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

FORM 10-K

/X/ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Fiscal Year Ended October 31, 1997.

/ / Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from -------------------- to --------------------

Commission File Number 1-8649

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

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

8111 LYNDALE AVENUE SOUTH
BLOOMINGTON, MINNESOTA 55420-1196
TELEPHONE NUMBER: (612) 888-8801
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $1.00 per share	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.
Yes /X/ No / /

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant, based upon the closing price of the Common Stock on January 16, 1998 as reported by the New York Stock Exchange, was approximately $499,841,000.

The number of shares of Common Stock outstanding as of January 16, 1998 was 12,823,964.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended October 31, 1997 are incorporated by reference into Parts I, II and IV.

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held March 18, 1998 are incorporated by reference into Part III.

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ITEM 1. BUSINESS

INTRODUCTION

The company designs, manufactures and markets consumer and professional turf maintenance equipment, snow removal products and irrigation systems and provides landscaping and turf maintenance services. The company produced its first lawn mower for golf course fairways in 1922 and its first lawn mower for home use in 1939 and has continued to enhance its product lines ever since.

The company emphasizes quality and innovation in its products, manufacturing and marketing. The company strives to provide well built, dependable products supported by an extensive service network. The company's substantial funding of research and development, as well as its acquisition strategy and its licensing and related agreements, have all contributed to its new product development efforts. Through these efforts the company also attempts to be responsive to trends which may affect its target markets, now and in the future. The company believes that a significant portion of its revenues in recent years have been attributable to its new and enhanced products. Examples of recently introduced products include Toro's Contour Deck for undulating terrain, the Toro-Registered Trademark-Wheel Horse-Registered Trademark- 5xi garden tractor which completed the redesign of the entire Toro riding product line and a new low emission snowthrower engine scheduled for introduction in 1998. Other new products include a new line of solar-powered and metal low voltage outdoor lighting for landscapes, a more powerful Toro-Registered Trademark- Super BlowerVac and a redesigned string trimmer line.

The company has also expanded its product lines and services by making acquisitions and strategic alliances. See "Recent Developments" below.

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

OUTDOOR MAINTENANCE EQUIPMENT

The company classifies its operations into one industry segment, outdoor maintenance equipment. The company continues to be a leader in transforming advanced technologies into products and services that provide solutions for landscape and turf care maintenance and beautification demands. Following is a summary of Toro's product lines:

CONSUMER PRODUCTS

WALK-BEHIND POWER MOWERS. The company has manufactured walk-behind power mowers for residential use since 1939. Its walk-behind power lawn mowers are gasoline and electric powered. The company manufactures numerous models of walk-behind power mowers under its brand names Toro-Registered Trademark- and Lawn-Boy-Registered Trademark-, including both four-cycle and two-cycle engine models, battery and electric models. Models differ as to cutting width, type of starter mechanism, type of bagging, controls and power sources, and are either self-propelled or push mowers. Certain of the lawn mowers are backed by the company's "Guaranteed To Start" program and some Lawn-Boy-Registered Trademark- models are equipped with a two-cycle engine manufactured by the company.

RIDING MOWERS AND LAWN AND GARDEN TRACTORS. The company manufactures riding lawn mowers and lawn and garden tractors under its brand name Toro-Registered Trademark-Wheel Horse-Registered Trademark- which range from an eight horsepower, 25 inch deck, rear engine model to a 23 horsepower, front engine, air and liquid cooled, gas and diesel models. The front engine model is available with a variety of decks and accessories. Recycler technology is available in select models. Some models are equipped with hydrostatic transmissions and/or low emission engines. The company introduced in 1997 the new Toro-Registered Trademark-Wheel Horse-Registered Trademark- 5xi garden tractor which completed the redesign of the entire Toro riding product line.

HOME SOLUTIONS PRODUCTS. The company designs and markets electrical and gas products under the Toro-Registered Trademark- brand name for dealers, mass merchandisers and "do-it-yourself" home improvement markets. These products, which include homeowner-installed, plastic and metal low voltage and solar lighting, flexible line trimmers and electric blowers, are intended to require little or no after sales service. Among recently introduced products include a new line of solar-powered and metal low voltage outdoor lighting, a more powerful Toro-Registered Trademark- Super BlowerVac and a redesigned string trimmer line.

SNOW REMOVAL PRODUCTS. The company manufactures and markets lightweight and larger self-propelled walk-behind snowthrowers and electric Power Shovel snowthrowers under the Toro-Registered Trademark- and Lawn-Boy-Registered Trademark- brand names. Single-stage snowthrowers, developed by the company and first introduced in 1965, are walk-behind units with a lightweight gasoline engine or electric motor and the Power Curve-Registered Trademark- snowthrower technology for general residential use. Two-stage snowthrowers are designed for relatively large areas with engines ranging from five to 12 horsepower. Units with eight horsepower and above can be equipped with the Power Shift-Registered Trademark- snowthrower technology.

PROFESSIONAL TURF PRODUCTS

COMMERCIAL PRODUCTS. Professional turf maintenance equipment marketed under the Toro-Registered Trademark- brand name is the company's oldest product line, which began in 1922 with the sale of tractor-pulled reel mowers to golf courses. Today the company's expanded product line includes products designed for the large turf areas of schools, parks, cemeteries, sports fields, plant sites, apartment buildings and townhouse complexes, as well as golf courses. Management believes that golf courses will continue to be a significant market for turf maintenance equipment as new golf course construction continues throughout the world. Increasing emphasis is being placed on the sports field and landscape contractor markets.

Products for the golf course include turf sprayer equipment, riding and walk-behind reel mowers for the putting green, and riding and pull-behind large reel products for the fairway, rough and trim cutting, turf aeration and sandtrap/bunker maintenance.

Exmark, one of the company's recent acquisitions, produces mid-sized walk-behind power mowers and zero-turning-radius riding mowers for professional contractors.

Other products which service all commercial markets include riding rotary units with out-front cutting decks ranging from 52 inches to 16 feet widths of cut, turf sweepers and multipurpose vehicles and attachments designed for flexibility. Among recently introduced products include the Toro Contour Deck and a small liquid-cooled riding rotary.

IRRIGATION PRODUCTS. Turf irrigation products marketed under the Toro-Registered Trademark- and Irritrol-Registered Trademark- Systems brand names include sprinkler heads and electric and hydraulic control devices designed to be used in turf irrigation systems for residential, commercial and golf course use. These products are installed in new systems and can also be used to replace or retrofit existing systems. Most of the product line is designed for underground irrigation systems. Control valves activate the sprinkler heads and controllers typically activate electric or hydraulic lines to control the valves and sprinkler heads. The acquisition of the James Hardie Irrigation Group enhanced Toro's product line for residential and commercial irrigation systems and provided products for the agricultural micro-irrigation segment, including drip tape, hose, emitters and other micro-irrigation products. Recently introduced products include more efficient sprinkler heads and automatic electronic controllers for residential, commercial and golf course irrigation systems. Specific introductions in 1997 included the SitePro-TM- central controller which has made computer technology an easy and effective way for superintendents to manage the irrigation lifeblood of a golf course. The company's irrigation products are used in 75 of the golf courses rated among the top 100 courses in the United States by GOLF DIGEST.

See the table entitled "Net Sales By Product Line" under the caption "Results of Operations" in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 16 of the company's Annual Report to Stockholders for the fiscal year ended October 31, 1997 for information regarding revenues in the consumer, commercial and irrigation product lines, which information is incorporated herein by reference.

INTERNATIONAL OPERATIONS

The company currently distributes its products worldwide with sales and/or distribution offices in Canada, Belgium, the United Kingdom, Australia, Singapore, Japan, Italy and Greece.

New product development is primarily pursued in the United States. Products marketed outside of North America are sold in compliance with local safety standards. All products shipped to Europe conform to the European Community Certification standards.

In addition to developing new market-specific products, the International business is adding customers in new regions. Emerging markets in Eastern Europe (such as the Czech Republic, Slovakia and Hungary) and in South America (such as Argentina) have recently been added to the distribution base.

RECENT DEVELOPMENTS

On December 1, 1996 the company acquired James Hardie Irrigation Group (Hardie) from James Hardie Industries Limited of Australia (JHI Limited). Hardie is a worldwide leader in the production of irrigation systems to the commercial landscape market. Hardie manufactures products for all major segments of the irrigation market, except for the golf market, and sells to distributors and retailers worldwide. Hardie offers a broad range of irrigation products and has leading positions in valves and controllers worldwide. In Australia, Hardie has a leading position in hose, hose-end and micro-irrigation products. Hardie products are marketed under the Irritrol-Registered Trademark- Systems brand through Hardie's existing global distribution network. Toro and Hardie's Lawn Genie-Registered Trademark- brand for the mass merchant retail market is expected to become a leading presence in do-it-yourself home irrigation.

Effective November 1, 1997 the company acquired Exmark Manufacturing Company Incorporated (Exmark), a leading manufacturer of equipment for the professional landscape contractor industry. Exmark is headquartered in Beatrice, Nebraska and produces mid-sized walk-behind power mowers and zero-turning-radius riding mowers for professional contractors. Exmark employs approximately 280 people in a 164,000 square-foot facility.

In September 1997, the company acquired the manufacturing, sales and distribution rights to Dingo Digging Systems (Dingo). The Dingo utility loader is the cornerstone product for the newly established Toro Sitework-TM- Systems product line. The Dingo is a rugged, compact and powerful piece of equipment with more than 35 attachments that dramatically increase productivity. The company will manufacture and sell Dingo landscape products under the Toro Siteworks-TM- brand name for North and South American markets. Dingo began distributing its products in North America in 1995 under an agreement with Dingo Mini Diggers of Australia. These products will be manufactured at the company's manufacturing facility in Tomah, Wisconsin.

The company also completed several other alliances in key business areas. Product alliances with Bluebird International and Parker Sweeper Company contributed to development of the company's landscape contractor business. The company also formed alliances with Pinehurst Resort, home of the 1999 U.S. Men's Open, and Whitbread-Marriott, a European chain of golfing resorts. As the official turf maintenance provider to Disney's Wide World of Sports complex in central Florida, the company's scientists and engineers developed "tomorrowland" turf solutions for Disney's new complex. The Wide World of Sports and the Toro Town Green, centerpiece of the complex, opened in 1997 and featured the latest in Toro equipment, irrigation systems and organic nutrient applications utilizing the company's "fertigation" technology.

In 1997, the company launched a major initiative to increase the speed, efficiency and cost effectiveness of its supply chain, including raw material procurement, customer ordering, manufacturing, distribution and product delivery. The company focused on reducing costs and realizing synergies and efficiencies of combined resources. The company transferred valve and controller production to El Paso, Texas and sprinkler head production to Riverside, California to take advantage of each plant's expertise. The company also closed a facility and moved consumer electric product manufacturing to the El Paso plant and other manufacturing facilities.

New innovations like Toro's Contour Deck for undulating terrain were developed from the company's longstanding knowledge and understanding of the golf course superintendent. The Toro-Registered Trademark- Wheel Horse-Registered Trademark- 5xi garden tractor completed the redesign of the entire Toro riding product line and received acclaim from national news media for breakthrough technology. A new, low emission snowthrower engine is scheduled for 1998 introduction. Other new products include a new line of solar-powered and metal low voltage outdoor lighting for landscapes, a more powerful Toro-Registered Trademark- Super BlowerVac, and a redesigned string trimmer line.

In 1997, the company completed the second year of an enterprise-wide software system implementation that consolidates and integrates all of the company's operations. ISO 9000 continues to be a high priority for the company. Facilities at Riverside, California, Tomah, Wisconsin and Shakopee, Minnesota were again certified in 1997 and Sardis and Oxford, Mississippi and Windom, Minnesota are working toward ISO 9000 certification in 1998.

MANUFACTURING

The company's consumer spring and summer products are generally manufactured in the winter and spring months and its consumer fall and winter products are generally manufactured in the summer and fall months. The company's irrigation and commercial products are manufactured throughout the year.

In some areas of its business the company is primarily an assembler while in others it is a fully integrated manufacturer. Most of the components for the company's products are commercially available from a number of sources and the company is generally not dependent on any one supplier. The largest component costs are generally engines, transmissions and electric motors. The company purchases most of its engines and motors for consumer and commercial products from several suppliers. In addition, the company manufactures two types of two-cycle engines for its consumer products.

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

TRADEMARKS AND PATENTS

Products manufactured by the company are nationally advertised and sold at the retail level under the trademarks Toro-Registered Trademark-, Wheel Horse-Registered Trademark-, Lawn-Boy-Registered Trademark- and Irritrol-Registered Trademark- Systems, all of which are registered in the United States and in the principal foreign countries in which the company markets its products. The company holds patents in the United States and foreign countries and applies for patents as applicable. Although management believes patents have value to the company, patent protection does not deter competitors from attempting to develop similar products. Although patent protection is considered to be very beneficial, the company is not materially dependent on any one or more of its patents.

In connection with the acquisition of Hardie, the following brand names were acquired: Lawn Genie-Registered Trademark-, Irritrol-Registered Trademark-, Richdel-Registered Trademark-, Pope, Blue Stripe, and Aqua-Traxx. The company agreed to discontinue use of the name "Hardie" or any similar name within one year after the acquisition and therefore, Toro will now market former Hardie brand name products under the Irritrol-Registered Trademark- brand name. Inventory manufactured prior to that one year may continue to carry the name "Hardie" or similar name.

With the recent acquisition of Exmark, the company acquired the Exmark brand name. The company will also manufacture and sell Dingo landscape products under the Toro Siteworks-Registered Trademark- brand name for North and South American markets.

