

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended July 31, 1998 Commission File Number 1-8649

THE TORO COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

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

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

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

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

Yes X

No

The number of shares of Common Stock outstanding as of August 31, 1998 was
12,867,614.

THE TORO COMPANY
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PART I. ITEM 1. FINANCIAL INFORMATION

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

	Three Months Ended		Nine Months Ended	
	July 31, 1998	August 1, 1997	July 31, 1998	August 1, 1997
Net sales	\$ 290,993	\$ 249,274	\$ 880,738	\$ 810,434
Cost of sales	189,713	156,879	573,457	517,695
Gross profit	101,280	92,395	307,281	292,739
Selling, general and administrative expense	89,532	73,626	256,431	231,255
Restructuring and other unusual expense	10,452	-	10,452	-
Earnings from operations	1,296	18,769	40,398	61,484
Interest expense	(6,650)	(5,476)	(19,366)	(15,408)
Other income, net	1,135	3,151	6,140	5,957
Earnings (loss) before income taxes	(4,219)	16,444	27,172	52,033
Provision (benefit) for income taxes	(1,666)	6,495	10,733	20,553
Net earnings (loss) before extraordinary loss	(2,553)	9,949	16,439	31,480
Extraordinary loss, net of income tax benefit of \$1,087	-	(1,663)	-	(1,663)
Net earnings (loss)	\$ (2,553)	\$ 8,286	\$ 16,439	\$ 29,817
Retained earnings at beginning of period	\$ 218,597	\$ 192,276	\$ 202,681	\$ 173,630
Net earnings (loss)	(2,553)	8,286	16,439	29,817
Dividends on common stock of \$0.12, \$0.12, \$0.36 and \$0.36 per share, respectively	(1,543)	(1,452)	(4,619)	(4,337)
Retained earnings at end of period	\$ 214,501	\$ 199,110	\$ 214,501	\$ 199,110
Basic net earnings (loss) per share of common stock before extraordinary loss	\$ (0.20)	\$ 0.82	\$ 1.28	\$ 2.60
Extraordinary loss, net of income tax benefit	-	(0.13)	-	(0.13)
Basic net earnings (loss) per share of common stock	\$ (0.20)	\$ 0.69	\$ 1.28	\$ 2.47
Diluted net earnings (loss) per share of common stock and common stock equivalents before extraordinary loss	\$ (0.20)	\$ 0.80	\$ 1.24	\$ 2.53
Extraordinary loss, net of income tax benefit	-	(0.13)	-	(0.13)
Diluted net earnings (loss) per share of common stock and common stock equivalents	\$ (0.20)	\$ 0.67	\$ 1.24	\$ 2.40

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(DOLLARS IN THOUSANDS)

	July 31, 1998	August 1, 1997	October 31, 1997
ASSETS			
Cash and cash equivalents	\$ 2,800	\$ 4	\$ 8
Receivables, net	328,628	308,234	259,134
Inventories	202,999	161,825	160,122
Other current assets	52,069	39,285	52,780
Total current assets	586,496	509,348	472,044
Property, plant, and equipment	325,473	322,708	297,841
Less accumulated depreciation	192,510	206,105	180,989
Other assets	132,963	116,603	116,852
Total assets	\$ 833,363	\$ 704,970	\$ 661,634
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of long-term debt	\$ 684	\$ 365	\$ 365
Short-term borrowing	158,031	95,000	41,000
Accounts payable	30,505	46,531	58,397
Other accrued liabilities	161,581	146,358	138,071
Total current liabilities	350,801	288,254	237,833
Long-term debt, less current portion	196,947	177,650	177,650
Other long-term liabilities	6,625	5,399	4,988
Stockholders' equity:			
Common stock par value \$1.00, authorized 35,000,000 shares; issued and outstanding 12,867,614 shares at July 31, 1998 (net of 640,441 treasury shares), 12,112,310 shares at August 1, 1997 (net of 797,694 treasury shares), and 12,189,244 shares at October 31, 1997 (net of 720,760 treasury shares)	12,868	12,112	12,189
Additional paid-in capital	59,455	28,241	31,371
Retained earnings	214,501	199,110	202,681
Foreign currency translation adjustment	(7,834)	(5,796)	(5,078)
Total stockholders' equity	278,990	233,667	241,163
Total liabilities and stockholders' equity ...	\$ 833,363	\$ 704,970	\$ 661,634

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	July 31, 1998	August 1, 1997
Cash flows from operating activities:		
Net earnings	\$ 16,439	\$ 29,817
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Extraordinary loss on early extinguishment of debt	-	1,663
Provision for depreciation and amortization	22,593	16,675
Loss (gain) on disposal of property, plant and equipment	301	(70)
Deferred income taxes	(2,490)	1,528
Tax benefits related to employee stock option transactions	1,815	1,224
Changes in operating assets and liabilities:		
Receivables, net	(60,811)	(43,488)
Inventories	(31,448)	(747)
Other current assets	4,283	(3,606)
Accounts payable and accrued expenses	(18,100)	8,009
Net cash (used in) provided by operating activities	(67,418)	11,005
Cash flows from investing activities:		
Purchases of property, plant and equipment	(24,514)	(24,729)
Proceeds from asset disposals	1,330	1,160
Decrease (increase) in other assets	1,362	(7,877)
Acquisition of James Hardie Irrigation, net of cash acquired	-	(118,030)
Other acquisitions, net of cash acquired	(17,173)	-
Net cash used in investing activities	(38,995)	(149,476)
Cash flows from financing activities:		
Increase in short-term borrowing	117,031	53,975
Proceeds from issuance of long-term debt	-	175,000
Repayments of long-term debt	(3,601)	(50,350)
Payments for termination of interest rate swaps	-	(23,650)
Payment of debt issue costs and prepayment penalty	-	(5,625)
Increase in other long-term liabilities	972	-
Proceeds from exercise of stock options	2,176	6,587
Purchases of common stock	-	(7,952)
Dividends on common stock	(4,619)	(4,337)
Net cash provided by financing activities	111,959	143,648
Foreign currency translation adjustment	(2,754)	(5,239)
Net increase (decrease) in cash and cash equivalents	2,792	(62)
Cash and cash equivalents at beginning of period	8	66
Cash and cash equivalents at end of period	\$ 2,800	\$ 4

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JULY 31, 1998

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by generally accepted accounting principles for complete financial statements. Unless the context indicates otherwise, the term's "company" and "Toro" refer to The Toro Company and its subsidiaries. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting primarily of recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. Since the company's business is seasonal, operating results for the nine months ended July 31, 1998 are not necessarily indicative of the results that may be expected for the year ended October 31, 1998. Certain amounts from prior period's financial statements and financial information have been reclassified to conform to this period's presentation.

For further information, refer to the consolidated financial statements and notes included in the company's Annual Report on Form 10-K for the year ended October 31, 1997. The policies described in that report are used for preparing quarterly reports.

INVENTORIES

The majority of inventories are valued at the lower of cost or net realizable value with cost determined by the last-in, first-out (LIFO) method. Had the first-in, first-out (FIFO) method of cost determination been used, inventories would have been \$27,023,000 and \$25,642,000 higher than reported at July 31, 1998, and August 1, 1997, respectively. Under the FIFO method, work-in-process inventories were \$84,360,000 and \$72,008,000 and finished goods inventories were \$145,662,000 and \$115,459,000 at July 31, 1998, and August 1, 1997, respectively.

BUSINESS ACQUISITIONS

On November 25, 1997, the company completed the acquisition of Exmark Manufacturing Company Incorporated (Exmark). In exchange for all the capital stock of Exmark, the company issued 598,051 shares of its common stock and paid approximately \$5.5 million in cash. In addition, under terms of the purchase agreement, the company will be required to make contingent payments to Exmark's former shareholders if Exmark's post-acquisition earnings and sales growth from November 1, 1997 through October 31, 1999 exceed minimum levels established in the purchase agreement. The maximum amount of these contingent payments is \$28.0 million. Contingent payments will be paid with a combination of cash and the company's common stock. The acquisition is accounted for using the purchase method of accounting.

On February 19, 1998, the company completed the acquisition of GR Driplines, Inc. (Drip In) and various other assets. The acquisition was accounted for using the purchase method of accounting.

The company and James Hardie Irrigation Limited (Hardie) entered into an arbitration process related to the valuation and accounting issues used in determining the purchase price of Hardie. This process was completed on April 20, 1998 resulting in a further \$1.8 million reduction of the purchase price.

RESTRUCTURING AND OTHER UNUSUAL EXPENSE

During the third quarter of fiscal 1998, the company recorded a charge of \$10.5 million for restructuring and other unusual expense. The restructuring charges of \$3.3 million consisted of \$2.2 million for the severance and asset write-down related to the closure of a manufacturing facility and \$1.1 million for other restructuring severance costs. Other unusual expense consisted of \$3.5 million for the expected loss related to the sale of the recycling equipment division and \$3.7 million for special marketing programs consisting of rebates and co-op credits in order to reduce certain consumer product field inventories to historically low levels in preparation of a new distribution logistical program next fiscal year.

NEW ACCOUNTING PRONOUNCEMENTS

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

SFAS 133 establishes new standards for recognizing all derivatives as either assets or liabilities, and measuring those instruments at fair value. The company will be required to adopt the new standard beginning with the first quarter of fiscal year 2000; earlier application is permitted. The adoption of SFAS 133 is not expected to have a material impact on the company's consolidated financial statements.

SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use and does not require additional disclosures. The company will be required to adopt the SOP at the beginning of fiscal year 2000; earlier application is permitted. Costs incurred prior to the initial application of the SOP should not be adjusted to conform with SOP 98-1. However, costs incurred for all projects in process at the beginning of fiscal year 2000 should apply the provisions established in SOP 98-1. The adoption of SOP 98-1 is not expected to have a material impact on the company's consolidated financial statements.

During fiscal 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

SFAS 130 establishes standards for reporting and displaying the components of comprehensive income and the accumulated balance of other comprehensive income within total stockholders' equity. The company is required to adopt SFAS 130 at the beginning of fiscal year 1999, with reclassification of prior period information for comparative purposes. The adoption of SFAS 130 will require additional disclosures, but will not have a material impact on the company's consolidated financial statements.

SFAS 131 requires disclosure of selected information about operating segments including segment income, revenues, and asset data, as well as descriptive information about how operating segments are determined and the products and services provided by the segments. The company will be required to adopt SFAS 131 beginning with its 1999 fiscal year-end annual report. The company is in the process of evaluating SFAS 131 and the impact on the company's current disclosures.

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

FORWARD-LOOKING INFORMATION

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

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

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses operating in a global market, as well as matters specific to the company and the markets it serves. Particular risks and uncertainties facing the company at the present include whether the announced profit improvement plan can be successfully implemented and expected cost savings can be achieved; the cost of closing certain plants and selling certain business units; the success of new marketing programs; instability in many of the company's markets in Asia and other parts of the world; the strong dollar which increases the cost of the company's products in foreign markets resulting in cancellation of planned projects and limiting the company's ability to increase prices; increased emphasis on price and value affecting consumer buying patterns which affect the company's consumer business; uncertainties inherent in modification of distribution of consumer products from dealer outlets to hardware, home centers, and mass merchant retailers; changes in distributor ownership; increased competition in the company's businesses; the company's ability to integrate recent business acquisitions and to manage alliances successfully; changes in the company's distribution logistics; changes in distributor, dealer or mass merchant purchasing practices; the company's ability to rationalize its product lines and plant configurations; the company's ability to negotiate expected covenant waivers with its banks; and continuing cost overruns affecting manufacturing efficiencies for selected consumer products.

In addition, the company is subject to risks and uncertainties facing its industry in general, including changes in business and political conditions, and the economy in general in both foreign and domestic markets; weather conditions affecting demand, including warm winters and wet spring and summer weather; lack of growth in the company's markets; financial market changes including increases in interest rates and fluctuations in foreign exchange rates; a slowing in housing starts or new golf course starts; inability to raise prices of products due to market conditions; changes in market demographics; actions of competitors; unanticipated problems or costs associated with implementation by the company of computer applications that will accommodate the year 2000; the inability of the company's suppliers, customers, creditors and financial service organizations to implement computer applications accommodating the year 2000; the company's ability to develop, manufacture, and sell both new and existing products profitably; seasonal factors in the company's industry; unforeseen litigation; government action including budget levels, regulation and legislation, primarily legislation relating to the environment, commerce, infrastructure spending, and health and safety; labor relations; and availability of materials.

The company wishes to caution readers not to place undo reliance on any forward-looking statement and to recognize that the statements are not predictions of actual future results. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results due to the risks and uncertainties described above, as well as others not now anticipated. The foregoing statements are not exclusive and are in addition to other factors discussed elsewhere in the company's filings with the Securities and Exchange Commission. The company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

The company has experienced poor results for the nine months ended July 31, 1998 compared to last year. The company has been affected by several events outside its control. The lack of snow experienced this year negatively impacted highly profitable snowthrower sales, the wet spring led to lower irrigation sales in certain markets in the second quarter, and weakness in Asia has affected commercial and irrigation golf related sales in that market. The company also was affected by poor execution of the transfer of manufacturing certain consumer product from its closed Mound, Minnesota facility to its El Paso, Texas facility, which has resulted in significant manufacturing inefficiencies. The company also had delays in manufacturing the new Dura-Force(TM) Lawn Boy-Registered Trademark- walk power mower, which did not allow the company to fully capitalize on the acceptance of the new product. The company is focusing on improving the manufacturing efficiencies at its El Paso plant and expects the majority of the issues to be resolved by fiscal year-end. The company has begun a profit improvement plan noted below to improve overall company profitability.

Third quarter net sales were \$291.0 million versus \$249.3 million last year, an increase of 16.7 percent. Sales would have been up 8.8 percent without the incremental revenue from the acquisitions of Exmark-Registered Trademark- and Drip In. The increase in sales is due to a strong demand for professional turf equipment and parts and certain irrigation products, and the newly acquired Drip In and Exmark-Registered Trademark- products. The increase in sales is also due to a shift of revenue from the second to the third quarter for walk power mowers, which was partially caused by production delays in the first and second quarters. The increase, however, was offset partially by a planned reduction of sales of gas trimmers to certain home centers due to low product profitability. Net loss for the quarter was \$2.6 million versus net income of \$8.3 million for the same quarter in the previous year, and loss per basic share was \$0.20 versus net income of \$0.67 per dilutive share last year. The current period net loss was primarily due to restructuring and other unusual expense of \$10.5 million along with lower operating margins due to manufacturing inefficiencies experienced at the El Paso facility. The change in results for the prior comparable period was also affected by higher interest expense resulting from higher levels of working capital and interest on debt related to the current year's acquisitions.

Year-to-date net sales were \$880.7 million versus \$810.4 million last year, an increase of 8.7 percent. Without the incremental revenue of Exmark-Registered Trademark- and Drip In products, sales would have been up only slightly. The increase in net sales without Exmark-Registered Trademark- and Drip In products were due to strong sales of professional turf equipment and irrigation products that were partially offset by the significantly lower levels of shipments for consumer products including snowthrowers, gas powered trimmers, and riding products. Net earnings were \$16.4 million versus \$29.8 million last year, 1.9 percent of net sales as compared to 3.7 percent of net sales for the same period last year. The reasons for the nine-month decrease in net earnings is due to the significant decrease in consumer sales and the reasons noted for the third quarter decrease.

The company is in the process of implementing a profit improvement plan and is formulating additional programs to reposition the consumer business and make the company as a whole more competitive. The expected primary elements of this strategy include decentralizing manufacturing and inventory management, changes in distribution logistics to an outside provider, sale of the recycling equipment division, and plant closings. The company expects this program will result in restructuring and other unusual expense totaling approximately \$15.0 million in fiscal 1998, of which \$10.5 million was recorded in the third quarter. Approximately \$3.0 to \$4.5 million will be expensed in the fourth quarter of fiscal 1998. The company is also reviewing other programs, which could result in additional expense of \$3.0 to \$5.0 million in fiscal 1999. Due to the additional restructuring and other unusual expense that will be recorded in the fourth quarter, in addition to the reasons discussed below, the company expects a significant loss for the fourth quarter. The expected savings from the profit improvement plan are estimated to be \$20.0 million by the end of fiscal 2000.

