



THE TORO COMPANY  
INDEX TO FORM 10-Q

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## PART I. ITEM 1. FINANCIAL INFORMATION

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

	Three Months Ended		Six Months Ended	
	April 30, 1999	May 1, 1998	April 30, 1999	May 1, 1998
Net sales.....	\$ 433,108	\$ 379,686	\$ 683,869	\$ 589,745
Cost of sales.....	280,255	246,737	443,072	383,744
Gross profit.....	152,853	132,949	240,797	206,001
Selling, general, and administrative expenses.....	106,775	95,034	189,136	166,898
Earnings from operations.....	46,078	37,915	51,661	39,103
Interest expense.....	(6,697)	(6,911)	(11,727)	(12,716)
Other income, net.....	78	2,141	863	5,004
Earnings before income taxes.....	39,459	33,145	40,797	31,391
Provision for income taxes.....	15,369	13,092	15,911	12,399
Net earnings.....	\$ 24,090	\$ 20,053	\$ 24,886	\$ 18,992
Basic net earnings per share of common stock.....	\$ 1.86	\$ 1.56	\$ 1.91	\$ 1.49
Diluted net earnings per share of common stock.....	\$ 1.83	\$ 1.53	\$ 1.88	\$ 1.45
Weighted average number of shares of common stock outstanding and assumed issuance of contingent shares.....	12,922	12,836	13,030	12,736
Weighted average number of shares of common stock outstanding, assumed issuance of contingent shares, and assumed conversion of options outstanding.....	13,163	13,149	13,241	13,082

See accompanying notes to condensed consolidated financial statements.

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

	April 30, 1999	May 1, 1998	October 31, 1998
	-----	-----	-----
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 3,341	\$ 640	\$ 90
Receivables, net.....	439,423	440,435	241,426
Inventories, net.....	185,699	212,425	184,306
Prepaid expenses and other current assets.....	8,869	8,275	14,618
Deferred income taxes.....	38,526	45,243	38,997
	-----	-----	-----
Total current assets.....	675,858	707,018	479,437
	-----	-----	-----
Property, plant, and equipment.....	336,990	318,977	330,539
Less accumulated depreciation.....	214,916	188,226	203,402
	-----	-----	-----
	122,074	130,751	127,137
Deferred income taxes.....	3,786	1,182	3,763
Goodwill and other assets.....	129,506	113,227	113,654
	-----	-----	-----
Total assets.....	\$ 931,224	\$ 952,178	\$ 723,991
	-----	-----	-----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current portion of long-term debt.....	\$ 624	\$ 1,839	\$ 580
Short-term debt.....	183,909	236,632	31,000
Accounts payable.....	57,965	69,408	65,273
Accrued liabilities.....	197,908	155,825	161,357
	-----	-----	-----
Total current liabilities.....	440,406	463,704	258,210
	-----	-----	-----
Long-term debt, less current portion.....	196,758	198,251	196,844
Other long-term liabilities.....	5,938	6,610	5,538
Stockholders' equity:			
Common stock, par value \$1.00, authorized 35,000,000 shares; issued and outstanding 12,916,010 shares at April 30, 1999 (net of 592,045 treasury shares), 12,841,273 shares at May 1, 1998 (net of 666,782 treasury shares), and 12,769,560 shares at October 31, 1998 (net of 738,495 treasury shares).....	12,916	12,841	12,770
Additional paid-in capital.....	58,904	58,958	56,546
Retained earnings.....	222,425	218,597	200,609
Foreign currency translation adjustment.....	(6,123)	(6,783)	(6,526)
	-----	-----	-----
Total stockholders' equity.....	288,122	283,613	263,399
	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 931,224	\$ 952,178	\$ 723,991
	-----	-----	-----

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	April 30, 1999	May 1, 1998
Cash flows from operating activities:		
Net earnings.....	\$ 24,886	\$ 18,992
Adjustments to reconcile net earnings to net cash used in operating activities:		
Provision for depreciation and amortization.....	17,838	16,054
Loss on disposal of property, plant, and equipment.....	207	295
Deferred income taxes.....	910	(2,632)
Tax benefits related to employee stock option transactions.....	198	1,815
Changes in operating assets and liabilities:		
Receivables, net.....	(197,997)	(172,618)
Inventories, net.....	(1,393)	(40,874)
Prepaid expenses and other current assets.....	5,311	2,977
Accounts payable and accrued expenses.....	30,346	15,047
Net cash used in operating activities.....	(119,694)	(160,944)
Cash flows from investing activities:		
Purchases of property, plant, and equipment.....	(10,286)	(17,783)
Proceeds from asset disposals.....	240	1,325
(Increase) decrease in investment in affiliates.....	(4,908)	117
(Increase) decrease in other assets.....	(1,814)	2,770
Acquisitions, net of cash acquired.....	-	(17,173)
Net cash used in investing activities.....	(16,768)	(30,744)
Cash flows from financing activities:		
Increase in short-term debt.....	152,909	195,632
Repayments of long-term debt.....	(156)	(1,142)
Increase in other long-term liabilities.....	376	956
Proceeds from exercise of stock options.....	1,272	1,655
Purchases of common stock.....	(12,021)	-
Dividends on common stock.....	(3,070)	(3,076)
Net cash provided by financing activities.....	139,310	194,025
Foreign currency translation adjustment.....	403	(1,705)
Net increase in cash and cash equivalents.....	3,251	632
Cash and cash equivalents at beginning of period.....	90	8
Cash and cash equivalents at end of period.....	\$ 3,341	\$ 640

See accompanying notes to condensed consolidated financial statements.

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

BASIS OF PRESENTATION

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

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

INVENTORIES

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.

Inventories were as follows:

(Dollars in thousands)	April 30, 1999	May 1, 1998
	-----	-----
Raw materials and work in process.....	\$ 76,045	\$ 83,564
Finished goods.....	155,762	170,035
	-----	-----
	231,807	253,599
Less LIFO and other reserves.....	46,108	41,174
	-----	-----
Total	\$ 185,699	\$ 212,425
	-----	-----

RESTRUCTURING AND OTHER UNUSUAL EXPENSE

At April 30, 1999, the company had \$3.9 million of restructuring and other unusual expense remaining in accrued liabilities. The company has utilized \$6.8 million of these reserves since October 31, 1998. The company expects the majority of these reserves to be utilized by the end of fiscal 1999.

COMPREHENSIVE INCOME

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

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

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	April 30, 1999	May 1, 1998	April 30, 1999	May 1, 1998
Net earnings.....	\$ 24,090	\$ 20,053	\$ 24,886	\$ 18,992
Other comprehensive income (loss).....	563	(695)	403	(1,705)
Comprehensive income.....	\$ 24,653	\$ 19,358	\$ 25,289	\$ 17,287

NET EARNINGS PER SHARE

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

	Three Months Ended		Six Months Ended	
	April 30, 1999	May 1, 1998	April 30, 1999	May 1, 1998
<b>BASIC</b>				
(Shares in thousands)				
Weighted average number of shares of common stock outstanding.....	12,922	12,836	12,775	12,736
Assumed issuance of contingent shares .....	-	-	255	-
Weighted average number of shares of common stock and assumed issuance of contingent shares.....	12,922	12,836	13,030	12,736
<b>DILUTIVE</b>				
(Shares in thousands)				
Weighted average number of shares of common stock and assumed issuance of contingent shares.....	12,922	12,836	13,030	12,736
Assumed conversion of stock options.....	241	313	211	346
Weighted average number of shares of common stock, assumed issuance of contingent shares, and assumed conversion of options outstanding.....	13,163	13,149	13,241	13,082

BUSINESS ACQUISITIONS

On May 20, 1999, the company completed the purchase of its Minnesota distributor. This company distributes Toro consumer, commercial, landscape contractor, and irrigation products in several Midwestern states.