SEASONALITY

Sales of the company's consumer products, which accounted for approximately 43% of total sales in fiscal 1997, are seasonal with greater sales of consumer products, excluding snow removal equipment, occurring between February and April and snow removal equipment between August and January. Opposite seasons in some global markets somewhat moderate this seasonality in consumer product sales. Seasonality in irrigation and commercial product sales also exists, but is tempered because the selling season in west coast and southern states continues for a longer portion of the year than in northern states. Overall, worldwide sales levels are highest in the second quarter. Historically, accounts receivable balances increase between January and March as a result of extended payment terms made available to the company's customers. Accounts receivable balances decrease between April and July when payments are made. The seasonal requirements of the business are financed from operations and with short-term bank lines of credit.

DISTRIBUTION AND MARKETING

The company markets the majority of its Toro branded products principally through approximately 40 domestic and 96 foreign distributors and a number of mass merchandisers worldwide. Toro-Registered Trademark- and Lawn-Boy-Registered Trademark- consumer products such as walk-behind power mowers, riding mowers and snowthrowers are sold to distributors for resale to retail dealers throughout the United States. Home solutions products and most Lawn-Boy-Registered Trademark- products are sold directly to mass merchandisers and "do-it-yourself" home improvement retailers. Commercial and irrigation products are sold to distributors for resale to irrigation contractors and golf courses. Irrigation products are also sold through distributors to irrigation dealers and direct to irrigation dealers, mass merchandisers and "do-it-yourself" home improvement retailers for resale to contractors, golf courses and end-users. Internationally, consumer products are sold to distributors for resale to retail dealers and mass merchandisers outside the United States, principally in Canada and Western Europe. Some irrigation and consumer products are sold directly to retail dealers in Canada, Australia and Western Europe.

The company's current marketing strategy is to maintain distinct and separate brands and brand identification for Toro-Registered Trademark-, Toro-Registered Trademark- Wheel Horse-Registered Trademark- and Lawn-Boy-Registered Trademark- products and the recently acquired Hardie and Exmark products. The product lines included in the acquisition of Hardie have been branded Irritrol and are distributed through both Toro and non-Toro irrigation dealers. The Exmark brand is distributed through approximately 25 distributors for resale to retail dealers throughout North America.

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

The company advertises its products during appropriate seasons throughout the year on television, radio and in print. Most of the company's advertising emphasizes its brand names. Advertising is directly paid by the company as well as through cooperative programs with distributors, dealers and mass merchants.

BACKLOG OF ORDERS

The approximate backlog of orders believed to be firm at October 31, 1997 and 1996 was as follows:

	1997	1996
Consumer	$ 21,729,000	$ 51,373,000
Commercial	38,695,000	55,138,000
Irrigation	8,101,000	4,333,000

The decline in the consumer product backlog resulted primarily from a reduction in the overall snow sales for the current season. In addition, with the increase in sales to mass merchants as some sales have shifted from dealers to mass merchants, there has been a reduction in order lead time. The reduction in commercial backlog was caused by a change in the way orders are taken, from an order covering a three month period to an order covering a one month period. Irrigation backlog is up due to increased sales from the Hardie acquisition. The company expects that all of the existing backlog can be filled in fiscal 1998.

COMPETITION

The principal competitive factors in the company's markets are product innovation, quality, service and pricing. Management believes the company offers high quality products with the latest technology and design innovations. Also, by selling Toro-Registered Trademark-, Toro-Registered Trademark-Wheel Horse-Registered Trademark-, Lawn-Boy-Registered Trademark- and Irritrol-Registered Trademark- Systems brand products through a network of distributors, dealers and mass merchants who provide service, the company offers competitive service during and after the relevant warranty period.

The company competes in all product lines with numerous manufacturers, many of which have substantially greater financial resources than the company. Management believes that its commitment to product innovation, its distribution systems and its focus on target markets, position it well to compete in these various markets.

CONSUMER

The company's principal competitors for mowing and snow equipment are Frigidaire Home Products, Inc. (a subsidiary of Electrolux AB), Deere & Company, Honda Motor Co., Ltd., MTD Products, Inc., Murray Ohio Manufacturing Co., Inc. (a subsidiary of Tompkins Corp.), Sears, Roebuck and Co., Snapper Power Equipment (a division of Metro Media), Ariens Company, Garden Way, Incorporated and Simplicity Manufacturing Company. The principal competitors in home solutions products are The Black and Decker Corporation, Malibu Lighting (a registered trademark of Intermatic, Inc.), Poulan/Weed Eater and Homelite(a division of Deere & Company).

COMMERCIAL

The company's commercial products compete with products from numerous manufacturers, but the principal competitors across most of the company's commercial product lines are Deere & Company, American Honda Motor Co., Inc., Echo Inc., Stihl Inc., Scag Power Equipment, Shindaiwa Inc., Snapper Inc., Gravely International, Lesco Inc., Walker Manufacturing Co., Cub Cadet Power Equipment, American Yard Products, Husqvarna Forest and Garden Co., The Ariens Co., MTD Products Inc., Textron Jacobsen and Ransomes Sims & Jefferies PLC (based in the United Kingdom).

IRRIGATION

The company's principal competitors in irrigation products are Hunter Industries and Rain Bird Sprinkler Manufacturing Corporation.

INTERNATIONAL

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

RESEARCH AND DEVELOPMENT

The company conducts research and development activities in an effort to improve existing products and develop new products. Amounts expended on such activities, including engineering costs, aggregated approximately $36.6 million, or 3.5% of net sales for the year ended October 31, 1997, $31.3 million, or 3.4% of net sales for the year ended October 31, 1996, $6.9 million, or 3.6% of net sales for the 3 months ended October 31, 1995 and $26.5 million, or 2.8% of net sales for the year ended July 31, 1995. Management believes that the company's research and development efforts are important to the quality, mix and growth of its businesses and plans to continue its strong commitment to such activities.

GOVERNMENTAL REGULATION

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

EMPLOYEES

During fiscal 1997 the company employed an average of 3,911 employees. The total number of employees at October 31, 1997 was 3,908. Approximately 20 % of these employees are covered by four collective bargaining agreements, one expiring in May 2000, two expiring in September 2000 and one expiring in October 1999.

As a result of the acquisition of Hardie, the company added approximately 1,070 employees. Hardie's Australian employees have three local agreements with the National Union of Workers and the Australian Workers Union which cover approximately 15% of all Hardie employees. These agreements will expire in June 2000. None of the Hardie U.S. employees are represented by unions.

As a result of the acquisition of Exmark, the company added approximately 260 employees, none of which are represented by a union.

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

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS

With the exception of the Hardie production facilities in Australia, all of the company's production facilities are located within the United States. Except for the sales of the company's foreign subsidiaries, which are not significant when compared to total company sales, substantially all financial transactions have been made in U.S. dollars. Consequently, although the Hardie acquisition has brought an increase in transactions denominated in Australian dollars, the company did not realize any significant impact to earnings due to fluctuations in foreign currencies during the fiscal year ended October 31, 1997.

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

Export sales were $161,836,000 for the year ended October 31, 1997, $140,919,000 for the year ended October 31, 1996, $18,557,000 for the 3 months ended October 31, 1995, and $126,560,000 for the year ended July 31 1995. The identifiable assets attributable to foreign operations were not significant as of October 31, 1997.

See Notes to the Consolidated Financial Statements of the company contained in the company's Annual Report to Stockholders for the fiscal year ended October 31, 1997 for additional information relating to international and export sales, which information is incorporated herein by reference.

ITEM 2. PROPERTIES

The company utilizes manufacturing and office facilities which total approximately 4,115,000 square feet of space. The manufacturing facilities, excluding Hardie, operated at about 57% of total plant capacity in fiscal 1997. Actual plant utilization varies during the year depending upon the production cycle. In fiscal 1997, the company announced the closing of its production facility at Mound, Minnesota. Management believes that its current facilities are sufficient for current production needs. The following schedule outlines the company's facilities by location, plant size, ownership and function:

Location	Square Feet	Ownership	Products Manufactured / Use
Plymouth, WI	420,000	Owned	Parts distribution center, office
Windom, MN	305,000	Owned	Consumer components and products
Lakeville, MN	304,000	Leased	Finished Goods distribution center, office
Bloomington, MN	300,000	Owned	Corporate headquarters
Tomah, WI	274,000	Owned	Consumer and Commercial products
Sardis, MS	245,000	Owned	Consumer products and Finished Goods distribution center, office
Baraboo, WI	228,000	Leased	Finished Goods distribution center, office
Riverside, CA	217,000	Owned	Irrigation and Consumer products
Evansville, IN	178,000	Leased	Consumer and Commercial products
Beatrice, NE	164,000	Owned	Commercial products, office
Olathe, KS	98,000	Leased	Commercial products
Mound, MN	162,000	Leased	Plant to be closed and production moved to other manufacturing plants in fiscal 1998.
Shakopee, MN	146,000	Owned	Components for consumer and commercial products
El Paso, TX	143,000	Owned	Hardie irrigation products and warehouse
Braeside, Australia	47,000	Leased	Hardie irrigation products warehouse
Beverley, Australia	109,000	Owned	Hardie Corporate office and distribution center
Murray Bridge, Australia	101,000	Owned	Hardie irrigation products and warehouse
El Cajon, California	92,000	Owned	Hardie irrigation products and warehouse
Oxford, MS	67,000	Owned	Components for consumer products
Oevel, Belgium	63,000	Owned	Finished goods distribution center, office
Total Square Feet	3,663,000		

Other leased office and warehouse space located in various cities in the United States, Australia, Canada, France, Singapore, Japan and the United Kingdom totaled approximately 452,000 square feet.

ITEM 3. LEGAL PROCEEDINGS

The company is a party to litigation in the ordinary course of its business. Ongoing litigation primarily involves claims for damages arising out of the use of the company's products, some of which include claims for punitive as well as compensatory damages. The company is also subject to administrative proceedings in respect to certain claims involving the discharge of hazardous substances into the environment. Certain of these claims assert damages and liability for remedial investigations and clean up costs. Management is of the opinion that the amounts which may be awarded or assessed in connection with these matters will not have a material effect on the company's financial position. Further, the company maintains insurance against product liability losses. Such insurance presently covers claims in excess of $1,000,000 per claim or $2,000,000 in the aggregate during any fiscal year. The company regularly reviews these dollar limits.

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF THE SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The list below identifies those persons deemed to be executive officers of the company, discloses their age and position with the company as of January 21, 1998 and positions held by them during the last five years. Officers are elected or appointed annually. A complete list of all officers of the company is found on the inside back cover of the company's Annual Report to Stockholders for the year ended October 31, 1997.

Name, Age and Position with the Company	Business Experience During the Last Five Years
Randy B. James 54, Vice President and Controller	Appointed Vice President and Controller in December 1988.
Stephen P. Wolfe 49, Vice President-Finance and Chief Financial Officer	Elected Chief Financial Officer May 1997 and Vice President-Finance/Treasurer June 1997. Appointed Vice President in August 1994. Elected President, Toro Credit Company in July 1990.
Charles B. Lounsbury 55, Group Vice President Office of the President	Elected Group Vice President September 1996. From November 1993 to September 1996 was appointed Vice President, Distribution Parts and Debris Management. From May 1991 to November 1993 was President and Chief Operating Officer of Leaseway Transportation Corporation. While Mr. Lounsbury served as President and a director of Leaseway, it filed for protection under Chapter 11 and during that period it was discharged.
J. David McIntosh 54, Group Vice President Office of the President	Elected Group Vice President September 1996. From January 1992 to September 1996 was appointed Vice President and General Manager, Consumer Division.
J. Lawrence McIntyre 55, Vice President, Secretary and General Counsel	Elected Vice President in July 1993. Elected Secretary and General Counsel in August 1993. Prior to July 1993, was a shareholder with Doherty, Rumble & Butler Professional Association.
Kendrick B. Melrose 57, Chairman and Chief Executive Officer Office of the President	Elected Chairman of the Board in December 1987 and Chief Executive Officer in December 1983.
Karen M. Meyer 48, Vice President, Human Resources/Administrative Services	Elected Vice President, Human Resources/Administrative Services in December 1991.
Richard R. Pollick 58, Vice President and General Manager International Division	Appointed Vice President, International Division in March 1990.
James H. Beardsley 54, Vice President and General Manager Consumer Business	Appointed Vice President and General Manager, Consumer Business June 1997. From October 1990 to October 1996 was President and Chief Executive Officer of Master Lock Company.
Michael J. Hoffman 42, Vice President and General Manager Commercial Business	Appointed Vice President and General Manager, Commercial Business November 1997. From November 1996 to November 1997 he served as General Manager of the Commercial Division. He served as Managing Director, Recycling Division from March 1994 to October 1996 and as Director of Marketing and Service, Commercial Division from September 1989 to March 1994.

William J. Miller 50, Vice President, Operations	Appointed Vice President, Operations June 1997. From January 1992 to June 1997 he served as Group Vice President of the Frigidaire Company in various divisions.
Richard W. Parod 44, Vice President and General Manager U.S. Irrigation Business	Appointed Vice President and General Manager, U.S. Irrigation Business March 1997. From December 1993 to March 1997 he served as President of James Hardie Irrigation, Inc. and from September 1993 to December 1993 as Chief Financial Officer of James Hardie Irrigation, Inc.

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

Part II

All information incorporated by reference in this Part II is from the Registrant's Annual Report to Stockholders for the fiscal year ended October 31, 1997 ("Annual Report").

