, without notice to or further consent of Seller or its affiliates, renew and extend the time of payment of Wholesale Instruments and compromise or adjust claims on Wholesale Instruments or Inventory covered thereby and waive or modify performance of such terms and conditions of its financing arrangement with Dealers and/or Distributors, as Red Iron may determine to be reasonable, and no such renewal, extension, compromise, adjustment, waiver or modification shall affect the obligations or liabilities of Seller hereunder.

(b) No waiver of any provision of this Agreement shall be implied, and no waiver shall be valid, unless it is in writing and signed by the person or party to be charged. No waiver of any breach of any of the terms, provisions or conditions of this Agreement shall be construed as or held to be a waiver of any other breach, or a waiver of, acquiescence in, or consent to, any further or succeeding breach hereof.

8. Term and Termination.

(a) **Initial Term**. The initial term of this Agreement shall commence on the Effective Date and, provided this Agreement is not terminated earlier as otherwise provided herein, shall continue until October 31, 2014 (the **"Initial Term"**) and thereafter shall be extended automatically for additional two-year terms (each, an **"Additional Term"**) unless at least one year prior to the expiration of the Initial Term or Additional Term (as applicable) either party gives notice to the other

party of its intention not to extend the term, in which event the Agreement shall terminate at the end of the then current Initial Term or Additional Term. Notwithstanding the foregoing, this Agreement shall automatically terminate upon the final dissolution, winding up and liquidation of Red Iron.

(b) **Default Termination**. If Seller (or, as applicable, one of its affiliates) is in default of any of the provisions of this Agreement and Seller shall fail to cure (or cause the cure of) such default within thirty (30) days after notice by Red Iron of such default (or such longer period of time as is reasonably necessary to allow Seller to cure (or cause the cure of) such default but, in any event, not more than seventy-five (75) days after notice by Red Iron of such default), Red Iron shall then have the right to terminate this Agreement without further notice and without penalty and the right to exercise all remedies available to Red Iron under applicable law.

(c) **Effect of Termination**. The termination of all or any part of this Agreement shall not affect the obligations of Seller or its affiliates with respect to Invoices approved or advanced against by Red Iron, or other obligations incurred by either party, prior to the effective date of such termination.

9. General.

(a) This Agreement has been duly authorized and executed by Seller and Red Iron and shall be binding upon and inure to the benefit of the parties hereto and their respective successors and/or assigns, subject to the limitations of this Section 9(a). Neither party may assign this Agreement without the prior written consent of the other (which consent shall not be unreasonably withheld), unless such assignment is to a successor-in-interest to the assigning party.

(b) This Agreement constitutes the entire agreement between the parties and contains all of the agreements between the parties with respect to the subject matter hereof. This Agreement supersedes any and all other agreements, either oral or written, between the parties hereto with respect to the subject matter hereof. No amendment or modification of this Agreement shall be valid unless the same shall be in writing and signed by the parties hereto. Notwithstanding the foregoing, the parties acknowledge that there may be other agreements between them from time to time covering related matters such as financing program terms, Seller sponsored rate programs or electronic invoice transmission which shall continue in full force and effect. This Agreement shall not be deemed to create, or intend, a joint venture, partnership, agency or other similar relationship between Seller and Red Iron.

(c) Notices and all other communication provided for herein shall be in writing and shall be deemed to have been given to a party at the earlier of (i) when personally delivered, (ii) 72 hours after having been deposited into the custody of the U.S. Postal Service, sent by first class certified mail, postage prepaid, (iii) one business day after deposit with a national overnight courier service, (iv) upon receipt of a

confirmation of facsimile transmission or (v) upon receipt of electronic mail (with a notice contemporaneously given by another method specified in this Section 9(c)); in each case addressed as follows:

If to Red Iron: Red Iron Acceptance, LLC
8111 Lyndale Avenue South
Bloomington, MN 55420
Attention: General Manager
Telephone: (952) 887-8266
Facsimile: (952) 887-8258
Email: tevans@tcfif.com

If to Seller: The Toro Company
8111 Lyndale Avenue South
Bloomington, MN 55420
Attention: Treasurer
Telephone: 952-887-8449
Facsimile: 952-887-8920
Email: Tom.Larson@toro.com

or to such other address as either party hereto may have furnished to the other party hereto in writing in accordance herewith, expect that notices of change of address shall be effective only upon receipt.

(d) This Agreement shall be subject to and governed by the laws of the state of Illinois, without regard to conflicts of law principles.

(e) The respective acts and obligations of the parties under this Agreement shall be performed solely by said parties; provided, however, if any act or obligation hereunder is performed by any party's subsidiary, affiliate or agent, then such performance shall be deemed to be the act or obligation of Seller or Red Iron, as applicable.

(f) Seller agrees to pay all reasonable out of pocket costs and expenses, including attorneys' fees, actually incurred by Red Iron in enforcing any of the provisions of this Agreement.

(g) EACH OF SELLER AND RED IRON, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY AS TO ANY ISSUE RELATING TO THIS AGREEMENT IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THIS WAIVER IS A MATERIAL INDUCEMENT FOR OUR ENTERING INTO THIS AGREEMENT.

(h) Each of Seller and Red Iron hereby irrevocably submits to the non-exclusive jurisdiction of the Federal courts and the courts of the state of Minnesota sitting in

Minneapolis or St. Paul, Minnesota or any state court located in Hennepin County, Minnesota, and by execution and delivery of this Agreement, each party hereto accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of such courts with respect to any litigation concerning this Agreement or the transactions contemplated hereby or any matters related thereto. Each party hereto irrevocably waives any objection (including any objection to the laying of venue or any objection on the grounds of forum non conveniens) which it may now or hereafter have to the bringing of any proceeding with respect to this Agreement to the courts set forth above. Each party hereto agrees to the personal jurisdiction of such courts and that service of process may be made on it at the address indicated in Section 9(c) above. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(i) NO PARTY TO THIS AGREEMENT SHALL BE RESPONSIBLE OR LIABLE TO ANY OTHER PARTY TO THIS AGREEMENT, ANY SUCCESSOR, ASSIGNEE OR THIRD PARTY BENEFICIARY OF SUCH PERSON OR ANY OTHER PERSON ASSERTING CLAIMS DERIVATIVELY THROUGH SUCH PARTY, FOR PUNITIVE, EXEMPLARY OR, EXCEPT IN THE CASE OF FRAUD, BAD FAITH, WILLFUL MISCONDUCT OR GROSS NEGLIGENCE, INDIRECT OR CONSEQUENTIAL DAMAGES THAT MAY BE ALLEGED AS A RESULT OF ANY TRANSACTION CONTEMPLATED HEREUNDER.

(j) If any portion or portions of this Agreement shall be, for any reason, invalid or unenforceable, the remaining portion or portions shall nevertheless be valid, enforceable and carried into effect, unless to do so would clearly violate the present legal and valid intention of the parties hereto.

(k) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement. This Agreement may be executed by facsimile signature or electronic transmission, as directed by Red Iron.

(l) The headings in this Agreement are inserted for convenience only and are not to be considered in the interpretation or construction of the provisions hereof. Unless the context of this Agreement otherwise clearly requires, the following rules of construction shall apply to this Agreement: (i) the words “hereof,” “herein” and “hereunder” and words of similar import shall refer to this Agreement as a whole and not to any particular provision of this Agreement; (b) the words “include” and “including” and words of similar import shall not be construed to be limiting or exclusive and (c) the word “or” shall have the meaning represented by the phrase “and/or.”

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Effective Date.

The Toro Company		**Red Iron Acceptance, LLC**	
Seller			
By:	/s/ T. J. Larson	By:	/s/ Tom Evans
Print Name:	Thomas J. Larson	Print Name:	Tom Evans
Title:	Vice President, Treasurer	Title:	General Manager
Tax ID No.:	41-0580470		

Exhibit 31.1

Certification pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael J. Hoffman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Toro Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2010

/s/ Michael J. Hoffman
Michael J. Hoffman
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**Certification pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Stephen P. Wolfe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Toro Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2010

/s/ Stephen P. Wolfe
Stephen P. Wolfe
Vice President, Finance
and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Toro Company (the “Company”) on Form 10-Q for the quarterly period ended January 29, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Michael J. Hoffman, Chairman of the Board, President and Chief Executive Officer of the Company, and Stephen P. Wolfe, Vice President, Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Hoffman
Michael J. Hoffman
Chairman of the Board, President and Chief Executive Officer
March 5, 2010

/s/ Stephen P. Wolfe
Stephen P. Wolfe
Vice President, Finance
and Chief Financial Officer
March 5, 2010

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WISCONSIN
MILWAUKEE DIVISION

IN RE: LAWNMOWER ENGINE HORSEPOWER MARKETING AND SALES PRACTICES LITIGATION)
) Case No. 2:08-md-01999
) Judge Lynn Adelman
(This Document Relates to All Cases))

STIPULATION OF SETTLEMENT

This Stipulation of Settlement dated as of February 24, 2010 ("Stipulation"), is made and entered into by and among the following Settling Parties to the Actions, as those terms are defined herein: (i) Proposed Class Representatives, on behalf of themselves and each of the Settlement Class Members, by and through Settlement Class Counsel; and (ii) the Settling Defendants, by and through Settling Defendants' Counsel. This Stipulation is intended by the Settling Parties to fully, finally and forever resolve, discharge and settle all released rights and claims, as set forth below, subject to the terms and conditions set forth herein.