During the second quarter of fiscal 1999, Toro completed the purchase of the assets of Multi-Core Aerators Limited, a distributor of large turf aeration equipment. The purchase of Multi-Core Aerators augments Toro's full-line of turf aeration equipment and is expected to have an immediate appeal to the company's customer base.

During the second quarter of fiscal 1999, Toro completed the sale of all the components of its professional fertilizer businesses.

## NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

FORWARD-LOOKING INFORMATION

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

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

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

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

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

RESULTS OF OPERATIONS

Second quarter net sales were \$433.1 million compared to \$379.7 million for the second quarter of fiscal 1998, an increase of 14.1 percent. Net earnings were \$24.1 million compared to \$20.1 million for the same quarter in the previous year, and diluted earnings per share for the quarter were \$1.83 compared to \$1.53 for the last comparable quarter. Sales were strong for consumer products due to a positive reaction to the introduction of the new Toro Personal Pace-Registered Trademark- walk power mower and initial distribution of Toro-Registered Trademark- brand lawn mowers through certain home centers. Sales to professional markets also did well due to the continued North American and European growth of the golf business, strong demand in the landscape contractor market, and a positive reaction to new commercial product introductions. International sales were up due to good sales to the European and Canadian markets for golf equipment and irrigation products, offset somewhat by soft irrigation sales in Australia. The company is currently in the process of reevaluating its business structure in Australia. The increase in net earnings and dilutive earnings per share was due mainly to the significant increase in sales and controlling expenses.

Year-to-date net sales were \$683.9 million compared to \$589.7 million last year, an increase of 16.0 percent. Net earnings were \$24.9 million compared to \$19.0 million last year, an increase of 31.0 percent, and dilutive earnings per share for the year were \$1.88 compared to \$1.45 last year. Sales were strong for consumer products due to a positive reaction to the introduction of new products, distribution of Toro-Registered Trademark- brand lawn mowers through home centers, and timing of snowthrower shipments. Sales to the professional markets also did well due to the continued worldwide growth of the golf business, strong demand in the landscape contractor market, and the addition of Drip In products beginning in the second quarter of fiscal 1998. International sales also increased over the prior year due to the reasons noted above for the quarter plus the addition of Drip In in the agricultural irrigation market. The increase in net earnings and dilutive earnings per share was due mainly to the significant increase in net sales as described and controlling expenses.

The following table sets forth net sales by product line.

Three Months Ended				
(Dollars in thousands)	April 30, 1999	May 1, 1998	\$ Change	% Change
Consumer products.....	\$ 164,432	\$ 143,071	\$ 21,361	14.9%
Commercial products.....	185,862	158,424	27,438	17.3
Irrigation products.....	82,814	78,191	4,623	5.9
Total *.....	\$ 433,108	\$ 379,686	\$ 53,422	14.1%
* Includes international sales of.....	\$ 85,416	\$ 79,205	\$ 6,211	7.8%

  

Six Months Ended				
(Dollars in thousands)	April 30, 1999	May 1, 1998	\$ Change	% Change
Consumer products.....	\$ 257,725	\$ 208,317	\$ 49,408	23.7%
Commercial products.....	294,169	256,591	37,578	14.6
Irrigation products.....	131,975	124,837	7,138	5.7
Total *.....	\$ 683,869	\$ 589,745	\$ 94,124	16.0%
* Includes international sales of.....	\$ 143,886	\$ 134,377	\$ 9,509	7.1%

## CONSUMER PRODUCT SALES

Second quarter net sales of worldwide consumer products were \$164.4 million compared to \$143.1 million in the second quarter of fiscal 1998, an increase of 14.9 percent. Sales of Toro-Registered Trademark- brand walk power mowers were up significantly from last comparable quarter due to the positive reception of the new Toro Personal Pace-Registered Trademark- lawn mower and the addition of sales through 1,500 home center outlets, a new distribution channel for the Toro-Registered Trademark- brand walk power mowers. Offsetting this increase were lower sales for Lawn-Boy-Registered Trademark- walk power mowers because shipments in the second quarter of fiscal 1998 were heavier than normal due to late production in fiscal 1998. Shipments of riding products increased for the quarter due to new marketing programs for garden tractors and a shift of shipping patterns that more closely reflects retail demand. Do-it-yourself irrigation product sales were also up from the last comparable quarter due to dry weather in key Sun Belt markets, better availability of product, and more shelf space at select home centers. International sales were down compared to the second quarter of fiscal 1998 because of a decline in Australian irrigation sales due to wet weather.

Year-to-date net sales of worldwide consumer products were \$257.7 million compared to \$208.3 million last year, an increase of 23.7 percent. Sales to home centers, a new distribution channel for the Toro-Registered Trademark- brand walk power mowers, contributed to the sales increase, as did strong sales to Toro's traditional dealers. Shipments for riding products, primarily lawn tractors, increased slightly for the period due to a shift of shipping patterns that more closely reflects retail demand. Year-to-date sales of snowthrowers were also higher than last year due to the timing of shipments from the fourth quarter of fiscal 1998 to the first quarter of fiscal 1999. Do-it-yourself irrigation product sales were also up due to dry weather in key Sun Belt markets, better availability of product, and more shelf space at select home centers. Sales of electric appliance products, including trimmers and blower vacuums, also did well for the year due to the warm fall weather that extended the selling season into the first quarter of fiscal 1999 as well as sales to new mass retail outlets for electric trimmers and blowers. Offsetting these positive factors were lower international sales as noted above in the quarter comparison.

Field inventory levels were down for domestic consumer products at Toro's distributors and dealers. This reduction was a result of heavy snowfall in certain key markets during the winter of 1998-1999 and Toro's special one-time marketing programs introduced in the fall of 1998 designed to reduce field inventory levels for riding and walk power mower products. Management believes that the reduction of snowthrower domestic field inventories positions Toro for higher snowthrower sales in the fourth quarter of fiscal 1999 and the first quarter of fiscal 2000 as compared to the fourth quarter of fiscal 1998 and the first quarter of fiscal 1999.

## COMMERCIAL PRODUCT SALES

Second quarter net sales of worldwide commercial products were \$185.9 million compared to \$158.4 million in the second quarter of fiscal 1998, an increase of 17.3 percent. The sales increase was largely a result of growth in the landscape contractor market as well as acceptance of new products introduced last year. Sales for the Toro-Registered Trademark- Sitework-TM- Systems were up significantly from the second quarter of fiscal 1998 due to the greater market acceptance of this product. Worldwide sales of golf course equipment did well for both new and replacement equipment. Commercial product sales also did well for the quarter due to the introduction of new products. In addition, international commercial sales were up for the quarter due to strong demand for golf equipment in Europe and Canada as well as market acceptance of new products. Offsetting these increases were weak international sales for landscape contractor products.

Year-to-date net sales of worldwide commercial products were \$294.2 million compared to \$256.6 million last year, an increase of 14.6 percent. The six-month increase in sales reflects the same factors contributing to the second quarter increase. In addition, retail sales have also been strong for the year for commercial and landscape contractor products.