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Toro Common Stock (including related Preferred Share Purchase Rights) is listed for trading on the New York Stock Exchange. As of January 19, 1998 there were 6,564 holders of record of the company's common stock.

See "Quarterly Financial Data" on page 39 of the Annual Report for dividends paid on and range of high and low sales prices for the company's common stock on the New York Stock Exchange on a quarterly basis for the period from November 1, 1995 to October 31, 1997 which information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

See "Selected Financial Data" on page 23 of the Annual Report for financial data for the years ended October 31, 1997 and 1996, the 3 month period ended October 31, 1995 and the years ended July 31, 1995, 1994 and 1993 which information for these periods is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report to Stockholders on pages 16 through 22 which section is incorporated herein by reference.

FORWARD-LOOKING INFORMATION

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: Part I of this Annual Report on Form 10-K and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the company's Annual Report to Stockholders for fiscal 1997 referred to above contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, forward-looking statements may be made orally in the future by or on behalf of the company.

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

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses operating in a global market, as well as matters specific to the company and the markets it serves. Particular risks and uncertainties facing the company at the present include political and economic uncertainty and instability in many of the company's markets in Asia; the warm winter being experienced in many of the company's markets; the strong dollar which increases the cost of the company's products in foreign markets and limits the company's ability to increase prices; more cautious buying patterns affecting the company's consumer business and European sales; increased competition in the company's businesses; the company's ability to integrate business acquisitions and to manage alliances successfully; changes in distributor, dealer or mass merchant purchasing practices; and occasional production delays affecting selected consumer products.

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

See "Quarterly Financial Data" appearing on page 39 of the Annual Report to Stockholders which is incorporated herein by reference.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(a) 2. INDEX TO CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

Included in Part IV of this report.

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

(a) 3. EXHIBITS

2 and 10(i)	Stock Purchase Agreement among The Toro Company, James Hardie (USA) Inc., James Hardie Industries Limited and RCI Pty. Ltd. (incorporated by reference to the Exhibit to Registrant's Current Report on Form 8-K dated September 18, 1996).
2 and 10(ii)	Agreement and Plan of Merger, dated as of October 23, 1997 by and among Exmark, Merger Subsidiary and The Toro Company, as amended (incorporated by reference to Exhibit Number 2.1 to Registrant's Registration Statement on Form S-4, Registration No. 333-39769).
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(ii) and 4(c)	Bylaws of Registrant (incorporated by reference to Exhibit 3.3 to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1991, Commission File No. 1-8649).
4(d)	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(e)	Rights Agreement dated as of June 14, 1988, 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 Exhibit 1 to Registrant's Registration Statement on Form 8-A dated June 17, 1988 and Exhibit 1 to Registrant's Current Report on Form 8-K dated August 14, 1990, Commission File No. 1-8649).
4(f)	Indenture as dated as of January 31, 1997, between Registrant and First National Trust Association, as Trustee, relating to the Registrant's 7.125% Notes due June 15, 2007 and its 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K for June 24, 1997, Commission File No. 1-8649).
10(iii)(a)	Form of Employment Agreement in effect for certain officers of Registrant (incorporated by reference to Exhibit 10(b) to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1995).*
10(iii)(b)	1992 Directors Stock Plan, as amended (incorporated by reference to Exhibit 10(iii)(b) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1996).*
10(iii)(c)	Annual Management Incentive Plan for certain key employees and officers of Registrant (incorporated by reference to Exhibit B to Registrant's Proxy Statement dated February 10, 1997).*
10(iii)(d)	1985 Incentive Stock Option Plan, as amended (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(iii)(e)	1989 Stock Option Plan, as amended.*
10(iii)(f)	1993 Stock Option Plan, as amended.*
10(iii)(g)	Continuous Performance Award Plan, as amended (incorporated by reference to Exhibit 10(iii)(g) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1996).*
10(iii)(h)	The Toro Company Supplemental Management Retirement Plan (incorporated

	by reference to Exhibit 10(iii)(h) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1996).*
10(iii)(i)	Chief Executive Officer Succession Incentive Agreement dated as of July 31, 1995, as amended.*
11	Computation of Earnings per Share of Common Stock and Common Stock Equivalent (page 24 of this report).
12	Computation of Ratio of Earnings to Fixed Charges (page 25 of this report).
13	Fiscal 1997 Annual Report to Stockholders for The Toro Company.
21	Subsidiaries of Registrant (page 26 of this report).
23	Independent Auditors' Consent (page 27 of this report).
27	Supplemental Data Schedule; electronic filing only.

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

(b) REPORTS ON FORM 8-K

None.

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The company's Annual Report on Form 10-K for the fiscal year ended October 31, 1997, at the time of its filing with the Securities and Exchange Commission, shall modify and supersede all prior documents filed pursuant to Sections 13, 14 and 15(d) of the 1934 Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement or Prospectus filed pursuant to the Securities Act of 1933 which incorporates by reference such Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE TORO COMPANY
(Registrant)

Dated: January 21, 1998

/s/ Stephen P. Wolfe

Stephen P. Wolfe
Vice President - Finance
Chief Financial Officer

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

Signature	Title	Date
/s/ Kendrick B. Melrose Kendrick B. Melrose	Chairman, Chief Executive Officer, and Director (principal executive officer)	January 21, 1998
/s/ Stephen P. Wolfe Stephen P. Wolfe	Vice President - Finance, Chief Financial Officer (principal financial officer)	January 21, 1998
/s/ Randy B. James Randy B. James	Vice President, Controller (principal accounting officer)	January 21, 1998
/s/ Ronald O. Baukol Ronald O. Baukol	Director	January 21, 1998
/s/ Robert C. Buhrmaster Robert C. Buhrmaster	Director	January 21, 1998
/s/ Janet K. Cooper Janet K. Cooper	Director	January 21, 1998
/s/ Alex A. Meyer Alex A. Meyer	Director	January 21, 1998
/s/ Robert H. Nassau Robert H. Nassau	Director	January 21, 1998
/s/ Dale R. Olseth Dale R. Olseth	Director	January 21, 1998
/s/ Edwin H. Wingate Edwin H. Wingate	Director	January 21, 1998

[LETTERHEAD]

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Toro Company:

Under the date of December 12, 1997, we reported on the consolidated balance sheets of The Toro Company and subsidiaries (the Company) as of October 31, 1997 and 1996, and the related consolidated statements of earnings and cash flows for the years ended October 31, 1997 and 1996, the three-month period ended October 31, 1995 and the year ended July 31, 1995, as contained in the 1997 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the fiscal year 1997. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related consolidated financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

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

KPMG Peat Marwick LLP

Minneapolis, Minnesota
December 12, 1997

[LOGO]

Schedule II

THE TORO COMPANY AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	OTHER (a)	DEDUCTIONS (b)	BALANCE AT END OF YEAR
YEAR ENDED OCTOBER 31, 1997					
Allowance for doubtful accounts	$10,005,000	$ 812,000	$ (425,000)	$ 560,000	$ 9,832,000
YEAR ENDED OCTOBER 31, 1996					
Allowance for doubtful accounts	$ 7,542,000	$ 3,358,000	$ 330,000	$ 1,225,000	$ 10,005,000
THREE MONTHS ENDED OCTOBER 31, 1995					
Allowance for doubtful accounts	$ 7,343,000	$ 720,000	$ 0	$ 521,000	$ 7,542,000
YEAR ENDED JULY 31, 1995					
Allowance for doubtful accounts	$ 7,702,000	$ 1,543,000	$ 20,000	$ 1,922,000	$ 7,343,000

(a) Additions to allowance for doubtful accounts due to acquisitions and reductions due to reclassification.
(b) Uncollectible accounts charged off, net of recoveries.

THE TORO COMPANY
1989 STOCK OPTION PLAN

1. PURPOSE. The purpose of the 1989 Stock Option Plan (the "Plan") is to advance the interests of The Toro Company (the "Company") and its stockholders by providing an incentive to certain employees of the Company and its subsidiaries and to certain other key individuals who perform services for the Company and its subsidiaries, to contribute significantly to the strategic and long-term performance objectives and growth of the Company and its subsidiaries. This purpose is expected to be achieved by granting options to acquire the Common Stock, $1.00 par value, and related preferred share purchase rights of the Company (the "Common Stock"). Subject to the provisions of the Plan, options may contain such terms and conditions as shall be required so as to be either nonqualified stock options ("nonqualified options") or incentive stock options ("Incentive Stock Options") as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Subject to such limits as may be imposed by the Plan, nonqualified options or Incentive Stock Options or both may be granted to an eligible individual.

2. EFFECTIVE DATE. The effective date of the Plan shall be August 8, 1989.

3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors of the Company (the "Board"), provided that members of the Committee shall be Non-employee Directors as contemplated by Rule 16b-3 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") or any successor rule and shall qualify to administer the Plan as contemplated by Section 162(m) of the Code and the regulations thereunder ("Section 162(m)"). A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee and the acts of a majority of the members present at any meeting at which a quorum is present or the acts unanimously approved in writing by all members of the Committee shall be the acts of the Committee. The decision of the Committee on any matter affecting the Plan and obligations arising under the Plan or any option granted thereunder shall be deemed final and binding upon all persons. No member of the Board or of the Committee shall be liable for any action or determination taken or made in good faith with respect to the Plan or any option granted thereunder. Committee members shall be reimbursed for out-of-pocket expenses reasonably incurred in the administration of the Plan.

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

4. COMMON STOCK SUBJECT TO THE PLAN. Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock that is reserved and available for issuance pursuant to options granted under the Plan shall be 1,700,000 shares. If any option granted hereunder terminates, expires unexercised, is exchanged for other options without the issuance of shares of Common Stock or is exercised by the delivery or constructive delivery of shares of Common Stock already owned by the option holder, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent shares covered by an option are not issued or used, again be available for option grants under the Plan. Any shares issued by the Company in connection with the assumption or substitution of outstanding grants from any acquired corporation shall not reduce the shares available for option grants under the Plan. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares, or outstanding shares acquired in the market or from private sources, or a combination thereof. Appropriate adjustments in the number of shares of the Common Stock that may be available for option grants under the Plan and adjustments in the option price per share of outstanding options may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or other similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.

5. ELIGIBILITY. Options may be granted to any employee of the Company or any subsidiary thereof who is regularly employed in an executive, managerial, professional or technical position, and to any other individual who performs services for the Company or any subsidiary and who contributes significantly to the strategic and long-term performance objectives of the Company and its subsidiaries. Options may be granted to directors of the Company who are also employees of the Company. More than one option may be granted to the same individual. No option may be granted to an individual who owns, directly or indirectly, Common Stock or other capital stock of the Company possessing more than 5% of the total combined voting power or value of any class of capital stock of the Company or a subsidiary immediately after such option is granted. Except for the foregoing limitations, there is no minimum or maximum number of shares of Common Stock with respect to which options may be granted to any individual under the Plan. Individuals to whom options are granted are at times referred to as "option holders".

6. DURATION OF THE PLAN. The Plan shall remain in effect until all shares reserved for issuance pursuant to the Plan shall have been purchased pursuant to options granted under the Plan, provided that options under the Plan must be granted within ten years from the effective date of the Plan.

7. GENERAL TERMS OF OPTIONS. Options shall be evidenced by stock option agreements in such form and not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions:

A. DATE OF GRANT. An option agreement shall specify the date of grant, which shall be the date on which the Committee grants an option or any later date which the Committee specifically designates.

B. NUMBER OF SHARES OF COMMON STOCK. An option agreement shall specify the number of shares of Common Stock to which it pertains. Notwithstanding any other provision of the Plan, the maximum number of shares that may be covered by any option grant during any calendar year shall be 100,000 shares.

C. EXERCISE PRICE. The exercise price of all stock options will be granted at fair market value, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan, where the exercise price is an average and on the date of grant could be higher or lower than fair market value. Fair market value is generally determined to be the closing price for the Common Stock on the New York Stock Exchange as reported by The Wall Street Journal or other readily available quotation of composite transactions.

D. TERM OF OPTIONS. The term of each option shall be fixed by the Committee.

E. EXERCISABILITY AND TRANSFERABILITY.

(i) The Committee shall have the authority to determine whether an option agreement shall specify periods after the date of grant of an option during which the option or any portion thereof may not yet be exercisable, including provisions applicable to persons subject to Section 16 of the Exchange Act.

(ii) During the lifetime of an option holder, options held by such individual may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company or otherwise performing services for the Company or a parent or subsidiary and only if the option holder has been continuously so employed or engaged since the date such options were granted; provided, however, that (a) in the event of disability of an option holder, options may be exercised by such individual not later than the earlier of the date the option expires or one year after the date such employment or performance of services ceases by reason of disability, but only with respect to an option exercisable at the time such employment or performance of services ceases and (b) options may be exercised (I) by an option holder after such individual ceases to be an employee (for reasons other than disability or retirement at or after age 60) up to three months after the day of termination of employment but not later than the date the option expires, (II) by reason of retirement, either at or after age 60 but not later than the earlier of the date the option expires or four years after the date of retirement, or, if approved by the Committee, after retirement at an age less than age 60 but not later than the earlier of the date the option expires or three years after the date of retirement; and (III) in the event a salary replacement option is granted by the Committee and the option holder is involuntarily terminated during the option term or becomes disabled or dies, the Committee shall have the right to grant to the option holder or his personal representative, as the case may be, the right to request either (1) that the option be cancelled and the option holder or his estate be paid an amount equal to the compensation the option holder has given up from the date of grant to the date of such termination, disability or death together with interest at the prime rate less the then market gain on that portion of the shares covered by the option which is then vested; or (2) that the stock option accelerates such that the option be deemed to have vested at an appropriate rate per month (as determined by the Committee) from the date of grant to the last date of the month in which the date of termination, disability or death occurs, such accelerated option to be then exercisable for a period of three years following such date but only with respect to an option exercisable at the time such individual ceases to be an employee.