I. THE ACTIONS

The following cases were filed by plaintiffs in, or were removed to, various U.S. District Courts and were subsequently transferred to the United States District Court for the Eastern District of Wisconsin for all pretrial purposes pursuant to transfer orders from the Judicial Panel on Multidistrict Litigation:

	Abbreviated Case Name	N.D. Wisconsin. Case Number	Filed In/Transferred From
1.	Baskerville v. Sears Roebuck & Co. et al	2:08-cv-01057-LA	W.D.N.C.
2.	Luckman v. Sears Roebuck & Co et al	2:08-cv-01058-LA	W.D.N.C.
3.	Phillips et al v. Sears Roebuck & Co et al	2:08-cv-01049-LA	S.D. Ill.
4.	Gallucci et al v. Sears Roebuck & Co et al	2:08-cv-01059-LA	N.D. Ohio
5.	Immerman et al v. Sears Roebuck & Co et al	2:08-cv-01060-LA	N.D. Ohio
6.	Crew et al v. Sears Roebuck & Co et al	2:08-cv-01043-LA	M.D. Ala.
7.	Fritz v. Sears Roebuck & Co et al	2:08-cv-01054-LA	D.N.J.
8.	Borras et al v. Sears Roebuck & Co et al	2:08-cv-01048-LA	S.D. Fla.
9.	Hunter et al v. Sears Roebuck & Co et al	2:08-cv-01053-LA	D. Neb.
10.	Purce v. Sears Roebuck & Co et al	2:08-cv-01050-LA	D. Md.
11.	Moore et al v. Sears Roebuck & Co et al	2:08-cv-01051-LA	D. Minn.
12.	Phillips v. Sears Roebuck & Co et al	2:08-cv-01045-LA	N.D. Cal.
13.	Marvilla v. Sears Roebuck & Co et al	2:08-cv-01046-LA	N.D. Cal.
14.	Wright v. Sears Roebuck & Co et al	2:08-cv-01044-LA	M.D. Ala.
15.	Kaitfors et al v. Sears Roebuck & Co et al	2:08-cv-01062-LA	D.S.D.
16.	Day v. Sears Roebuck & Co et al	2:08-cv-01047-LA	M.D. Fla.
17.	Champion et al v. Sears Roebuck & Co et al	2:08-cv-01063-LA	E.D. Tenn.
18.	Hinrichs v. Sears Roebuck & Co et al	2:08-cv-01055-LA	E.D.N.Y.
19.	Doppler et al v. Sears Roebuck & Co et al	2:08-cv-01052-LA	D. Mont.
20.	Tshudy et al v. Sears Roebuck & Co et al	2:08-cv-01061-LA	E.D. Pa.
21.	Bennett et al v. Sears Roebuck & Co et al	2:08-cv-01064-LA	E.D. Tex.
22.	Hoeker v. Sears Roebuck & Co et al	2:08-cv-01065-LA	E.D. Tex.
23.	Brey et al v. Sears Roebuck & Co et al	2:09-cv-00002-LA	D. Ariz.

24.	Bowen et al v. Sears Roebuck & Co et al	2:08-cv-01056-LA	S.D.N.Y.
25.	Skelton v. Sears Roebuck & Co et al	2:09-cv-00012-LA	M.D. Pa.
26.	Dale et al v. Sears Roebuck & Co et al	2:09-cv-00009-LA	E.D. Mo.
27.	Barnard et al v. Sears Roebuck & Co et al	2:09-cv-00016-LA	W.D. Wis.
28.	Michel et al v. Sears Roebuck & Co et al	2:09-cv-00015-LA	W.D. Wash.
29.	Whitehouse v. Sears Roebuck & Co et al	2:09-cv-00011-LA	N.D. Okla.
30.	Murphy v. Sears Roebuck & Co et al	2:09-cv-00004-LA	D. Id.
31.	Bullis et al v. Sears Roebuck & Co et al	2:09-cv-00003-LA	D. Colo.
32.	Doppler et al v. Sears Roebuck & Co et al	2:09-cv-00010-LA	D.N.D.
33.	Becnel v. Sunshine Equipment Co et al	2:09-cv-00005-LA	E.D. La.
34.	Jones et al v. Sears Roebuck & Co et al	2:09-cv-00008-LA	E.D. Mich.
35.	Rachal v. Sears Roebuck & Co et al	2:09-cv-00006-LA	E.D. La.
36	Ramos v. Sears Roebuck & Co et al	2:09-cv-00013-LA	E.D. Tenn.
37.	Jacome et al v. Sears Roebuck & Co et al	2:09-cv-00001-LA	N.D. Ala.
38.	Dahnke et al v. Sears Roebuck & Co et al	2:09-cv-00058-LA	S.D. Ind.
39.	Heidi RS Dallal v. Sears Roebuck & Co et al	2:09-cv-00007-LA	D. Mass.
40.	O'Roark v. Sears Roebuck & Co et al	2:09-cv-00056-LA	W.D. Ark.
41.	Dolan-Keenan v. Sears Roebuck & Co et al	2:09-cv-00057-LA	D. Del.
42.	Catton et al v. Sears Roebuck and Company et al	2:09-cv-00157-LA	M.D. Ga.
43.	Lee v. Sears Roebuck & Co et al	2:09-cv-00197-LA	D.S.C.
44.	Lilly v. Sears Roebuck & Co et al	2:09-cv-00199-LA	S.D.W.V.
45.	Marcus et al v. Sears Roebuck & Co	2:09-cv-00200-LA	D. Wy.

46.	Edel et al v Sears Roebuck & Co et al	2:09-cv-00158-LA	N.D. Iowa
47.	Schneider et al v. Sears Roebuck & Co et al	2:09-cv-00156-LA	D. Conn.
48.	Wilson v. Sears Roebuck & Co et al	2:09-cv-00160-LA	D. Me.
49.	Christy et al v. Sears Roebuck & Co et al	2:09-cv-00161-LA	D. Nev.
50.	Crawford v. Sears Roebuck & Co et al	2:09-cv-00162-LA	N.D. Ohio
51.	Horrocks v. Sears Roebuck & Co et al	2:09-cv-00164-LA	D.R.I.
52.	Keizer et al v. Sears Roebuck & Co et al	2:09-cv-00195-LA	E.D. Ky.
53.	Williams v. Sears Roebuck & Co et al	2:09-cv-00163-LA	D.P.R.
54.	Paulson v. Sears Roebuck & Co et al	2:09-cv-00198-LA	D. Utah
55.	Armstrong et al v. Sears Roebuck & Co et al	2:09-cv-00165-LA	D. Vt.
56.	Kruchoski v. Sears Roebuck & Co et al	2:09-cv-00191-LA	D. Alaska
57.	Lynch et al v. Sears Roebuck & Co et al	2:09-cv-00192-LA	M.D. Ala.
58.	Doherty et al v. Sears Roebuck & Co et al	2:09-cv-00159-LA	D. Kan.
59.	Bishara v. Sears Roebuck & Co et al	2:09-cv-00193-LA	E.D. Ark.
60.	Kunesh v. Sears Roebuck & Co et al	2:09-cv-00196-LA	D.N.H.
61.	Gonzalez v. Sears Roebuck & Co et al	2:09-cv-00194-LA	D.D.C.
62.	Kolka v. Deere & Company	2:09-cv-00266-LA	N.D. Ill.
63.	Slater v. Sears Roebuck & Co et al	2:09-cv-00267-LA	S.D. Miss.
64.	Grosz et al v. Sears Roebuck & Co et al	2:09-cv-00014-LA	E.D. Va.
65.	Williams v. Sears Roebuck & Co. et al	2:09-cv-00607-LA	D. Ore.

The above listed cases have been coordinated for all pretrial purposes by and through the Practice and Procedure Order Upon Transfer Under 28 U.S.C. § 1407(a), entered by the Court on December 23, 2008. Settlement Class Counsel has also filed the following three related actions

in the United States District Court for the Eastern District of Wisconsin: Azzara v. Sears Roebuck & Co. et al., Case No. 2:09-cv-0728-LA (E.D. Wis. July 24, 2009), Thomas v. Sears Roebuck & Co. et al., Case No. 2:09-cv-0729-LA (E.D. Wis. July 24, 2009), and Martinez v. Sears, Roebuck & Co. et al., Case No. 2:09-cv-0469-LA (E.D. Wis. May 7, 2009) (the "Related Actions"). Finally, Settlement Class Counsel has filed in Illinois state court Lemay v. Sears Roebuck & Co. et al., Case No. 08-L85 (St. Clair Cty., Ill.) (the "Lemay Action").