RESULTS OF OPERATIONS (CONTINUED)

The following table sets forth net sales by product line.

(Dollars in thousands)	Three Months Ended			
	July 31, 1998	August 1, 1997	\$ Change	% Change
Consumer products	\$ 96,138	\$ 93,471	\$ 2,667	2.9%
Commercial products	111,725	89,832	21,893	24.4%
Irrigation products	83,130	65,971	17,159	26.0%
Total *	\$290,993	\$249,274	\$ 41,719	16.7%
* Includes international sales of:	\$ 51,661	\$ 48,972	\$ 2,689	5.5%

(Dollars in thousands)	Nine Months Ended			
	July 31, 1998	August 1, 1997	\$ Change	% Change
Consumer products	\$293,855	\$333,533	\$(39,678)	(11.9)%
Commercial products	368,316	289,819	78,497	27.1%
Irrigation products	218,567	187,082	31,485	16.8%
Total *	\$880,738	\$810,434	\$ 70,304	8.7%
* Includes international sales of: ...	\$186,038	\$184,952	\$ 1,086	0.6%

CONSUMER PRODUCT SALES

Third quarter net sales of worldwide consumer products were \$96.1 million versus \$93.5 million last year, an increase of 2.9 percent. The company experienced strong shipments of the Lawn-Boy-Registered Trademark- walk power mowers due to delays in production of the new Dura-Force-TM- Lawn-Boy-Registered Trademark- product that shipped this quarter instead of the second quarter. The Toro-Registered Trademark- branded walk power mower also experienced strong third quarter sales compared to the same period last year due to the prior year's weak spring sales. In addition, dealers are purchasing product closer to retail demand, which management believes may be causing sales to shift from the second to the third quarter. These increases were offset by the planned reduction of sales of gas powered trimmers to certain home centers and a reduction in snowthrower shipments due to inventory carryover at the dealers from last winter.

Year-to-date net sales of worldwide consumer products were \$293.9 million versus \$333.5 million last year, a decrease of 11.9 percent. Shipments were down for riding products as a result of lower demand for a new garden tractor priced higher than the prior year model and production delays for lawn tractors. Do-it-yourself irrigation sales were below last year due to the wet spring weather experienced this year and the discontinuance of several low margin products. Gas powered trimmer sales were significantly below last year as the company discontinued the product line in certain home centers due to product profitability. International sales were below last year due to product availability. The Canadian demand for the new Dura-Force-TM- Lawn-Boy-Registered Trademark- walk power mowers could not be met due to production delays. The company also believes that sales were lower as a result of a shift in consumer buying patterns from brand specific purchases from dealer outlets to price and value conscious purchases from hardware, home centers, and mass merchant retailers, a trend throughout the industry. Because the company expects this trend to continue, the company recently announced that certain Toro-Registered Trademark- branded walk power mowers will be sold in certain home centers next fiscal year.

As of July 31, 1998, dealer snowthrower inventory is abnormally high due to the lack of snow experienced during the company's first quarter. Sales for snowthrower products are expected to be significantly below prior years' levels in the fourth quarter of fiscal 1998.

COMMERCIAL PRODUCT SALES

Third quarter net sales of worldwide commercial products were \$111.7 million versus \$89.8 million last year, an increase of 24.4 percent. Despite strong competition, sales of equipment to golf courses did well, reflecting the continued growth of the golf market. Sales were also strong for service parts due to a new maintenance kit program. The acquisition of Exmark-Registered Trademark- in November 1997 also significantly contributed to the sales increase. However, Toro sales to the landscape contractor market were below prior year, when the company conducted a strong marketing effort to sell certain landscape contractor products. International sales were strong due to an increase in demand in the European market for golf course equipment and landscape contractor products, but were offset by weak sales in Asia.

Year-to-date net sales of worldwide commercial products were \$368.3 million versus \$289.8 million last year, a significant increase of 27.1 percent. The increase was mainly attributable to the addition of Exmark-Registered Trademark- along with strong sales to the landscape contractor market due to new product introductions and continued growth of sales to the golf market, except Asia.

IRRIGATION PRODUCT SALES

Third quarter net sales of worldwide irrigation products were \$83.1 million versus \$66.0 million last year, an increase of 26.0 percent. Strong domestic golf revenues, the acquisition of Drip In, the growth of the worldwide agricultural irrigation market, and the success of a new marketing program for certain irrigation products contributed to the majority of the increase.

Year-to-date net sales of worldwide irrigation products were \$218.6 million versus \$187.1 million last year, an increase of 16.8 percent. As mentioned in the quarter comparison, strong golf irrigation revenues and worldwide agricultural irrigation revenues contributed to the increase as did the addition of sales from Drip In. However, sales of certain residential/commercial irrigation products decreased due to wet weather in certain key markets during the spring of the current year.

GROSS PROFIT

Third quarter gross profit was \$101.3 million versus \$92.4 million last year, an increase of 9.6 percent. As a percentage of net sales, gross profit margin for the third quarter was 34.8 percent versus 37.1 percent last year. The lower gross margin percentage was primarily due to manufacturing inefficiencies at the El Paso facility related to certain consumer products and lower pricing on the Toro-Registered Trademark- branded walk power mowers.

Year-to-date gross profit was \$307.3 million versus \$292.7 million last year. As a percentage of net sales, year-to-date gross profit margin was 34.9 percent versus 36.1 percent last year. The decrease in gross margin percentage was due to the same contributing factors as in the quarter comparison with the addition of reduced sales of higher gross margin snowthrowers.

Dealer snowthrower inventory is abnormally high at July 31, 1998 due to the lack of snow experienced this past winter. Sales for snowthrower products are expected to be significantly below prior years' levels in the fourth quarter of fiscal 1998. Since snowthrowers tend to have a higher gross profit margin, this is expected to cause a reduction of gross profit in the fourth quarter. Also, continued inefficiencies in the manufacturing of certain consumer products will put a downward pressure on gross margins.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Third quarter selling, general and administrative expenses (SG&A) were \$89.5 million versus \$73.6 million last year, an increase of 21.6 percent. As a percentage of net sales, SG&A increased to 30.8 percent from 29.5 percent for the same quarter in fiscal 1997. The additions of Exmark-Registered Trademark- and Drip In contributed \$4.7 million of incremental SG&A expense during the third quarter of fiscal 1998. Without Exmark-Registered Trademark- and Drip In, SG&A increased 1.8 percent as a percent of net sales due to higher costs of promotional programs and administrative expenses related to information services.

Year-to-date SG&A expenses were \$256.4 million versus \$231.3 million last year, an increase of \$25.1 million. The increase was due to the same contributing factors outlined above for the quarter with the addition of higher warranty expense due to product mix from consumer to commercial products and higher overall warranty accrual rates when compared to last year.

RESTRUCTURING AND OTHER UNUSUAL EXPENSE

Third quarter restructuring and other unusual expense was \$10.5 million. The restructuring charge consisted of \$2.2 million for the severance and asset write-down to the closure of a manufacturing facility and \$1.1 million for other restructuring severance costs. Other unusual expense consisted of \$3.5 million for the expected loss on the sale of the recycling equipment division and \$3.7 million for special consumer marketing programs consisting of rebates and co-op credits in order to reduce certain consumer field inventories to historically low levels in the preparation for a new distribution logistical program next year. Additional restructuring and other unusual expense of \$3.0 to \$4.5 million are expected to be recorded in the fourth quarter of fiscal 1998.

INTEREST EXPENSE

Third quarter interest expense was \$6.7 million versus \$5.5 million last year, an increase of \$1.2 million. Year-to-date interest expense was \$19.4 million versus \$15.4 million last year, an increase of \$4.0 million. Higher working capital levels as a result of higher inventory and accounts receivable balances and incremental cash required for the acquisitions of Exmark-Registered Trademark- and Drip In also contributed to the increase in interest expense.

OTHER INCOME, NET

Third quarter other income, net, was \$1.1 million versus \$3.1 million last year, a decrease of \$2.0 million. In the prior period, the company received a worker's compensation insurance refund, and the company experienced higher currency losses in the current period. Year-to-date other income, net, was \$6.1 million versus \$6.0 million last year.

FINANCIAL POSITION AS OF JULY 31, 1998

JULY 31, 1998 COMPARED TO AUGUST 1, 1997

Total assets at July 31, 1998 were \$833.4 million versus \$705.0 million on August 1, 1997, an increase of \$128.4 million. This increase is comprised of approximately \$77.0 million related to the acquisitions of Exmark-Registered Trademark- and Drip In and various other changes discussed below. Net accounts receivable increased by \$20.4 million due to increased sales of irrigation and landscape contractor products this year, and the addition of Exmark-Registered Trademark- and Drip In receivables. Inventory also increased \$41.2 million due to lower than expected garden tractor sales, higher levels of landscape contractor equipment, and the addition of Exmark-Registered Trademark- and Drip In. Net property, plant, and equipment rose \$16.4 million due primarily to the acquisition of Exmark-Registered Trademark- and Drip In, expansion of the corporate headquarters, plant equipment additions, and new tooling projects. Other assets increased \$34.9 million mainly as a result of the capitalization of the excess purchase price of Exmark-Registered Trademark- and Drip In over the fair value of the assets acquired.

Total current liabilities were \$350.8 million versus \$288.3 million last year, an increase of \$62.5 million. The majority of this increase was the result of additional short-term borrowings of \$63.0 million reflecting the company's strategy of utilizing short-term borrowing to fund the company's seasonal working capital needs and funding a portion of the cost of the acquisitions of Exmark-Registered Trademark- and Drip In. Accounts payable decreased \$16.0 million due to the seasonal shut down of certain manufacturing facilities during July 1998. Other accrued liabilities increased \$15.2 million, which reflects the restructuring and other unusual expense accrual, additional warranty reserves, and higher marketing reserves. Long-term debt increased \$19.3 million as a result of the acquisitions of Exmark-Registered Trademark- and Drip In.

FINANCIAL POSITION AS OF JULY 31, 1998 (CONTINUED)

JULY 31, 1998 COMPARED TO OCTOBER 31, 1997

Total assets at July 31, 1998 were \$833.4 million versus \$661.6 million at October 31, 1997, an increase of \$171.8 million. Accounts receivable increased \$69.5 million due to increased receivables from the acquisitions of Exmark-Registered Trademark- and Drip In, the seasonal increase in accounts receivable, and the increased sales of landscape contractor products earlier this year. Inventory increased by \$42.9 million due to lower than projected sales of riding products and higher levels of landscape contractor products from lower sales experienced in the third quarter this year along with new product introductions. Net property, plant, and equipment increased \$16.1 million due primarily to the acquisition of Exmark-Registered Trademark- and Drip In along with the expansion of the corporate headquarters and plant equipment additions. Other assets increased \$41.2 million mainly as a result of the excess purchase price of Exmark-Registered Trademark- and Drip In over the fair value of the net assets acquired.

Total current liabilities at July 31, 1998 were \$350.8 million versus \$237.8 million at October 31, 1997, an increase \$113.0 million. The majority of this increase was short-term borrowing, which increased by \$117.0 million reflecting the company's strategy of utilizing short-term borrowing to fund seasonal working capital needs and the funding of a portion of the costs of the acquisitions of Exmark-Registered Trademark- and Drip In. Accounts payable decreased \$27.9 million due to the seasonal shut down of certain manufacturing facilities during July 1998. Other accrued liabilities increased by \$23.5 million due to the accrual for restructuring and other unusual expenses, higher warranty accruals, and higher sales and marketing accruals. Long-term debt increased \$19.3 million as a result of the funding of a portion of the acquisitions of Exmark-Registered Trademark- and Drip In.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities for the first nine months of fiscal 1998 was primarily for the seasonal increase in accounts receivable and inventory. A majority of the increase in inventory came from the consumer business inventory levels for riding products due to lower than expected demand and higher levels of landscape contractor products. Accounts payable has decreased due to the seasonal shut down of certain facilities in July. The Company's working capital needs are funded with \$230.0 million of unsecured bank credit lines. The Company also has banker's acceptance financing agreements under which an additional \$40.0 million is available.

Management believes that the combination of funds available through its existing financing arrangements, coupled with forecasted cash flows, will provide the necessary capital resources for the company's anticipated needs.

The company expects to be out of compliance with its debt interest coverage covenant related to its short-term debt facility in the fourth quarter of fiscal 1998. The company has begun discussions with its banks and anticipates being able to obtain waivers for the expected non-compliance.

INFLATION

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

During 1998, the company has continued with its company-wide program to prepare the company's systems for year 2000 compliance. The year 2000 issue relates to computer systems that use two digits rather than four to define the applicable year and whether such systems will properly process information when the year changes to 2000.

STATE OF READINESS

The company is nearing completion of its project to replace all core-business information systems with a year 2000 compliant Enterprise Resource Planning (ERP) software package. The plan is that this software will support all the company's facilities and business units by June 1999 with the exception of the company's European facilities, which are believed to be year 2000 compliant.

Based upon the company's initial assessment, the product that the company sells that contain embedded systems using date logic are irrigation control systems. These products are currently undergoing testing and the majority of them are year 2000 compliant. The testing is planned to be completed by June 1999.

The year 2000 issues list based on the company's initial assessment has over three hundred software and hardware items of which the majority are single-user, departmental or plant systems. The company continues to request year 2000 compliance information from the vendors of their software and hardware items and are in the process of prioritizing business-critical systems that require testing. The company also plan to test our ERP, payroll, and Product Data Management (PDM) systems even though the vendors claim they are year 2000 compliant.

Communications have been sent to the company's customers (dealers and distributors) informing them of the company's efforts and asking them to ensure their business operations are not impacted. Surveys have also been sent to all the company's suppliers requesting information on their year 2000 efforts. The company has also been communicating with certain home centers and mass merchants about the company's readiness as well as theirs for the year 2000.

COSTS

Costs through July 31, 1998 are approximately \$1.0 million and have been expensed as incurred. These costs to address the year 2000 issues include contractor support and ERP implementation for recent acquisitions. Estimated identified remaining costs are less than \$1.0 million, which include expenses for contract support, telephone system upgrades and business unit system upgrades. The estimated cost of year 2000 issues is less than 10 percent of the company's information system budget. No significant information system projects have been deferred to accommodate the year 2000 issues.

RISKS

The company is currently undergoing the testing of its core-business operating and financial systems and as such, the company is uncertain of the risks the year 2000 will have on its business operations. Another area of risk appears to be whether the company's business partners, including the dealers, distributors, banks, and suppliers will be compliant.

Testing remains to be performed to validate assumptions, which is planned to continue through June 1999. The company believes this should be enough time to fix or replace any business critical problems discovered during the testing phase.

CONTINGENCY PLANS

The company's contingency plans will evolve as the testing phase of the business-critical systems and technologies is completed. The company is in the early stages of defining a Business Resumption Plan, which will include documented manual processes for critical business functions that could be invoked for any type of business interruption, which would include any year 2000 issues.

Certain irrigation control systems discussed above that the company sells that contain embedded date logic are currently undergoing testing, which is estimated to be completed in June 1999. If the embedded systems are not year 2000 compliant, the worst case scenario is that the company would need to replace the hardware and software of the systems, which would cost approximately \$1.0 to \$2.0 million.