## IRRIGATION PRODUCT SALES

Second quarter net sales of worldwide irrigation products were \$82.8 million compared to \$78.2 million in the second quarter of fiscal 1998, an increase of 5.9 percent. Worldwide golf revenues and Irritrol-Registered Trademark-Systems sales contributed most of this increase. Irritrol-Registered Trademark-Systems sales were significantly above the last comparable quarter for fiscal 1998 due to better, drier weather this year. Toro residential/commercial irrigation sales were slightly below fiscal 1998 levels due to product availability caused by delays in manufacturing. International sales were up from the same quarter in fiscal 1998 due to strong golf irrigation sales and strong sales of Irritrol-Registered Trademark- residential/commercial product.

Year-to-date net sales of worldwide irrigation products were \$132.0 million compared to \$124.8 million last year, an increase of 5.7 percent. As mentioned above in the quarter comparison, strong golf irrigation revenues and Irritrol-Registered Trademark- residential/commercial product sales contributed to the increase as did the addition of sales from Drip In, which was acquired in the second quarter of fiscal 1998. Offsetting those increases were lower sales for Toro residential/commercial irrigation products due to the same reasons as noted above.

## GROSS PROFIT

Second quarter gross profit was \$152.9 million compared to \$132.9 million last year, an increase of 15.0 percent. As a percent of net sales, gross profit for the second quarter was 35.3 percent compared to 35.0 percent last year. The increase in gross profit resulted primarily from higher margins for the consumer product line due to price increases for certain products and improved manufacturing efficiencies due to plant closures. This increase was partially offset by the gross margin reversal resulting from the purchase of Toro's Minnesota based distributor.

Year-to-date gross profit was \$240.8 million compared to \$206.0 million last year, an increase of 16.9 percent. As a percent of net sales, year-to-date gross profit was 35.2 percent compared to 34.9 percent last year. The increase in gross margins was due to the same contributing factors as in the quarter comparison.

## SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Second quarter selling, general, and administrative expenses (SG&A) were \$106.8 million compared to \$95.0 million last year, an increase of 12.4 percent. However, as a percent of net sales, SG&A decreased slightly to 24.7 percent from 25.0 percent for the same quarter in fiscal 1998. The dollar increase is mainly due to increases for direct marketing expenses, warehousing costs, and warranty expenses due to higher sales levels. Incentive compensation expenses were also higher due to improved financial performance of the company in the second quarter of fiscal 1999.

Year-to-date SG&A expenses were \$189.1 million compared to \$166.9 million last year, an increase of 13.3 percent. However, as a percent of net sales, SG&A decreased slightly to 27.7 percent from 28.3 percent last year. The dollar increase is mainly due to increases for direct marketing expenses, warehousing costs, and warranty expenses due to higher sales levels. Incentive compensation expenses were also higher due to improved financial performance of the company. Information systems costs were higher due to the continued implementation of an enterprise-wide software system.

## INTEREST EXPENSE

Second quarter interest expense was \$6.7 million compared to \$6.9 million last year, a slight decrease of \$.2 million.

Year-to-date interest expense was \$11.7 million compared to \$12.7 million last year, a decrease of \$1.0 million. This decline is due to lower borrowing levels compared to last year as a result of improved asset management, primarily inventory and accounts receivable.

## OTHER INCOME, NET

Second quarter other income, net, was \$.1 million compared to \$2.1 million last year, a decrease of \$2.0 million. The decrease was due to higher amounts of currency losses in fiscal 1999, and recoveries of previously written off notes receivables in the second quarter of fiscal 1998.

Year-to-date other income, net, was \$.9 million compared to \$5.0 million last year, a decrease of \$4.1 million. In addition to the reasons mentioned in the quarter comparison, the decrease was due to a favorable settlement of a trade secret lawsuit in fiscal 1998.

## PROVISION FOR INCOME TAXES

The effective tax rate for the quarter was 38.9 percent and the year-to-date was 39.0 percent compared to 39.5 percent last quarter and year. The decline in the tax rate is due to an increase in benefits received from the company's foreign sales corporation.

## FINANCIAL POSITION AS OF APRIL 30, 1999

### APRIL 30, 1999 COMPARED TO MAY 1, 1998

Total assets at April 30, 1999 were \$931.2 million compared to \$952.2 million on May 1, 1998, a decrease of \$21.0 million. Net accounts receivable decreased slightly by \$1.0 million. However, net receivables increased for most product lines due to increased sales volumes, which was offset by the collection of a receivable from James Hardie Irrigation Limited (Hardie) in May 1998. Inventory decreased \$26.7 million due to the closing of two manufacturing facilities that reduced work-in-process inventory and lower levels of consumer inventory due to strong sales for the year and improved efforts at inventory management. Net property, plant, and equipment declined \$8.7 million due to higher amounts of depreciation expense in comparison to capital additions. Goodwill and other assets increased \$16.3 million mainly as a result of a contingent payment made in the first quarter of fiscal 1999, in connection with the company's acquisition of Exmark in fiscal 1998.

Total current liabilities at April 30, 1999 were \$440.4 million compared to \$463.7 million on May 1, 1998, a decrease of \$23.3 million. Short-term debt decreased by \$52.7 million as a result of better asset management. Accounts payable decreased by \$11.4 million due to timing of inventory purchases and payments. Offsetting those decreases was an increase in accrued liabilities of \$42.1 million as a result of higher warranty and marketing accruals due to higher sales levels.

### APRIL 30, 1999 COMPARED TO OCTOBER 31, 1998

Total assets at April 30, 1999 were \$931.2 million compared to \$724.0 million at October 31, 1998, an increase of \$207.2 million. Net accounts receivable increased \$198.0 million from October 31, 1998 due to the seasonal increase in accounts receivable, which historically occurs between January and April. Goodwill and other assets increased \$15.9 million mainly as a result of the Exmark contingent payment.

Total current liabilities at April 30, 1999 were \$440.4 million compared to \$258.2 million at October 31, 1998, an increase of \$182.2 million. The majority of this increase was the result of additional short-term debt of \$152.9 million, reflecting the company's strategy of utilizing short-term borrowing to fund the company's seasonal working capital needs. These requirements are historically greatest in the winter and spring months. Accounts payable increased \$7.3 million due to the timing of inventory purchases and payments. Accrued liabilities increased \$36.6 million as a result of higher warranty accruals and accruals for various seasonal sales and marketing programs, which are at their peak during the spring selling season.

## LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities for the first six months of fiscal 1999 was primarily for the seasonal increase in accounts receivable, partially offset by increases in accrued liabilities and net earnings. On December 30, 1998, the company entered into an agreement for an additional credit line with its domestic banks, which increased its committed bank credit line to \$260 million from \$160 million and eliminated its \$70 million uncommitted bank credit line.

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

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

## INFLATION

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

## YEAR 2000 COMPLIANCE

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

STATE OF READINESS - The company is nearing completion of its project to replace core-business information systems with an Enterprise Resource Planning (ERP) software package provided by a vendor that has certified it is year 2000 compliant. The final stage of the conversion to the ERP package is expected to be in place by the fourth quarter of fiscal 1999 (before October 31, 1999). The package includes software to support the company's facilities and business units with the exception of five domestic subsidiaries and business units and the company's European subsidiaries, which are believed to be year 2000 compliant. The company is in the process of testing these non-ERP systems and updating any non-compliant systems.