II. SETTLING DEFENDANTS DENY ANY WRONGDOING OR LIABILITY

Settling Defendants have denied, and continue to deny, each and every claim and allegation of wrongdoing that has been alleged by the plaintiffs in the Actions. Settling Defendants also have denied, and continue to deny, inter alia, any and all allegations that plaintiffs or Settlement Class Members have suffered any damage whatsoever, have been harmed in any way, or are entitled to any relief as a result of any conduct on the part of Settling Defendants as alleged by plaintiffs in the Actions.

Nevertheless, Settling Defendants have concluded that further litigation will likely be protracted and expensive with uncertain results, that settlement of the Actions is therefore advisable to permit the operation of the Settling Defendants' businesses without further litigation expenses and the distraction of executive personnel, and that it is therefore desirable and prudent that the Actions between Proposed Class Representatives, Settlement Class Members, and Settling Defendants be fully and finally resolved and settled in the manner and upon the terms and conditions set forth in this Stipulation.

III. BENEFITS OF SETTLING THE ACTIONS

Plaintiffs believe that the claims asserted by them in the Actions have merit and that there is evidence to support their claims. Plaintiffs, however, recognize and acknowledge the expense

and length of continued litigation and legal proceedings necessary to prosecute the Actions against Settling Defendants through trial and through any appeals. Plaintiffs also recognize and have taken into account the uncertain outcome and risks associated with litigation and class actions in general, and the Actions in particular, as well as the difficulties and delays inherent in any such litigation.

Plaintiffs are also mindful of the potential problems of proof and the possible defenses to class certification and to the unlawful conduct alleged by them in the Actions, as well as to the remedies they seek. As a result, plaintiffs believe that the Settlement set forth in this Stipulation provides substantial benefits to Settlement Class Members. Plaintiffs and Settlement Class Counsel have therefore determined that the Settlement, as set forth in this Stipulation, is fair, reasonable, adequate and in the best interests of the Settlement Class.

IV. TERMS OF THE SETTLEMENT

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED to, by and among the Proposed Class Representatives (for themselves and all Settlement Class Members) and the Settling Defendants, for themselves, by and through their respective counsel of record, that the Actions shall be finally and fully compromised, settled and released, the Actions shall be dismissed with prejudice as to all Released Parties, and that all the claims of the Proposed Class Representatives and the Settlement Class Members shall be released, subject to the terms and conditions of this Stipulation, and subject to the Final Approval Order approving the Stipulation becoming Final as defined herein.

1. Definitions

As used in this Stipulation, the following terms shall have the following definitions and meanings:

1.1 "*Actions*" means the 65 MDL Actions, the 3 Related Actions, and the Lemay Action.

1.2 "*Claims Administrator*" means Rust Consulting or such other entity agreed by the Settling Parties and authorized by the Court to process claims and to undertake other tasks as set forth in this Stipulation.

1.3 "*Court*" means the United States District Court for the Eastern District of Wisconsin.

1.4 "*Defendant*" means any person or entity named as a defendant in any Action or any Subsequent Action.

1.5 "*Depository Bank*" means the financial institution holding the Escrow Funds in the Escrow Account, or its successor.

1.6 "*Escrow Account*" means the escrow account established pursuant to this Settlement.

1.7 "*Escrow Agent*" means the financial institution selected by Settlement Class Counsel and approved by Settling Defendants to hold the Settlement Fund.

1.8 "*Escrow Agreement*" means the escrow agreement executed by the Escrow Agent and Settling Parties, substantially in the form attached as Exhibit 1.

1.9 "*Escrow Funds*" means the funds in the Escrow Account.

1.10 "*Final*" means when the last of the following with respect to the Final Approval Order approving the Stipulation has occurred: (i) the expiration of three (3) business days after the time to file a motion to alter or amend the Final Approval Order under Federal Rule of Civil Procedure 59(e) has passed without any such motion having been filed; (ii) the expiration of three (3) business days after the time in which to appeal the

Final Approval Order has passed without any appeal having been filed; and (iii) if such motion to alter or amend is filed, or if an appeal is taken, three (3) business days after a determination of any such motion or appeal that permits the consummation of the Settlement in substantial accordance with the terms and conditions of this Stipulation.

1.11 "*Final Approval*" means the approval of the Stipulation and Settlement by the Court at or after the Final Fairness Hearing, and entry of the Final Approval Order.

1.12 "*Final Approval Order*" means the order entered by the Court giving Final Approval of the Stipulation and dismissing claims.

1.13 "*Final Fairness Hearing*" means the hearing at which the Stipulation and the Final Approval Order are presented by the Settling Parties for Final Approval and entry by the Court.

1.14 "*Injunctive Relief*" means the relief provided in Section V.11 hereof.

1.15 "*Interim Co-Lead Class Counsel*" or "*Settlement Class Counsel*" means the law firms of Heins Mills & Olson, P.L.C., 310 Clifton Avenue, Minneapolis, MN 55403; and Morrison Fenske & Sund, P.A., 5125 Country Road 101, Suite 202, Minnetonka, MN 55345.

1.16 "*Lemay Action*" means Lemay v. Sears Roebuck & Co. et al. now pending in Illinois state court.

1.17 "*MDL Actions*" means MDL 2:08-md-0199 including cases identified in Section I of this Stipulation and all cases transferred or pending transfer through the date the Final Approval Order becomes Final.

1.18 "*Net Settlement Fund*" means the amount remaining in the Settlement Fund for distribution to authorized claimant Settlement Class Members, after payment of or

reserve for escrow expenses, taxes on escrow earnings or tax-related fees and expenses, estimated taxes, notice costs, settlement administration expenses, all other related costs, incentive awards to Proposed Class Representatives and such attorneys' fees and litigation expenses as may be awarded by the Court.

1.19 "*Notice*" means the form of Notice to be provided to Settlement Class Members, as approved by the Court.

1.20 "*Notice Administrator*" means Kinsella Media or such other entity agreed by the parties and authorized by the Court to provide notice and to undertake other tasks as set forth in this Stipulation.

1.21 "*Notice Plan*" shall mean the plan for disseminating notice to Settlement Class Members, as approved by the Court.

1.22 "*Opt-Out*" means a Settlement Class Member who timely elects to opt-out of the Settlement in the manner prescribed by the Court.

1.23 "*Plaintiffs' Counsel*" means the attorneys and law firms listed on the complaints in the Actions.

1.24 "*Plaintiffs' Related Parties*" means each of a Settlement Class Member's estates, heirs, executors, guardians, conservators and trustees.

1.25 "*Preliminary Approval*" means the preliminary approval of the Stipulation by the Court, conditional certification of the Settlement Class, and approval of the method and content of the Notice and Notice Plan.

1.26 "*Proposed Class Representatives*" means all plaintiffs proposed in the Preliminary and Final Approval Orders by Settlement Class Counsel as representatives of the proposed Settlement Class.

1.27 “*Related Actions*” means Azzara v. Sears Roebuck & Co. et al., Thomas v. Sears Roebuck & Co. et al., and Martinez v. Sears, Roebuck & Co. et al. now pending before the United States District Court for the Eastern District of Wisconsin.

1.28 “*Released Claims*” shall have the meaning set forth in Sections VII.1. and 2., and as excluded by Section VII.3. herein.

1.29 “*Released Parties*” means Sears, Roebuck and Co., Sears Holdings Corporation, Kmart Holding Corporation, Deere & Company, Tecumseh Products Company, TecumsehPower Company, Platinum Equity, LLC, Briggs & Stratton Corporation, The Toro Company, Electrolux Home Products, Inc., Husqvarna Outdoor Products, Inc. (now known as Husqvarna Consumer Outdoor Products, N.A., Inc.), and Husqvarna AB and each of their past or present officers, directors, partners, agents, employees, shareholders, attorneys, accountants or auditors, consultants, legal representatives, predecessors, successors, assigns, parents, subsidiaries, divisions, joint ventures, affiliated entities, and any entity that controls, is controlled by, or is under common control with any of the named companies. No other Defendant is a Released Party.

1.30 “*Releasing Party*” or “*Releasing Parties*” means the Proposed Class Representatives and any Settlement Class Member who is not an Opt-Out.

1.31 “*Settlement*” means the settlement entered into by the Settling Parties as set forth in this Stipulation, and as may be amended by the Settling Parties as provided for herein.

1.32 “*Settlement Amount*” means $51,000,000.