PART II. OTHER INFORMATION

Item 5. Other Information

Rule 14a-4 Notice of Deadline for Certain Stockholder Proposals

A stockholder who wishes to make a proposal for consideration at the Annual Meeting of Stockholders expected to be held on March 11, 1999 (the "1999 Annual Meeting"), but does not seek to include the proposal in the company's proxy statement with respect to the meeting in accordance with Rule 14a-8 (a "non-14a-8 proposal"), must timely and properly notify the company in accordance with the provisions of the company's Bylaws, but not later than January 17, 1999 nor earlier than December 18, 1998. If a non-14a-8 proposal is not timely and properly made in accordance with the procedures set forth in the bylaws, the defective proposal shall not be brought before the meeting and shall be disregarded. If the proposal were nonetheless brought before the meeting and the chairman of the meeting did not exercise his power and duty to declare that such a defective proposal be disregarded, the persons named on the company's proxy card for the 1999 Annual Meeting would use their discretionary voting with respect to such proposal.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3(i)(a) and 4(a) Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form S-3, Registration No. 33-16125).
- 3(i)(b) and 4(b) Certificate of Amendment to Certificate of Incorporation of Registrant dated December 9, 1986 (incorporated by reference to Exhibit 3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 30, 1987, Commission File No. 1-8649).
- 3(i)(c) and 4(c) Certificate of Designation to Certificate of Incorporation of Registrant dated May 28, 1998 (incorporated by reference to Exhibit (1)(A) to Registrant's Current Report on Form 8-K dated May 27, 1998, Commission File No. 1-8649).
- 3(ii) and 4(d) Bylaws of Registrant (incorporated by reference to Exhibit 3.3 to Registrant's Annual Report on Form 10-K for the year ended July 31, 1991, Commission File No. 1-8649).
- 4(e) Specimen form of Common Stock certificate (incorporated by reference to Exhibit 4(c) to Registrant's Registration Statement on Form S-8, Registration No. 2-94417).
- 4(f) Rights Agreement dated as of May 20, 1998, between Registrant and Norwest Bank Minnesota, National Association relating to rights to purchase Series B Junior Participating Voting Preferred Stock, as amended (incorporated by reference to Registrant's Current Report on Form 8-K dated May 27, 1998, Commission File No. 1-8649).
- 4(g) Indenture dated as of January 31, 1997, between Registrant and First National Trust Association, as Trustee, relating to the Registrant's 7.125% Notes due June 15, 2007 and its 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K for June 24, 1997, Commission File No. 1-8649).
- 10(iii)(a) Form of Employment Agreement in effect for certain officers of Registrant, as amended.
- 10(iii)(b) 1992 Directors Stock Plan, as amended.
- 10(iii)(c) Annual Management Incentive Plan II for officers of Registrant, as amended.

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

10(iii)(d)	1985 Incentive Stock Option Plan, as amended (incorporated by reference Exhibit 10(b) to Registrant's Annual Report on Form 10-K for the year ended July 31, 1993).
10(iii)(e)	1989 Stock Option Plan, as amended.
10(iii)(f)	1993 Stock Option Plan, as amended.
10(iii)(g)	Continuous Performance Award Plan, as amended.
10(iii)(h)	The Toro Company Supplemental Management Retirement Plan (incorporated by reference Exhibit 10(iii)(h) to Registrant's Annual Report on Form 10-K for the year ended October 31, 1996).
10(iii)(i)	Chief Executive Officer Succession Incentive Agreement dated as of July 31, 1995, as amended.
10(iii)(j)	The Toro Company Deferred Compensation Plan for Officers, as amended.
11	Computation of Earnings per Share of Common Stock and Common Stock Equivalent (page 18 of this report).
27	Financial Data Schedule; electronic filing only.

(b) Reports on Form 8-K

A current Report on Form 8-K dated May 27, 1998 was filed to report the Company's adoption of a Rights Agreement dated as of May 20, 1998 between the company and Norwest Bank of Minnesota, National Association relating to rights to purchase Series B Junior Participating Voting Preferred Stock.

SIGNATURES

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

THE TORO COMPANY
(Registrant)

By /s/ Stephen P. Wolfe

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

Date: September 11, 1998

THE TORO COMPANY
EMPLOYMENT AGREEMENT

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

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

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

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

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

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

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"))

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

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

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

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

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

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

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

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

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

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

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

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

(vi) FRINGE BENEFITS. During the Employment Period, the Executive shall be entitled to

fringe benefits, including, without limitation, tax and financial planning services, payment of club dues, and, if applicable, use of an automobile and payment of related expenses, in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

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

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

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

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

(i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from the incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or

Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties, or

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

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

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

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

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

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

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

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

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

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

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

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

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

A. the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any

bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

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

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

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

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

(iv) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

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

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

(d) CAUSE; OTHER THAN FOR GOOD REASON. If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without

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

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

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

9. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY. (a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount

such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 9(a), if it shall be determined that the Executive is entitled to a Gross-Up Payment, but that the Executive, after taking into account the Payments and the Gross-Up Payment, would not receive a net after-tax benefit of at least \$10,000 (taking into account both income taxes and any Excise Tax) as compared to the net after-tax proceeds to the Executive resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in the aggregate, to an amount (the "Reduced Amount") such that the receipt of Payments would not give rise to any Excise Tax, then no Gross-Up Payment shall be made to the Executive and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

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

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

such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

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

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

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

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

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

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced

by the Company pursuant to Section 9(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

10. CONFIDENTIAL INFORMATION. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

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

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

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

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

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

postage prepaid, addressed as follows:

IF TO THE EXECUTIVE:

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

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

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 5(c)(i)-(v) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, subject to Section 1(a) hereof, prior to the Effective Date, the Executive's employment and/or this Agreement may be terminated by either the Executive or the Company at any time prior to the Effective Date, in which case the Executive shall have no further rights under this Agreement. From and after the Effective Date this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

THE TORO COMPANY

THE TORO COMPANY
1992 DIRECTORS STOCK PLAN

1. PURPOSE OF THE PLAN. The purpose of The Toro Company 1992 Directors Stock Plan ("Plan") is to enable The Toro Company (the "Company") to attract and retain experienced and knowledgeable independent directors to serve on the Board of Directors of the Company or its subsidiaries, and to further align their interests with those of the stockholders of the Company by providing for or increasing their stock ownership interests in the Company. It is intended that the Plan be interpreted to comply with Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to the extent applicable.
2. ELIGIBILITY. All members of the Company's Board of Directors who are not current employees of the Company or any of its subsidiaries ("Nonemployee Directors") are eligible to participate in the Plan.
3. PLAN AWARDS.
 - a. DIRECTORS SHARES. To carry out the purposes of the Plan, the Company shall issue shares ("Directors Shares") of the Company's Common Stock, \$1.00 par value and related preferred share purchase rights (subject to adjustment as provided in Section 4 hereof) (the "Common Stock"), to each person who is then a Nonemployee Director, on the first day of each fiscal year in an amount equal to \$5,000 divided by the fair market value of one share of Common Stock; provided, however, that the first award of Directors Shares made under the Plan shall be made on the date that the Plan is first approved by the Company's stockholders to Nonemployee Directors then serving. The "fair market value of one share of Common Stock" shall be the average of the closing prices of the Common Stock on the New York Stock Exchange as reported in The Wall Street Journal for each of the trading days in the three calendar months immediately prior to the date of issue of the Directors Shares.
 - b. DIRECTORS OPTIONS.
 - i. ANNUAL GRANT. Subject to the terms and conditions of this Section 3.b., the Company shall grant a nonqualified option ("Directors Options") to purchase 1,000 shares of the Common Stock, to each person who is then a Nonemployee Director, on the first day of each fiscal year at an exercise price per share equal to the fair market value of one share of Common Stock on the date of grant; provided, however, that the first award of Directors Options made under the Plan shall be contingent on approval by the Company's stockholders of the grant of Directors Options. The "fair market value of one share of Common Stock" shall be the closing price of the Common Stock on the New York Stock Exchange on the first day of the Company's fiscal year with respect to which the grant is made, as reported in The Wall Street Journal.
 - ii. OPTION TERMS.

- (a) Directors Options shall be exercisable in whole or in part commencing six months following the date of grant and shall remain exercisable for a term of five years after the date of grant, except that the first Directors Options awarded contingent upon approval by the Company's stockholders of the grant of Directors Options shall expire on October 31, 2000.
- (b) No Directors Option shall be assigned or transferred, except by will or the laws of descent and distribution. An option so transferred may be exercised after the death of the individual to whom it is granted only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.
- (c) During the lifetime of a Nonemployee Director, options held by such individual may be exercised only by the Nonemployee Director and only while serving as a member of the Board of Directors of the Company and only if the Nonemployee Director has been continuously so serving since the date such options were granted; provided, however, that in the event of disability of a Nonemployee Director, options may be exercised by such individual not later than the earlier of the date the option expires or one year after the date such service as a member of the Board of Directors ceases by reason of disability, but only with respect to an option exercisable at the time such service ceases.
- (d) Payment of the exercise price may be made in cash, in shares of Common Stock valued at fair market value on the date of exercise or in a combination of cash and Common Stock.

- c. SHARE PRORATION. If, on any date on which Directors Shares are to be issued pursuant to Section 3.a. or Directors Options are to be granted pursuant to Section 3.b., the number of shares of Common Stock is insufficient for the issuance of the entire number of shares to be issued or the grant of the entire number of options as calculated in accordance with Section 3.a. or Section 3.b., then the number of shares to be issued to each Nonemployee Director entitled to receive Directors Shares or Directors Options on such date shall be such Nonemployee Director's proportionate share of such available number of shares or options (rounded down to the greatest number of whole shares), provided that if a sufficient number of shares of Common Stock is available to issue all of the Directors Shares, then the entire number of Directors Shares shall be issued first and the number of shares to be subjected to options shall be prorated in accordance with this section.
- d. SUPPLEMENTAL BENEFIT. Directors Shares and Directors Options are a supplemental benefit and are not a component of the annual retainer paid to Nonemployee Directors. The value of Directors Shares and Directors Options shall not be included in the calculation by the Company of the amount of compensation upon which a Nonemployee Director's retirement benefit is calculated for purposes of the Company's Director Retirement Plan or any similar plan.

4. STOCK SUBJECT TO PLAN. Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock that is reserved and available for issuance as Directors Shares or pursuant to Directors Options granted under the Plan shall be 65,000 shares. If any Directors Option granted hereunder expires unexercised or terminates, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent the shares covered by an option are not issued or used, again be available for option grants under the Plan. Any shares issued by the Company in connection with the assumption or substitution of outstanding option grants from any acquired corporation shall not reduce the shares available for stock awards or option grants under the Plan. Appropriate adjustments in the number of shares of the Common Stock that may be available for option grants under the Plan and adjustments in the option price per share of outstanding options may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or other similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.

5. CHANGE OF CONTROL. A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

For purposes of this paragraph, Person means any individual, corporation, partnership, trust, other entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (excluding the Company, a subsidiary of the Company, any employee benefit plans of the Company or any subsidiary or any entity holding shares of Common Stock for or pursuant to the terms of any such plan). For purposes of this paragraph, Beneficial Ownership includes securities beneficially owned, directly or indirectly, by a Person and such Person's affiliates and associates, as defined under Rule 12b-2 under the Exchange Act, and securities which such Person and its affiliates and associates have the right to acquire or the right to vote, or by any other Person with which such Person or any of such Person's affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of shares of Common Stock, as more fully described in The Toro Company Preferred Share Purchase Rights Plan dated as of May 20, 1998.

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

7. TERM OF PLAN. The Plan became effective on August 20, 1992 and shall terminate ten (10) years thereafter, unless sooner terminated by action of the Board of Directors.
8. AMENDMENT.
 - a. The effective date of any amendment to the Plan shall be the date of its adoption by the Board of Directors; provided, however, that no amendment shall be effective unless and until the same is approved by the stockholders of the Company where the failure to obtain such approval would adversely affect the compliance of the Plan with any law or rule, including the Exchange Act and the Internal Revenue Code of 1986, as amended. In the event the stockholders do not approve such an amendment, the amendment shall be of no effect and the Plan shall continue in effect as if such amendment had not been adopted by the Board of Directors, unless the Board otherwise determines. No amendment of the Plan shall adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.
 - b. The provisions of Section 3.a. and Section 3.b. shall not be amended more than once every six (6) months other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder.
9. GOVERNING LAW. The Plan, options and awards granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

THE TORO COMPANY
ANNUAL MANAGEMENT INCENTIVE PLAN II

1. **PLAN PURPOSE.** The purpose of The Toro Company Annual Management Incentive Plan II (the "Plan") is to provide an annual incentive to reinforce achievement of the performance goals (Performance Goals") of The Toro Company (the "Company"); to link a significant portion of a participating officer's annual compensation to the achievement by the Company, and in certain cases, a division, of Performance Goals; to attract, motivate and retain officers on a competitive basis by making awards based on annual achievement of Performance Goals ("Annual Performance Awards"); and to encourage selected officers to acquire and retain shares of the Common Stock, par value \$1.00 per share, and related Preferred Share Purchase Rights of the Company ("Common Stock").
2. **ELIGIBILITY AND PARTICIPATION.** Within the first 90 days of each fiscal year, or before the first 25% of a shorter performance period has elapsed, the Compensation Committee (the "Committee") shall select as recipients of Annual Performance Awards ("Plan Participants") those officers of the Company who, through their position or performance, can have a significant, positive impact on the Company's financial results. Nominations may be made to the Chief Executive Officer and presented by the Chief Executive Officer to the Committee. Plan Participants are designated to participate in the Plan for one fiscal year, but may be renominated and selected again. Newly-hired and newly-promoted officers may be selected as Plan Participants after the first 90 days of a fiscal year subject to the provisions of this paragraph and subparagraph 4.a. With respect to persons subject to Section 16 of the Securities Exchange Act of 1934 ("Exchange Act"), transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.
3. **AWARD AMOUNTS.**
 - a. **TARGET PAYOUT.** The target amount that may be paid with respect to an Annual Performance Award (the "Target Payout") shall be determined by the Committee and shall be based on a percentage of a Plan Participant's actual annual base salary at the time of grant ("Participation Factor"), within the range established by this subparagraph, and subject to adjustment as provided in the last sentence of this subparagraph. The Participation Factors, which are intended to reflect a Plan Participant's level of responsibility, are 50% for the Chairman and Chief Executive Officer, 45% for the President and Chief Operating Officer, if one should be elected, 40% for other elected officers and 25 to 40% for other officers. The Chief Executive Officer may approve modifications to the foregoing Participation Factors for any participant who is not a person referred to in Section 162(m)

of the Internal Revenue Code of 1986, as amended, or the regulations thereunder ("Section 162(m)"), if such modification is based on level of responsibility. The Committee may establish curves or other measurements for prorating the amount of payouts for achievement of Performance Goals at less than the Target Payout.

- b. **MAXIMUM PAYOUT.** The Committee may also establish a maximum potential payout amount (the "Maximum Payout") with respect to an Annual Performance Award of up to 175% (192.5% for selected Plan Participants as provided in subparagraph 3.d.) of the Target Payout in the event Performance Goal targets are exceeded by an amount established by the Committee at the time Performance Goals are established. The Committee may establish curves or other measurements for prorating the amount of payouts for achievement of Performance Goals at greater than the Target Payout but less than the Maximum Payout.
- c. **DIVISION PAYOUT.** At the time an Annual Performance Award is made, the Committee may establish supplemental division- specific Performance Goals ("Supplemental Division Performance Goals") and may provide that achievement of a Supplemental Division Performance Goal at or above an established target level shall result in payment under an Annual Performance Award at up to 125% of the award payment otherwise determined pursuant to subparagraph 3.a. or 3.b. and achievement of a Supplemental Division Performance Goal below an established target level shall result in a reduction of the amount of an award payment otherwise determined pursuant to subparagraph 3.a. or 3.b., including to zero in the event that a division goal is not achieved at a level of at least 60% of the target. The Committee shall also have the discretion to reduce by an amount up to 10% the amount that would otherwise be paid under the division payout formula to a division vice president or general manager based on the Committee's evaluation of the quality of division performance.
- d. **QUALITY OF PERFORMANCE PAYOUT.** At the time an Annual Performance Award is made, the Committee may increase the Target Payout and the Maximum Payout (as either may be prorated in accordance with subparagraphs 3.a. and 3.b.) by up to 10%, but to not more than 192.5% of the Target Payout, for selected Plan Participants ("Quality of Performance Participants"), to reflect individual quality of performance goals ("Quality of Performance Goals"), established at that time by the Committee. The Committee shall have the discretion to reduce by an amount up to 10% the amount that would otherwise be paid under the payout formula to a Quality of Performance Participant based on the Committee's evaluation of the individual's achievement of the Quality of Performance Goal.
- e. **SECTION 162(m) MAXIMUM.** With respect to any Plan Participant who is or may become a person referred to in Section 162(m), the maximum dollar

amount that may be paid under an Annual Performance Award shall be set at the time the Committee grants the award and establishes Performance Goals under the award.