Toro has assessed its products and believes them to be year 2000 compliant with the exception of six irrigation control systems. Testing of these systems has been completed and software remediations are expected to be available by the end of June 1999.

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

YEAR 2000 COMPLIANCE (CONTINUED)

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

COSTS - Year 2000 costs through April 30, 1999 were approximately \$2.0 million and have been expensed as incurred. These costs include contractor support and ERP implementation for the company's recently acquired businesses. Costs remaining that have been identified are estimated to be less than \$1.5 million, which include expenses for contractor support, telephone system upgrades, software modifications for irrigation systems, and business unit system upgrades. The estimated cost of year 2000 adaptation is less than 15 percent of the company's information systems budget. No significant information systems project has been deferred to accommodate the year 2000 issues.

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

Testing is under way to validate assumptions, which is planned to be completed by the third quarter of fiscal 1999. The company believes this timetable should allow enough time to fix or replace any internal business-critical problems discovered during the testing phase.

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

CONTINGENCY PLANS - The company's contingency plans will continue to evolve as the testing phase of the business-critical systems and technologies is completed. The company is in the stage of defining a Business Resumption Plan, which will include documented manual processes for critical business functions that could be invoked for any type of business interruption, including any year 2000 issues. The current timetable is to have a draft of procedures completed by the third quarter of fiscal 1999 for most corporate critical business functions.

The company is also planning on performing complete, system-wide backups on December 30 and 31, 1999 and is also discussing the possibility of shutting down all systems so they are not actually running at the turn of the century. Key information system personnel will also be on-site and on-call for the month of January 2000 to deal with any problems that may occur.

With respect to non-compliant irrigation systems that have been identified, the company is developing software modifications to correct the year 2000 problem, which are expected to be available to customers by the end of June 1999. In most cases, the company believes that simple software modifications should make the units year 2000 compliant. In some cases, the company is recommending that customers replace their older non-compliant systems with newer, functionally enhanced compliant systems.

## EURO CURRENCY

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

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

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

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### FOREIGN CURRENCY

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

DOLLARS IN THOUSANDS (EXCEPT AVERAGE CONTRACTED RATE)	AVERAGE CONTRACTED RATE	NOTIONAL AMOUNT	FAIR VALUE IMPACT GAIN (LOSS)
Buy Australian dollar/Sell US dollar	.6422	\$ 6,084.2	\$ 139.1
Buy US dollar/Sell Australian dollar	.6092	4,906.1	(423.1)
Buy Belgium franc/Sell US dollar	38.0030	1,846.7	(5.9)
Buy US dollar/Sell Canadian dollar	1.5121	4,530.1	(164.5)
Buy German mark/Sell US dollar	1.7773	1,941.1	(69.4)
Buy US dollar/Sell German mark	1.7424	1,262.6	70.5

### DEBT FINANCING

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

## PART II. OTHER INFORMATION

## Item 4. Submission of Matters to a Vote of Security Holders

- (a) The Annual Meeting of Stockholders was held on March 24, 1999.
- (b) The results of the stockholder votes were as follows:

	For ---	Against -----	Abstain -----	Broker Non-Votes -----
1. Election of Directors				
Ronald O. Baukol	10,575,465	248,207	0	0
Alex A. Meyer	10,540,258	283,414	0	0
Dale R. Olseth	10,550,709	272,963	0	0
2. Approval of Amendment of Annual Management Incentive Plan II.	9,486,417	990,625	277,011	69,618
3. Approval of Adoption of The Toro Company Performance Share Plan.	9,813,559	789,688	220,425	0
4. Approval of Selection of Independent Auditors.	10,580,442	132,109	111,120	0

## Item 6. Exhibits and Reports on Form 8-K

## (a) Exhibits

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

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

- 10(a) Form of Employment Agreement in effect for certain officers of Registrant (incorporated by reference Exhibit 10(iii)(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended May 1, 1998).\*
- 10(b) Directors Stock Plan, as amended (incorporated by reference to Exhibit 10(b) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).\*
- 10(c) Annual Management Incentive Plan II for officers of Registrant, as amended (incorporated by reference to Exhibits 10(c) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).\*
- 10(d) 1985 Incentive Stock Option Plan (incorporated by reference to Exhibit 10(b) to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1993).\*
- 10(e) 1989 Stock Option Plan, as amended (incorporated by reference to Exhibit 10(e) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).\*
- 10(f) 1993 Stock Option Plan, as amended (incorporated by reference to Exhibit 10(f) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).\*
- 10(g) The Toro Company Performance Share Plan (incorporated by reference to Exhibit B to Registrant's Proxy Statement dated February 5, 1999).\*
- 10(h) The Toro Company Supplemental Management Retirement Plan, as amended.\*
- 10(i) The Toro Company Supplement Retirement Plan.\*
- 10(j) Chief Executive Officer Succession Incentive Agreement dated as of July 31, 1995 (incorporated by reference to Exhibit 10(iii)(i) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1998).\*
- 10(k) The Toro Company Deferred Compensation Plan for Officers (incorporated by reference to Exhibit 10(j) to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 29, 1999).\*
- 10(l) The Toro Company Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibits 10(k) to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 29, 1999).\*
- 27 Supplemental Data Schedule; electronic filing only.

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

(b) Reports on Form 8-K

None.

SIGNATURES

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

THE TORO COMPANY  
(Registrant)

By /s/ Stephen P. Wolfe

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

Date: June 14, 1999

BYLAWS  
OF  
THE TORO COMPANY  
(A Delaware Corporation)

ARTICLE I  
Offices, Corporate Seal, and Records

SECTION 1.1 The registered office of the Corporation shall be established and maintained at the office of National Registered Agents, Inc., in the City of Dover, in the County of Kent, in the State of Delaware, and said corporation shall be the registered agent of the Corporation in charge thereof, and the Corporation may have other offices, either within or without the State of Delaware, at such place or places as the Board of Directors may from time to time determine. Unless otherwise determined by the Board of Directors, the principal executive office of the Corporation shall be at 8111 Lyndale Avenue South, in the City of Bloomington, County of Hennepin, State of Minnesota.

SECTION 1.2 The Corporation may have a corporate seal in such form as determined by the Board of Directors, which may be altered at pleasure, and the seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

SECTION 1.3 The Corporation shall at all times keep at its principal executive office, or at such other place or places as the Board of Directors may determine, a share register giving the names and addresses of the stockholders, the number and classes of shares held by each, and the dates on which the certificates therefor were issued.

SECTION 1.4 The Corporation shall at all times keep at its principal executive office the following records:

- (a) The original or copies of records of all proceedings of stockholders and directors, of its Bylaws and all amendments thereto, and of reports made to stockholders or any of them within the next preceding three years;
- (b) A statement of names and usual business addresses of its directors and principal officers;
- (c) Appropriate financial statements.

SECTION 1.5 Subject to law and any order of the Court of Chancery, any stockholder of record shall have the right to inspect and make copies or extracts therefrom, upon proper written demand under oath stating the purpose thereof, in person or by attorney or other agent, at any reasonable time or times, for any proper purpose, and at the principal executive offices of the corporation, the stock ledger, a list of stockholders, and other books and records, required financial statements, and the records of the proceedings of the stockholders and directors.

ARTICLE II  
Meeting of Stockholders

SECTION 2.1 All meetings of the stockholders shall be held at such other place within or without the State of Delaware as may be designated by the Board of Directors in the notice of the meeting.