(iii) Notwithstanding any provision of this paragraph 7.E, if within one year after the termination of employment with or performance of services for the Company, an option holder is employed or retained by a company that competes with the business of the Company or such individual violates any confidentiality agreement with the Company, the Company may cancel and rescind all options held by such individual and demand return of the economic value of any option which was realized or obtained (measured at the date of exercise) by such individual at any time during the period beginning on the date which is twelve months prior to the date of termination.

(iv) Absence on leave or any other interruption in the performance of services by an option holder with the Company shall, if approved by the Committee, not be deemed a cessation or interruption of employment or services for the purposes of the Plan.

(v) No option shall be assignable or transferable by the individual to whom it is granted except that it may be transferable by will or the laws of descent and distribution. An option so transferred may be exercised after the death of the individual to whom it is granted only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.

(vi) In no event shall any option be exercisable at any time after its expiration date unless extended by the Committee. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated.

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

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

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

G. ACCELERATED OWNERSHIP FEATURE. An option may, in the discretion of the Committee, include the right to acquire an accelerated ownership nonqualified stock option ("AO Option"). An option which provides for the grant of an AO Option shall entitle the option holder, upon exercise of that option and payment of the appropriate exercise price in shares of Common Stock that have been owned by such option holder for not less than six months prior to the date of exercise, to receive an AO Option. An AO Option is an option to purchase, at fair market value at the date of grant of the AO Option, a number of shares of Common Stock equal to the sum of the number of whole shares delivered by the option holder in payment of the exercise price of the original option and the number of whole shares, if any, withheld by the Company as payment for withholding taxes. An AO Option shall expire on the same date that the original option would have expired had it not been exercised. All AO Options shall be nonqualified options.

H. CHANGE OF CONTROL. In the event of a threatened or actual Change of Control of the Company as hereinafter defined, whether or not approved by the Board of Directors, all options shall fully vest, unless otherwise limited by the Committee at the time of the option grant, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the later of the threatened or actual Change of Control, but not later than ten years after the date of grant. A Change of Control means the earliest to occur of (i) a public announcement that a party shall have acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a party of 30% 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 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.

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

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

K. GENERAL RESTRICTION. Each option shall be subject to the requirement that, if at any time the Board shall determine in its discretion that the listing, registration or qualification of the Common Stock subject to such option on any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issue or purchase of Common Stock thereunder, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

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

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

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

Stock Options. In applying the foregoing limitation, options shall be taken into account in the order in which they were granted.

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

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

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

11. MISCELLANEOUS.

A. USE OF PROCEEDS. The proceeds derived from the sale of shares of Common Stock pursuant to options granted under the Plan shall constitute general funds of the Company.

B. PARENT AND SUBSIDIARY. As used herein, the terms "parent" and "subsidiary" shall mean "parent corporation" and "subsidiary corporation", respectively, as defined in Section 424 of the Code.

THE TORO COMPANY
1993 STOCK OPTION PLAN

1. PURPOSE. The purpose of the 1993 Stock Option Plan (the "Plan") is to advance the interests of The Toro Company (the "Company") and its stockholders by providing an incentive to certain employees of the Company and its subsidiaries and to certain other key individuals who perform services for the Company and its subsidiaries, to contribute significantly to the strategic and long-term performance objectives and growth of the Company and its subsidiaries. This purpose is expected to be achieved by granting options to acquire the Common Stock, $1.00 par value, and related preferred share purchase rights of the Company (the "Common Stock"). Subject to the provisions of the Plan, options may contain such terms and conditions as shall be required so as to be either nonqualified stock options ("nonqualified options") or incentive stock options ("Incentive Stock Options") as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Subject to such limits as may be imposed by the Plan, nonqualified options or Incentive Stock Options or both may be granted to an eligible individual.

2. EFFECTIVE DATE. The effective date of the Plan shall be August 17, 1993.

3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors of the Company (the "Board"), provided that members of the Committee shall be Non-employee Directors as contemplated by Rule 16b-3 promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") or any successor rule and shall qualify to administer the Plan as contemplated by Section 162(m) of the Code and the regulations thereunder ("Section 162(m)"). A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee and the acts of a majority of the members present at any meeting at which a quorum is present or the acts unanimously approved in writing by all members of the Committee shall be the acts of the Committee. The decision of the Committee on any matter affecting the Plan and obligations arising under the Plan or any option granted thereunder shall be deemed final and binding upon all persons. No member of the Board or of the Committee shall be liable for any action or determination taken or made in good faith with respect to the Plan or any option granted thereunder. Committee members shall be reimbursed for out-of-pocket expenses reasonably incurred in the administration of the Plan.

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

4. COMMON STOCK SUBJECT TO THE PLAN. Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock that is reserved and available for issuance pursuant to options granted under the Plan shall be 1,600,000 shares. If any option granted hereunder terminates, expires unexercised, is exchanged for other options without the issuance of shares of Common Stock or is exercised by the delivery or constructive delivery of shares of Common Stock already owned by the option holder, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent shares covered by an option are not issued or used, again be available for option grants under the Plan. Any shares issued by the Company in connection with the assumption or substitution of outstanding grants from any acquired corporation shall not reduce the shares available for option grants under the Plan. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares, or outstanding shares acquired in the market or from private sources, or a combination thereof. Appropriate adjustments in the number of shares of the Common Stock that may be available for option grants under the Plan and adjustments in the option price per share of outstanding options may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or other similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.

5. ELIGIBILITY. Options may be granted to any employee of the Company or any subsidiary thereof who is regularly employed in an executive, managerial, professional or technical position, and to any other individual who performs services for the Company or any subsidiary and who contributes significantly to the strategic and long-term performance objectives of the Company and its subsidiaries. Options may be granted to directors of the Company who are also employees of the Company. More than one option may be granted to the same individual. No option may be granted to an individual who owns, directly or indirectly, Common Stock or other capital stock of the Company possessing more than 5% of the total combined voting power or value of any class of capital stock of the Company or a subsidiary immediately after such option is granted. Except for the foregoing limitations, there is no minimum or maximum number of shares of Common Stock with respect to which options may be granted to any individual under the Plan. Individuals to whom options are granted are at times referred to as "option holders".

6. DURATION OF THE PLAN. The Plan shall remain in effect until all shares reserved for issuance pursuant to the Plan shall have been purchased pursuant to options granted under the Plan, provided that options under the Plan must be granted within ten years from the effective date of the Plan.

7. GENERAL TERMS OF OPTIONS. Options shall be evidenced by stock option agreements in such form and not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions:

A. DATE OF GRANT. An option agreement shall specify the date of grant, which shall be the date on which the Committee grants an option or any later date which the Committee specifically designates.

B. NUMBER OF SHARES OF COMMON STOCK. An option agreement shall specify the number of shares of Common Stock to which it pertains. Notwithstanding any other provision of the Plan, the maximum number of shares that may be covered by any option grant during any calendar year shall be 100,000 shares.

C. EXERCISE PRICE. The exercise price of all stock options will be granted at fair market value, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan, where the exercise price is an average and on the date of grant could be higher or lower than fair market value. Fair market value is generally determined to be the closing price for the Common Stock on the New York Stock Exchange as reported by The Wall Street Journal or other readily available quotation of composite transactions.

D. TERM OF OPTIONS. The term of each option shall be fixed by the Committee.

E. EXERCISABILITY AND TRANSFERABILITY.

(i) The Committee shall have the authority to determine whether an option agreement shall specify periods after the date of grant of an option during which the option or any portion thereof may not yet be exercisable, including provisions applicable to persons subject to Section 16 of the Exchange Act.

(ii) During the lifetime of an option holder, options held by such individual may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company or otherwise performing services for the Company or a parent or subsidiary and only if the option holder has been continuously so employed or engaged since the date such options were granted; provided, however, that (a) in the event of disability of an option holder, options may be exercised by such individual not later than the earlier of the date the option expires or one year after the date such employment or performance of services ceases by reason of disability, but only with respect to an option exercisable at the time such employment or performance of services ceases and (b) options may be exercised (I) by an option holder after such individual ceases to be an employee (for reasons other than disability or retirement at or after age 60) up to three months after the day of termination of employment but not later than the date the option expires, (II) by reason of retirement, either at or after age 60 but not later than the earlier of the date the option expires or four years after the date of retirement, or, if approved by the Committee, after retirement at an age less than age 60 but not later than the earlier of the date the option expires or three years after the date of retirement; and (III) in the event a salary replacement option is granted by the Committee and the option holder is involuntarily terminated during the option term or becomes disabled or dies, the Committee shall have the right to grant to the option holder or his personal representative, as the case may be, the right to request either (1) that the option be cancelled and the option holder or his estate be paid an amount equal to the compensation the option holder has given up from the date of grant to the date of such termination, disability or death together with interest at the prime rate less the then market gain on that portion of the shares covered by the option which is then vested; or (2) that the stock option accelerates such that the option be deemed to have vested at an appropriate rate per month (as determined by the Committee) from the date of grant to the last date of the month in which the date of termination, disability or death occurs, such accelerated option to be then exercisable for a period of three years following such date but only with respect to an option exercisable at the time such individual ceases to be an employee.

(iii) Notwithstanding any provision of this paragraph 7.E, if within one year after the termination of employment with or performance of services for the Company, an option holder is employed or retained by a company that competes with the business of the Company or such individual violates any confidentiality agreement with the Company, the Company may cancel and rescind all options held by such individual and demand return of the economic value of any option which was realized or obtained (measured at the date of exercise) by such individual at any time during the period beginning on the date which is twelve months prior to the date of termination.

(iv) Absence on leave or any other interruption in the performance of services by an option holder with the Company shall, if approved by the Committee, not be deemed a cessation or interruption of employment or services for the purposes of the Plan.

(v) No option shall be assignable or transferable by the individual to whom it is granted except that it may be transferable by will or the laws of descent and distribution. An option so transferred may be exercised after the death of the individual to whom it is granted only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.

(vi) In no event shall any option be exercisable at any time after its expiration date unless extended by the Committee. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated.

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

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

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

G. ACCELERATED OWNERSHIP FEATURE. An option may, in the discretion of the Committee, include the right to acquire an accelerated ownership nonqualified stock option ("AO Option"). An option which provides for the grant of an AO Option shall entitle the option holder, upon exercise of that option and payment of the appropriate exercise price in shares of Common Stock that have been owned by such option holder for not less than six months prior to the date of exercise, to receive an AO Option. An AO Option is an option to purchase, at fair market value at the date of grant of the AO Option, a number of shares of Common Stock equal to the sum of the number of whole shares delivered by the option holder in payment of the exercise price of the original option and the number of whole shares, if any, withheld by the Company as payment for withholding taxes. An AO Option shall expire on the same date that the original option would have expired had it not been exercised. All AO Options shall be nonqualified options.

H. CHANGE OF CONTROL. In the event of a threatened or actual Change of Control of the Company as hereinafter defined, whether or not approved by the Board of Directors, all options shall fully vest, unless otherwise limited by the Committee at the time of the option grant, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the later of the threatened or actual Change of Control, but not later than ten years after the date of grant. A Change of Control means the earliest to occur of (i) a public announcement that a party shall have acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a party of 30% 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 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.

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

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

K. GENERAL RESTRICTION. Each option shall be subject to the requirement that, if at any time the Board shall determine in its discretion that the listing, registration or qualification of the Common Stock subject to such option on any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issue or purchase of Common Stock thereunder, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

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

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

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

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

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

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

11. MISCELLANEOUS.

A. USE OF PROCEEDS. The proceeds derived from the sale of shares of Common Stock pursuant to options granted under the Plan shall constitute general funds of the Company.

B. PARENT AND SUBSIDIARY. As used herein, the terms "parent" and "subsidiary" shall mean "parent corporation" and "subsidiary corporation", respectively, as defined in Section 424 of the Code.

ADDENDUM
DATED AS OF JULY 31, 1997
TO
THE TORO COMPANY
CHIEF EXECUTIVE OFFICER INCENTIVE AWARD AGREEMENT

ADDENDUM ("Addendum") dated as of July 31, 1997, by and between The Toro Company, a Delaware corporation (the "Company"), and Kendrick B. Melrose, its Chief Executive Officer ("Mr. Melrose"), to The Toro Company Chief Executive Officer Incentive Award Agreement dated as of July 31, 1995 (the "Agreement").

1. The section of the Agreement identified as Section 2. Terms, Conditions and Restrictions is hereby renumbered to become Section 3, in order to eliminate duplicate numbering, and each reference to Section 2 or to a subsection of Section 2 throughout the Agreement shall be revised to be a reference to Section 3, and each reference to Section 1 or to a subsection of Section 1 throughout the Agreement shall be revised to be a reference to Section 2.

2. Section 3.a.i.(A) of the Agreement, as renumbered, be and hereby is amended in connection with the schedule for achievement of each Performance Goal, as follows:

   (a) The deadline for achievement of Goal 2 shall be changed from July 31, 1999, to October 31, 2000; and

   (b) The deadline for achievement of Goal 3 shall be changed from July 31, 2000, to October 31, 2003.