1.33 “*Settlement Class*” means the class certified for settlement purposes only which shall be:

All persons or entities in the United States who, beginning January 1, 1994 up to and including the date when Notice of the Court's entry of an order preliminarily approving this Settlement and certifying the Settlement Class is first published, purchased, for their own use and not for resale, a lawn mower containing a gas combustible engine up to 30 horsepower provided that either the lawn mower or the engine of the lawn mower was manufactured or sold by a Defendant.

Excluded from the Settlement Class are (i) each Defendant, any entity in which a Defendant has a controlling interest or which has a controlling interest in any Defendant, and Defendants' legal representatives, predecessors, successors and assigns; (ii) governmental entities; (iii) Defendants' employees, officers, directors, agents, and representatives and their family members; and (iv) the judges in the Actions and their staff to whom the Actions have been assigned, and any member of the judges' immediate families.

1.34 "*Settlement Class Member*" means any person falling within the definition of the Settlement Class defined in Section IV.1.33 herein (collectively referred to herein as "Settlement Class Members").

1.35 "*Settlement Fund*" means the payments made by the Settling Defendants pursuant to Section V.1 herein and any interest or other amount earned or accrued on such payments, less escrow expenses, taxes on escrow earnings, estimated taxes, and tax-related fees and expenses, all of which shall be paid from the Settlement Amount.

1.36 "*Settling Defendants*" means: (i) Sears, Roebuck and Co., Sears Holdings Corporation, and Kmart Holding Corporation ("Sears"); (ii) Deere & Company ("Deere"); (iii) Tecumseh Products Company, ("Tecumseh"); (iv) Briggs & Stratton Corporation ("Briggs & Stratton"); (v) The Toro Company ("Toro"); and (vi) Electrolux Home Products,

Inc., and Husqvarna Outdoor Products, Inc. (now known as Husqvarna Consumer Outdoor Products, N.A., Inc.) ("EHP").

1.37 "*Settling Defendants' Counsel*" means counsel of record for Settling Defendants.

1.38 "*Settling Engine Manufacturer Defendants*" means Briggs & Stratton, Toro, and Tecumseh.

1.39 "*Settling Parties*" means, collectively, each of the Settling Defendants and each of the Proposed Class Representatives on behalf of themselves and all Settlement Class Members, by and through Settlement Class Counsel.

1.40 "*Stipulation*" means this Stipulation of Settlement, as may be amended by the Settling Parties as provided for herein.

1.41 "*Subsequent Action*" means any action brought in any state or federal court advancing any claims involving or relating to the horsepower or other power rating, or the labeling, marketing, or advertising of the horsepower or other power rating, of lawn mowers or lawn mower engines under any theory of liability, by, or on behalf of, any member of the Settlement Class.

1.42 "*Subsequent Court*" means a court in which a Subsequent Action, as defined above in Section IV.1.41, is brought.

1.43 "*United States*" means the fifty states of the United States, the District of Columbia and Puerto Rico.

1.44 "*Warranty Relief*" means the relief being provided by Settling Engine Manufacturer Defendants pursuant to Section V.10. herein.

V. TERMS OF THE SETTLEMENT

1. Consideration. Subject to the provisions herein, and in full, complete and final settlement of the Actions with respect to the Released Parties as provided herein, the Settling Parties agree that: (a) each Settling Defendant will pay its respective portion of the Settlement Amount, as separately agreed by the Settling Parties; (b) each Settling Engine Manufacturer Defendant will provide the Warranty Relief as set forth in Section V.10. hereof, and (c) each Settling Defendant consents to the Injunctive Relief as set forth in Section V.11. hereof. Each Settling Defendant shall pay 25% of its respective portion of the Settlement Amount by wire transfer to the Escrow Account at the Depository Bank within 5 business days after the execution of the Settlement Agreement by the Settling Defendants and receipt of a completed IRS Form W-9 executed by the Escrow Agent on behalf of the “qualified settlement fund” described in Sections V.4-6 below and wire transfer instructions. Within 5 business days after Preliminary Approval of this Settlement Agreement and the commencement of notice to the Settlement Class, but no earlier than March 15, 2010, each Settling Defendant shall pay 25% of its respective portion of the Settlement Amount by wire transfer to the Escrow Account at the Depository Bank. Within 5 business days after the Final Approval Order becomes Final, each Settling Defendant shall pay the remaining 50% of its respective portion of the Settlement Amount by wire transfer to the Escrow Account at the Depository Bank and shall fully relinquish any and all control of, or interest in, the Settlement Fund. If Preliminary Approval or Final Approval is not achieved, or the Final Approval Order does not become Final, the Settling Defendants and Settlement Class Counsel shall immediately direct the Escrow Agent to transfer the Net Settlement Fund back to the Settling Defendants in accordance with the amounts paid, pro rata, by each Settling Defendant, at which time the Plaintiffs, Settlement Class, and Settlement Class Counsel agree

and acknowledge that in such event they, and each of them, fully relinquish any and all control of, or interest in, the Settlement Fund, and this Agreement shall become null and void.

2. Escrow Account. The Escrow Account shall be established at the Depository Bank and administered by the Escrow Agent under the Court's continuing supervision and control pursuant to the Escrow Agreement executed by the Escrow Agent and Settling Parties.

3. Jurisdiction of Court. All Settlement Funds transmitted to and held by the Escrow Agent as required by this Stipulation shall be deemed and considered to be in custodia legis of the Court, and shall remain subject to the jurisdiction of the Court, until such time as all Settlement Funds have been completely distributed pursuant to the terms of the Stipulation, and/or any further order(s) of the Court.

4. Settlement Fund Tax Status. Settling Parties agree to treat the Settlement Fund as being at all times a "qualified settlement fund" within the meaning of Treas. Reg. § 1.468B1 (or any successor regulation). In addition, the Escrow Agent shall timely make such elections as necessary or advisable to carry out the provisions of this paragraph, including the "relation-back election" (as defined in Treas. Reg. § 1.468B-1) (or any successor regulation) back to the earliest permitted date. Such elections shall be made in compliance with the procedures and requirements contained in such regulations. It shall be the responsibility of the Escrow Agent to timely and properly prepare and deliver the necessary documentation for signature by all necessary parties, and thereafter to cause the appropriate filing to occur.

5. Tax Returns. For the purpose of Treas. Reg. § 1.468B (or any successor regulation) of the Internal Revenue Code of 1986, as amended, and the regulations promulgated there under, the "administrator" shall be the Escrow Agent. The Escrow Agent shall timely and properly file all informational and other tax returns necessary or advisable with respect to the

Settlement Fund (including, without limitation, the returns described in Treas. Reg. § 1.468B-2(k)) (or any successor regulation). Such returns (as well as the election described in Section V.4 above) shall be consistent with this subsection and in all events shall reflect that all taxes (including any estimated taxes, interest or penalties) on the income earned by the Settlement Fund shall be paid out of the Settlement Fund as provided in Section V.6 hereof.

6. Tax Payments. All (a) taxes (including any estimated taxes, interest or penalties) arising with respect to the income earned by the Settlement Fund, including any taxes or tax detriments that may be imposed upon Settling Defendants with respect to any income earned by the Settlement Fund for any period during which the Settlement Fund does not qualify as a "qualified settlement fund" for federal or state income tax purposes, and (b) expenses and costs incurred in connection with the operation and implementation of this paragraph (including, without limitation, expenses of tax attorneys and/or accountants and mailing and distribution costs and expenses relating to filing (or failing to file) the returns described in Section V.5) shall be paid out of the Settlement Fund. In no event shall Settling Defendants have any responsibility for or liability with respect to the taxes or tax related expenses. The Escrow Agent shall indemnify and hold Settling Defendants harmless for taxes and tax related expenses (including, without limitation, taxes payable by reason of any such indemnification). Further, taxes and tax related expenses shall be treated as, and considered to be, a cost of administration of the Settlement Fund and shall be timely paid by the Escrow Agent out of the Settlement Fund without prior order from the Court, and the Escrow Agent shall be obligated (notwithstanding anything herein to the contrary) to withhold from distribution any funds necessary to pay such amounts, including the establishment of adequate reserves for any taxes and tax related expenses (as well as any amounts that may be required to be withheld under Treas. Reg. § 1.468B2(1)(2)) (or any

successor regulation); Settling Defendants are not responsible therefore nor shall they have any liability with respect thereto. The Settling Parties hereto agree to cooperate with the Escrow Agent, each other, and their tax attorneys and accountants to the extent reasonably necessary to carry out the provisions of this section.

7. Notice Procedures. The Settling Parties agree to follow the notice procedures specified in the Notice Plan, as approved by the Court.