SECTION 2.2 The Regular Meetings of the stockholders, if any, shall be held on the day or date and at the time and place as the Board of Directors may fix from time to time in its discretion, for the election of directors and the transaction of such other business as may come before the meeting; provided, however, that any previously scheduled regular meeting of the stockholders may be postponed by resolution of the Board of Directors upon public notice given prior to the date previously scheduled for such regular meeting of the stockholders; and provided, further, that no business with respect to which special notice is required by law shall be transacted at a regular meeting unless such notice shall have been given.

SECTION 2.3 Special meetings of the stockholders for any purpose or purposes may be called only by the Board of Directors, pursuant to a resolution approved by a majority of the entire Board of Directors; provided, however, that any previously scheduled special meeting of the stockholders may be postponed by resolution of the Board of Directors upon public notice given prior to the date previously scheduled for such special meeting of the stockholders. Business transacted at a special meeting shall be confined to the purposes stated in the call and notice thereof.

SECTION 2.4 Notice of each regular and special meeting of stockholders stating the date, time and place thereof, and the general nature of the business to be considered thereat, shall be given at least ten (10) days and not more than sixty (60) days before the date of the meeting to each stockholder entitled to vote thereat. Such notice shall be deemed delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation.

SECTION 2.5 Each stockholder who is entitled to vote pursuant to the terms of the Certificate of Incorporation and these Bylaws, or who is entitled to vote pursuant to the laws of the State of Delaware, shall be entitled to vote in person or by proxy, but no proxy shall be voted after three years from its date unless such proxy provides for a longer period. All elections for directors shall be determined by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. All other questions shall be decided by the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on such question.

A complete list of the stockholders entitled to vote at any meeting of stockholders at which directors are to be elected, arranged in alphabetical order, with the address of each, and the

number of shares held by each, shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

The Board of Directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including without limitation as officers, employees, agents or representatives of the Corporation, to act at the meeting and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate inspector has been appointed to act or is able to act at a meeting of stockholders, the Chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

The Chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at the meeting.

SECTION 2.6 Except as otherwise required by law, by the certificate of Incorporation or by these Bylaws, the presence, in person or by proxy, of stockholders holding a majority of the voting power of the outstanding stock of the Corporation shall constitute a quorum at all meetings of the stockholders. The Chairman of any regular or special meeting of the stockholders or a majority in interest of the stockholders entitled to vote thereat shall have the power to adjourn such meeting from time to time, without notice other than announcement at the meeting, whether or not there is such a quorum. No notice of the time and place of adjourned meetings need be given except as required by law; provided, however, that if such adjournment is for more than thirty (30) days, or if after such adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at such adjourned meeting. At any such adjourned meeting at which the requisite amount of stock entitled to vote shall be represented, any business may be transacted which might have been transacted at the meeting as originally noticed; but only those stockholders entitled to vote at the meeting as originally noticed shall be entitled to vote at any adjournment or adjournments thereof unless the Board of Directors shall have fixed a new record date for such adjournment or adjournments pursuant to Section 2.7 of these Bylaws.

The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

SECTION 2.7 In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect to any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be less than ten nor more than sixty days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment or adjournments of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 2.8 Section 2.8 (A) (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at a regular meeting of stockholders (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Bylaw.

(2) For nominations or other business to be properly brought before a regular meeting by a stockholder pursuant to clause (c) of paragraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than forty-five (45) days nor more than ninety (90) days prior to the first anniversary of the date on which the Corporation first mailed its proxy materials for the preceding year's regular meeting; provided, however, that in the event that the date of the regular meeting is advanced by more than thirty (30) days or delayed by more than sixty (60) days from the anniversary date of the preceding year's regular meeting, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such rescheduled regular meeting and not later than the close of business on the later of the 60th day prior to such rescheduled regular meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii)

the class and number of shares of the Corporation that are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in paragraph (A) (2) of this Bylaw, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Corporation at least seventy (70) days prior to the first anniversary of the preceding year's regular meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(B) Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (A) (2) at the principal executive offices of the Corporation not earlier than the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by; the Board of Directors to be elected at such meeting.

(C) (1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a regular meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal shall be disregarded. The Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal shall be disregarded.

(2) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

(3) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

ARTICLE III  
Directors

SECTION 3.1 The business and affairs of the Corporation shall be managed under the direction of a Board of Directors which, subject to any right of the holders of any series of Preferred Stock then outstanding to elect additional directors under specified circumstances, shall consist of not less than eight (8) nor more than eleven (11) persons. The exact number of directors within the minimum and maximum limitations specified in the preceding sentence shall be fixed from time to time by the Board pursuant to a resolution adopted by a majority of its members. The directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of Class A to expire at the 1984 Annual Meeting of Stockholders, the term of office of Class B to expire at the 1985 Annual Meeting of Stockholders and the term of office of Class C to expire at the 1986 Annual Meeting of Stockholders. At each Annual Meeting of Stockholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Stockholders after their election.

SECTION 3.2 Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled only by majority vote of the directors then in office, and directors so chosen shall hold office for a term expiring at the Annual Meeting of Stockholders at which the term of the Class to which they have been elected expires. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any director, or the entire Board, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 80% of the voting power of the then outstanding Common Stock of the Company.

SECTION 3.3 Regular meetings of the Board shall be held at bi-monthly intervals during each fiscal year, or on such alternate intervals or dates as the Board may fix from time to time in its discretion, and at such time and place as the Chairman of the Board of Directors or, in his absence, the President shall determine, preferably at the principal executive office of the Corporation during the third week of the month. At least three (3) days' notice thereof shall be given by the Secretary to each director, either personally or by telephone, mail, telegram or facsimile transmission.

SECTION 3.4 Special meetings of the Board may be called by the Chief Executive Officer or by any two directors, and not less than twenty-four (24) hours' notice thereof shall be given by the

Secretary to any director, either personally or by telephone, mail, telegram or facsimile transmission.

SECTION 3.5 Any action taken by the Board or any committee thereof at any meeting where all members are present shall be valid whether or not notice of such meeting was in fact given, except as provided by law. Any action which might be taken at a meeting of the Board, or at a meeting of any committee thereof as the case may be, may be taken without meeting as provided by law.

SECTION 3.6 At all meetings of the Board a majority of the directors shall be necessary and sufficient to constitute a quorum for the transaction of business, but if less than a quorum are present, those present may adjourn the meeting from time to time until a quorum shall be present.

SECTION 3.7 The Board may unanimously elect from among the directors an Executive Committee, a Compensation Committee, an Audit Committee, and a Nominating Committee, and such other committees as the Board may from time to time determine, to serve at the pleasure of the Board. The members of the Board of Directors and of said Committees shall have the role of monitoring the conduct of the business and affairs of the corporation on behalf of all of the constituencies of the Corporation, including in particular, those who invest in the stock of the Corporation, in an environment of loyal but independent oversight. Each Committee shall maintain independent minutes of action, and with the exception of the Audit Committee, and resolutions of the Compensation Committee relating to matters governed by or within the scope of Section 16 of the Securities and Exchange Act of 1934 or Section 162(m) of the Internal Revenue Code of 1986, or its successor provision, such minutes shall be subject to approval by the Board.