3. A new Section 3.a.i.(D) shall be added to the Agreement, as follows:

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

4. Except as provided in this Addendum, all other terms and provisions of the Agreement shall remain in full force and effect.

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

THE TORO COMPANY

By /s/ J. Lawrence McIntyre

Vice President and Secretary

I hereby agree to the terms and conditions of the Agreement, as amended by this Addendum, which together memorialize the terms and conditions of the Restricted Stock and Performance Unit Award grant made to me as of July 31, 1995, and approved by stockholders of the Company at the 1994 Annual Meeting of Stockholders and amended by the Compensation Committee and Board of Directors in July, 1997.

By /s/ Kendrick B. Melrose

Chairman, CEO and President

CHIEF EXECUTIVE OFFICER SUCCESSION PLAN

1. PURPOSE. The purpose of this Chief Executive Officer Succession Plan (the "Plan") is to assist The Toro Company (the "Company") in preparing for succession in the management of the Company at the retirement of Kendrick B. Melrose, Chairman and Chief Executive Officer of the Company ("Mr. Melrose"); to encourage Mr. Melrose to assure the identification, development and readiness of his successor prior to his retirement, subject to such successor's approval by the Board of Directors; and to discourage Mr. Melrose from seeking employment with, consulting for or serving on the board of directors of any competitor of the Company.

2. EFFECTIVE DATE. The Plan was adopted by the Board of Directors on October 18, 1994, and became effective on July 31, 1995, following approval by the holders of the Common Stock, par value $1.00 per share, of the Company (the "Common Stock") at the 1994 Annual Meeting of Stockholders.

3. ADMINISTRATION. The Plan shall be administered by the Compensation Committee of the Board of Directors of the Company ("the Committee"), which shall be comprised of not fewer than two members of the Board of Directors of the Company who shall meet the requirements for service pursuant to Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 162(m) under the Internal Revenue Code of 1986, as amended (the "Code"), and the rules, regulations and interpretations thereunder. The Committee shall have the authority to interpret the Plan; to prescribe, amend and rescind the rules and regulations relating to it, and to make all other determinations deemed necessary or advisable for the administration of the Plan. Such determinations shall be conclusive.

4. SHARES SUBJECT TO THE PLAN. Subject to the provisions of Section 5.a. and Section 6.e.ii, the maximum aggregate number of shares of Common Stock that may be awarded as Restricted Stock under the Plan shall be 23,960. Such shares may be in whole or in part authorized but unissued shares of Common Stock or shares of Common Stock previously issued and outstanding and reacquired by the Company.

5. AWARD. The Company shall have the authority to enter into an agreement with Mr. Melrose, to become effective as of July 31, 1995, embodying the terms and conditions of this Plan, pursuant to which Mr. Melrose shall be granted an award comprised of the components set forth in Sections 5.a. through 5.c. Mr. Melrose shall not have any rights with respect to the award authorized under this Plan until and unless he shall have executed an agreement or other instrument evidencing the award and containing the terms and conditions set forth in this Plan and shall have delivered a fully executed copy thereof to the Company, and otherwise complied with the then applicable terms and conditions.

a. GRANT OF RESTRICTED STOCK. The Company shall grant to Mr. Melrose on July 31, 1995 the number of whole shares of Common Stock having an aggregate fair market value of $500,000 on such date of grant (the "Restricted Stock"), subject to forfeiture or reduction of the number of shares in the event performance goals set forth in Section 6 (the "Performance Goals") are not achieved and to the other terms and conditions of the Plan; provided however that in the event the fair market value of the Common Stock on the date of vesting of the Restricted Stock is less than the fair market value on July 31, 1995, the Company shall make an aggregate payment to Mr. Melrose of the difference between the fair market value on the date of vesting of the Restricted Stock and the fair market value on July 31, 1995. Fair market value shall mean the closing price of the Common Stock on the New York Stock Exchange as reported in THE WALL STREET JOURNAL.

b. GRANT OF PERFORMANCE UNITS AND ANNUITY PURCHASE. Subject to the terms and conditions of this Plan, the Company shall grant to Mr. Melrose on July 31, 1995, performance units equal to the number of whole shares of Common Stock having an aggregate fair market value of $500,000 on such date of grant (the "Performance Units"), subject to forfeiture or reduction in the event the Performance Goals set forth in Section 6 are not achieved and to the other terms and conditions of the Plan. Each Performance Unit shall have a value equal to the fair market value of one share of Common Stock, from time to time, provided however that the value shall not be less than the fair market value of one share of Common Stock on July 31, 1995. Performance Units shall be evidenced by the agreement to be entered into between Mr. Melrose and the Company pursuant to the preamble to this Section 5. An amount equal to the aggregate value of the Performance Units remaining at the date of Mr. Melrose's retirement, after forfeiture, if any, shall be utilized by the Company to purchase a retirement annuity payable to Mr. Melrose until his 75th birthday, or to his estate or beneficiaries, and for no other purpose, subject to the condition that Mr. Melrose enter into and comply with the terms and conditions of a noncompetition agreement, in accordance with Section 5.c. and 6.b.

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

6. TERMS, CONDITIONS AND RESTRICTIONS.

a. RESTRICTED STOCK AND PERFORMANCE UNIT PERFORMANCE GOAL RESTRICTIONS. The obligation of the Company to deliver certificates representing the Restricted Stock granted hereunder and to utilize the aggregate value of the Performance Units to purchase a retirement annuity shall be subject to the terms, conditions and restrictions set forth in this Section 6.a.

i. Vesting of Restricted Stock and Performance Units. Mr. Melrose's right to receive the Restricted Stock and the value of the Performance Units shall be subject to the vesting requirements set forth in this Section 6.a.i. and to the achievement by Mr. Melrose of the Performance Goals set forth in Section 6.a.i. hereof not later than the last day of the period specified to achieve such performance (the "Restricted Period"). Upon achievement of a Performance Goal within an applicable Restricted Period, the restrictions shall lapse with respect to the specified portion of Restricted Stock, which specified portion shall vest and become nonforfeitable. Upon achievement of a Performance Goal within an applicable Restricted Period, the restrictions shall lapse with respect to the specified portion of Performance Units, which specified portion shall vest and become nonforfeitable, subject to the further condition that Mr. Melrose enter into and comply with the terms and conditions of a noncompetition agreement in accordance with Section 6.b. If Mr. Melrose does not enter into a noncompetition agreement or does not comply with the terms and conditions of such a noncompetition agreement, then Mr. Melrose shall forfeit his rights to the Performance Units and the right to receive the benefits of the retirement annuity referred to in Section 5.b.

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

Performance Goal to be Achieved	Restricted Period (July 31, 1995 through earlier of date shown or Goal Achievement)	Portion of Shares of Restricted Stock to Vest Upon Achievement	Portion of Performance Units to Vest Upon Achievement
Goal 1: CEO and senior management succession plan developed and progress toward fulfillment of the plan, both approved by Board of Directors	July 31, 1998	15%	15%
Goal 2: Continued development of senior management team and identification of potential CEO successor identified with approval of Board of Directors	October 31, 2000	15%	15%

Goal 3: CEO identified and developed by Mr. Melrose and elected as CEO by the Board of Directors	October 31, 2003	70%	70%

(B) Early Selection of Successor. Notwithstanding any other provision of the Plan, in the event that the Board of Directors elects as Mr. Melrose's successor the individual identified and developed by Mr. Melrose, and such successor is in place as chief executive officer of the Company and Mr. Melrose elects to retire prior to the last day of the final Restricted Period, but no earlier than July 31, 1997, all Restricted Stock and Performance Units shall vest in full and become nonforfeitable, subject to the condition with respect to the Performance Units that Mr. Melrose enter into and comply with the terms and conditions of a noncompetition agreement in accordance with Section 6.b.

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

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

ii. Limits on Transfer of Restricted Stock and Performance Units. Shares of the Restricted Stock which have not vested in accordance with the provisions of Section 6.a. hereof may not be sold, transferred, pledged, assigned or otherwise encumbered. Performance Units may not be sold, transferred, pledged, assigned or otherwise encumbered at any time.

iii. Termination, Death or Disability. In the event that the Board of Directors terminates Mr. Melrose's employment other than for cause and elects as Mr. Melrose's successor a chief executive officer who was identified and developed by Mr. Melrose, or in the event of the termination of Mr. Melrose's employment due to his death or disability, then all shares of Restricted Stock and Performance Units shall automatically and immediately vest in full and become nonforfeitable.

b. POST-RETIREMENT CONSULTING AND NONCOMPETITION AGREEMENT. The Company's agreement to pay any amount in connection with post-retirement consulting services to be provided by Mr. Melrose and the Company's agreement to pay the value of

Performance Units to purchase a retirement annuity payable to Mr. Melrose pursuant to Section 5.c. shall be subject to and in consideration of Mr. Melrose's execution, not later than July 31, 1995, of an agreement not to compete with the Company by serving as an employee or member of the board of directors of or consultant to any competitor to the Company identified in an SEC Annual Report on Form 10-K or any successor thereof or similar competitor of the Company for a period of five years following the date of Mr. Melrose's retirement as Chief Executive Officer of the Company. The Company's agreement to pay any amount in connection with post-retirement consulting services to be provided by Mr. Melrose shall be subject to his agreement to provide consulting services to the Company for a period of five years following the date of his retirement; provided however that Mr. Melrose may elect to terminate the consulting agreement, but not the agreement not to compete, in which event any balance of the $500,000 amount referred to in Section 5.c. not then expended for Mr. Melrose's benefit shall be paid to Mr. Melrose over the remainder of the five year period. Mr. Melrose shall not have any right to receive payments pursuant to Section 5.c. or this Section 6.b. until and unless he shall have executed an agreement not to compete with the Company and delivered a fully executed copy thereof to the Company, and otherwise complied with the then applicable terms and conditions of the Plan.

c. TERMINATION OF EMPLOYMENT. Except as otherwise provided by Section 6.a. hereof, if Mr. Melrose resigns his employment with the Company or if his employment is terminated by the Board of Directors for cause during any Restricted Period, all shares of Restricted Stock and all Performance Units then subject to restrictions and all other rights under this Plan shall be forfeited by Mr. Melrose and the Restricted Stock shall be reacquired by the Company. For purposes of the Plan, "Cause" shall mean:

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

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

For purposes of this provision, no act or failure to act, on the part of Mr. Melrose, shall be considered "willful" unless it is done, or omitted to be done, by Mr. Melrose in bad faith or without reasonable belief that Mr. Melrose's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors or upon the instructions of a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Mr. Melrose in good faith and in the best interests of the

Company. The cessation of employment of Mr. Melrose shall not be deemed to be for Cause unless and until there shall have been delivered to Mr. Melrose a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting of the Board of Directors called and held for such purpose (after reasonable notice is provided to Mr. Melrose and Mr. Melrose is given an opportunity, together with counsel, to be heard before the Board of Directors), finding that, in the good faith opinion of the Board of Directors, Mr. Melrose is guilty of the conduct described in subparagraph i. or ii. above, and specifying the particulars thereof in detail.

d. STOCK CERTIFICATES.

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

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

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

iii. LAPSE OF RESTRICTIONS. When the Performance Goals set forth in Section 6.a. have been achieved with respect to any portion of the shares of the Restricted Stock, the Company shall not later than 60 days thereafter, cause the certificate or certificates representing the Restricted Stock to be reissued without the legend referred to in Section 6.d.i. hereof. The number of shares of Common Stock to be reissued shall be the same number as to which the Performance Goals have been achieved in accordance with Section 6.a.

e. RIGHTS AS STOCKHOLDER.

i. RIGHT TO VOTE AND DIVIDENDS. Except as provided in Section 5 and this Section 6, Mr. Melrose shall have, with respect to the shares of Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares and the right to receive cash dividends with respect to the shares. Certificates for shares of Restricted Stock shall be delivered to Mr. Melrose after, and only after, the Restricted Period shall expire without forfeiture of such shares of Restricted Stock, in accordance with the provisions of Section 5.a.

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

f. CHANGE IN CONTROL. In the event of a threatened or actual Change of Control of the Company as hereinafter defined, whether or not approved by the Board of Directors, all shares of Restricted Stock shall immediately fully vest and be freely transferable. A Change of Control means the earliest to occur of (i) a public announcement that a party shall have acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a party of 30% 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 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.

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

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

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

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

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

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

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

14. GOVERNING LAW. This Plan shall be construed in accordance with and governed by the laws of the State of Delaware.

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

As amended, effective July 31, 1997.

Exhibit 11

THE TORO COMPANY AND SUBSIDIARIES
Computation of Earnings per Share of Common Stock and Common Stock Equivalents
(Not Covered by Independent Auditors' Report)

	YEAR ENDED 10/31/97	YEAR ENDED 10/31/96	3 MONTHS ENDED 10/31/95	YEAR ENDED 7/31/95
Net earnings	$34,845,000	$ 36,409,000	$ 3,997,000	$36,667,000
Primary:				
Shares of common stock and common stock equivalents:				
Weighted average number of common shares outstanding	12,095,475	12,140,689	12,117,815	12,556,039
Dilutive effect of outstanding stock options (1)	371,007	414,026	424,225	476,374
	12,466,482	12,554,715	12,542,040	13,032,413
Net earnings per share of common stock and common stock equivalents	$ 2.80	$ 2.90	$ 0.32	$ 2.81
Fully Diluted:				
Shares of common stock and common stock equivalents:				
Weighted average number of common shares outstanding	12,095,475	12,140,689	12,117,815	12,556,039
Dilutive effect of outstanding stock options (2)	478,098	414,026	424,225	511,133
	12,573,573	12,554,715	12,542,040	13,067,172
Net earnings per share of common stock and common stock equivalents	$ 2.77	$ 2.90	$ 0.32	$ 2.81

(1) Outstanding stock options and options exercised in the current period are converted to common stock equivalents by the treasury stock method using the average market price of the company's stock during each period.