8. Expenses of Notice and Administration. Settling Defendants shall have no responsibility for the expense of notice to the Settlement Class pursuant to the Notice Plan or the expense of administration of the Settlement Fund. Expenses of notice and administration for this Settlement shall be invoiced by the Notice Administrator and the Claims Administrator, respectively, and can be paid from this Settlement Fund. In no event shall the total expenses associated with notice and administration increase the amount owed by Settling Defendants as part of the Settlement. In no event shall the Settlement Class Counsel be responsible for the expense of notice to the Settlement Class.

9. Plan of Distribution of the Net Settlement Fund. Subject to approval by the Court, the Settling Parties agree to the following distribution of the Net Settlement Fund.

a. Each Settlement Class Member who is not an Opt-Out and submits a valid and timely claim to the Claims Administrator shall receive up to $35.00, if the claim is for a walk-behind lawn mower purchased by the Settlement Class Member; or up to $75.00, if the claim is for a riding lawn mower purchased by the Settlement Class Member.

b. For a claim to be valid, a Settlement Class Member must submit a claim form with the information set forth in this Section V.9.b. to the Claims Administrator

within the Monetary Relief Claims Period (as defined in the Notice) via the Internet or by mail. The Claims Administrator shall maintain a website and a toll free telephone number through which Settlement Class Members may obtain and submit claim forms. The claim form will request that a Settlement Class Member submit his or her full name, current address, and the brand of the lawnmower, brand of the engine, the engine model number, and the lawnmower identification number for the lawnmower for which a claim is being submitted. To the extent that a Settlement Class Member submits a claim form without some of the information listed in the preceding sentence, if the Claims Administrator is able to ascertain the missing information from the information provided by the Settlement Class Member sufficient to establish that it is a valid claim, the Claims Administrator may deem the claim as valid for purposes of receiving a distribution from the Net Settlement Fund. The claim form shall further require that the Settlement Class Member affirm under oath that all of the information on the claim form is true and correct and that between January 1, 1994 and the date of the Notice he or she purchased, for his or her use and not for resale, the lawnmower for which a claim is being submitted.

c. If the aggregate amount of valid claims received by the Claims Administrator exceeds the Net Settlement Fund, the amount each claimant receives under Section V.9.a. shall be reduced pro rata by the percentage necessary to permit payment of all valid claims. Any portion of the Net Settlement Fund not distributed to Settlement Class Members shall be disposed of pursuant to an order of the Court. In any event, upon the Final Approval Order becoming Final, no part of the Settlement Fund or Net Settlement Fund shall revert to the Settling Defendants.

d. Any order of the Court requiring modification of the distribution of the Net Settlement Fund as set forth in Section V.9 shall not affect the approval or finality of this Settlement. Except as provided by order of the Court pursuant to this Settlement Agreement, including an order approving a plan of distribution, no Settlement Class Member shall have any interest in the Settlement Fund or any portion thereof.

10. Warranty Relief. Each Settling Engine Manufacturer Defendant agrees to make available to each Settlement Class Member who is not an Opt-Out and who purchased a lawnmower with an engine manufactured and warranted by such Settling Engine Manufacturer Defendant, a warranty extension of one-year on such engine warranty ("Warranty Relief"). Briggs & Stratton shall provide the Warranty Relief only for engines both manufactured and warranted by Briggs & Stratton. Toro shall provide the Warranty Relief only for engines both manufactured and warranted by Toro. Tecumseh shall provide the Warranty Relief only for engines both manufactured and warranted by Tecumseh. For purposes of Warranty Relief only, engines manufactured and warranted by Tecumseh Power Company shall be treated as if they were manufactured and warranted by Tecumseh.

a. With respect to engine warranties issued by the Settling Engine Manufacturer Defendants that are still in effect when the Final Approval Order becomes Final, such Warranty Relief will add one year to the engine warranties. For all warranty extensions, the terms of the extended warranty (other than its duration), including all exclusions, shall be the same as the Settling Engine Manufacturer Defendant's warranty that is in effect when the Final Approval Order becomes Final.

b. With respect to engine warranties issued by the Settling Engine Manufacturer Defendants that expired prior to the Final Approval Order becoming Final,

such Warranty Relief will provide a one-year warranty commencing on the date the Final Approval Order becomes Final. For all such extended warranties, the terms of the extended warranty (other than its duration), including all exclusions, shall be the same as the Settling Engine Manufacturer Defendant's most recent engine warranty as of the date of this Settlement Agreement.

c. Settlement Class Members have up to one year from the date that the Final Approval Order becomes Final to make a claim for and to obtain the benefits of the Warranty Relief described in this Section V.10 (the "Warranty Relief Claims Period"). Upon a Settlement Class Member's submission of a claim form within the Warranty Relief Claims Period and containing the information set forth in Section V.9.b. for a lawnmower containing an engine manufactured and warranted by a Settling Engine Manufacturer Defendant and requesting an extended warranty, the Settlement Class Member shall receive a certificate evidencing the Warranty Relief as to the Settlement Class Member's lawn mower engine(s) identified on the claim form. Settlement Class Members who submit a claim form within the Warranty Relief Claims Period but after the Monetary Relief Claims Period has expired shall not be entitled to share in any distribution of the Net Settlement Fund.

d. To obtain the benefits of the Warranty Relief, a Class Member must present the certificate to a facility authorized to service the engine in issue, along with the lawnmower and engine identified in the certificate within one year after the Final Approval Order becomes Final and the engine failure must meet the terms and conditions of the warranty issued by the applicable Settling Engine Manufacturer Defendant.

e. To the extent any additional settlements are made with non-settling Defendants in the Actions, Settlement Class Counsel will use its best efforts to obtain the agreement of each Defendant that is not a Settling Defendant to provide an extended warranty to Class Members who purchased that Defendant's lawnmowers or lawnmower engines on terms substantially the same as the Warranty Relief.

11. Injunctive Relief. The Settling Defendants agree to the following governing future horsepower testing and labeling of lawnmower engines ("Injunctive Relief").

a. **Engine and Lawnmower Power Rating:** If any engine is given a horsepower rating or a torque rating displayed either on the engine or the lawnmower, or in any written materials intended to accompany the engine or the lawnmower at the time of retail sale to a consumer, the engine rating must be in compliance with this Injunctive Relief and all SAE testing and labeling standards, and identify: 1) the displacement (in cubic centimeters) of the engine; and 2) the "Certified Power Rating" as defined below. The party that is testing the engine and obtaining the Certified Power Rating (whether engine manufacturer or OEM) shall be responsible for compliance with these injunctive relief requirements.

b. **Requirements to Obtain a "Certified Power Rating" for Lawnmower Engines:** The "Certified Power Rating" is the power rating performed in accordance with the testing and labeling standards of the SAE and pursuant to this injunctive relief as certified by a "Certified Engine Tester." A "Certified Engine Tester" is an independent testing entity or person who is not employed by any engine manufacturer, lawn mower manufacturer or other defendant in this litigation. All Certified Engine Testers shall be

either a United States resident, subject to service of process within the United States, or consent to service of process at a designated location.

(1) Equipment Calibration: Engine testing equipment, (e.g., dynamometers and any other measuring devices) must be calibrated within 90 days prior to the tests. The Certified Engine Tester shall certify the calibration test performed and that the testing equipment meets the specifications of the testing standard.

(2) Testing Standards: All gross horsepower or torque tests will be conducted in accordance with SAE J1995. All net horsepower or torque tests will be conducted in accordance with SAE J1349.

(3) Test Locations: All engine testing will be performed at the engine manufacturer's production locations, the OEM's production locations if the OEM is testing and certifying the engine, or such other appropriately equipped testing location.

(4) Manufacturer Testing: All engine testing will be performed by, or on behalf of, the engine manufacturer or OEM (if the OEM is testing and certifying the engine).

(5) Engine Selection & Retention: Engines will be selected, at random, by the engine manufacturer from existing stock for existing engine models or from pre-production stock for new engine models. At least one engine used in the testing that support test results will be retained by engine manufacturer for as long as the test results are relied on by the engine manufacturer.

(6) Test Certification: A Certified Engine Tester shall personally conduct and certify, or personally witness and certify, with respect to the results of the engine testing that:

- the testing equipment met the specifications of the relevant testing standard and were properly calibrated;
- the results of the tests on each engine were achieved in compliance with the relevant SAE testing standards;
- the engines tested were selected at random from existing stock (in the case of existing engine models) or from pre-production stock not prototypes (in the case of new engine models).
- sufficient engines were tested to establish a 95% confidence interval using well founded statistical methods as to the power achieved under the relevant SAE testing standard.

(7) Frequency in Obtaining a Certified Power Rating: A Certified Power Rating is required one time only for each engine model. If the manufacturer alters the manufacturing process or if any changes are made to an engine that changes the engine horsepower or torque from the previously certified rating, that engine must be subjected to testing to obtain a new Certified Power Rating.