SECTION 3.8 The Executive Committee shall consist of two or more of the directors of the Corporation, including the Chairman of the Board of Directors, and one of the members shall be designated by the Board of Directors as its Chairman. The Chairman of the Executive Committee shall preside at all meetings of the Executive Committee and shall perform such other duties as may be prescribed by the Board of Directors. The underlying purpose of the Executive Committee is to exercise all of the powers and authority of the Board during intervals between meetings of the Board, including the power to declare dividends on the Corporation's common stock. The Committee shall have discretionary authority to undertake additional activities within the scope of its primary functions.

SECTION 3.9 The Audit Committee shall consist of two or more of the directors of the Corporation, none of whom shall be officers or employees of the Corporation, and one of the members shall be designated by the Board of Directors as its Chairman. The Chairman of the Audit Committee shall preside at all meetings of the Audit Committee and shall perform such other duties as may be prescribed by the Board of Directors. The purpose of the Audit Committee is to assist the Board of Directors in fulfilling the Board's responsibility to oversee the Corporation's accounting controls and policies, and reporting practices, including making recommendations regarding the selection, retention and termination of the Corporation's

independent auditors, review of professional services, proposed fees and independence of such auditors, scope of the audit, authorization of special reviews or audits, review of internal auditing procedures and the adequacy of internal controls, and review of policies and practices respecting conflict of interest and compliance with applicable laws. The manager of the Corporation's internal auditing function, when operative, shall have an indirect reporting relationship to the Chairman of the Audit Committee, and shall perform such duties as may be prescribed by the Board of Directors or by the Chairman of the Audit Committee. The Committee shall have discretionary authority to undertake additional activities within the scope of its primary functions.

SECTION 3.10 The Compensation Committee shall consist of two or more directors of the Corporation, none of whom shall be officers or employees of the Corporation, and one of the members shall be designated by the Board of Directors as its Chairman. The Chairman of the Compensation Committee shall preside at all meetings of the Compensation Committee and shall perform such other duties as may be prescribed by the Board of Directors. The purposes of the Compensation Committee include: to administer all employee benefit plans heretofore or hereafter established including the granting of stock options and incentive awards authorized under employee benefit plans governed by or within the scope of Section 16 of the Securities and Exchange Act of 1934 or Section 162(m) of the Internal Revenue Code of 1986, or its successor provision; to study and analyze specific and general matters of management compensation; to periodically review management compensation policies and practices; to make recommendations to the Board respecting incentive compensation awards; and to consider and approve officer salary adjustments of elected officers of the Corporation at the level of Vice President and above.

SECTION 3.11 The Nominating Committee shall consist of two or more directors of the Corporation who do not have any direct or indirect economic or personal association with the Corporation, or with any of its affiliates or the employees thereof. The Chief Executive Officer of the Corporation shall serve as an ex officio non-voting member. One of the members of the Committee shall be designated as its Chairman by the Board of Directors. The Chairman of the Nominating Committee shall preside at all meetings of the Nominating Committee and shall perform such other duties as may be prescribed by the Board of Directors. The primary functions of the Nominating Committee are to review with the Chief Executive Officer of the Corporation an appropriate size and makeup for the Board of Directors, including individuals having such background and business experience as are consistent with and compatible to the long-range interests and future direction of the Corporation; to consider the qualifications of persons identified as prospective Directors to either fill vacancies on the Board or enlarge its membership; to conduct research to identify and recommend nomination of suitable candidates who are willing to serve as members of the Board of Directors and who will make a substantial contribution to the Corporation based upon a careful review of their experience, background, interests, ability and availability to meet time commitments for board and committee responsibilities; and to determine whether any prospective or seated member of the Board has any economic or familial relationship with the Corporation which may negate his/her suitability for such service. The Committee shall also monitor current members of the Board in light of the same guidelines used to select candidates, shall direct the activities of the Board and

management in matters of corporate governance, and shall have general discretionary authority to undertake additional activities within the scope of its primary functions.

SECTION 3.12 Meetings of each committee shall be held from time to time as the chairman of such committee, the Chairman of the Board of Directors, or any two members of such committee shall determine, preferably at the principal executive office of the Corporation. All members of each committee shall be given written notice of any meeting by the Secretary, such notice to be mailed to each member at least three (3) days prior to the date thereof; provided, however, such written notice shall not be required as to any member who shall receive notice in person at least twenty-four (24) hours prior to the time of the meeting. Any member may in writing, before or after any meeting, waive notice thereof, and any member by his attendance at, and participation in, the action taken at any meeting shall be deemed to have waived notice thereof. A majority of the members of a committee shall constitute a quorum. Any action which might be taken at a meeting of a committee may be taken without meeting if evidenced by a resolution signed by all members. The Chairman of each Board committee shall preside at all meetings of such committee and shall perform such other duties as may be prescribed by the Board of Directors or the Chairman thereof.

SECTION 3.13 All action taken by the Board committees shall be reported to the Board of Directors at its meeting next succeeding such action and shall be subject to revision by the Board of Directors provided that no acts or rights of third parties shall be prejudiced thereby. All such action shall also be recorded in the minute books of the Corporation in the same manner in which action taken by the Board of Directors is recorded. The affirmative vote of the majority of all members of each committee shall be necessary to its adoption of any resolution.

#### ARTICLE IV Officers

SECTION 4.1 The officers of this Corporation shall be elected by the Board from time to time as it deems appropriate, and shall include a Chairman of the Board of Directors, who shall serve as Chief Executive Officer, to be elected by the Board of Directors from among its members, a president, and one or more vice presidents one of whom shall perform the duties of the Chief Financial Officer, a secretary, a treasurer, and such other officers and agents as may from time to time be elected by the Board of Directors. Any two offices except those of the President and Vice President may be held by the same person. All officers shall hold office at the pleasure of the Board of Directors and be subject to dismissal by it, with or without cause.

SECTION 4.2 The salary and other compensation of the Chairman of the Board, the President and all elected Vice Presidents shall be fixed by the Board of Directors. If any vacancy shall occur among the elected officers, it shall be filled by the Board.

SECTION 4.3 The Chairman of the Board of Directors, or in his absence the Chairman of the Organization and Compensation Committee, shall preside at all meetings of the Board of Directors. The Chairman of the Board has authority to appoint certain officers of the Company, including vice presidents and certain assistant officers whose responsibilities do not warrant election by the Board of Directors, and shall also perform such other duties as may be prescribed by the Board of Directors.

SECTION 4.4 The President shall be Chief Operating Officer of the Corporation and, as such, shall carry out the plans for the Corporation as approved by the Chairman of the Board and the Board of Directors. In the absence of the Chairman of the Board of Directors, he shall preside at all meetings of the stockholders and otherwise perform the Chief Executive Officer's duties as prescribed by the Board of Directors.

SECTION 4.5 Each Vice President shall perform such duties as may be prescribed by the Board of Directors. The Vice President of Finance shall be the Chief Financial Officer. In the absence or disability of the Chairman of the Board, the President shall succeed to his powers and duties, and in the absence of the President, the Chief Financial Officer shall succeed to his powers and duties, and in the event all are unable to serve for any reason, the Vice Presidents shall succeed to their power and duties in the order in which elected.

SECTION 4.6 The Secretary shall attend all meetings of the Board of Directors, Executive Committee, and of the stockholders, and record all votes and keep minutes of all proceedings. He shall give, or cause to be given, required notices of meetings of the Board of Directors, Executive Committee and of the stockholders. He shall keep in safe custody the seal of the Corporation and, when authorized by the Board, affix the same to any instrument requiring it, and shall perform such other duties as may be prescribed by the Board of Directors.