4. PERFORMANCE GOALS.

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

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

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

7. PAYMENTS. Before any payment is made under the Plan, the Committee must certify in writing that the Performance Goals established with respect to an Annual Performance Award have been achieved. To the extent necessary with respect to any fiscal year, in order to avoid any undue windfall or hardship due to external causes, the Committee may make the determination as to whether a Performance Goal has been achieved without regard to the effect on the Performance Goal measure, as it may otherwise be presented in the financial statements, of any change in accounting standards, any acquisition by the Company not planned for at the time the Performance Goals are established, or any Board-approved extraordinary or non-recurring event or item.
8. STOCK RETENTION PROVISIONS.
 - a. ELIGIBILITY FOR STOCK RETENTION AWARD. Subject to the terms and conditions of this paragraph 8 (the "Stock Retention Provisions"), at the time the Committee selects Plan Participants, the Committee may grant to selected Plan Participants ("Stock Participants") a right (a "Stock Retention Award") to elect (i) to convert to shares of Common Stock or (ii) to defer, through The Toro Company Deferred Compensation Plan for Officers (the "Officer Deferred Plan"), into units having a value based on shares of Common Stock, up to 50% of the amount of an award payment under an Annual Performance Award ("Base Cash Award") and to receive additional incentive compensation in the form of one additional share or unit of Common Stock for every two shares or units acquired upon conversion up to the limit of 50% of the Base Cash Award (the "Matching Shares" or "Matching Units"). The shares or units acquired upon conversion of all or a portion of the Base Cash Award shall be retained by the Company (which shall be called the "Agent" for purposes of the Stock Retention Provisions) during the vesting periods for the Matching Shares or Units described in subparagraph 8.e. Shares of Common Stock issued under the Stock Retention Provisions shall be called "Retained Shares" and units of Common Stock deferred under the Officer Deferred Plan shall be called "Retained Units" under this paragraph 8.
 - b. NUMBER OF SHARES OR UNITS. The number of Retained Shares or Retained Units to be issued or credited upon conversion of a Base Cash Award under a Stock Retention Award election shall be equal to the dollar amount of the portion of the Base Cash Award subject to the election, divided by the fair market value of the Common Stock on the date that the Committee makes the certification required under paragraph 7 of this Plan. Fair market value shall be the closing price of one share of Common Stock, as reported in THE WALL STREET JOURNAL. Retained Shares shall be issued in whole shares only and cash shall be paid for fractional shares.

c. ELECTION TO EXERCISE STOCK RETENTION AWARD.

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

ii. On or before the October 31 that is the last day of the fiscal year to which a Stock Retention Award relates, a Stock Participant who has not elected to convert the maximum permissible portion of the Base Cash Award into Retained Units and who wishes to convert up to the maximum permissible portion of the Base Cash Award into Retained Shares shall notify the Company in writing that he or she has elected to participate in the Stock Retention Provisions and shall specify the percentage of the Base Cash Award to be converted.

iii. An election to participate is effective only for the fiscal year to which the Stock Retention Award relates.

iv. A Stock Participant who terminates employment, dies, retires at or after age 65, elects early retirement at or after age 55 or becomes permanently disabled and unable to work during the fiscal year to which a Stock Retention Award relates shall not be eligible to participate in the Stock Retention Provisions for that fiscal year, and any Stock Retention Award for that year and any election made by the Stock Participant shall be canceled automatically as of the date of any such event.

d. MATCHING SHARES OR UNITS. As soon as practical following the conversion of a Base Cash Award to Retained Shares or Retained Units, the Company shall issue one Matching Share or credit one Matching Unit for each two Retained Shares or Units acquired (up to the limit of 50% of the Base Cash Award) (the "Restricted Shares" or "Restricted Units"). Restricted Shares shall be held by the Agent for the Stock Participant's account. Restricted Shares shall be issued in whole shares only and cash shall be paid for fractional shares.

e. VESTING, DELIVERY AND DISTRIBUTION.

i. Vesting. Restricted Shares and Restricted Units held or credited by the Company shall be forfeitable until they vest and shall vest in increments of 25% of the total number of such Restricted Shares or Units at the end of each of the second, third, fourth and fifth years after the date such Restricted Shares or Units are issued or credited, provided that such Restricted Shares or Units shall vest only if the Stock Participant's Retained Shares or Units have been left on deposit with the Agent through the requisite two, three, four and five year periods and all other requirements of the Plan have been met, except as may otherwise be provided in subparagraph 8.f.

ii. Delivery.

A. Retained Shares and Restricted Shares will be delivered as soon as possible after the applicable vesting requirements (including accelerated vesting under subparagraph 8.f.) have been fulfilled. In the event vesting requirements are not fulfilled, Retained Shares will be returned to a Stock Participant as soon as possible.

B. Retained Units and Restricted Units that have vested will be distributed to a Stock Participant consistent with a Stock Participant's distribution election properly made in accordance with the provisions of the Officer Deferred Plan.

iii. Retained Shares and Retained Units are fully vested at the time of issuance or crediting.

f. VESTING AND CANCELLATION UNDER SPECIAL CONDITIONS.

i. Retirement or Disability. Notwithstanding the foregoing, all Restricted Shares or Units held in a Stock Participant's account shall vest in full if the participant retires on or after age 65 or becomes permanently disabled and unable to work while a Stock Participant under the Plan. Notwithstanding the foregoing, if within one year after such retirement the Stock Participant is employed or retained by a company that competes with the business of the Company, or such individual violates any confidentiality agreement with the Company, the Company may demand return of the economic value of the Restricted Shares or Units which vested early under this subparagraph.

ii. Early Retirement. Restricted Units held in the account of a Stock Participant who retires at or after age 55, but before age 65, shall vest or be forfeited in accordance with the provisions of the Officer Deferred Plan. A

Stock Participant who retires at or after age 55, but before age 65, may elect to leave Retained Shares on deposit until the participant reaches age 65 or until the applicable vesting requirements of subparagraph 8.e. have been fulfilled, as the case may be, and Restricted Shares shall vest upon the occurrence of the earlier of such event. Notwithstanding the foregoing, if within one year after such early retirement the Stock Participant is employed or retained by a company that competes with the business of the Company, or such individual violates any confidentiality agreement with the Company, the Company may demand return of the economic value of the Restricted Shares which vested after the date of early retirement under this subparagraph.

iii. Early Withdrawal. In the event that a Stock Participant elects to withdraw Retained Shares or Units from the account prior to age 65, but before the applicable vesting requirements have been fulfilled, Restricted Shares or Units held in such participant's account that have not vested shall not vest and shall be forfeited.

iv. Death. In the event of the death of a Stock Participant before the applicable vesting requirements have been fulfilled, the Restricted Shares or Units shall vest in full.

v. Voluntary Resignation. In the event that a Stock Participant resigns voluntarily, Restricted Shares or Units held in such participant's account that have not yet vested shall not vest and shall be forfeited, unless otherwise determined by the Chairman of the Committee, in his or her discretion, upon recommendation by the Chief Executive Officer of the Company.

vi.. A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

For purposes of this paragraph, Person means any individual, corporation, partnership, trust, other entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (excluding the Company, a

subsidiary of the Company, any employee benefit plans of the Company or any subsidiary or any entity holding shares of Common Stock for or pursuant to the terms of any such plan). For purposes of this paragraph, Beneficial Ownership includes securities beneficially owned, directly or indirectly, by a Person and such Person's affiliates and associates, as defined under Rule 12b-2 under the Exchange Act, and securities which such Person and its affiliates and associates have the right to acquire or the right to vote, or by any other Person with which such Person or any of such Person's affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of shares of Common Stock, as more fully described in The Toro Company Preferred Share Purchase Rights Plan dated as of May 20, 1998.

- g. TEMPORARY WITHDRAWAL FOR OPTION EXERCISE. A Stock Participant may temporarily withdraw all or a portion of Retained Shares held in the participant's account, but not Restricted Shares or Retained or Restricted Units, in order to exercise Company stock options, provided that an equal number of shares of Common Stock is promptly redeposited with the Agent after such exercise.
- h. DIVIDENDS AND VOTING. Dividends on Retained and Restricted Shares may at the election of the Stock Participant be paid to such participant or reinvested under the Company's dividend reinvestment plan as then in effect. Dividends on Retained and Restricted Units shall be credited under the Officer Deferred Plan, in additional units based on fair market value of one share of the Common Stock on the record date for payment of dividends. A Stock Participant shall have the right to vote Retained and Restricted Shares.
- i. MAXIMUM SHARES SUBJECT TO STOCK RETENTION AWARDS. Subject to the provisions of this subparagraph and paragraph 6 hereof, the number of shares of Common Stock reserved and available for issuance pursuant to Stock Retention Awards under the Plan is 100,000. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares or outstanding shares acquired in the market or from private sources or a combination thereof. Appropriate adjustments in the number of shares of Common Stock that may be available for such purposes under the Plan may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.

9. NON-TRANSFERABILITY. Neither Annual Performance Awards, Stock Retention Awards, Retained Shares, Restricted Shares, Retained Units, Restricted Units nor any interest in any one of such awards or shares or units or benefits may be anticipated, alienated, encumbered, sold, pledged, assigned, transferred or subjected to any charge or legal process, other than by will or the laws of descent and distribution, so long as the Retained and Restricted Shares are held by the Agent or the Retained and Restricted Units have not been distributed in accordance with the Officer Deferred Plan, and any sale, pledge, assignment or other attempted transfer shall be null and void.
10. ADMINISTRATION. The Committee shall have the authority to administer the Plan; establish policies under the Plan; amend the Plan, subject to the provisions of paragraph 12; interpret provisions of the Plan; select Plan Participants and Stock Participants; establish Performance Goals; make Annual Performance Awards and Stock Retention Awards; or terminate the Plan, in its sole discretion. The Committee may delegate certain of these activities and all decisions not required to be exercised by it under Section 162(m) or Section 16 of the Exchange Act, as it solely determines. All decisions of the Committee shall be final and binding upon all parties including the Company, its stockholders, Plan Participants and Stock Participants.
11. GOVERNING LAW. The Plan, awards granted under the Plan, agreements entered into under the Plan, Retained or Restricted Shares and Retained or Restricted Units shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.
12. PLAN AMENDMENT AND TERMINATION. The Committee may, in its sole discretion, amend, suspend or terminate the Plan at any time, with or without advance notice to Plan Participants, provided that no amendment to the Plan shall be effective that would increase the maximum amount payable under paragraph 6 to a Plan Participant who is a person referred to in Section 162(m); that would change the Performance Goal criteria applicable to a Plan Participant who is a person referred to in Section 162(m) for payment of awards stated under paragraph 4; or that would modify the requirements as to eligibility for participation under paragraph 2, unless the stockholders of the Company shall have approved such change in accordance with the requirements of Section 162(m). Under no circumstances may the Plan be amended to permit the Committee to increase an award payment in contravention of the requirements of paragraph 5. Notwithstanding the foregoing, no amendment, modification or termination that would affect benefits accrued under this Plan prior to such amendment, modification or termination may occur after a Change of Control, as defined in subparagraph 8.f.vi., without the written consent of a majority of the Plan Participants determined as of the day before such Change of Control.
13. EFFECTIVE DATE OF THE PLAN AND AMENDMENTS. The Plan first became effective on November 1, 1995. Any amendment to the Plan shall be effective on the date established by the Committee, subject to stockholder approval, if required under the provisions of paragraph 12.

As amended by the Compensation Committee and Board of Directors, to be effective as of

May 20, 1998.

THE TORO COMPANY
1989 STOCK OPTION PLAN

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

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

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

- A. DATE OF GRANT. An option agreement shall specify the date of grant, which shall be the date on which the Committee grants an option or any later date which the Committee specifically designates.
- B. NUMBER OF SHARES OF COMMON STOCK. An option agreement shall specify the number of shares of Common Stock to which it pertains. Notwithstanding any other provision of the Plan, the maximum number of shares that may be covered by any option grant during any calendar year shall be 100,000 shares.
- C. EXERCISE PRICE. The exercise price of all stock options will be granted at fair market value, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan, where the exercise price is an average and on the date of grant could be higher or lower than fair market value. Fair market value is generally determined to be the closing price for the Common Stock on the New York Stock Exchange as reported by The Wall Street Journal or other readily available quotation of composite transactions.
- D. TERM OF OPTIONS. The term of each option shall be fixed by the Committee.
- E. EXERCISABILITY AND TRANSFERABILITY.
- (i) The Committee shall have the authority to determine whether an option agreement shall specify periods after the date of grant of an option during which the option or any portion thereof may not yet be exercisable, including provisions applicable to persons subject to Section 16 of the Exchange Act.
- (ii) During the lifetime of an option holder, options held by such individual may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company or otherwise performing services for the Company or a parent or subsidiary and only if the option holder has been continuously so employed or engaged since the date such options were granted; provided, however, that (a) in the event of disability of an option holder, options may be exercised by such individual not later than the earlier of the date the option expires or one year after the date such employment or performance of services ceases by reason of disability, but only with respect to an option exercisable at the time such employment or performance of services ceases and (b) options may be exercised (I) by an option holder after such individual ceases to be an employee (for reasons other than disability or retirement at or after age 60) up to three months after the day of termination of employment but not later than the date the option expires, (II) by reason of retirement, either at or after age 60 but not later than the earlier of the date the option expires or four years after the date of retirement, or, if approved by the Committee, after retirement at an age less than age 60 but not later than the earlier of the date the option expires or three years after the date of retirement; and (III) in the event a salary replacement option is granted by the Committee and the option holder is involuntarily terminated during the option term or becomes disabled or dies,

the Committee shall have the right to grant to the option holder or his personal representative, as the case may be, the right to request either (1) that the option be cancelled and the option holder or his estate be paid an amount equal to the compensation the option holder has given up from the date of grant to the date of such termination, disability or death together with interest at the prime rate less the then market gain on that portion of the shares covered by the option which is then vested; or (2) that the stock option accelerates such that the option be deemed to have vested at an appropriate rate per month (as determined by the Committee) from the date of grant to the last date of the month in which the date of termination, disability or death occurs, such accelerated option to be then exercisable for a period of three years following such date but only with respect to an option exercisable at the time such individual ceases to be an employee.

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

F. METHODS OF EXERCISE. Subject to the terms and conditions of the Plan and the terms and conditions of the option agreement, an option may be exercised in whole at any time or in part from time to time, by delivery to the Company at its principal office of a written notice of exercise specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the exercise price for shares to be purchased at that time. Payment may be made (i) in cash,

(ii) in shares of Common Stock valued at the fair market value of the Common Stock on the date of exercise or (iii) in a combination of cash and Common Stock. The Committee may also, in its sole discretion, permit option holders to deliver a notice of exercise of options and to simultaneously sell the shares of Common Stock thereby acquired pursuant to a brokerage or similar arrangement approved in advance by proper officers of the Company, using the proceeds from such sale as payment of the exercise price, or may authorize such other methods as it deems appropriate and as comply with requirements of the Code and the Exchange Act.