(2) Outstanding stock options and options exercised in the current period are converted to common stock equivalents by the treasury stock method using the greater of the average market price or the year-end market price of the company's shares during each period.

Exhibit 12

THE TORO COMPANY AND SUBSIDIARIES
Computation of Ratio of Earnings to Fixed Charges
(Not Covered by Independent Auditors' Report)

	YEAR ENDED		3 MONTHS ENDED	YEAR ENDED		
	10/31/97	10/31/96	10/31/95	7/31/95	7/31/94	7/31/93
Earnings before income taxes	$60,344,000	$ 60,180,000	$6,606,0000	$61,112,000	$37,050,000	$21,355,000
Plus: Fixed charges (1)	23,186,000	16,728,000	3,266,000	14,892,000	15,989,000	19,142,000
Earnings available to cover fixed charges	$83,530,000	$76,908,000	$9,872,000	$76,004,000	$53,039,000	$40,497,000
Ratio of earnings to fixed charges	3.53	4.60	3.02	5.10	3.32	2.12

Interest Expense	$20,400,000	$13,590,000	$2,532,000	$11,902,000	$13,562,000	$17,150,000
Rentals (Interest factor)	3,286,000	3,138,000	734,000	2,990,000	2,427,000	1,992,000
Total fixed charges	$23,686,000	$16,728,000	$3,266,000	$14,892,000	$15,989,000	$19,142,000

(1) Fixed charges consist of those above. In 1997, $500,000 of capitalized interest was excluded.

THE TORO COMPANY is one of the world's leading producers of integrated solutions for outdoor landscapes. While Toro has many competitors, few if any can match the company's comprehensive offerings focused exclusively on maintaining turf and landscapes in a beautiful, productive and ecological way. Toro customers are caretakers of the environment, whether they are golf course superintendents, major league or youth league sportsfield groundskeepers, or homeowners. These caretakers want and need integrated products and systems that create, maintain, enhance, and conserve beautiful landscapes.

For 83 years, Toro has built on a rich tradition of providing customers with the tools and equipment necessary to protect and preserve outdoor environments. Toro experts have walked the fairways with superintendents and backyards with homeowners to listen to customers and build products that often become the standard of innovation excellence.

Toro's long-term strategies have focused on reducing the cyclical impacts of weather and economic variations. Toro is more diversified by product, market, and global focus than the Toro of 10 or 15 years ago. Today, professional turf maintenance products make up the majority of Toro sales as the company has capitalized on growth opportunities in these markets. Residential products are still a dynamic part of Toro and several new products were added to the Toro portfolio in 1997. Toro has high brand equity because of superior quality and customer satisfaction.

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

Years ended October 31	1997	1996	% Change
Net sales	$1,051,204	$930,909	12.9%
Net earnings, before extraordinary loss*	36,508	36,409	0.3
Percent of net sales	3.5%	3.9%	
Net earnings per share of common stock and common stock equivalent, before extraordinary loss*	$ 2.93	$ 2.90	1.0
Dividends paid per share of common stock outstanding	0.48	0.48	
Return on:			
Beginning common stockholders' equity	16.3%	19.1%	
Average common stockholders' equity	15.3	18.0	
Average invested capital	12.1	15.2	
AT YEAR END			
Working capital	$ 234,211	$197,144	18.8
Total assets	661,634	496,877	33.2
Total debt	219,015	94,390	132.0
Common stockholders' equity	241,163	213,567	12.9
Book value per common share	19.78	17.75	11.4
Number of common stockholders	6,560	6,841	(4.1)
Average number of employees	3,911	3,509	11.5

See accompanying notes to consolidated financial statements.

*In 1997, the company recognized an extraordinary loss on the early retirement of debt of $1,663,000 or $0.13 per share.

FISCAL 1997

/ / PROFESSIONAL TURF 57%
/ / RESIDENTIAL 43%
[CHART]

FISCAL 1996

/ / PROFESSIONAL TURF 50%
/ / RESIDENTIAL 50%
[CHART]

CONTENTS

ON THE COVER

[LOGO]

Toro is the preferred supplier of equipment and irrigation systems for the Pinehurst Resort and Country Club, including the recently opened Pinehurst No. 8 (cover) and the legendary Pinehurst No. 2, site of the 1999 U.S. Men's Open Championship.

(Dollars in thousands, except per share data) Years ended October 31(6)	1997(2)	1996	1995	1994
OPERATING DATA:				
Net sales	$1,051,200	$930,900	$919,400	$864,300
EARNINGS:				
Net earnings (loss), before extraordinary loss(1)	36,500	36,400	32,400	32,400
Percent of sales	3.5%	3.9%	3.5%	3.8%
Per share of common stock and common stock equivalent, before extraordinary loss(1)	$ 2.93	$ 2.90	$ 2.50	$ 2.49
DIVIDENDS:				
On common stock outstanding	5,794	5,834	5,953	6,022
Per share of common stock outstanding	0.48	0.48	0.48	0.48
RETURN ON:				
Beginning common stockholders' equity	16.3%	19.1%	18.1%	22.9%
Average common stockholders' equity	15.3%	18.0%	17.5%	20.2%
SUMMARY OF FINANCIAL POSITION:				
Current assets	$ 472,000	$405,000	$386,300	$373,400
Current liabilities	237,800	207,900	221,200	197,200
Working capital	234,200	197,100	165,100	176,200
Non-current assets	189,600	91,900	86,400	78,200
Total assets	661,600	496,900	472,700	451,600
Non-current liabilities, excluding long-term debt	5,000	22,400	7,200	5,300
CAPITALIZATION:				
Long-term debt, less current portion	177,700	53,000	53,400	70,400
Redeemable preferred stock	-	-	-	-
Common stockholders' equity	241,200	213,600	190,900	178,700
Total capitalization	418,900	266,600	244,300	249,100
Book value per common share	19.78	17.75	15.69	14.05
STOCK DATA:				
Number of shares of common stock outstanding (in thousands)	12,189	12,032	12,168	12,720
Number of common stockholders(7)	6,560	6,841	7,243	7,541
Low price	$ 31 1/2	$ 28 3/8	$ 25 5/8	$ 20 7/8
High price	43 3/4	36 1/4	32 1/4	30 1/2
Close price	42 3/4	31 3/8	28 7/8	27 3/4

(1) 1997 net earnings and earnings per share after the extraordinary loss on early retirement of debt of $1,663,000, or $0.13 per share, were $34,845,000 and $2.80, respectively.
(2) The company's consolidated financial statements include results of operations of the James Hardie Irrigation Group from December 1, 1996, the date of acquisition.
(3) Includes restructuring costs of $24.9 million, or $1.41 per share.
(4) The company's consolidated financial statements include results of operations of Lawn-Boy Inc. from November 7, 1989, the date of acquisition.
(5) The company's consolidated financial statements include results of operations of Wheel Horse Products, Inc. from December 19, 1986, the date of acquisition.
(6) The actual date of the year-end for years prior to 1995 was the Friday closest to October 31.
(7) Represents the number of stockholders at July 31 for the years starting in 1987 and ending in 1994.

NET EARNINGS (1)

(Dollars in millions)

94	95	96	97
32.4	32.4	36.4	36.5

(Dollars in thousands, except per share data) Years ended October 31(6)	1993	1992(3)	1991	1990(4)	1989	1988	1987(5)
OPERATING DATA:							
Net sales	$706,600	$638,700	$706,200	$747,300	$639,200	$626,200	$551,600
EARNINGS:							
Net earnings (loss), before extraordinary loss(1)	15,300	(21,700)	9,100	8,400	20,000	20,500	17,900
Percent of sales	2.2%	(3.4)%	1.3%	1.1%	3.1%	3.3%	3.2%
Per share of common stock and common stock equivalent, before extraordinary loss(1)	$ 1.22	$(1.81)	$ 0.77	$ 0.84	$ 1.90	$ 1.90	$ 1.60
DIVIDENDS:							
On common stock outstanding	5,858	5,765	5,710	6,074	4,774	4,613	3,730
Per share of common stock outstanding	0.48	0.48	0.48	0.48	0.48	0.45	0.37
RETURN ON:							
Beginning common stockholders' equity	12.1%	(14.2)%	6.2%	8.5%	23.5%	28.4%	28.8%
Average common stockholders' equity	11.4%	(15.5)%	6.1%	6.8%	21.7%	26.1%	26.7%
SUMMARY OF FINANCIAL POSITION:							
Current assets	$326,100	$324,200	$322,000	$306,800	$271,200	$296,400	$262,600
Current liabilities	169,200	132,500	103,800	133,000	125,000	144,200	121,800
Working capital	156,900	191,700	218,200	173,800	146,200	152,200	140,800
Non-current assets	73,700	85,100	93,400	103,900	57,100	55,800	52,800
Total assets	399,800	409,300	415,400	410,700	328,300	352,200	315,400
Non-current liabilities, excluding long-term debt	1,400	2,500	4,100	6,100	2,400	1,700	1,100
CAPITALIZATION:							
Long-term debt, less current portion	87,300	147,900	154,100	125,300	95,600	112,200	109,800
Redeemable preferred stock	-	-	-	-	6,000	9,000	10,500
Common stockholders' equity	141,900	126,400	153,400	146,300	99,300	85,100	72,200
Total capitalization	229,200	274,300	307,500	271,600	200,900	206,300	192,500
Book value per common share	11.47	10.5	12.84	12.34	9.98	8.46	7.12
STOCK DATA:							
Number of shares of common stock outstanding (in thousands)	12,370	12,041	11,950	11,859	9,946	10,059	10,144
Number of common stockholders(7)	7,968	8,386	8,503	7,706	7,527	6,802	5,587
Low price	$ 14 1/8	$ 11 3/8	$ 11	$ 12	$ 17 7/8	$ 11 1/8	$ 13 1/2
High price	26 3/4	17 1/2	20 1/2	30	24 3/8	24 7/8	23 3/4
Close price	25 3/8	14 1/8	14 3/4	12 3/4	21 5/8	18 3/8	15 1/8

OPERATING EARNINGS

(Dollars in millions)

94	95	96	97
59.0	58.1	63.4	72.3

TOTAL DEBT TO CAPITAL

(In percentages)

94	95	96	97
33.8	36.6	30.7	47.6

CASH FLOW COVERAGE

94	95	96	97
1.1	1.3	1.0	2.0

CASH FLOW FROM OPERATIONS

(Dollars in millions)

94	95	96	97
30.6	20.0	32.4	83.9

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS The Toro Company

INCLUDED IN THIS ANALYSIS ARE STATEMENTS WHICH ARE FORWARD-LOOKING. STATEMENTS THAT ARE NOT HISTORICAL ARE FORWARD-LOOKING AND INVOLVE RISKS AND UNCERTAINTIES. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS AND SHOULD NOT BE RELIED UPON AS A PREDICTION OF ACTUAL FUTURE RESULTS. THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH SUCH STATEMENT IS MADE, OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

In November 1995, the company changed its fiscal year from a fiscal year ended July 31 to a fiscal year ended October 31. The following comparisons are based on the company's new fiscal year-end. The financial information relating to results of operations for the fiscal year ended October 31, 1995 has been restated from the previous July 31 year-end and is unaudited. All other financial information has been derived from the audited financial statements.

RESULTS OF OPERATIONS

In 1997, the company achieved its fifth consecutive year of earnings per share growth prior to the impact of an extraordinary loss on the early retirement of debt as discussed in the Notes to the Consolidated Financial Statements. This growth was sustained despite a one-time charge which included the closing of one manufacturing facility. The refinancing of the company's debt and restructuring of its manufacturing facilities are expected to have a positive impact on future company performance.

In 1997, as in the year before, the company continued to feel the impact of weather patterns worldwide. In addition, priorities continued to change for both dealers and consumers as they became more and more price and value conscious, not only in the consumer and residential markets, but also in the professional

SUMMARY

	Year Ended October 31				
(Dollars in millions, except per share data)	1997	% Change	1996	% Change	1995
Net sales	$1,051.2	12.9%	$930.9	1.2%	$919.4
Cost of sales	663.2	12.6	589.2	-	589.2
Gross profit	388.0	13.6	341.7	3.5	330.2
Selling, general and administrative expense	315.7	13.4	278.3	2.3	272.1
Earnings from operations	72.3	14.0	63.4	9.2	58.1
Interest expense	19.9	46.4	13.5	13.7	11.9
Other income, net	(7.9)	(23.6)	(10.3)	33.4	(7.7)
Earnings before income taxes, and extraordinary loss	60.3	0.3	60.2	11.7	53.9
Provision for income taxes	23.8	0.3	23.8	10.5	21.5
Net earnings before extraordinary loss	36.5	0.3	36.4	12.5	32.4
Extraordinary loss, net of income tax benefit of $1.1	1.7	-	-	-	-
Net earnings	$ 34.8	(4.3)%	$ 36.4	12.5%	$ 32.4
Net earnings per share of common stock and common stock equivalent before extraordinary loss	$ 2.93	1.0%	$ 2.90	16.0%	$ 2.50
Extraordinary loss per share, net of income tax benefit	0.13	-	-	-	-
Net earnings per share of common stock and common stock equivalent	$ 2.80	(3.4)%	$ 2.90	16.0%	$ 2.50

NET SALES BY PRODUCT LINE

(Dollars in millions)	1997	% Change	1996	% Change	1995
Consumer	$ 421.9	(8.5)%	$461.0	(1.3)%	$467.2
Commercial	344.6	7.0	322.0	3.6	310.8
Irrigation	284.7	92.5	147.9	4.6	141.4
Total*	$1,051.2	12.9%	$930.9	1.2%	$919.4
*Includes international sales of	$ 232.8	33.6%	$174.2	16.5%	$149.6

markets. The company faced increasing competitive pressures, both domestically and internationally. While the international market remains a potentially high growth market and the company continues to enjoy high market share, increasingly difficult economic conditions made this a very volatile market in 1997. Although the James Hardie Irrigation Group (Hardie) acquisition had a substantial impact on 1997 net sales, the acquisition was still both a resource and dollar drain.