SECTION 4.7 The Treasurer shall maintain necessary relationships with banks and other financial institutions and provide for adequate lines of credit; shall plan for and maintain adequate funds in appropriate working and depository accounts to meeting outstanding and planned commitments; and shall be responsible for safe custody and control of all funds and securities of the Corporation. He shall establish policies and procedures in relation to, and supervise management of, the extension of credit, and the collection of receivables. He shall maintain appropriate bond and dividend records, provide for proper signature or endorsement on all financial documents of the Corporation, and shall perform such other duties as may be prescribed by the President.

SECTION 4.8 The assistant to any officer shall, in the absence or disability of that officer, perform his duties and shall perform such other duties as may be prescribed by the Board of Directors.

THE TORO COMPANY  
SUPPLEMENTAL MANAGEMENT RETIREMENT PLAN

JULY 27, 1998 RESTATEMENT

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THE TORO COMPANY  
SUPPLEMENTAL MANAGEMENT RETIREMENT PLAN

JULY 27, 1998 RESTATEMENT

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

I. DEFINITIONS

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

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

"CHANGE OF CONTROL" means 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 Exchange Act) of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of 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 definition, "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 plan 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 definition, 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

"PLAN YEAR" means the calendar year.

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

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

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

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

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

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

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

## II. ELIGIBILITY AND PARTICIPATION

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

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

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

## III. SUPPLEMENTAL ACCOUNT

### 3.1 ESTABLISHMENT OF ACCOUNT

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

### 3.2 CREDITS TO ARTICLE III ACCOUNT

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

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

(b) the aggregate amount of contributions and forfeitures actually allocated or reallocated to the Participant under such qualified plans plus any credits

made under any nonqualified deferred compensation plan maintained by the Company (other than this Plan) to replace amounts that would have been credited under the qualified plans had the Participant not deferred compensation under such nonqualified plans.

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

### 3.3 EARNINGS ON AMOUNTS CREDITED

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

### 3.4 OPTIONAL EARNINGS CREDITS

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

If the investment vehicles include a fund that invests exclusively or primarily in the Company's Common Stock, Participants who are Section 16 Insiders may allocate amounts to or from such fund only in accordance with Company policies on insider

trading and in compliance with the rules for "Discretionary Trading" as defined in Rule 16b-3 (or any successor provision) under the Exchange Act. Distributions from a fund that invests exclusively or primarily in the Company's Common Stock shall be made in Common Stock.

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

#### IV. SUPPLEMENTAL RETIREMENT BENEFIT

##### 4.1 BENEFIT ELIGIBILITY

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

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

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

##### 4.2 CALCULATION OF THE BENEFIT

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

commencing on the Participant's normal retirement date, as defined under the Pension Plan.

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

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

#### 4.3 EFFECT OF PLAN TERMINATION

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

### V. SUPPLEMENTAL SURVIVING SPOUSE BENEFIT

#### 5.1 ELIGIBILITY FOR SURVIVING SPOUSE BENEFIT

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

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

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

## 5.2 CALCULATION OF THE BENEFIT

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

## 5.3 EFFECT OF PLAN TERMINATION

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

## VI. DISTRIBUTIONS

### 6.1 DISTRIBUTION OF ARTICLE III ACCOUNTS

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

### 6.2 ELECTION OF DISTRIBUTION METHOD - ARTICLE III ACCOUNTS

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

Company is terminated for any reason. The Committee may, in its sole discretion, reduce the payment period over which payments would have been made pursuant to a Participant's election. If no election has been made, the Company shall pay the amounts credited to a Participant's Article III account in accordance with the election made by the Participant under The Toro Company Supplemental Retirement Plan, or if no such elections have been made or are in effect, then in a lump sum payment or, at the discretion of the Company, through a single life annuity on the life of the Participant.

#### 6.3 DEATH PRIOR TO COMPLETION OF DISTRIBUTIONS

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

#### 6.4 DISTRIBUTION OF ARTICLE IV ACCOUNTS

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

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

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

#### 6.5 ELECTION OF DISTRIBUTION METHOD - ARTICLE IV BENEFITS

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

#### 6.6 DEATH BEFORE TERMINATION OF EMPLOYMENT

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

#### 6.7 DISTRIBUTIONS IN COMMON STOCK OF THE COMPANY

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

#### 6.8 DISTRIBUTIONS FOR CERTAIN TAX PURPOSES

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

## VII. ADMINISTRATION OF THE PLAN

### 7.1 COMPANY AUTHORITY

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

### 7.2 RELIANCE

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

### 7.3 BENEFIT STATEMENTS

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

### 7.4 CLAIMS

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

(a) If a claim is wholly or partially denied, notice of the decision, meeting the requirements of subsection (b) of these procedures, shall be furnished to the claimant within a reasonable period of time after receipt of the claim by the Company. If notice of the denial of a claim is not furnished in accordance with this subsection (a) within a reasonable period of time, the claim shall be deemed denied and the claimant shall be permitted to proceed to the review stage described in subsection (c) of these procedures. For purposes of this subsection (a), the period of time for notification to the claimant will not exceed 90 days after receipt of the claim by the Company, unless special circumstances require an extension of time for

processing the claim. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Company expects to render the final decision.

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

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

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

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

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

(d) A decision by the Company shall be made promptly and shall not ordinarily be made later than 60 days after the receipt by the Company of a request for

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

VIII. AMENDMENT OR TERMINATION

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

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

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

## IX. GENERAL PROVISIONS

### 9.1 THE TRUST

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

### 9.2 NO ALIENATION

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

### 9.3 UNFUNDED PLAN

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

#### 9.4 NO GUARANTY

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

#### 9.5 NO RIGHT OF EMPLOYMENT

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

#### 9.6 SMALLER ACCOUNTS

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

#### 9.7 INCOMPETENCY

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

#### 9.8 CORPORATE CHANGES

The Plan shall not be automatically terminated by a transfer or sale of assets of the Company or by the merger or consolidation of the Company into or with any other corporation or other entity, but the Plan shall be continued after such sale, merger or consolidation only if and to the extent that the transferee, purchaser or successor entity agrees to continue the Plan. In the event that the Plan is not continued by the transferee, purchaser or successor entity, then the Plan shall terminate subject to the provisions of Article VIII.

## 9.9 ADDRESSES

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

## 9.10 LIMITATIONS ON LIABILITY

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

## 9.11 UNFORSEEABLE EMERGENCIES

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

## 9.12 DISABILITY

A Participant who becomes permanently disabled may make a written request to the Committee for a withdrawal of the accrued benefits in his or her account under Article IV. For purposes of this Section, a Participant becomes "permanently

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

#### 9.13 TRANSFERS TO THE TRUST

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

#### 9.14 INSPECTION

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

#### 9.15 GOVERNING LAW

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

Dated this 6th day of April, 1999.

THE TORO COMPANY

/s/ K. B. Melrose

Its Chairman & Chief Executive Officer

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THE TORO COMPANY  
SUPPLEMENTAL RETIREMENT PLAN  
JULY 27, 1998 RESTATEMENT

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THE TORO COMPANY  
SUPPLEMENTAL RETIREMENT PLAN

JULY 27, 1998 RESTATEMENT

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

I. DEFINITIONS

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

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

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

"CHANGE OF CONTROL" means 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 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 definition, "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 plan 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 definition, 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.