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

- G. ACCELERATED OWNERSHIP FEATURE. An option may, in the discretion of the Committee, include the right to acquire an accelerated ownership nonqualified stock option ("AO Option"). An option which provides for the grant of an AO Option shall entitle the option holder, upon exercise of that option and payment of the appropriate exercise price in shares of Common Stock that have been owned by such option holder for not less than six months prior to the date of exercise, to receive an AO Option. An AO Option is an option to purchase, at fair market value at the date of grant of the AO Option, a number of shares of Common Stock equal to the sum of the number of whole shares delivered by the option holder in payment of the exercise price of the original option and the number of whole shares, if any, withheld by the Company as payment for withholding taxes. An AO Option shall expire on the same date that the original option would have expired had it not been exercised. All AO Options shall be nonqualified options.
- H. CHANGE OF CONTROL. A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

For purposes of this paragraph, Person means any individual, corporation, partnership, trust, other entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (excluding the Company, a subsidiary of the Company, any employee benefit plans of the Company or any subsidiary or any entity holding shares of Common Stock for or pursuant to the terms of any such plan). For purposes of this paragraph, Beneficial Ownership includes securities beneficially owned, directly or indirectly, by a Person and such Person's affiliates

and associates, as defined under Rule 12b-2 under the Exchange Act, and securities which such Person and its affiliates and associates have the right to acquire or the right to vote, or by any other Person with which such Person or any of such Person's affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of shares of Common Stock, as more fully described in The Toro Company Preferred Share Purchase Rights Plan dated as of May 20, 1998.

- I. REORGANIZATION. The Committee may, in its sole discretion, make provisions in any option agreement for the protection of outstanding options in the event of a merger, consolidation, reorganization or liquidation of the Company or the acquisition of stock or assets of the Company by another entity.
 - J. RIGHTS AS A STOCKHOLDER. An option holder shall have no rights as a stockholder with respect to any Common Stock covered by an option until exercise of such option and issuance of shares of Common Stock. Except as otherwise expressly provided in the Plan, no adjustments shall be made for dividends or other rights for which the record date is prior to issuance of the Common Stock.
 - K. GENERAL RESTRICTION. Each option shall be subject to the requirement that, if at any time the Board shall determine in its discretion that the listing, registration or qualification of the Common Stock subject to such option on any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issue or purchase of Common Stock thereunder, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.
 - L. FOREIGN NATIONALS. Without amending the Plan, awards may be granted to individuals who are foreign nationals or are employed or otherwise performing services for the Company or any subsidiary outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purpose of the Plan.
8. INCENTIVE AND NONQUALIFIED OPTIONS. It is intended that certain options granted under the Plan shall be Incentive Stock Options and shall meet the applicable requirements of and contain or be deemed to contain all provisions required under Section 422 of the Code or corresponding provisions of subsequent revenue laws and regulations in effect at the time such options are granted; that other options shall not meet such requirements and shall be nonqualified stock options; and that any ambiguities in construction shall be interpreted in order to effectuate such intent. The Committee may grant one or more options of either type, or of both types, to any one or more individuals either at different times or concurrently. Such options shall be subject to the terms and conditions set forth elsewhere in the Plan and to the following:

- A. INCENTIVE STOCK OPTIONS. The term of any Incentive Stock Option shall meet the requirements of Section 422 of the Code. Any Incentive Stock Option shall be treated as "outstanding" until it is exercised in full or expires by reason of lapse of time. To the extent that the aggregate fair market value of Common Stock (determined at the time of grant of the Incentive Stock Option in accordance with paragraph 7.C of the Plan) with respect to which Incentive Stock Options are exercisable for the first time by an option holder during any calendar year (under all such plans of the Company and its parent and subsidiary corporations) exceeds \$100,000 or such other limit as may be imposed by the Code, such options to the extent they exceed such limit shall be treated as options which are not Incentive Stock Options. In applying the foregoing limitation, options shall be taken into account in the order in which they were granted.
- B. NONQUALIFIED OPTIONS. There is no limitation on the maximum amount of nonqualified options which may be exercised in any year.
9. WITHHOLDING TAXES. The Company shall have the right to deduct from any settlement made under the Plan, including the exercise of an option or the sale of shares of Common Stock, any federal, state or local taxes of any kind required by law to be withheld with respect to such payments or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. If Common Stock is withheld or surrendered to satisfy tax withholding, such stock shall be valued at its fair market value as of the date such Common Stock is withheld or surrendered.
10. AMENDMENT OF THE PLAN. The Plan may be amended, suspended or discontinued in whole or in part at any time and from time to time by the Board, including an amendment to increase the number of shares of Common Stock with respect to which options may be granted, provided however that no amendment shall be effective unless and until the same is approved by stockholders of the Company where the failure to obtain such approval would adversely affect the availability of any exemption under Rule 16b-3 under the Exchange Act or successor rule and with other applicable law, including the Code. No amendment of the Plan shall adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.
11. MISCELLANEOUS.
- A. USE OF PROCEEDS. The proceeds derived from the sale of shares of Common Stock pursuant to options granted under the Plan shall constitute general funds of the Company.
- B. PARENT AND SUBSIDIARY. As used herein, the terms "parent" and "subsidiary" shall mean "parent corporation" and "subsidiary corporation", respectively, as defined in Section 424 of the Code.
- C. GOVERNING LAW. The Plan, options granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects

under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

THE TORO COMPANY
1993 STOCK OPTION PLAN

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

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

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

- A. DATE OF GRANT. An option agreement shall specify the date of grant, which shall be the date on which the Committee grants an option or any later date which the Committee specifically designates.
- B. NUMBER OF SHARES OF COMMON STOCK. An option agreement shall specify the number of shares of Common Stock to which it pertains. Notwithstanding any other provision of the Plan, the maximum number of shares that may be covered by any option grant during any calendar year shall be 100,000 shares.
- C. EXERCISE PRICE. The exercise price of all stock options will be granted at fair market value, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan, where the exercise price is an average and on the date of grant could be higher or lower than fair market value. Fair market value is generally determined to be the closing price for the Common Stock on the New York Stock Exchange as reported by The Wall Street Journal or other readily available quotation of composite transactions.
- D. TERM OF OPTIONS. The term of each option shall be fixed by the Committee.
- E. EXERCISABILITY AND TRANSFERABILITY.
- (i) The Committee shall have the authority to determine whether an option agreement shall specify periods after the date of grant of an option during which the option or any portion thereof may not yet be exercisable, including provisions applicable to persons subject to Section 16 of the Exchange Act.
- (ii) During the lifetime of an option holder, options held by such individual may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company or otherwise performing services for the Company or a parent or subsidiary and only if the option holder has been continuously so employed or engaged since the date such options were granted; provided, however, that (a) in the event of disability of an option holder, options may be exercised by such individual not later than the earlier of the date the option expires or one year after the date such employment or performance of services ceases by reason of disability, but only with respect to an option exercisable at the time such employment or performance of services ceases and (b) options may be exercised (I) by an option holder after such individual ceases to be an employee (for reasons other than disability or retirement at or after age 60) up to three months after the day of termination of employment but not later than the date the option expires, (II) by reason of retirement, either at or after age 60 but not later than the earlier of the date the option expires or four years after the date of retirement, or, if approved by the Committee, after retirement at an age less than age 60 but not later than the earlier of the date the option expires or three years after the date of retirement; and (III) in the event a salary replacement option is granted by the Committee and the option holder is involuntarily terminated during the option term or becomes disabled or dies,

the Committee shall have the right to grant to the option holder or his personal representative, as the case may be, the right to request either (1) that the option be cancelled and the option holder or his estate be paid an amount equal to the compensation the option holder has given up from the date of grant to the date of such termination, disability or death together with interest at the prime rate less the then market gain on that portion of the shares covered by the option which is then vested; or (2) that the stock option accelerates such that the option be deemed to have vested at an appropriate rate per month (as determined by the Committee) from the date of grant to the last date of the month in which the date of termination, disability or death occurs, such accelerated option to be then exercisable for a period of three years following such date but only with respect to an option exercisable at the time such individual ceases to be an employee.

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

F. METHODS OF EXERCISE. Subject to the terms and conditions of the Plan and the terms and conditions of the option agreement, an option may be exercised in whole at any time or in part from time to time, by delivery to the Company at its principal office of a written notice of exercise specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the exercise price for shares to be purchased at that time. Payment may be made (i) in cash,

(ii) in shares of Common Stock valued at the fair market value of the Common Stock on the date of exercise or (iii) in a combination of cash and Common Stock. The Committee may also, in its sole discretion, permit option holders to deliver a notice of exercise of options and to simultaneously sell the shares of Common Stock thereby acquired pursuant to a brokerage or similar arrangement approved in advance by proper officers of the Company, using the proceeds from such sale as payment of the exercise price, or may authorize such other methods as it deems appropriate and as comply with requirements of the Code and the Exchange Act.

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

- G. ACCELERATED OWNERSHIP FEATURE. An option may, in the discretion of the Committee, include the right to acquire an accelerated ownership nonqualified stock option ("AO Option"). An option which provides for the grant of an AO Option shall entitle the option holder, upon exercise of that option and payment of the appropriate exercise price in shares of Common Stock that have been owned by such option holder for not less than six months prior to the date of exercise, to receive an AO Option. An AO Option is an option to purchase, at fair market value at the date of grant of the AO Option, a number of shares of Common Stock equal to the sum of the number of whole shares delivered by the option holder in payment of the exercise price of the original option and the number of whole shares, if any, withheld by the Company as payment for withholding taxes. An AO Option shall expire on the same date that the original option would have expired had it not been exercised. All AO Options shall be nonqualified options.
- H. CHANGE OF CONTROL. A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

For purposes of this paragraph, Person means any individual, corporation, partnership, trust, other entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (excluding the Company, a subsidiary of the Company, any employee benefit plans of the Company or any subsidiary or any entity holding shares of Common Stock for or pursuant to the terms of any such plan). For purposes of this paragraph, Beneficial Ownership includes securities beneficially owned, directly or indirectly, by a Person and such Person's affiliates

and associates, as defined under Rule 12b-2 under the Exchange Act, and securities which such Person and its affiliates and associates have the right to acquire or the right to vote, or by any other Person with which such Person or any of such Person's affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of shares of Common Stock, as more fully described in The Toro Company Preferred Share Purchase Rights Plan dated as of May 20, 1998.

- I. REORGANIZATION. The Committee may, in its sole discretion, make provisions in any option agreement for the protection of outstanding options in the event of a merger, consolidation, reorganization or liquidation of the Company or the acquisition of stock or assets of the Company by another entity.
 - J. RIGHTS AS A STOCKHOLDER. An option holder shall have no rights as a stockholder with respect to any Common Stock covered by an option until exercise of such option and issuance of shares of Common Stock. Except as otherwise expressly provided in the Plan, no adjustments shall be made for dividends or other rights for which the record date is prior to issuance of the Common Stock.
 - K. GENERAL RESTRICTION. Each option shall be subject to the requirement that, if at any time the Board shall determine in its discretion that the listing, registration or qualification of the Common Stock subject to such option on any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issue or purchase of Common Stock thereunder, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.
 - L. FOREIGN NATIONALS. Without amending the Plan, awards may be granted to individuals who are foreign nationals or are employed or otherwise performing services for the Company or any subsidiary outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purpose of the Plan.
8. INCENTIVE AND NONQUALIFIED OPTIONS. It is intended that certain options granted under the Plan shall be Incentive Stock Options and shall meet the applicable requirements of and contain or be deemed to contain all provisions required under Section 422 of the Code or corresponding provisions of subsequent revenue laws and regulations in effect at the time such options are granted; that other options shall not meet such requirements and shall be nonqualified stock options; and that any ambiguities in construction shall be interpreted in order to effectuate such intent. The Committee may grant one or more options of either type, or of both types, to any one or more individuals either at different times or concurrently. Such options shall be subject to the terms and conditions set forth elsewhere in the Plan and to the following:

- A. INCENTIVE STOCK OPTIONS. The term of any Incentive Stock Option shall meet the requirements of Section 422 of the Code. Any Incentive Stock Option shall be treated as "outstanding" until it is exercised in full or expires by reason of lapse of time. To the extent that the aggregate fair market value of Common Stock (determined at the time of grant of the Incentive Stock Option in accordance with paragraph 7.C of the Plan) with respect to which Incentive Stock Options are exercisable for the first time by an option holder during any calendar year (under all such plans of the Company and its parent and subsidiary corporations) exceeds \$100,000 or such other limit as may be imposed by the Code, such options to the extent they exceed such limit shall be treated as options which are not Incentive Stock Options. In applying the foregoing limitation, options shall be taken into account in the order in which they were granted.
 - B. NONQUALIFIED OPTIONS. There is no limitation on the maximum amount of nonqualified options which may be exercised in any year.
9. WITHHOLDING TAXES. The Company shall have the right to deduct from any settlement made under the Plan, including the exercise of an option or the sale of shares of Common Stock, any federal, state or local taxes of any kind required by law to be withheld with respect to such payments or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. If Common Stock is withheld or surrendered to satisfy tax withholding, such stock shall be valued at its fair market value as of the date such Common Stock is withheld or surrendered.
10. AMENDMENT OF THE PLAN. The Plan may be amended, suspended or discontinued in whole or in part at any time and from time to time by the Board, including an amendment to increase the number of shares of Common Stock with respect to which options may be granted, provided however that no amendment shall be effective unless and until the same is approved by stockholders of the Company where the failure to obtain such approval would adversely affect the availability of any exemption under Rule 16b-3 under the Exchange Act or successor rule and with other applicable law, including the Code. No amendment of the Plan shall adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.
11. MISCELLANEOUS.
- A. USE OF PROCEEDS. The proceeds derived from the sale of shares of Common Stock pursuant to options granted under the Plan shall constitute general funds of the Company.
 - B. PARENT AND SUBSIDIARY. As used herein, the terms "parent" and "subsidiary" shall mean "parent corporation" and "subsidiary corporation", respectively, as defined in Section 424 of the Code.
 - C. GOVERNING LAW. The Plan, options granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects

under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

THE TORO COMPANY
CONTINUOUS PERFORMANCE AWARD PLAN

1. **PURPOSE OF THE PLAN.** The purpose of the Continuous Performance Award Plan (the "Plan") is to provide an incentive to members of management of The Toro Company (the "Company") who are primarily responsible for the management, growth and sound development of the business of the Company to achieve the Company's long-term financial objectives, by making awards based on achievement of performance goals ("Performance Awards").
2. **ADMINISTRATION.** The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company, or its successor committee (the "Committee"), it being intended that members of the Committee shall qualify to administer the Plan as contemplated by Rule 16b-3 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") or any successor rule, and as contemplated by Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") and the rules and regulations thereunder, and provided further that, if the stock options granted pursuant to paragraph 5 hereof are authorized to be granted under the Company's stock option plans, the members of the Committee shall also have authority to act under those plans. The Committee shall have power to select employees to whom Performance Awards are made, to determine the terms of the Performance Awards consistent with the Plan, to prescribe rules and regulations relating to the Plan and to construe and otherwise implement the Plan.
3. **ELIGIBILITY.** Performance Awards may be made to any employee who has primary responsibility for and directly influences achievement of long-term financial results of the Company. Officers of the Company who are also members of the Board of Directors shall be eligible to receive Performance Awards. Members of the Committee shall not be eligible to receive Performance Awards. Individuals to whom Performance Awards are made are referred to as "Participants."
4. **TERMS OF AWARDS.** Performance Awards shall be evidenced by written agreements in such form, not inconsistent with this Plan, as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions:
 - a. **"AWARD TERM".** Unless otherwise provided herein, each Performance Award shall have a term of three fiscal years and shall be payable only at the conclusion of such term. Notwithstanding the foregoing, and for the purpose of bringing a Participant who has not previously participated in this Plan into the three year award cycle of the Plan, the Committee may grant, in addition to a three year Performance Award, a Performance Award having a term of one fiscal year and a Performance Award having a term of two fiscal years, such that an award may be payable, if otherwise earned, at the conclusion of each of the first two fiscal years after commencement of participation in the Plan. The Committee may, in its discretion, grant additional, successive three year Performance Awards to any Participant with respect to subsequent three year periods. Notwithstanding the foregoing, the Committee may, in its discretion, make Performance Awards having a duration of less than the normal Award Term to an individual who is selected to first become a Participant at a time other than the beginning of a fiscal year of the Company or to reflect a fiscal transition period resulting from a change in fiscal year end or similar significant event; provided that such award shall otherwise be generally on

the same terms and conditions applicable to Performance Awards granted as of the first day of the applicable fiscal year.