(8) Publishing Test Results: Certified Power Rating test results (e.g., power curves used to establish a 95% confidence interval for a given engine) will be publicly available on either the Outdoor Power Equipment Institute website or the engine manufacturer's website within 30 days after Certified Power Rating

results. The written materials intended to accompany the engine or the lawnmower at the time of retail sale must contain information sufficient to identify where a consumer can view the Certified Power Rating Test Results.

(9) Timing: The Settling Defendants shall have a period of twelve (12) months from the date the Final Approval Order becomes Final to comply with this injunctive relief. This injunctive relief will be effective for a period of ten (10) years from the date the Final Approval Order becomes Final.

(10) Proposed Revisions to SAE J1995: Settling Defendants who are in the business of manufacturing lawnmowers or lawnmower engines or become involved in the business of manufacturing lawnmowers or lawnmower engines during the period in which the Injunctive Relief is in effect agree to use their best good faith efforts to amend SAE J1995 to reflect the red-lined changes set forth in Exhibit 2 attached hereto. There is no requirement that the proposed changes actually be adopted by the SAE for Settling Defendants to fulfill their duty pursuant to this Injunctive Relief to present the amendments. All horsepower rating or torque rating displayed by Settling Defendants either on the engine of the lawnmower or in any written materials intended to accompany the engine or lawnmower shall be in compliance with SAE standards.

Notwithstanding the foregoing, nothing in this Stipulation shall be construed as requiring Sears to test or label engines. Sears only is agreeing that the lawnmowers it sells will comply with the requirements set forth in this Section V.11. To the extent any additional settlements are made with non-settling Defendants in the Actions, Settlement Class Counsel will use its best efforts to obtain the agreement of each Defendant that is not a Settling Defendant to be subject to the

Injunctive Relief set forth in Sections V.11.a. and b. Settlement Class Counsel agree that the Injunctive Relief set forth in this Section V.11 constitutes a New Power Rating Standard as defined in Section 30 of the Settlement Agreement Between Plaintiffs and MTD Products, Inc. dated the 4th day of August, 2006 (the "MTD Settlement Agreement") and Settlement Class Counsel shall use its best efforts have MTD subject to the Injunctive Relief set forth in this Section V.11.

12. Settling Defendants' Continuing Discovery Obligations. Notwithstanding the entry of a Final Approval Order, the Settling Defendants, other than Tecumseh, agree that for purposes of discovery only they may be treated as if they were still a party defendant in the Actions, which discovery shall be governed by the Federal Rules of Civil Procedure. Any such discovery will be subject to the rules, orders and procedures of the Court or any Subsequent Court. Settlement Class Counsel agree to pursue discovery against Defendants other than the Released Parties prior to seeking discovery from the Released Parties, and to seek discovery from Released Parties only with respect to such information not available from Defendants other than the Released Parties or from other sources. Because Tecumseh is not in the business of manufacturing or selling lawnmower engines, documents relating to Tecumseh lawnmower engines are owned by TecumsehPower Company, and TecumsehPower Company is no longer an operating company, Tecumseh shall not be considered a Settling Defendant with respect to this provision only and shall be treated as a third party for purposes of discovery.

VI. COURT APPROVAL

1. Motion for Preliminary Approval. At a time deemed appropriate by Interim Co-Lead Class Counsel, after consultation with the Settling Defendants, Interim Co-Lead Class Counsel shall submit to the Court a motion for preliminary approval ("Preliminary Approval") of

the Settlement and a motion for a stay of all proceedings in the Actions as to the Released Parties until the Court renders its final decision on approval of the Settlement. Interim Co-Lead Counsel shall seek an Order requesting, *inter alia*, (i) the Preliminary Approval of the Settlement set forth in the Stipulation, (ii) Certification of the Settlement Class pursuant to Fed. R. Civ. P. 23 (b)(3) for settlement purposes only; (iii) appointment of one or more plaintiffs as class representatives thereof and appointing Settlement Class Counsel, (iv) approval of the form and content of the Notice and Notice Plan, and (v) deadlines for persons to file claims, request exclusion from the Settlement Class, or make submissions in support of or opposition to the Settlement. A copy of the proposed order granting Preliminary Approval is attached hereto as Exhibit 3. In the event that the Motion for Preliminary Approval of the Settlement is submitted to the Court on the same day as a motion for preliminary approval of any other settlement agreement (including, but not limited to the MTD Settlement Agreement), Settlement Class Counsel agree to present and have argument on the motions for preliminary approval of the settlement agreements in the order in which the agreements were entered.

2. Notice to Settlement Class. In the event that the Court, or any Subsequent Court, grants Preliminarily Approval of the Settlement in the Action or any Subsequent Actions, Settlement Class Counsel shall, in accordance with Rule 23 of the Federal Rules of Civil Procedure and the Court's order, arrange for the Notice to be provided to the Settlement Class in accordance with the Notice Plan approved by the Court.

3. Opt-Outs. Within 10 calendar days after the final day on which Settlement Class Members may exercise their right to be excluded from the Settlement Class, as established by the Court and as set forth in the Notice, Settlement Class Counsel shall provide to the Settling Defendants in writing a list of names and addresses of all Opt-Outs. In the event that the

aggregate number of Opt-Outs exceed the number agreed upon by the Settling Parties, the Settling Defendants shall have the right to withdraw from this Settlement Agreement, upon written notice to Settlement Class Counsel within 10 calendar days after receipt of the list of Opt-Outs. If the Settling Defendants withdraw from this Settlement Agreement under this Section, this Settlement Agreement shall be null and void and the Net Settlement Fund shall be returned to the Settling Defendants pro rata in accordance with the amount each Settling Defendant paid into the Fund. The Proposed Class Representatives agree to participate as Settlement Class Members and to not opt-out of this Settlement.

4. Proposed Order and Final Judgment. If the Court grants Preliminary Approval and the Settling Defendants have not withdrawn from this Agreement, Settlement Class Counsel and the Settling Defendants shall, at a mutually agreed upon time prior to the Fairness Hearing, jointly request entry of an order and final judgment, in the form attached as Exhibit 4:

a. finally approving certification of the Settlement Class for settlement purposes only and finally approving the Settlement without material alteration of its terms;

b. finding that the terms of the Settlement are fair, reasonable and adequate under Rule 23 of the Federal Rules of Civil Procedure, and directing consummation of the Settlement pursuant to the terms and conditions of the Settlement Agreement;

c. finding that dissemination of the class notice in the form and manner directed by the Court was accomplished, was the best notice practicable and satisfies due process;

d. providing that each Settlement Class Member who is not an Opt-Out is bound by this Settlement Agreement regardless of whether the Settlement Class Member submits any claim;

e. approving such requests to opt-out of the Settlement Class as have been timely and properly submitted in accordance the Court's orders;

f. directing that any and all claims be dismissed with prejudice as to the Released Parties who are Defendants and, except as provided for herein, without costs to any party;

g. discharging and releasing the Released Parties from any and all Released Claims;

h. reserving continuing and exclusive jurisdiction over the Settlement Agreement and its administration, and any dispute, claim, or action arising out of or related to this Settlement Agreement or its administration;

i. determining pursuant to Fed. R. Civ. P. 54(b) that there is no just reason for delay and directing that the judgment of dismissal of the Actions shall be final and appealable; and

j. determining that the Settlement is in good faith and bars, extinguishes, and discharges any claims against the Released Parties by any other Defendant who is not a Released Party for contribution or indemnity under federal or state law; and preserving any claim for contribution or indemnity that a Settling Defendant may have against any other Defendant who is not a Released Party.

VII. RELEASES

1. Releases. In addition to the effect of any final judgment entered in accordance with this Settlement Agreement, upon Final Approval Order becoming Final, the Settlement Class Members in the Actions and/or Subsequent Actions as Releasing Parties, release and forever discharge each and all of the Released Parties from all manner of claims, demands,

actions, suits, causes of action, whether class, individual, or otherwise in nature, damages of any kind (including but not limited to actual, consequential, special, exemplary and punitive) and whenever incurred, liabilities of any nature whatsoever, including costs, expenses, penalties and attorneys' fees, known or unknown, derivative or direct, suspected or unsuspected, accrued or unaccrued, asserted or unasserted, in law or equity, including, without limitation, claims that have been asserted or could have been asserted in the Actions against the Released Parties, arising out of or related to the Releasing Party's purchase or purchases of a lawn mower or a lawn mower engine, specifically including any claim of conspiracy against the Released Parties, between January 1, 1994, and the date upon which Notice is first mailed or otherwise published, that any Releasing Party now has, ever had, or may have had as of the date of the Final Approval becomes Final (whether or not the Settlement Class Member objects to the Settlement and whether or not the Settlement Class Member submits a claim seeking to share in the Settlement Fund or has such claim approved or not approved) whether directly, representatively, derivatively or in any other capacity. "Unknown" claims as released herein means any and all claims that any member of the Settlement Class does not know to exist against any of the Released Parties which, if known, might have affected his or her decision to enter into or to be bound by the terms of this Settlement. The plaintiffs and the members of the Settlement Class acknowledge that they may hereafter discover facts in addition to or different from those that they now know or believe to be true concerning the subject matter of this release, but nevertheless fully, finally, and forever settle and release any and all Released Claims, known or unknown, derivative or direct, suspected or unsuspected, accrued or unaccrued, asserted or unasserted, in law or equity, including, without limitation, claims that have been asserted or could have been asserted in the Actions against the Released Parties, that any Releasing Party

now has, ever had, or may have had as of the date of the Final Approval becomes Final. The foregoing waiver includes, without limitation, an express waiver to the fullest extent permitted by law, by the Proposed Class Representatives and the Settlement Class Members of any and all rights under California Civil Code § 1542 or any similar law of any other state or of the United States, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MIGHT HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

The Settling Parties acknowledge, and the Settlement Class Members shall be deemed by operation of the Final Approval Order to have acknowledged, that the foregoing waiver was separately bargained for and a key element of the Settlement of which this release is a part.