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

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

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

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

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

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

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

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

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

"PLAN YEAR" means the calendar year.

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

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

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

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

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

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

## II. ELIGIBILITY AND PARTICIPATION

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

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

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

## III. DEFERRED COMPENSATION

### 3.1 DEFERRAL ELECTION

A Participant may elect to defer Compensation for a calendar year by completing and submitting a deferral election on a form provided by the Company. Such election

must be submitted to the Director or the Assistant Secretary by December 31 to be effective in the following year. An election shall remain in effect until revoked or revised by the Participant by a written election delivered to the Director or the Assistant Secretary. An election shall take effect as of January 1 of the year following the year in which it is received.

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

### 3.2 ACCOUNTS

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

### 3.3 COMPANY CREDITS

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

### 3.4 DEFERRAL OF CERTAIN 1995 BONUS AMOUNTS

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

## IV. EARNINGS ON PARTICIPANT ACCOUNTS

### 4.1 EARNINGS CREDIT

Amounts held in an account maintained for a Participant shall be credited with interest at a rate and in a manner determined by the Committee to be consistent with the

average prime rate of interest charged by U. S. Bank, National Association to its individual borrowers. Prior to a Change of Control the method for determining the interest crediting rate may be changed at any time, at the discretion of the Committee. After a Change of Control, the Trustee shall have authority to change the method for determining the interest crediting rate. Interest shall be credited as of the end of each quarter.

#### 4.2 OPTIONAL EARNINGS CREDIT

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

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

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

#### 4.3 NO INTEREST IN ASSETS

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

#### V. DISTRIBUTIONS

##### 5.1 DISTRIBUTION ELECTIONS

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

##### 5.2 FORM OF ELECTION; ABSENCE OF A VALID ELECTION

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

In the absence of a valid election, the Company shall pay the accrued amount in forty (40) quarterly installments commencing after the Participant's retirement, resignation or termination from employment with the Company, or on the disability or death of the Participant, whichever occurs first. Installments shall reflect earnings or losses on a monthly basis, and be paid on an actuarially amortized and annually adjusted basis, or on a decreasing fraction basis (1/40th, 1/39th, 1/38th, etc.), or on such other basis as elected by the Company in its sole discretion, in order to provide reasonably level payments throughout the period. In the event of the Participant's death before distribution is completed (or before any early distribution under Section 5.3 hereof), the balance may be distributed in a lump sum or on an installment basis as the Company may determine, either to any designated beneficiary or to the estate or legal representative of the Participant.

### 5.3 EARLY DISTRIBUTIONS

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

### 5.4 UNFORESEEABLE EMERGENCY

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

### 5.5 ACCELERATED DISTRIBUTIONS

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

### 5.6 DISTRIBUTIONS FOR CERTAIN TAX PURPOSES

If at any time a court or the Internal Revenue Service determines that any amount in a Participant's account or in the Trust is includable in a Participant's gross income and

subject to tax, the Company shall make a lump sum distribution to such Participant (but not in an amount greater than the value of the Participant's account under the Plan at the time of such distribution) of an amount equal to the amount determined to be so includable, and shall deduct a like amount from the Participant's account under the Plan.

#### 5.7 TIMING OF DISTRIBUTIONS

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

#### 5.8 STATUS AS GENERAL CREDITOR; UNFUNDED PLAN

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

### VI. ADMINISTRATION OF THE PLAN

#### 6.1 COMPANY'S AUTHORITY

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

## 6.2 RELIANCE

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

## 6.3 BENEFIT STATEMENTS

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

## 6.4 CLAIMS

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

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

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

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

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

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

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

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

## VII. AMENDMENT OR TERMINATION

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

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

## VIII. GENERAL PROVISIONS

### 8.1 TRUST

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

### 8.2 NO ALIENATION

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

### 8.3 UNFUNDED PLAN

The Plan shall at all times be considered entirely unfunded both for tax purposes and for purposes of Title I of ERISA. Funds invested under this Plan, including amounts held in the Trust, shall continue for all purposes to be part of the general assets of the Company and available to the general creditors of the Company in the event of the Company's bankruptcy (when the Company is involved in a pending proceeding under the Federal Bankruptcy Code) or insolvency (when the Company is unable to pay its debts as they mature). In the event of the Company's bankruptcy or insolvency, the Company's Board of Directors and Chief Executive Officer shall notify the Trustee in writing of such an occurrence within three business days following the Company's becoming aware of such occurrence. No Participant or any other person shall have any interests in any

particular assets of the Company by reason of the right to receive a benefit under the Plan and to the extent the Participant or any other person acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any general unsecured creditor of the Company. The Plan constitutes a mere promise by the Company to make payments to the Participants in the future.

#### 8.4 NO GUARANTY

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

#### 8.5 NO RIGHT OF EMPLOYMENT

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

#### 8.6 INCOMPETENCY

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

#### 8.7 CORPORATE CHANGES

The Plan shall not be automatically terminated by a transfer or sale of assets of the Company or by the merger or consolidation of the Company into or with any other corporation or other entity, but the Plan shall continue after such sale, merger or Consolidation only if and to the extent that the transferee, purchaser or successor entity agrees to continue the Plan. In the event the Plan is not continued by the transferee, purchaser or successor entity, then the Plan shall terminate subject to the provisions of Article VII.

#### 8.8 ADDRESSES

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

#### 8.9 LIMITATIONS ON LIABILITY

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

#### 8.10 TRANSFERS TO THE TRUST

On the occurrence of a Change of Control or if a Participant elects to direct the investment of amounts credited to his or her account pursuant to Section 4.2, the Company shall transfer cash or property to the account or accounts maintained in the name of each affected Participant or Participants for this Plan under the Trust in an amount equal to the present value of all accumulated or accrued benefits then payable to or on behalf of such Participant or Participants under this Plan, plus any applicable fees. The Company may also transfer cash or property to the accounts maintained for any Participant under the Trust in an amount equal to the present value of all accumulated or accrued benefits then payable under the Plan at any time in the sole discretion of the Company. Thereafter, the Company may, and after a Change of Control it shall, for each Plan Year, transfer cash or property no later than thirty (30) days after the end of the Plan Year in which the initial transfer occurs, and thereafter on each anniversary thereof, to such account or accounts maintained for the affected Participant or Participants under the Trust an amount equal to the additional benefit accrued under the terms of this Plan and the Deferred Compensation Agreements during and in relation to the most recent Plan Year then ended. If a transfer occurs, the accounts of the Participants shall be credited with interest, or earnings and losses in accordance with Sections 4.1 and 4.2.

#### 8.11 INSPECTION

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

#### 8.13 GOVERNING LAW

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

Dated this 6th day of April, 1999.

THE TORO COMPANY

By: K. B. Melrose

Its Chairman & Chief Executive Officer



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

1,000

6-MOS		
	OCT-31-1999	
	NOV-01-1998	
	APR-30-1999	
		3,341
		0
	439,423	
		0
	185,699	
	675,858	336,990
	214,916	
	931,224	
440,406		197,382
	0	0
		12,916
		275,206
931,224		683,869
	683,869	443,072
	189,136	
	(863)	
	0	
	11,727	
	40,797	
	15,911	
24,886		0
	0	0
		0
	24,886	
	1.91	
	1.88	

Total net receivables.

Not included in quarterly financial information.

Total long-term debt.

Does not include additional paid-in-capital.

Other income, net.