In response to these challenges, the company continued to evaluate its business units and reinvest in opportunities and initiatives that will help sustain competitiveness and maintain a leadership position in 1998 and beyond. In order to hold and/or obtain additional market share in all its businesses, the company began implementing supply chain management strategies which will reduce costs in both the manufacturing and distribution systems. In addition, funds will be earmarked to develop new and innovative products for its markets. The company also made key investments for the future that helped differentiate it by broadening its offering of products. This included the acquisition of Hardie and the manufacturing, sales and distribution rights to Dingo-TM- Digging Systems (Dingo) under which the company will manufacture and sell Dingo landscape products under the Toro Sitework-TM- Systems brand name for North and South American markets. Alliances were formed with Maruyama Manufacturing and Bluebird International. The company is implementing marketing strategies for fiscal 1998 including the lowering of prices for the consumer walk-behind power mowers to reverse share erosion. Finally, the company has established an international currency fund to protect market share and has continued to develop long-term relationships with key accounts.

NET SALES

Fiscal 1997 Compared With Fiscal 1996

Effective December 1, 1996 the company acquired Hardie from James Hardie Industries Limited of Australia (JHI Limited). Hardie is a worldwide leader in the production of irrigation systems for the residential and commercial landscape markets, and agricultural irrigation market. Comparisons of fiscal 1997 to fiscal 1996 are significantly impacted by the acquisition.

Worldwide net sales increased 12.9% to $1.1 billion in 1997 versus $930.9 million in 1996. The following is a discussion of the sales by product group:

- - CONSUMER

Worldwide consumer product sales declined by 8.5% to $421.9 million in 1997. Although retail demand for Toro and Lawn-Boy walk-behind power mowers increased slightly over last year, sales to dealers and distributors declined as their levels of field inventories were managed down and they shifted their buying patterns to more closely reflect retail demand. Sales to hardware, home centers and mass merchant retailers were very strong, partially offsetting the reduction in dealer and distributor sales. This reflects a shift in consumer buying patterns from brand specific purchases from dealer outlets to price and value conscious purchases from hardware, home centers and mass merchant retailers, a trend throughout the industry. Consumer international sales increased 14.9% due primarily to product penetration in newer markets such as Eastern Europe. Although the consumer business did not grow in 1997, the company has taken aggressive steps to reposition the business for 1998, and these steps, combined with several new products coming on line in 1998, brighten the outlook of residential products for 1998 and beyond.

- - COMMERCIAL

Worldwide commercial product sales increased by 7.0% to $344.6 million. The increase in sales reflected growth in the golf market as well as the landscape maintenance sector. This was partially offset by reduced sales for recycling equipment and commercial parts. Although competitors in the commercial market are aggressively pursuing market share, the company believes it is maintaining its leadership position. International sales included in the worldwide commercial totals were up 2.2%. The strong U.S. dollar dampened growth in foreign golf projects, especially

CONSUMER SALES

(Dollars in millions)

94	95	96	97
476.2	467.2	461.0	421.9

COMMERCIAL SALES

(Dollars in millions)

94	95	96	97
262.3	310.8	322.0	344.6

IRRIGATION SALES

(Dollars in millions)

94	95	96	97
125.8	141.4	147.9	284.7

INTERNATIONAL SALES*

(Dollars in millions)

94	95	96	97
140.7	149.6	174.2	232.8

*(Included in charts at left)

in emerging markets. The company is currently developing strategies to protect against loss of sales due to fluctuations in foreign currencies.

- - IRRIGATION

Worldwide irrigation product sales totaled $284.7 million, an increase of 92.5% over the prior year. This increase was almost entirely attributable to the acquisition of Hardie. Irrigation sales discussed here include sales to both the residential and professional markets. Golf irrigation and do-it-yourself retail irrigation product sales also did well for the year. The strength in these two areas was partially offset by a sluggish residential and commercial irrigation season. International irrigation sales were up 167.4% from the prior year, mainly due to the acquisition of Hardie. International sales without Hardie were flat due principally to the weakening of foreign currencies against the U.S. dollar. Many new golf projects were postponed or cancelled as a result of weakened foreign economies. The company is currently developing strategies to guard against loss of sales due to fluctuations in foreign currencies.

- - INTERNATIONAL MARKETS

Total international product sales, included in the preceding net sales table, increased by 33.6% over the previous year to $232.8 million. This was primarily the result of additional sales added by the Hardie acquisition. The remaining increase occurred as a result of the growth of newer target markets in Eastern Europe and Latin America. Competitive pressures and the strong U.S. dollar slowed growth in international markets.

International sales are principally denominated in U.S. dollars, although a portion of the company's international sales are denominated in foreign currencies. To reduce the uncertainty of foreign currency exchange rate movements on these sales commitments, the company enters into foreign currency exchange contracts and, although the risks of foreign currency transactions are getting larger, the company is proactively addressing these fluctuations in currency and their impact on the financial statements. See Notes to the Consolidated Financial Statements.

FISCAL 1996 COMPARED WITH FISCAL 1995

In fiscal 1996, net earnings increased by $4.0 million to $36.4 million from $32.4 million in the prior fiscal year. Worldwide net sales increased by $11.5 million to $930.9 million in 1996 versus $919.4 million in 1995. The following is a discussion of the sales by product group for fiscal 1996 as compared to fiscal 1995:

- - CONSUMER

Worldwide consumer product sales in 1996 fell by 1.3% to $461.0 million from $467.2 million in 1995. The decrease was primarily the result of a slow start to the lawn and garden season due to cold, wet weather throughout most of the United States during the spring season. This decline was offset partially by increased snowthrower shipments. Snowthrower demand, especially in the northeast, was high in anticipation of strong retail activity and abnormally low field inventory levels. For the year, snowthrower sales were up 31.0%, primarily the result of sales volume increases. International sales included in the worldwide consumer totals increased by 8.4% from the prior year. Walk behind mower sales were lower, but this decline was offset by strong riding product sales.

- - COMMERCIAL

Worldwide commercial product sales increased $11.2 million or 3.6% over the prior year to $322.0 million. International sales were up 22.1% due primarily to a strong golf market in Europe and Asia. The late spring had an adverse effect on sales to the domestic golf course market. Many golf courses were forced to cut their equipment budgets due to loss of income from fewer rounds played during the inclement spring weather. In addition, the market saw increased competitive actions among the major equipment manufacturers.

- - IRRIGATION

Worldwide irrigation sales totaled $147.9 million representing an increase of $6.5 million or 4.6% over the prior year. International irrigation sales were strong, up 15.5% from the prior year, fueled by strong golf market sales. This was partially offset by lower sales to the residential/commercial markets which were impacted by the cold, wet spring.

- - INTERNATIONAL MARKETS

Total international sales, included in the preceding net sales table, increased by 16.5% over the previous year to $174.2 million. This was primarily the result of increased sales volumes in the European and Asian golf markets.

COST TRENDS AND PROFIT MARGINS

	Year Ended October 31		
Margins (Percent of net sales)	1997	1996	1995
Gross profit	36.9%	36.7%	35.9%
Operating profit	6.9%	6.8%	6.3%
Pretax earnings, before extraordinary loss	5.7%	6.5%	5.9%
Net earnings, before extraordinary loss	3.5%	3.9%	3.5%

FISCAL 1997 COMPARED WITH FISCAL 1996

The gross profit of $388.0 million represents a 13.6% increase over the gross profit of $341.7 million in 1996. As a percent of net sales, gross profit rose to 36.9% from 36.7% in the prior year. The increase was due primarily to improved production efficiencies, partially offset by the addition of Hardie products which carry somewhat lower gross margins. The company is focusing on cost containment and supply chain management strategies to partially offset the lower margin contribution of Hardie and the effects of competitive pressures.

FISCAL 1996 COMPARED WITH FISCAL 1995

The gross profit of $341.7 million represented an $11.5 million or 3.5% increase over the gross profit of $330.2 million in 1995. As a percent of net sales, gross profit rose to 36.7% from 35.9% in the prior year. The percentage margin improvement resulted primarily from reduced production costs, notably materials and product mix. This improvement was partially offset by costs resulting from lowered production levels in selected plants to match market needs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE (SG&A)
FISCAL 1997 COMPARED WITH FISCAL 1996

For 1997, SG&A expenses totaled $315.7 million or 30.0% of net sales, a slight percentage increase over 1996. Of this increase of $37.4 million, Hardie accounted for $34.8 million.

Increases in sales and marketing, warranty, and research and development expenses were completely offset by lower administrative expense, after the impact of Hardie, due to cost containment efforts initiated during the second half of the year. The remaining increase in SG&A expenses over the prior year occurred as the company incurred a one-time charge of $2.6 million related to the closing of the manufacturing facility at Mound, Minnesota and relocation of those operations to other company facilities throughout the U.S. This move is part of a long-term corporate strategy to reduce costs and provide opportunities for longer term capacity increases.

SG&A expense includes distributor/dealer financing costs totaling $10.2 million in 1997 and $10.3 million in 1996 incurred by the company to contract with a third party financing source to finance dealer inventory purchases. This charge represents interest for a pre-established length of time at a rate of prime plus a negotiated markup. This cost includes related expenses such as credit line origination costs. These financing arrangements are used by the company as a marketing tool to enable customers to buy inventory.

FISCAL 1996 COMPARED WITH FISCAL 1995

For 1996, SG&A expenses totaled $278.3 million or 29.9% of net sales compared to $272.1 million or 29.6% of net sales in 1995.

The increase in administrative expense of $4.8 million was comprised primarily of additional operating expenses associated with new businesses acquired in 1996. This was partially offset by a decline in sales and marketing expense of $1.5 million due to reduced direct expenses from the decrease in consumer lawn and garden sales combined with savings from added expense controls. In addition, warranty expense declined $3.4 million from the prior year as a result of lower warranty reserve requirements due to continuing product quality improvements and experience factors. Research and development expenditures increased by $3.9 million reflecting the company's commitment to invest in product innovation and development.

INTEREST EXPENSE
FISCAL 1997 COMPARED WITH FISCAL 1996

Interest expense in 1997 increased by $6.3 million to $19.9 million due to higher overall debt levels during the year. The Hardie acquisition debt accounted for approximately $7.1 million of the interest expense. This was offset by reductions in previously outstanding debt and related interest expense as cash generated by operations was used to pay off debt. In addition, the company redeemed higher rate debt by replacing the 11% debentures with lower rate debt during the year.

FISCAL 1996 COMPARED WITH FISCAL 1995

Interest expense in 1996 increased by $1.6 million to $13.5 million. Although the average cost of funds declined from the prior year, the benefit was diminished by higher overall debt levels resulting from higher levels of average working capital. In addition to working capital needs, the company purchased $13.3 million of its own common stock during the year which was funded with short-term borrowings. This cash outflow was offset partially by $12.1 million received as a result of an interest rate swap entered into during 1996.

OTHER INCOME, NET
FISCAL 1997 COMPARED WITH FISCAL 1996

Other income, net, totaled $7.9 million in 1997 versus $10.3 million for 1996. The reduction is primarily attributable to favorable results from a patent infringement lawsuit settlement in the prior year.

FISCAL 1996 COMPARED WITH FISCAL 1995

Other income, net, totaled $10.3 million in 1996 versus $7.7 million for 1995. The increase was primarily the result of favorable patent infringement litigation settlements.

PROVISION FOR TAXES
FISCAL 1997 COMPARED WITH FISCAL 1996

The effective tax rate for 1997 and 1996 was 39.5%. In accordance with Financial Accounting Standards No. 109, the company has determined that it is not necessary to establish a valuation reserve for the deferred income tax asset because it is more likely than not that the net deferred income tax asset of $43.5 million will be principally realized through carryback to taxable income in prior years, future reversals of existing taxable temporary differences and, to a lesser extent, future taxable income.

FISCAL 1996 COMPARED WITH FISCAL 1995

The effective tax rate of 39.5% for 1996 was consistent with the 39.9% rate in 1995.

NET EARNINGS
FISCAL 1997 COMPARED WITH FISCAL 1996

Net earnings for 1997 were $34.8 million after the effect of an extraordinary loss of $1.7 million, on the early retirement of debt. See Notes to the Consolidated Financial Statements. Net earnings before the extraordinary loss were $36.5 million, a slight increase from the 1996 net earnings of $36.4 million. Earnings per share before the effect of the extraordinary loss in 1997 were $2.93 up slightly from earnings per share in 1996. On a per share basis, earnings decreased from $2.90 in 1996 to $2.80 after the effect of the extraordinary loss of $0.13 in 1997.