SPECIAL RULE FOR PERSONS REFERRED TO IN SECTION 162(m). If a Performance Award is granted at a time other than the beginning of a fiscal year, such award shall not be granted later than 90 days after the commencement of the period of service to which the Performance Award relates or after more than 25% of the period of service has elapsed, in accordance with the provisions of subparagraph 4.c.ii hereof.

- b. DATE OF GRANT. Except as otherwise permitted under this Plan, Performance Awards, whether one year, two year or three year awards, shall be granted as of the date which marks the first day of any Award Term.
- c. BASIS OF AWARD.
 - i. The maximum amount that may be paid with respect to any Performance Award (the "Award Maximum") shall be determined by multiplying (a) the base compensation actually paid to the Participant during the period of any one-year Award Term or the last fiscal year of any multiple-year Award Term, as the case may be, exclusive of any bonus or other incentive compensation but including deferred compensation, times (b) a participation factor which represents a percentage of base compensation (such as .25 for 25% of base compensation) determined by the Committee at the time an award is granted, which is intended to reflect the Participant's ability to influence the financial results of the Company or its divisions or subsidiaries and the Participant's relative seniority within management.

SPECIAL RULE FOR PERSONS REFERRED TO IN SECTION 162(m): With respect to a Performance Award granted to a person referred to in Section 162(m), the maximum dollar amount of the Award Maximum shall be set by the Committee at the time of grant of a Performance Award and the Committee shall have the discretion to decrease this maximum dollar amount but may not increase such amount with respect to a Performance Award granted to a person referred to in Section 162(m). The participation factors applicable to such persons, which are intended to reflect a Plan Participant's level of responsibility, are 1.0 for the Chairman and Chief Executive Officer, .75 for the President and Chief Operating Officer, if one should be elected, .50 for the Group Vice Presidents and Chief Financial Officer, and .25 to .35 for other officers, including other named executive officers.

- ii. The Committee shall establish a financial performance goal based on the Company's relative performance in achieving a return on beginning stockholders equity (ROBE) as compared with other similarly classified Fortune 500 companies (the "Performance Goal"), and the amount that shall be paid (the "Award Payout") with respect to each Performance Award shall be based on the achievement by the Company of such Performance Goal during the applicable Award Term; provided that the Performance Goal shall be established not later than 90 days after the commencement of the period of service to which the Performance Goal relates,

provided that the outcome is substantially uncertain at the time the Committee actually establishes the Performance Goal; and provided further that in no event will a Performance Goal be considered to be preestablished if it is established after 25% of the period of service (as scheduled in good faith at the time the Performance Goal is established) has elapsed.

SPECIAL RULE FOR PERSONS REFERRED TO IN SECTION 162(m): In no case shall the Award Payout with respect to a Performance Award granted to a person referred to in Section 162(m) exceed the maximum dollar amount established by the Committee in accordance with the Special Rule set forth in subparagraph 4.c.i. or set forth in subparagraph 4.e.

d. CALCULATION OF AWARD PAYMENT.

i. STANDARD CALCULATION. The Company's ROBE for each fiscal year shall be converted to a percentile score (the "Percentile Score") by comparing the ROBE to comparable data for all companies in the Industrial and Farm Equipment Group of Fortune 500 (as reported for the calendar year ended during such fiscal year). The one year Percentile Score shall be used to determine the Award Payout with respect to a one year Award Term and the average of the Percentile Scores for a two or three year Award Term shall be used in determining the Award Payout for any multiple year Performance Award. If the Percentile Score (or average Percentile Score for a two or three year Award Term) is: (a) at or above the 75th percentile, each Participant shall be paid the Award Maximum; (b) between the 50th and 75th percentile, each Participant shall be paid an amount equal to two-thirds of the Award Maximum at the 50th percentile and ranging up on a straight line basis to 100% of the Award Maximum at the 75th percentile; (c) between the 25th and 50th percentile, each Participant shall be paid two-thirds of the Award Maximum at the 50th percentile and ranging down on a straight line basis to zero at the 25th percentile; and (d) at or below the 25th percentile, no Performance Award shall be paid. The Award Payout with respect to a Performance Award covering two or three fiscal years shall not be earned or paid until the completion of the final fiscal year of the Award Term. However, no Award Payout will be earned or paid to any participant during the first six months of any Award Term.

ii. Notwithstanding the provisions of subparagraph i of this subparagraph 4.d., any individual who has participated in the Plan for less than a full fiscal year during a one year Award Term shall receive a payment only for that portion of the fiscal year during which the individual was a Participant (expressed as a percentage and based on a 360 day year).

e. MAXIMUM AWARD PAYMENT. Notwithstanding any other provision of this Plan, the maximum dollar amount a Participant may be paid under a Performance Award with respect to any Award Term is \$1,500,000. The Committee may in its discretion, decrease this maximum, but may not under any circumstances increase the maximum.

f. PAYMENT. Before any payment is made under the Plan, the Committee must certify in writing that the Performance Goal justifying the payment has been met. Subject to the

provisions of subparagraph 4.g. hereof, any amount earned with respect to a Performance Award shall be paid in cash within a reasonable time after the last day of the Award Term and after the Committee has certified in writing that the applicable Performance Goal and any other material terms were satisfied. A Participant shall have no control over the date of payment.

- g. CHANGE OF CONTROL. A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

For purposes of this paragraph, Person means any individual, corporation, partnership, trust, other entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (excluding the Company, a subsidiary of the Company, any employee benefit plans of the Company or any subsidiary or any entity holding shares of Common Stock for or pursuant to the terms of any such plan). For purposes of this paragraph, Beneficial Ownership includes securities beneficially owned, directly or indirectly, by a Person and such Person's affiliates and associates, as defined under Rule 12b-2 under the Exchange Act, and securities which such Person and its affiliates and associates have the right to acquire or the right to vote, or by any other Person with which such Person or any of such Person's affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of shares of Common Stock, as more fully described in The Toro Company Preferred Share Purchase Rights Plan dated as of May 20, 1998.

- h. TRANSFERABILITY. No Performance Award granted hereunder may be transferred by a Participant. A Participant may receive payment with respect to a Performance Award only while an employee of the Company or a parent or subsidiary of the Company and only if he or she has been continuously employed since the date the Performance Award was granted; provided, however, that:
- i. In the event of the death, disability or retirement of a Participant, an Award Payout shall be made if otherwise earned in accordance with subparagraph 4.d. hereof, with respect to the portion of the applicable Award Term completed at the date of such event (based on a 360 day year and expressed as a percentage). The amount shall be calculated and paid in accordance with the applicable provisions of subparagraphs 4.d. and 4.e., notwithstanding the earlier occurrence of such event.

ii. In the event of involuntary termination of employment of a Participant, during the Award Term, for reasons other than death, disability or retirement, an Award Payout shall be made, if otherwise earned in accordance with subparagraph 4.d. hereof, with respect to the portion of the applicable Award Term completed at the date of such event (based on a 360 day year and expressed as a percentage). Any payment made under this subparagraph 4.h.ii. shall be based on the ROBE of the Company for the fiscal period then most recently ended and the most recent Fortune 500 publication then available.

5. STOCK OPTIONS. At the time of granting any Performance Award, the Committee shall grant to each Participant options to purchase shares of the Common Stock, \$1.00 par value and related Preferred Share Purchase Rights of the Company (the "Common Stock") under the Company's then effective stock option plan or plans, on such terms and conditions as may be required or permitted under such stock option plan, provided, however, that the following terms shall be applicable unless otherwise not permitted by such stock option plan:

- a. Each Participant shall be granted one option with respect to each Performance Award.
- b. The number of shares to be subject to an option granted to a Participant (the "Option Amount") shall be determined by multiplying (i) the estimated base compensation of the Participant during the first fiscal year of the Award Term, as determined by the Human Resources department of the Company, exclusive of any bonus or other incentive compensation but including deferred compensation times (ii) the participation factor described in subparagraph 4.c.i above times (iii) 1.0 for a one-year Award Term, 1.05 for a two-year Award Term, and 1.1 for a three-year Award Term; and dividing that result by (iv) the Fair Market Value of one share of Common Stock of the Company determined in accordance with subparagraph 5.d. hereof.
- c. Notwithstanding subparagraph 5.b., the number of shares subject to an option shall be subject to reduction as follows: If the Company's Percentile Score (or average Percentile Score for a multiple year Award Term) as calculated in accordance with subparagraph 4.d. above, is not at or above the 75th percentile, but is at or above the 25th percentile, a portion of the option related to the applicable Performance Award shall be deemed to expire so that the number of shares subject to the option shall be reduced pro rata on a straight-line basis (full shares only) to two-thirds of the Option Amount at a 50th Percentile Score and to zero at a 25th Percentile Score, on the same basis as provided in subparagraph 4.d. above. Thus, if the Company does not achieve a Performance Goal equal to at least the 25th percentile as herein provided for the Award Term, the option shall expire automatically. The calculation required by this subparagraph shall be made and certified by the Committee promptly after the end of each fiscal year, and any option or portion of an option deemed to expire shall expire automatically upon the making of such calculation. The Committee shall promptly notify the Participants of the results of the calculation.
- d. The exercise price per share under any option shall be the fair market value of one share of Common Stock of the Company. The fair market value of one share of Common Stock, for the purpose of determining the Option Amount and the exercise price per share, shall be the average closing price of the Common Stock on the New York Stock Exchange for

the three month period immediately prior to the grant date, provided that such result shall otherwise be in accordance with the then effective stock option plan.

- e. An option granted with respect to any Performance Award, or the portion thereof which remains after application of subparagraph 5.c. above, shall become exercisable on the date the Company releases to the public its earnings for the prior fiscal year and shall remain exercisable until 90 days thereafter. If permitted under the then effective stock option plan or under applicable securities laws, each option shall provide that in the event of a Change of Control of the Company during the Award Term, the option shall become immediately exercisable in the full Option Amount and the calculation pursuant to subparagraph 5.c. shall not be applicable.
- f. An option shall, by its terms, expire upon the termination of employment of a Participant, except that in the event of retirement by a Participant after the end of an Award Term, such retired Participant shall be entitled to exercise the option or options involved during the period provided in subparagraph 5.e. above.
- 6. PLAN AMENDMENT AND TERMINATION. The Committee may, in its sole discretion, amend, suspend or terminate the Plan at any time, with or without advance notice to Plan Participants, provided that no amendment to the Plan shall be effective which would increase the maximum amount payable under subparagraph 4.e. to a Participant who is a person referred to in Section 162(m), which would change the Performance Goal applicable to a Participant who is a person referred to in Section 162(m) for payment of awards stated under subparagraph 4.c.ii.; or which would modify the requirements as to eligibility for participation under paragraph 3, unless the stockholders of the Company shall have approved such change in accordance with the requirements of Section 162(m). Under no circumstances may the Plan be amended to permit the Committee to increase an Award Payment in contravention of the requirements of subparagraph 4.c.i.
- 7. GOVERNING LAW. The Plan, awards granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.
- 8. EFFECTIVE DATE OF THE PLAN AND AMENDMENTS. The Plan first became effective on August 1, 1991. Any amendment to the Plan shall be effective on the date established by the Committee, subject to stockholder approval, if required under the provisions of paragraph 6.

As amended by the Compensation Committee and Board of Directors
July 30, 1998.

THE TORO COMPANY
CHIEF EXECUTIVE OFFICER INCENTIVE AWARD AGREEMENT

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

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

2. GRANT OF AWARD.

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

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

and comply with the terms and conditions of a noncompetition agreement, in accordance with Subsections 2.c. and 3.b. hereof.

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

3. TERMS, CONDITIONS AND RESTRICTIONS.

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

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

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

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

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

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

payment of the value of Performance Units for the purchase of a retirement annuity to Mr. Melrose.

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

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

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

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

unless he shall have executed an agreement not to compete with the Company and delivered a fully executed copy thereof to the Company, and otherwise complied with the then applicable terms and conditions of the Plan, except as provided in Subsection 3.a.(C)iii.

c. TERMINATION OF EMPLOYMENT. Except as otherwise provided by Subsection 3.a. hereof, if Mr. Melrose resigns his employment with the Company or if his employment is terminated by the Board of Directors for cause during any Restricted Period, all shares of Restricted Stock and all Performance Units then subject to restrictions and all other rights under this Plan shall be forfeited by Mr. Melrose and the Restricted Stock shall be reacquired by the Company. For purposes of this Agreement, "Cause" shall mean:

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

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

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

d. STOCK CERTIFICATES.

i. ISSUANCE. The Company shall issue a stock certificate or certificates representing the shares of Restricted Stock granted under the Plan. Such certificates shall be

registered in Mr. Melrose's name and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to the grant, substantially in the following form:

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

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

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

e. RIGHTS AS STOCKHOLDER.

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

ii. ADJUSTMENTS. In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure affecting the Common Stock, the Committee shall make such substitution or adjustment in the aggregate number of shares of Common Stock reserved for issuance under the Plan or in the number of shares outstanding as Restricted Stock or in the number of

Performance Units, as may be determined to be appropriate by the Committee, acting in its sole discretion, provided that the number of shares or Performance Units shall always be a whole number.

f. CHANGE IN CONTROL. In the event of a threatened or actual Change of Control of the Company as hereinafter defined, whether or not approved by the Board of Directors, all shares of Restricted Stock shall immediately fully vest and be freely transferable. A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

For purposes of this Subsection 3.f., Person means any individual, corporation, partnership, trust, other entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (excluding the Company, a subsidiary of the Company, any employee benefit plans of the Company or any subsidiary or any entity holding shares of Common Stock for or pursuant to the terms of any such plan). For purposes of this Subsection 3.f., Beneficial Ownership includes securities beneficially owned, directly or indirectly, by a Person and such Person's affiliates and associates, as defined under Rule 12b-2 under the Exchange Act, and securities which such Person and its affiliates and associates have the right to acquire or the right to vote, or by any other Person with which such Person or any of such Person's affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of shares of Common Stock, as more fully described in The Toro Company Preferred Share Purchase Rights Plan dated as of May 20, 1998.

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

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

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

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

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

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

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

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

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

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

THE TORO COMPANY

By: J. Lawrence McIntyre

Title: Vice President & Secretary

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

KENDRICK B. MELROSE

/s/ Kendrick B. Melrose

THE TORO COMPANY
DEFERRED COMPENSATION PLAN
FOR OFFICERS
(JULY 27, 1998 RESTATEMENT)

The Toro Company hereby amends and restates The Toro Company Deferred Compensation Plan for Officers, originally effective as of January 21, 1998. The purpose of the Plan is to provide the opportunity for selected officers of Toro to defer receipt of compensation that may be payable under the AMIP II and, at the same time, to acquire and retain Common Stock in the form of Common Stock Units.

ARTICLE I.
DEFINITIONS

Section 1.1 DEFINITIONS. When used in the Plan with initial capital letters, the following terms have the meanings indicated unless a different meaning is plainly required by the context:

"Account" means a book entry account established and maintained in the Company's records in the name of a Participant pursuant to Articles II and III of the Plan, and includes Retained Units Accounts and Matching Units Accounts.