Upon the Final Approval Order becoming Final, the Releasing Parties shall not seek to recover against the Released Parties for any of the Released Claims.

2. The Releasing Parties further release and shall not bring any claim or any cause of action that seeks in any way to recover against lawnmower manufacturers, retailers, dealers, and distributors that sell lawn mowers or lawn mower engines manufactured or sold by any Released Party where such claim in any way relates to the horsepower or power ratings, labels or advertising with respect to any lawn mower or lawn mower engine manufactured or sold by any Released Party (but not any other lawn mowers or lawn mower engines manufactured or sold by Defendants other than a Released Party) or in any way related to the contractual relationships between any Released Party and any lawnmower manufacturer, retailer, dealer or distributor or for which any Released Party may be held liable either directly or through a contribution or indemnification claim, except that nothing in this Settlement Agreement shall release any

lawnmower manufacturer, retailer, dealer or distributor other than the Released Parties from any liability for (a) such entity's knowing and intentional violation of state or federal law; (b) such entity's knowing and intentional misrepresentations or other intentional tortious conduct; (c) payment disputes; (d) repair or replacement parts or units under warranty, or (e) physical harm or bodily injury.

3. Reservation of Claims. Pursuant to this Settlement Agreement, each Settlement Class Member settles and releases only the Released Parties and lawnmower manufacturers, retailers, dealers and distributors that the Settlement Class has released pursuant to Sections VII.1. and 2 herein, and the parties do not intend this Settlement Agreement, or any part hereof or any other aspect of the proposed Settlement, to release or otherwise affect in any way any claims or rights any Settlement Class Member has or may have against any other Defendant or party or entity whatsoever. More particularly, the fact or terms of this Settlement with the Settling Defendants and the releases contained herein shall not be construed to release or limit in any way the joint or several liability or damage responsibility of any Defendant or alleged co-conspirator other than the Released Parties and lawnmower manufacturers, retailers, dealers, and distributors, released pursuant to Sections VII.1 and 2 herein, for the alleged combination and conspiracy, or for sales or other acts alleged in the Actions, Subsequent Actions or any related action, including, but not limited to, any alleged damage or responsibility for any of the acts of the Released Parties. The rights of any Settlement Class Member to recover the full amount of his judgment from any one or more Defendants who are not Released Parties are unaffected by this Settlement. In addition, neither this Settlement Agreement nor the releases set forth in Sections VII.1. and 2. above shall have any legal effect or other effect on any claims any Released Party may have against any Settlement Class Member for or arising out of accounts

receivable, contract obligations, or claims and defenses in unrelated existing or future litigation or bankruptcy proceedings; nor shall this Settlement Agreement or the releases set forth in Sections VII.1. and 2. above release or have any legal or other effect on ordinary commercial or product liability claims arising from the purchase or sale of any Released Party's products that do not involve any claims asserted in the Actions or that could have been asserted in the Actions, including but not limited to claims relating to payment disputes, physical harm or bodily injury, repair or replacement of parts or units under warranty.

4. Indemnity for Claims for Contribution or Indemnification Asserted by Other Defendants. Notwithstanding anything to the contrary contained in this Stipulation, in consideration of the terms hereof and in order to induce the Settling Defendants to enter into this Stipulation, the Settlement Class shall exclude from the dollar amount of any judgment in the Actions, any Subsequent Actions, or any action involving similar claims that is collectable against any Defendant who is not a Released Party an amount equal to the percentage or amount of such judgment for which the Released Parties would be responsible pursuant to a valid and enforceable claim for contribution and/or indemnification under federal or state law so as to bar, extinguish, discharge and release under federal and state law any claims for contribution or indemnity against the Released Parties, or any of them, by a Defendant who is not a Released Party.

VIII. EXPENSES AND ATTORNEYS' FEES.

1. The Released Parties shall not be responsible for the payment of any attorneys' fees of Plaintiffs' Counsel or costs or expenses of litigation. Rather, Plaintiffs' Counsel may seek payment for litigation expenses (including, without limitation, class representative incentive awards, experts, and settlement escrow expenses) only from the Settlement Fund. The Settling

Defendants shall be responsible only for the cost of any notice to state or federal agencies under 28 U.S.C. § 1715(b). The Settling Defendants take no position on any application for attorneys fees and expenses. No attorneys' fees shall be paid from the Settlement Fund until the Final Approval Order becomes Final. Notwithstanding the foregoing, after entry of an order of the MDL Court approving fees and expenses, a plaintiffs' counsel or firm in the Actions may give notice to the Settling Defendants that it wishes to be paid attorneys fees and expenses before the Final Approval Order is Final. In that circumstance, attorney fees can be paid from the Settlement Fund only if (1) the request is in compliance with all court orders; (2) the request is in an amount authorized by Settlement Class Counsel, and (3) the requesting plaintiffs' counsel or firm secures the repayment for any such counsel's or firm's fees, plus interest thereon at the prime rate, by a letter of credit or letters of credit on terms and by banks acceptable to Settling Defendants. Each plaintiffs' counsel or firm that is paid attorneys' fees prior to the Final Approval Order becoming Final shall be required to reimburse all or the pertinent portion of that counsel's or firm's payment, plus interest thereon at the prime rate, if the award of attorneys' fees and expenses is reduced or overturned on appeal, or if this Settlement does not become Final. Settling Defendants may present the letter(s) of credit in the event the counsel or firm fails to honor the obligation to repay the amount withdrawn if the attorneys' fee and expenses award is reduced or overturned on appeal, or if this Settlement does not become Final.

2. Any payment approved by the Court pursuant to Section VIII.1. shall constitute full satisfaction of Settling Defendants' and/or any Released Parties 'obligations to pay amounts to any person, attorney, or law firm for attorneys' fees, expenses, or costs incurred on behalf of the Proposed Class Representatives and/or the Settlement Class, and shall relieve the Settling Defendants and Released Parties from any other claim or liability to any other attorney or law

firm for any attorneys' fees, expenses and/or costs on behalf of the Proposed Class Representatives and/or the Settlement Class. Settlement Class Counsel shall be solely and legally responsible to pay any and all applicable taxes on the payment made pursuant to Section VIII.1 and agrees to indemnify and hold harmless Settling Defendants from any claim or liability for taxes, penalties or interest for which Settlement Class Counsel is responsible as a result of the payment made pursuant to Section VIII.1. Settlement Class Counsel further agrees that any allocation of fees between or among Settlement Class Counsel and any other attorney representing the plaintiffs and/or the Settlement Class shall be the sole responsibility of Settlement Class Counsel and Settlement Class Counsel agrees to indemnify and hold harmless the Released Parties from any claim or liability by any other person or entity claiming or seeking to claim any attorneys' fees or costs.

3. Any award of attorneys' fees and costs and any application for such fees and costs, and any and all matters related thereto, shall not be considered part of the Stipulation, and shall be considered by the Court separately from the Court's consideration of the fairness, reasonableness and adequacy of the Settlement, and shall not operate to terminate or cancel the Stipulation or Settlement, and shall not affect or delay the finality of any Final Approval Order approving the Stipulation and the Settlement of the Actions.

IX. EFFECT OF DISAPPROVAL, CANCELLATION OR TERMINATION

1. If the Final Approval Order does not become Final, then the Settlement, this Stipulation, and any other stipulation shall become null and void. In addition, the Settling Parties agree that if this Settlement becomes null and void, the Released Parties shall not be prejudiced in any way from opposing the certification of a class or classes in the Actions or in any other litigation that is not one of the Actions, nor shall the Released Parties be prejudiced in any way

from asserting any and all other defenses to the claims asserted in the Actions or in any other litigation, or with respect to their assertion of any other rights or remedies. If this Settlement becomes null and void, the Net Settlement Fund shall be returned to Settling Defendants.