"AMIP II" means The Toro Company Annual Management Incentive Plan II, as amended from time to time.

"Annual Performance Award" means an award granted under the AMIP II pursuant to which annual incentive compensation based on achievement of annual performance goals may be paid.

"Base Cash Award" means the actual amount of an award payment that may be paid under an Annual Performance Award, as calculated in accordance with the AMIP II.

"Board of Directors" means the Board of Directors of Toro.

"Change of Control A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company. For purposes of this paragraph, Person means any individual, corporation, partnership, trust, other entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act)

(excluding the Company, a subsidiary of the Company, any employee benefit plans of the Company or any subsidiary or any entity holding shares of Common Stock for or pursuant to the terms of any such plan).

For purposes of this paragraph, Beneficial Ownership includes securities beneficially owned, directly or indirectly, by a Person and such Person's affiliates and associates, as defined under Rule 12b-2 under the Exchange Act, and securities which such Person and its affiliates and associates have the right to acquire or the right to vote, or by any other Person with which such Person or any of such Person's affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of shares of Common Stock, as more fully described in The Toro Company Preferred Share Purchase Rights Plan dated as of May 20, 1998.

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

"Common Stock" means the Common Stock, par value \$1.00 per share, and the related Preferred Share Purchase Rights, of Toro as such shares may be adjusted in accordance with subparagraph 8.i. of the AMIP II.

"Compensation Committee" means the Compensation Committee of the Toro Board of Directors, which has the authority to administer the AMIP II.

"Deferral Election" shall mean the written election form set forth in Exhibit B hereto.

"Disability" means a Participant is permanently disabled and unable to work and entitled to a disability benefit under a program sponsored or maintained by Toro.

"Effective Date" means January 21, 1998, the date the Plan was adopted by the Board of Directors, subject to stockholder approval at the March 18, 1998 Annual Meeting of Stockholders.

"Eligible Officer" means an officer of Toro described in Section 2.1.

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

"Fiscal Year" means the fiscal year of Toro, which year begins on November 1 and ends on the following October 31.

"Matching Units Account" means an Account with entries denominated in Units (including fractions) that are credited in accordance with Section 3.3.

"Participant" means an Eligible Officer who delivers a Deferral Election in accordance with Sections 2.2 and 2.3 of the Plan and for whom Units are actually credited to an Account. An individual shall not cease to be a Participant if the person ceases to be an Eligible Officer, so long as Units have been credited to such Participant's Accounts.

"Plan" means The Toro Company Deferred Compensation Plan for Officers, as amended from time to time.

"Retained Units Account" means an Account with entries denominated in Units (including fractions) that are credited in accordance with Section 3.2 of the Plan.

"Stock Retention Award" means a right granted under the AMIP II to elect (i) to convert to shares of Common Stock or (ii) to defer through the Plan, into Units, up to 50% of a Base Cash Award and to receive additional incentive compensation in the form of one additional Unit for every two Units acquired upon conversion.

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

"Trust" means a trust which shall be established or maintained by Toro that may be used in connection with this Plan to assist Toro in meeting its obligations under the Plan. Such a Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan. Participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of any such Trust.

"Trustee" means the corporation or person or persons selected by Toro to serve as Trustee for the Trust.

A "Unit" has a value equal to one share of Common Stock or fraction thereof, adjusted in accordance with paragraph 8.i. of the AMIP II.

ARTICLE II
ELIGIBILITY, PARTICIPATION AND DEFERRAL ELECTION

Section 2.1 ELIGIBILITY. An officer of Toro who is granted a Stock Retention Award under the AMIP II is eligible to participate in the Plan.

Section 2.2. PARTICIPATION. An Eligible Officer may become a Participant in the Plan by executing and delivering to Toro a Deferral Election.

Section 2.3. DEFERRAL ELECTION.

(a) DEADLINE FOR DELIVERY. An Eligible Officer may elect to defer Base Cash Award compensation that may be earned under the AMIP II by completing and submitting to Toro a Deferral Election not later than the December 31 immediately following the grant to such individual of a Stock Retention Award. Notwithstanding the foregoing, the deadline for delivering a Deferral Election in the year in which the Plan is implemented and for new Eligible Officers shall be as follows:

- (i) In the year in which the Plan is first implemented, an Eligible Officer may make a Deferral Election with respect to a Base Cash Award that may be paid in connection with the Stock Retention Award most recently granted not later than 30 days after the Effective Date of the Plan, but at least six months prior to the date on which the Base Cash Award becomes payable.
- (ii) In the year in which an individual first becomes an Eligible Officer, if at a time other than that date the Compensation Committee typically makes awards to other officers, the Eligible Officer may make a Deferral Election with respect to a Base Cash Award that may be paid in connection with a Stock Retention Award granted in connection with becoming an Eligible Officer not later than 30 days after the date the individual becomes an Eligible Officer, but at least six months prior to the date on which the Base Cash Award becomes payable.
- (b) AMOUNT TO BE DEFERRED. The Deferral Election shall relate to compensation that may be earned with respect to the fiscal year to which the Stock Retention Award relates (the fiscal year ending on the subsequent October 31). A Deferral Election may designate up to 50% of a Base Cash Award to be deferred and credited to the Participant's Retained Units Account.
- (c) EFFECTIVENESS. The Deferral Election is irrevocable and shall be effective upon delivery to the Director of Compensation and Benefits of Toro and shall remain in effect only with respect to the fiscal year for which it is made.
- (d) RECORD OF PARTICIPANTS. The name of each Participant and the date on which participation commences with respect to each Stock Retention Award shall be recorded on Exhibit A which is attached hereto and which shall be revised from time to time by the Secretary or Assistant Secretary of Toro, or their designee.

ARTICLE III
PARTICIPANTS' ACCOUNTS

Section 3.1 GENERAL.

- (a) CERTIFICATION REQUIRED. No Units or other amount shall be credited to any Account with respect to any Stock Retention Award relating to a particular fiscal year until the Compensation Committee has certified in writing that the performance goals established with respect to that fiscal year (as described in the AMIP II) have been achieved.
- (b) SEPARATE ACCOUNTS. The value of each of a Participant's Retained Units Account and Matching Units Account shall be accounted for separately.

- (c) ACCOUNT VALUE. The value of Units in any Account shall fluctuate with the Fair Market Value of the Common Stock, as defined in Section 3.1(d)(i).
- (d) DIVIDENDS. In the event that Toro pays dividends on its Common Stock, each Retained Units Account and Matching Units Account shall be credited with additional Units (including fractions). The number of additional Units to be credited shall be determined by dividing the aggregate dollar value of the dividends that would be paid on the Units, if such Units were Common Stock, by the Fair Market Value of one share of the Common Stock on the record date for payment of dividends.
 - (i) "Fair Market Value" means the closing price of one share of Common Stock as reported in THE WALL STREET JOURNAL, unless a different meaning is established in the AMIP II, in which case that meaning shall govern.
- (e) CONTINUATION OF ACCOUNTS. Notwithstanding that a Participant ceases to be an Eligible Officer, any Accounts established for such Participant shall continue to be maintained until distribution of the assets in accordance with the Plan and the Participant's Deferral Election.

Section 3.2. RETAINED UNITS ACCOUNT.

- (a) NUMBER OF UNITS TO BE CREDITED. The dollar amount of the portion of a Base Cash Award subject to a Deferral Election with respect to any Stock Retention Award shall be divided by the Fair Market Value of the Common Stock and the resulting number of Units (including fractions) shall be credited to a Participant's Retained Units Account.
 - (i) For purposes of Sections 3.2 and 3.3, Fair Market Value shall be determined as of the date that the Compensation Committee makes the certification required under paragraph 7 of the AMIP II and Subsection 3.1(a) of this Plan.

Section 3.3. MATCHING UNITS ACCOUNT.

- (a) NUMBER OF UNITS TO BE CREDITED. One-half of the dollar amount of the portion of the Base Cash Award subject to the Deferral Election with respect to any Stock Retention Award shall be divided by the Fair Market Value of the Common Stock and the resulting number of Units (including fractions) shall be credited to a Participant's Matching Units Account.

ARTICLE IV.
VESTING

Section 4.1 RETAINED UNITS ACCOUNT.

Retained Units (including fractions) credited to a Participant's Retained Units Account

shall be 100% vested at all times.

Section 4.2 MATCHING UNITS ACCOUNT.

- (a) GENERAL REQUIREMENT. Matching Units shall vest only if Retained Units related to the Units credited as Matching Units remain credited to a Participant's Retained Units Account through the requisite vesting periods and all other requirements of the AMIP II have been met by the Participant, except as otherwise provided in paragraph 8.f. of the AMIP II. Forfeited Units shall not be reallocated or credited to the Accounts of remaining Participants.
- (b) VESTING SCHEDULE. Matching Units (including fractions) credited to a Participant's Matching Units Account with respect to a Stock Retention Award shall vest in accordance with the following schedule:

DATE ----	PERCENTAGE OF UNITS TO VEST -----
- At the end of the second year after the date Units are first credited to a Matching Units Account	First 25%
- At the end of the third year after the date Units are first credited to a Matching Units Account	Second 25%
- At the end of the fourth year after the date Units are first credited to a Matching Units Account	Third 25%
- At the end of the fifth year after the date Units are first credited to a Matching Units Account	Final 25%

- (c) DEATH OR DISABILITY. Notwithstanding any provision herein or in the AMIP II to the contrary, in the event of a Participant's death or Disability, vesting shall accelerate and all Matching Units shall vest in full.
- (d) RETIREMENT. Notwithstanding any provision herein or in the AMIP II to the contrary, in the event of a Participant's retirement at or after age 65, vesting shall accelerate and all Matching Units shall vest in full. Notwithstanding the foregoing, if within one year after such retirement the Participant is employed or retained by a company that competes with the business of Toro, or such individual violates any confidentiality agreement with Toro, Toro may demand the return of the economic value of the Matching Units which vested early under this Subsection 4.2.(d).
- (e) EARLY RETIREMENT. Notwithstanding any provision herein or in the AMIP II to the contrary, but subject to the distribution election permitted under Subsection 5.4(c), in the event of a Participant's retirement at or after age 55 but before age 65 the Participant's Retained Units shall remain credited to the Retained Units Account until the earlier of the date the Participant reaches age 65 or until applicable vesting requirements have been fulfilled, and Matching Units shall continue to vest in accordance with the Vesting Schedule of Subsection 4.2(b), or until vesting is accelerated by Participant's attaining age 65, whichever occurs earlier. Notwithstanding the foregoing, if within one year after such early retirement the

Participant is employed or retained by a company that competes with the business of Toro, or such individual violates any confidentiality agreement with Toro, Toro may demand the return of the economic value of the Matching Units which vested after the date of early retirement under this Subsection 4.2.(e).

- (f) VOLUNTARY RESIGNATION. In the event that a Participant resigns voluntarily, Matching Units held in such Participant's Account that have not yet vested shall not vest and shall be forfeited, unless otherwise determined by the Chair of the Compensation Committee, in his or her discretion, upon recommendation by the Chief Executive Officer of Toro.
- (g) CHANGE OF CONTROL. All Matching Units that have not yet vested shall vest if there is a Change of Control.

ARTICLE V.
DISTRIBUTIONS.

Section 5.1 DISTRIBUTABLE EVENTS. Benefits shall be payable under the Plan to or on behalf of a Participant, in accordance with the elections made by the Participant under the Plan, upon the earliest to occur of the following events:

- (a) death;
- (b) Disability; or
- (c) termination of employment.

Section 5.2 DISTRIBUTION OF BENEFITS.

- (a) VALUE OF BENEFITS. In the event a Participant becomes eligible to receive a payment under the Plan, the Participant shall be entitled to receive the value of the Retained Units Account and the vested portion of the Matching Units Account. If a Participant elects to receive benefits under the installment payment method referred to in Subsection 5.2(d), the Participant's Accounts shall continue to be credited with additional Units equal in value to dividends that would be paid on Units remaining in the Accounts, as if such Units were Common Stock.
- (b) ELECTION OF METHOD OF PAYMENT. Benefits payable to a Participant or, in the event of the Participant's death, to the Participant's designated beneficiary under the Plan shall be paid in accordance with one of the available methods of payment referred to in Subsection 5.2(d) in accordance with the Participant's most recently-dated Deferral Election form.
- (c) CHANGE IN ELECTION OF METHOD OF PAYMENT. An election of a method of payment will apply to all benefits payable to or on behalf of a participant under the Plan, including

amounts deferred in prior years and subject to a prior election. A Participant may change the method of payment by electing another method available under the Plan, but such change in the method of payment will not be effective until the calendar year following the calendar year in which the change was elected. Further, in no event will any such change in the method of payment be effective if such change is elected during the calendar year in which the distributable event occurs and no further elections may be made once a distributable event occurs.

- (d) AVAILABLE METHODS OF PAYMENT. Available methods of payment are (i) approximately equal annual installment payments over a period certain (not to exceed ten (10), unless a longer period is approved by the Compensation Committee) or (ii) a lump sum payment.
- (e) COMPENSATION COMMITTEE DISCRETION. The Compensation Committee may, in its sole discretion, reduce the payment period over which payments would have been made pursuant to the method of payment selected by a Participant.
- (f) ABSENCE OF ELECTION OF METHOD OF PAYMENT. Absent a Deferral Election specifying a method of payment, benefits payable under the Plan to or on behalf of a Participant shall be paid in a lump sum payment to the Participant, or in the event of the Participant's death, to the Participant's designated beneficiary under the Plan.

Section 5.3 OTHER DISTRIBUTIONS. Notwithstanding any provision in this Plan to the contrary, if at any time a court or the Internal Revenue Service determines that the value of any Units credited to a Participant's Accounts under the Plan or Trust is includable in the gross income of the Participant and subject to tax, the Compensation Committee may, in its sole discretion, permit a lump sum distribution of an amount equal to the value of the units determined to be includable in the Participant's gross income.

Section 5.4 COMMENCEMENT OF DISTRIBUTIONS. Notwithstanding any provision in this Plan to the contrary, payment of a benefit shall begin in accordance with the provisions of this Section 5.4.

- (a) DEATH OR DISABILITY. If a benefit is payable in the event of a Participant's death or Disability, payment shall begin on the 15th day of the first month immediately following the month in which the Participant's death occurred or the determination of Disability is made.
- (b) OTHER TERMINATION. Except as otherwise provided in this Section 5.4, if a benefit is payable in the event of a Participant's termination of employment, payment shall begin on or about the 15th day of January immediately following the calendar year in which the Participant's termination of employment occurs.
- (c) EARLY RETIREMENT. If a Participant has properly made an early distribution election on a Deferral Election, and the Compensation Committee has consented to the election, in

the event of a Participant's retirement on or after the date on which the Participant attains age 55 at a time when the Units in the Participant's Matching Units Accounts are not yet fully vested under Subsection 4.2(b) of the Plan, the Participant shall forfeit Matching Units that have not vested at the date of early retirement, and payment shall begin on or about the 15th day of January immediately following the calendar year in which the Participant's termination of employment occurs. If a participant has not made such an early distribution election, payment shall begin on or about the 15th day of January immediately following the calendar year in which (i) the applicable vesting requirements are fulfilled or (ii) the Participant attains age 65, whichever is earlier.

Section 5.5 FORM OF PAYMENT. If a benefit is payable to or on behalf of a Participant under the Plan, vested Units shall be distributed in the form of an equal number of shares of Common Stock and any vested fractional Unit shall be converted into cash based on the Fair Market Value of the Common Stock immediately prior to distribution, unless the Compensation Committee in its sole discretion, determines to pay the entire benefit in cash. Common Stock may be original issue shares, treasury shares or shares purchased in the market or from private sources of a combination thereof.

ARTICLE VI. THE TRUST

Section 6.1 THE TRUST. In order to provide assets from which to pay the benefit obligations to the Participants and their beneficiaries under the Plan, Toro shall maintain a Trust by a trust agreement with a third party, the Trustee, to which Toro may, in its discretion, contribute cash or other property, including securities issued by Toro, to provide for the benefit payments under the Plan. However, in the event of a Change of Control, Toro shall, as soon as possible, but in no event longer than 30 days following the Change of Control, make irrevocable contributions to the Trust in amounts that are sufficient to pay the Participants or beneficiaries the benefits to which the Participants or their beneficiaries would be entitled pursuant to the terms of the Plan as of the date on which the Change of Control occurred, including benefits that vest under Subsection 4.2(g) as a result of the Change of Control. The Trustee will have the duty to invest the Trust assets and funds in accordance with the terms of the Trust. Toro is entitled at any time, and from time to time, in its sole discretion, to substitute assets of equal fair market value for any assets held in the Trust. All rights associated with the assets of the Trust will be exercised by the Trustee or the person designated by the Trustee, and will in no event be exercisable by or rest with Participants or their beneficiaries. The Trust shall provide that in the event of the insolvency of Toro or any of its affiliated companies, the Trustee shall hold the assets for the benefit of the general creditors of Toro and its affiliated companies. The Trust shall be based substantially on the model trust contained in Internal Revenue Service Revenue Procedure 92-64.

Section 6.2 NO ASSETS REQUIRED. Neither the Plan nor any of the Accounts shall hold or be required to hold actual shares of Common Stock, funds or assets.

ARTICLE VII
NONTRANSFERABILITY

Section 7.1 ANTI-ALIENATION OF BENEFITS. Units credited to a Participant's Accounts, and any rights or privileges pertaining thereto, may not be anticipated, alienated, sold, transferred, assigned, pledged, encumbered, or subjected to any charge or legal process; and no interest or right to receive a benefit may be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

Section 7.2 INCOMPETENT PARTICIPANTS. If any person who may be eligible to receive a benefit under the Plan has been declared incompetent and a conservator or other person legally charged with the care of such person or of his or her estate has been appointed, any benefit payable under the Plan which the person is eligible to receive shall be paid to such conservator or other person legally charged with the care of the person or his or her estate. Except as provided above, when the Compensation Committee has determined that such a person is unable to manage his or her affairs, the Compensation Committee may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of Toro and the Plan therefor.

Section 7.3 DESIGNATED BENEFICIARY. In the event of a Participant's death prior to the payment of all or a portion of any benefits which may be payable with respect to the Participant under the Plan, the payment of any benefits payable on behalf of the Participant under the Plan shall be made to the Participant's beneficiary designated on the Deferred Election form provided to the Participant by Toro. If no such beneficiary has been designated, payment shall be made as required under the Participant's will; or, in the event that there shall be no will under applicable state law, then to the persons who, at the date of the Participant's death, would be entitled to share in the distribution of such deceased Participant's personal estate under the provisions of the applicable statute then in force governing the decedent's intestate property.

ARTICLE VIII.
WITHHOLDING

Section 8.1 WITHHOLDING. The amounts payable pursuant to the Plan may be reduced by the amount of any federal, state or local taxes required by law to be withheld with respect to such payments.

ARTICLE IX.
VOTING OF STOCK

Section 9.1 VOTING OF COMMON STOCK. Participant shall not be entitled to voting rights with respect to Units.

ARTICLE X.
ADMINISTRATION OF THE PLAN

Section 10.1 ADMINISTRATOR. The administrator of the Plan shall be Toro. However, the Compensation Committee shall act on behalf of Toro with respect to the administration of the Plan and may delegate authority with respect to the administration of the Plan to a committee, person or persons as it deems necessary or appropriate for the administration and operation of the Plan. It is Toro's intention that with respect to Participants subject to Section 16 of the Securities Exchange Act of 1934, transactions under the Plan will comply with all applicable requirements of Rule 16b-3 or its successors. To the extent any action by the administrator fails to so comply, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Compensation Committee.

Section 10.2 AUTHORITY OF ADMINISTRATOR. Toro shall have the authority, duty and power to interpret and construe the provisions of the Plan as it deems appropriate; to adopt, establish and revise rules, procedures and regulations relating to the Plan; to determine the conditions subject to which any benefits may be payable; to resolve all questions concerning the status and rights of Participants and others under the Plan, including, but not limited to, eligibility for benefits, and to make any other determinations necessary or advisable for the administration of the Plan. Toro shall have the duty and responsibility of maintaining records, making the requisite calculations and disbursing payments hereunder. The determinations, interpretations, regulations and calculations of Toro shall be final and binding on all persons and parties concerned. The Secretary of Toro shall be the agent of the Plan for the service of legal process in accordance with Section 502 of ERISA.

Section 10.3 OPERATION OF PLAN. Toro shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof. Toro shall be responsible for the expenses incurred in the administration of the Plan. Toro shall also be responsible for determining eligibility for payments and the amounts payable pursuant to the Plan. Toro shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by Toro with respect to the Plan.

Section 10.4 CLAIMS PROCEDURES. Toro intends to make payments under the Plan without a Participant submitting a claim form. However, a Participant who believes a payment is due under the Plan may submit a claim for payments. For claims procedures purposes, the "Claims Manager" shall be Toro.

- (a) CLAIM. A claim for payments under the Plan must be made by the Participant or his or her beneficiary (the "claimant" in this Section and Section 10.5) in writing filed with the Claims Manager and must state the claimant's name and the nature of benefits payable. If a claim for payments under the Plan is denied by Toro, the Claims Manager shall deliver to the claimant a written explanation setting forth the reasons for the denial, references to the pertinent provisions of the Plan on which the denial is based, a description of any information necessary for the claimant to perfect the claim and an explanation of why such information is necessary, and information on the procedures to

be followed by the claimant in obtaining a review of his or her claim, all written in a manner calculated to be understood by the claimant. For this purpose:

- (i) The claimant's claim shall be deemed to be filed when actually received by the Claims Manager.
 - (ii) The Claims Manager's denial of a claim, if there is one, shall be delivered to the claimant not later than 90 days after the date the claimant's claim is filed.
- (b) CLAIM DENIAL PROCEDURES. The claimant shall have 60 days following receipt of the denial of a claim to file with the Claims Manager a written request for review of the denial.
- (c) CLAIMS MANAGER DECISION. The Claims Manager shall review the denial and furnish the claimant with a response not later than 60 days after receipt of the claimant's request for review of the denial. The decision on review shall be in writing and shall include reasons for the decision, written in a manner calculated to be understood by the claimant, as well as references to the pertinent provisions in the Plan on which the decision is based. If a copy of the decision is not so furnished to the claimant within such 60 days, the claim shall be deemed denied on review. In no event may a claimant commence an arbitration of a claim until the claimant has exhausted all of the remedies and procedures afforded by this Section 10.4.

Section 10.5 ARBITRATION.

- (a) In the event that a claimant has exhausted all of the remedies afforded by the claims procedures of Section 10.4, and a claim or controversy relating to the Plan remains, the claim or controversy shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "AAA"), as modified by this Section.
- (b) An award rendered in connection with an arbitration pursuant to this Section 10.5 shall be final and binding and judgment upon such an award may be entered and enforced in any court of competent jurisdiction.
- (c) The forum for arbitration under this Plan shall be Minneapolis, Minnesota and the governing law for such arbitration shall be laws of the State of Delaware.
- (d) Arbitration under this Section shall be conducted by a single arbitrator selected jointly by Toro and the claimant.

If within 30 days after a demand for arbitration is made, Toro and the claimant are unable to agree on a single arbitrator, three arbitrators shall be appointed.

Each party shall select one arbitrator and those two arbitrators shall then select a third neutral arbitrator within 30 days after their appointments. In connection with the selection of the third arbitrator, consideration shall be given to familiarity with executive compensation plans and experience in dispute resolution between parties, as a judge or otherwise. If the arbitrators selected by the parties cannot agree on the third arbitrator, they shall discuss the qualifications of such third arbitrator with the AAA, prior to selection of such arbitrator, which selection shall be in accordance with the Commercial Arbitration Rules of the AAA.

- (e) If an arbitrator cannot continue to serve, a successor to an arbitrator selected by a party shall be also selected by the same party, and a successor to a neutral arbitrator shall be selected as specified in subsection (d) of this section. A full rehearing will be held only if the neutral arbitrator is unable to continue to serve or if the remaining arbitrators unanimously agree that such a rehearing is appropriate.
- (f) The arbitrator or arbitrators shall be guided, but not bound, by the Federal Rules of Evidence and by the procedural rules, including discovery provisions, of the Federal Rules of Civil Procedure. Any discovery shall be limited to information directly relevant to the controversy or claim in arbitration.
- (g) The parties shall each be responsible for their own costs and expenses, except for the fees and expenses of the arbitrators, which shall be shared equally by Toro and the claimant.

Section 10.6 PARTICIPANT'S ADDRESS. Each Participant shall keep Toro informed of his or her current address and the current address of his or her beneficiary. Toro shall not be obligated to search for any person. If the location of a Participant is not made known to Toro within three (3) years after the date on which payment of the Participant's benefits payable under the Plan may be made, payment may be made as though the Participant had died at the end of the three-year period. If, within one (1) additional year after such three-year period has elapsed, or, within three (3) years after the actual death of a Participant, Toro is unable to locate any designated beneficiary of the Participant (including the Participant's estate), then Toro shall have no further obligation to pay any benefit hereunder to or on behalf of such Participant or designated beneficiary and such benefits shall be irrevocably forfeited.

Section 10.7 LIABILITY. Notwithstanding any of the provisions of the Plan to the contrary, neither Toro nor any individual acting as an employee or agent of Toro shall be liable to any Participant or any other person for any claim, loss, liability or expense incurred in connection with the Plan, unless attributable to fraud or willful misconduct on the part of Toro or any such employee or agent of Toro.

ARTICLE XI.
MISCELLANEOUS PROVISIONS

Section 11.1 NO EMPLOYMENT RIGHTS. Neither the Plan nor any action taken hereunder shall be construed as giving any employee a right to be employed by Toro.

Section 11.2 UNFUNDED AND UNSECURED. The Plan shall at all times be considered entirely unfunded both for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. Funds invested hereunder shall continue for all purposes to be part of the general assets of Toro and available to the general creditors of Toro in the event of a bankruptcy (involvement in a pending proceeding under the Federal Bankruptcy Code) or insolvency (inability to pay debts as they mature). In the event of such a bankruptcy or insolvency, Toro is required to notify the Trustee of the Trust and each Participant in writing of such an occurrence within one (1) day of Toro's knowledge of such occurrence. No Participant or any other person shall have any interests in any particular assets of Toro by reason of the right to receive a benefit under the Plan and to the extent a Participant or any other person acquires a right to receive benefits under the Plan, such right shall be no greater than the right of any general unsecured creditor of Toro. The Plan constitutes a mere promise by Toro to make payments to the Participants in the future. Nothing contained in the Plan shall constitute a guaranty by Toro or any other person or entity that any funds in any trust or the assets of Toro will be sufficient to pay any benefit hereunder. Furthermore, no Participant shall have any right to a benefit under the Plan except in accordance with the terms of the Plan.

Section 11.3 SINGULAR AND PLURAL. Except when otherwise required by the context, any singular terminology shall include the plural.

Section 11.4 SEVERABILITY. If a provision of the Plan shall be held to be illegal or invalid, the illegality or invalidity shall not affect the remaining parts of the Plan and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

Section 11.5 APPLICABLE LAW. To the extent not preempted by the laws of the United States, the laws of the State of Delaware shall apply with respect to the Plan without giving effect to principles of conflicts of laws.

ARTICLE XII. AMENDMENT OR TERMINATION

Section 12.1 AMENDMENT OR TERMINATION OF THE PLAN. Toro reserves the power to amend or terminate the Plan at any time by action of the Compensation Committee, ratified by the Board of Directors, but

- (a) no amendment or termination of the Plan may alter, impair or reduce any benefit of a Participant under the Plan to which such Participant may have previously become entitled prior to the effective date of such amendment or termination, without the written consent of such Participant, and
- (b) no amendment may be made that would contravene the provisions of paragraph 12 of the AMIP II, if applicable, and
- (c) no amendment may increase the benefits payable to a Participant who is referred to in Section 162(m) of the Code unless the AMIP II has first been amended to permit an

increase, in accordance with the provisions of paragraph 12 of the AMIP II relating to stockholder approval.

Section 12.2 ACCOUNTS AFTER TERMINATION. No further Units (or fractions thereof) shall be credited to any Account of any Participant after the date on which the Plan is terminated, except that (a) Accounts shall continue to be credited with additional Units (and fractions thereof) equal in value to dividends paid on an equivalent value of Common Stock, if any, in accordance with Section 3.1(d) until all benefits are distributed to a Participant or to the Participant's beneficiaries and (b) the distribution provisions of the Plan shall continue in effect as if the Plan had not been terminated. Accordingly, upon such termination of the Plan the benefits credited to the Accounts shall be payable in accordance with the elections made by the Participants and the distribution provisions of the Plan.

Dated this 11th day of August, 1998.

THE TORO COMPANY

/s/ Kendrick B. Melrose

By: K. B. Melrose
Title: Chairman & CEO

[rev. 7/98 - Change of Control Provision and Governing Law Provision]

THE TORO COMPANY AND SUBSIDIARIES

COMPUTATION OF EARNINGS (LOSS) PER SHARE OF COMMON STOCK (UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER-SHARE DATA)

	Three Months Ended		Nine Months Ended	
	July 31, 1998	August 1, 1997	July 31, 1998	August 1, 1997
Net earnings (loss) before extraordinary loss	\$ (2,553)	\$ 9,949	\$ 16,439	\$ 31,480
Extraordinary loss, net of income tax benefit of \$1,087	-	(1,663)	-	(1,663)
Net earnings (loss)	\$ (2,553)	\$ 8,286	\$ 16,439	\$ 29,817
Basic:				
Weighted average number of common shares outstanding	12,854,127	12,078,431	12,845,073	12,079,763
Net earnings (loss) per share of common stock before extraordinary loss	\$ (0.20)	\$ 0.82	\$ 1.28	\$ 2.60
Extraordinary loss, net of income tax benefit..	-	(0.13)	-	(0.13)
Net earnings (loss) per share of common stock	\$ (0.20)	\$ 0.69	\$ 1.28	\$ 2.47
Diluted:				
Shares of common stock and common stock equivalents:				
Weighted average number of common shares outstanding	12,854,127	12,078,431	12,845,073	12,079,763
Dilutive effect of outstanding stock options	-	342,662	456,763	368,049
	12,854,127	12,421,093	13,301,836	12,447,812
Net earnings (loss) per share of common stock and common stock equivalents before extraordinary loss	\$ (0.20)	\$ 0.80	\$ 1.24	\$ 2.53
Extraordinary loss, net of income tax benefit..	-	(0.13)	-	(0.13)
Net earnings (loss) per share of common stock and common stock equivalents	\$ (0.20)	\$ 0.67	\$ 1.24	\$ 2.40

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS THE CONDENSED CONSOLIDATED BALANCE SHEET AND EXHIBIT 11. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS		
	OCT-31-1998	
	NOV-01-1997	
	JUL-31-1998	2,800
		0
	328,628	
		0
	202,999	
	586,496	325,473
	192,510	
	833,363	
350,801		
	197,631	
0		
	0	
	12,868	
	266,122	
833,363		
	880,738	
	880,738	
	573,457	
	266,883	
	(6,140)	
	0	
	19,366	
	27,172	
	10,733	
16,439		
	0	
	0	
	0	
	16,439	
	1.28	
	1.24	

TOTAL LONG-TERM DEBT
 DOES NOT INCLUDE ADDITIONAL PAID-IN-CAPITAL
 OTHER INCOME, NET
 NOT INCLUDED IN QUARTERLY FINANCIAL INFORMATION
 TOTAL NET RECEIVABLES