2. In the event that the Final Approval Order does not become Final, or the Stipulation is terminated, or fails to become effective in accordance with its terms, the Settling Parties and the Settlement Class Members shall be restored to their respective positions in the Actions as of the date of this Settlement Agreement. In such event, the terms and provisions of the Stipulation, with the exception of the last sentence of Section V.1, the second to last sentence of Section VI.3, and Sections IX.1, IX.2, X.4, and X.9 hereof, shall have no further force and effect with respect to the Settling Parties and the Settlement Class Members, and shall not be used in these Actions or in any other proceeding for any purpose, and any judgment or order entered by the Court in accordance with the terms of the Stipulation shall be treated as vacated, nunc pro tunc. Nothing contained in this Settlement Agreement can be used by any person for any purpose with respect to the issues of class certification or the merits of the claims or defenses asserted in the Actions or any related litigation.

X. MISCELLANEOUS PROVISIONS

1. The Settling Parties acknowledge that it is their intent to consummate this Settlement, and agree to cooperate and take whatever steps are necessary and appropriate to complete the Settlement, to obtain Preliminary and Final Approval of the Settlement, to effectuate the terms of the Settlement, and to protect the Settlement by applying for appropriate orders enjoining others from initiating or prosecuting any action arising out of or related to the facts or claims alleged in the Actions, if so required.

2. To the extent any disputes or issues arise with respect to documenting the Settlement, the Settling Parties agree to use their best efforts to informally resolve any such disputes or issues; but in the event any such dispute or issue cannot be resolved informally, to bring any such dispute or issue to the Court for resolution.

3. The Settling Parties intend the Settlement to be a final and complete resolution of all disputes between them with respect to the Actions and Subsequent Actions, except as specifically provided for herein. The Settlement compromises claims which are contested and shall not be deemed an admission by any Settling Party as to the merits of any claim or defense. While retaining their right to deny liability, the Settling Defendants agree that the amount paid to the Settlement Fund and the other terms of the Settlement were negotiated at all times at arm's length and in good faith by the Settling Parties, and reflect a settlement that was reached voluntarily after consultation with competent legal counsel. Except as provided in Section VIII.1., each Party shall bear its own costs.

4. Neither the Stipulation nor the Settlement contained therein, nor any act performed or document executed pursuant to or in furtherance of the Stipulation or the Settlement: (a) is or may be deemed to be, or may be used as an admission or evidence of, the validity of any claims asserted in the Actions, or of any wrongdoing or liability on the part of the Released Parties, or (b) is or may be deemed to be, or may be used as an admission or evidence of, any fault or omission of any of the Released Parties in any civil, criminal, or administrative proceeding in any court, administrative agency or other tribunal. The Released Parties may file the Stipulation and/or the Final Approval Order in any action that has been or may be brought against them in order to support a defense or counterclaim based on principles of res judicata, collateral estoppel, release, good faith settlement, judgment bar, reduction, or any other theory of

claim preclusion or issue preclusion, or any similar defense or counterclaim.

5. Each obligation of each Settling Defendant under this Settlement Agreement is several and not joint, including each Settling Defendant's obligation to make payments into the Settlement Fund as prescribed in Section V.1. of this Stipulation. In addition, no Settling Defendant other than the Settling Engine Manufacturer Defendants is responsible for providing Warranty Relief under this Settlement Agreement. No Settling Engine Manufacturer Defendant is responsible for providing Warranty Relief under this Settlement Agreement as to any engines other than the engines that were initially warranted by that Settling Engine Manufacturer Defendant.

6. No person shall have any claim against any Settling Defendant, Settling Defendant's Counsel, or Settlement Class Counsel based on distribution of benefits made substantially in accordance with this Stipulation of Settlement or any Settlement-related order(s) of the Court.

7. If a case is commenced in respect to a Settling Defendant under Title 11 of the United States Code (Bankruptcy), or a trustee, receiver or conservator is appointed under any similar law, and in the event of the entry of a final order of a court of competent jurisdiction determining the transfer of the Settlement Funds, or any portion thereof, by or on behalf such Settling Defendant to be a preference, voidable transfer, fraudulent transfer, or similar transaction, and that Settling Defendant's portion of the Settlement Fund is returned to the Settling Defendant, then, as to that Settling Defendant, the releases given and Final Approval Order entered in its favor pursuant to this Stipulation shall be null and void. After the Settlement is Final, nothing in this Stipulation should be construed to require Settlement Class Counsel or Settlement Class Member to return any amount of money paid to them under the Settlement and

the releases provided for herein shall remain in full force and effect.

8. Each Settling Defendant warrants and represents that it is not “insolvent” within the meaning of 11 U.S.C. § 101(32) as of the time this Stipulation is executed and as of the time any payments are transferred or made as required by this Stipulation.

9. All agreements made and Orders entered during the course of the Actions relating to the confidentiality of information shall survive this Stipulation.

10. The Stipulation may be amended or modified only by a written instrument signed by all Settling Defendants and Settlement Class Counsel, or their respective successors-in-interest.

11. This Stipulation and the agreements referred to herein constitute the entire agreement among the Settling Parties, and no representations, warranties or inducements have been made to any Party concerning the Stipulation and the agreements referred to herein, other than those contained therein. The Stipulation and the agreements referred to herein replace and void any and all previous agreements concerning the settlement of the Actions.

12. Settlement Class Counsel, on behalf of the Settlement Class, are expressly authorized by the Court’s January 27, 2009, Order to take all appropriate action required or permitted to be taken by the Settlement Class pursuant to the Stipulation to effectuate its terms, and also are expressly authorized to enter into any modifications or amendments to the Stipulation on behalf of the Settlement Class which they deem necessary or appropriate.

13. Each attorney executing the Stipulation on behalf of any party hereto hereby warrants that such attorney has the full authority to do so.

14. This Stipulation may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument. A complete set

of original executed counterparts shall be filed with the Court.

15. This Stipulation shall be binding upon, and inure to the benefit of, the successors and assigns of the Settling Parties hereto.

16. The Court shall retain jurisdiction with respect to implementation and enforcement of the terms of the Stipulation and for the entry of appropriate orders enjoining others from initiating or prosecuting any action arising out of or related to the facts or claims alleged in the Actions, if so required. The Settling Parties hereto submit to the jurisdiction of the Court for purposes of implementing and enforcing the Settlement embodied in the Stipulation. The Parties shall present the Court with proposed Orders that allow for such a retention of jurisdiction, in accordance with applicable law.

17. The Stipulation shall be considered to have been negotiated, executed and delivered, and to be wholly performed, in the State of Illinois, and the rights and obligations of the parties to the Stipulation shall be construed and enforced in accordance with, and governed by, the internal, substantive laws of the State of Illinois without giving effect to that State's choice-of-law principles.

18. This Settlement Agreement shall not provide any rights to, or be enforceable by, any person or entity who is not a Settlement Class Member, a Released Party or Settlement Class Counsel. Absent Court order, no Settlement Class Member or Settlement Class Counsel may assign or otherwise convey any right to enforce any provision of this Settlement Agreement.

19. All notices between the Settling Defendants and Settlement Class Counsel under this Settlement Agreement shall be in writing. Each such notice shall be given either by (a) hand delivery; (b) registered or certified mail, return receipt requested, postage pre-paid; (c) first class U.S. mail together with simultaneous facsimile transmission; or (d) an overnight express delivery

service and, in the case of either (a), (b) (c) or (d) shall be addressed, if directed to Settlement Class Counsel or counsel for the Settling Defendants, to the addresses set forth on the signature pages hereof, or such other address as any of them may subsequently provide, pursuant to notice in the manner described in this Section.

20. Any inconsistency between this Settlement Agreement and any other agreement between the Settlement Class and the Settling Defendants shall be resolved in favor of the Settlement Agreement. The headings used in this Settlement Agreement are intended for the convenience of the reader only and shall not affect the meaning or interpretation of this Settlement Agreement.

21. No party or signatory shall be considered the drafter of this Settlement Agreement for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter.

IN WITNESS WHEREOF, the Settling Parties, through their authorized representatives, have agreed and entered into this Settlement Agreement as of the date first written above.

ON BEHALF OF PROPOSED CLASS REPRESENTATIVES AND THE SETTLEMENT CLASS:

/s/ Vincent J. Esades

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ON BEHALF OF SEARS, ROEBUCK AND CO., SEARS HOLDINGS CORPORATION AND KMART HOLDING CORPORATION

/s/ Debbie L. Berman

____

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ON BEHALF OF ELECTROLUX HOME PRODUCTS, INC. and HUSQVARNA OUTDOOR PRODUCTS, INC. (NOW KNOWN AS HUSQVARNA CONSUMER OUTDOOR PRODUCTS, N.A., INC.):

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/s/ Suzanne K. Richards

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