Although Hardie contributed most of the sales increase, in the first year of the acquisition, Hardie resulted in a loss of $.08 per share, a significant improvement from the original estimate. It is expected that Hardie will contribute positive earnings in the future. Beginning in 1998, Hardie operations will be completely integrated into the company's irrigation business.

FISCAL 1996 COMPARED WITH FISCAL 1995

Net earnings for 1996 were $36.4 million, representing a 12.5% increase over 1995 earnings of $32.4 million. The increase was primarily the result of improved operating margins. On a per share basis, earnings increased 16% to $2.90 from $2.50 in 1995.

FINANCIAL POSITION

ASSETS

Total assets at October 31, 1997 increased by 33.2% to $661.6 million compared to $496.9 million for the prior year. Hardie accounted for $103.1 million of this increase. Property, plant and equipment, net of Hardie, increased $23.8 million as a result of corporate facility expenditures and tooling for new products. Other assets, net of Hardie, increased $21.2 million as a result of costs related to a debt issuance and interest rate swap terminations, capitalization of patents and purchase of property for future corporate expansion. See Notes to the Consolidated Financial Statements.

WORKING CAPITAL

Working capital at October 31, 1997 was $234.2 million, an 18.8% increase from $197.1 million reported for 1996. The current ratio for 1997 was 1.98 versus 1.95 in 1996. Working capital as a percent of sales was 22.3% in 1997 and 21.2% in 1996.

The increase in working capital was due primarily to the additional working capital requirements due to the growth of the business.

CAPITAL STRUCTURE

The company's capital structure is managed on a consolidated basis. Long-term debt at October 31, 1997 was $178.0 million, up $124.7 million from $53.4 million at October 31, 1996.

Total debt at October 31, 1997 was $219.0 million, up $124.6 million from $94.4 million at October 31, 1996. The total debt to total capital ratio increased from 30.7% in 1996 to 47.6% in 1997 as additional debt was issued in connection with the acquisition of Hardie.

Total capitalization at October 31, 1997 consisted of $178.0 million of long-term debt, $41.0 million of short-term borrowing and $241.2 million of stockholders' equity.

LIQUIDITY AND CAPITAL RESOURCES

In 1997, the company improved its liquidity position by increasing its current ratio after the acquisition of Hardie. The short-term financing used to initially fund the acquisition of Hardie was replaced during the year with long-term notes and debentures. In addition, the company completed the restructuring of its higher rate debt by redeeming $50.0 million of 11% debentures on August 1, 1997.

Management believes that the combination of funds available to the company through its existing financing options, coupled with forecasted cash flows, will continue to provide the capital resources for its anticipated needs.

- - CASH FLOW

Cash and cash equivalents declined slightly from 1996 to 1997.

Cash provided by operating activities increased by $51.4 million due principally to Hardie and an improvement in working capital from the prior year.

Cash used in investing activities increased significantly in 1997 from 1996 due almost entirely to the acquisition of Hardie. In addition, property, plant and equipment expenditures were up as a result of corporate facility expenditures and new product tooling.

Cash flows from financing activities increased primarily due to a net increase in long-term debt of $124.7 million predominantly used to finance the Hardie acquisition. The termination of interest rate swap agreements in connection with the debt issue and the purchase of common stock reduced cash flows from financing activities.

- - CREDIT LINES AND OTHER CAPITAL RESOURCES

The company's seasonal working capital requirements are funded with $190.0 million of unsecured bank credit lines. Average borrowings under these lines were $149.6 million in 1997 and $95.2 million in 1996. The increase in the average borrowings was mainly the result of the Hardie acquisition which was initially funded with temporary bank debt of $118.0 million. In addition, borrowings were up as a result of increases in seasonal working capital. At October 31, 1997 the company had $149.0 million of unutilized availability under these credit lines. The $150.0 million unsecured credit line used to initially finance the acquisition of Hardie terminated upon the issuance of long-term debt in June 1997.

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

- - ACQUISITION FINANCING

In November 1997, the company completed the acquisition of Exmark Manufacturing Company Incorporated (Exmark). The initial purchase price of approximately $31.0 million has been financed through the issuance of 598,051 shares of the company's common stock and approximately $5.5 million in cash. In addition, under the terms of the purchase agreement, the company will be required to make contingent payments to Exmark shareholders if Exmark's post-acquisition earnings and sales growth from November 1, 1997 through October 31, 1999 exceed minimum levels established in the purchase agreement. The maximum amount of these contingent payments is $28.0 million. Contingent payments will be paid with a combination of cash and the company's common stock. See Acquisitions and Strategic Alliances included in this MD&A.

INFLATION

The company is subject to the effects of changing prices. The company has been able to deal successfully with inflationary pressures through a combination of internal cost reduction efforts and selected increases in selling prices of products.

ACQUISITIONS AND STRATEGIC ALLIANCES

In December 1996, the company acquired Hardie from JHI Limited for $118.0 million. The purchase price is subject to adjustment based upon final audit results and the resolution of certain matters concerning the purchase price submitted by the company to JHI Limited. See Notes to the Consolidated Financial Statements.

In November 1997, the company acquired Exmark, a leading manufacturer of equipment for the professional landscape contractor industry. Exmark is headquartered in Beatrice, Nebraska and produces mid-sized walk-behind power mowers and zero-turning radius riding mowers for professional contractors. Exmark employs approximately 280 people in a 164,000 square-foot facility. Exmark had $53.4 million in net sales for its fiscal year ended August 31, 1997.

In addition, in September 1997, the company announced that it had acquired the manufacturing, sales and distribution rights to Dingo under which the company will manufacture and sell Dingo landscape products under the Toro Sitework-TM- Systems brand name for North and South American markets. Dingo began distributing their products in North America in 1995 under an agreement with Dingo Mini Diggers of Australia. These products will be manufactured at the company's manufacturing facility in Tomah, Wisconsin.

The company also completed several other alliances in key business areas. Product alliances with Maruyama Manufacturing, Bluebird International and Parker Sweeper Company are contributing to development of the company's landscape contractor business. The company has also formed alliances with Pinehurst Resort, home of the 1999 U.S. Men's Open, and Whitbread-Marriott, a European chain of golfing resorts.

YEAR 2000 COMPLIANCE

The company is in the process of implementing a year 2000 compliant enterprise-wide information system. This process was initiated in 1995 and is currently operational in many locations within the company. This implementation will be largely completed during 1998. The company has also initiated an assessment project which addresses those other significant systems that may have year 2000 compliance issues.

The company presently believes that with the implementation of the new system and modifications to existing software, year 2000 compliance will not pose a significant operational issue for the company. However, if these modifications and conversion are not completed on a timely basis, including implementation by its business partners, year 2000 compliance may have a material impact on the operations of the company.

SUMMARY

The company experienced a 12.9% increase in net sales, almost entirely attributable to the acquisition of Hardie. Earnings before the extraordinary loss increased 0.3% over the prior year. Hardie, in its first year of integration, had a negative impact on earnings as did costs associated with the closing of a Toro manufacturing facility. These items, plus the addition of Exmark, Dingo and other alliances, are expected to have a favorable impact on earnings in future periods.

The company has maintained a strong balance sheet and improved liquidity by refinancing short-term debt used to acquire Hardie with long-term debt, and replacing higher interest rate debt with debt at more favorable interest rates.

SELECTED FINANCIAL DATA The Toro Company

(Dollars in thousands, except per share data)	Year Ended OCTOBER 31 1997*	Year Ended October 31 1996	3 Months Ended October 31 1995	Year Ended July 31 1995	Year Ended July 31 1994	Year Ended July 31 1993
OPERATING DATA:						
Net sales	$1,051,204	$930,909	$192,278	$932,853	$794,341	$684,324
EARNINGS:						
Net earnings, before extraordinary loss**	36,508	36,409	3,997	36,667	22,230	13,040
Percent of sales	3.5%	3.9%	2.1%	3.9%	2.8%	1.9%
Per share of common stock and common stock equivalent, before extraordinary loss**	$ 2.93	$ 2.90	$ 0.32	$ 2.81	$ 1.71	$ 1.05
DIVIDENDS:						
On common stock outstanding	5,794	5,834	1,459	6,002	5,993	5,824
Per share of common stock outstanding	0.48	0.48	0.12	0.48	0.48	0.48
RETURN ON:						
Beginning common stockholders' equity	16.3%	19.1%	2.2%	21.7%	15.4%	9.8%
Average common stockholders' equity	15.3%	18.0%	2.1%	20.7%	14.2%	9.4%
SUMMARY OF FINANCIAL POSITION:						
Current assets	$472,044	$405,001	$386,259	$381,610	$364,495	$344,130
Current liabilities	237,833	207,857	221,173	212,659	188,712	150,260
Working capital	234,211	197,144	165,086	168,951	175,783	193,870
Non-current assets	189,590	91,876	86,394	86,705	79,144	75,073
Total assets	661,634	496,877	472,653	468,315	443,639	419,203
Non-current liabilities, excluding long-term debt	4,988	22,438	7,223	5,250	5,250	1,372
CAPITALIZATION:						
Long-term debt, less current portion	177,650	53,015	53,365	64,935	81,025	122,970
Common stockholders' equity	241,163	213,567	190,892	185,471	168,652	144,601
Total capitalization	418,813	266,582	244,257	250,406	249,677	267,571
Book value per common share	19.78	17.75	15.69	15.40	13.43	11.78
STOCK DATA:						
Number of shares of common stock outstanding (in thousands)	12,189	12,032	12,168	12,040	12,561	12,270
Number of common stockholders	6,560	6,841	7,243	7,347	7,541	7,968
Low price	$ 31 1/2	$ 28 3/8	$ 28 1/8	$ 21 5/8	$ 19 3/4	$ 11 3/8
High price	43 3/4	36 1/4	32 1/4	30 3/8	30 1/2	21 7/8
Close price	42 3/4	31 3/8	28 7/8	28 5/8	22 5/8	19 3/4

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
The Toro Company:

We have audited the accompanying consolidated balance sheets of The Toro Company and subsidiaries as of October 31, 1997 and 1996, and the related consolidated statements of earnings and cash flows for the years ended October 31, 1997 and 1996, the three month period ended October 31, 1995 and the year ended July 31, 1995. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Toro Company and subsidiaries as of October 31, 1997 and 1996, and the results of their operations and their cash flows for the years ended October 31, 1997 and 1996, the three month period ended October 31, 1995 and the year ended July 31, 1995 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Minneapolis, Minnesota
December 12, 1997

CONSOLIDATED STATEMENTS OF EARNINGS The Toro Company

(Dollars in thousands, except per share data)	Year Ended OCTOBER 31 1997	Year Ended October 31 1996	3 Months Ended October 31 1995	Year Ended July 31 1995
Net sales	$1,051,204	$930,909	$192,278	$932,853
Cost of sales	663,167	589,186	120,575	598,275
Gross profit	388,037	341,723	71,703	334,578
Selling, general and administrative expense	315,690	278,284	65,048	269,757
Earnings from operations	72,347	63,439	6,655	64,821
Interest expense	19,900	13,590	2,532	11,902
Other income, net	(7,897)	(10,331)	(2,483)	(8,193)
Earnings before income taxes and extraordinary loss	60,344	60,180	6,606	61,112
Provision for income taxes	23,836	23,771	2,609	24,445
Net earnings before extraordinary loss	36,508	36,409	3,997	36,667
Extraordinary loss, net of income tax benefit of $1,087	1,663	-	-	-
Net earnings	$ 34,845	$ 36,409	$ 3,997	$ 36,667
Net earnings per share of common stock and common stock equivalent before extraordinary loss	$ 2.93	$ 2.90	$ 0.32	$ 2.81
Extraordinary loss per share, net of income tax benefit	0.13	-	-	-
Net earnings per share of common stock and common stock equivalent	$ 2.80	$ 2.90	$ 0.32	$ 2.81

The financial statements should be read in conjunction with the Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS The Toro Company

(Dollars in thousands) October 31	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8	$ 66
Receivables:		
Customers	255,318	244,434
Other	13,648	5,208
Subtotal	268,966	249,642
Less allowance for doubtful accounts	9,832	10,005
Total receivables	259,134	239,637
Inventories	160,122	130,288
Prepaid expenses	10,454	5,133
Deferred income taxes	42,326	29,877
Total current assets	472,044	405,001
Property, plant and equipment:		
Land and land improvements	9,334	6,816
Buildings and leasehold improvements	67,627	46,107
Equipment	220,880	176,157
Subtotal	297,841	229,080
Less accumulated depreciation and amortization	180,989	155,270
Total property, plant and equipment	116,852	73,810
Deferred income taxes	1,182	1,600
Other assets	71,556	16,466
Total assets	$661,634	$496,877
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 365	$ 350
Short-term borrowing	41,000	41,025
Accounts payable	58,397	43,524
Accrued warranty	40,792	34,722
Accrued marketing programs	22,691	22,600
Other accrued liabilities	74,588	65,636
Total current liabilities	237,833	207,857
Long-term debt, less current portion	177,650	53,015
Other long-term liabilities	4,988	22,438
Common stockholders' equity:		
Common stock, par value $1.00, authorized 35,000,000 shares; issued and outstanding 12,189,244 shares in 1997 (net of 720,760 treasury shares) and 12,032,143 shares in 1996 (net of 877,861 treasury shares)	12,189	12,032
Additional paid-in capital	31,371	28,462
Retained earnings	202,681	173,630
Foreign currency translation adjustment	(5,078)	(557)
Total common stockholders' equity	241,163	213,567
Total liabilities and common stockholders' equity	$661,634	$496,877

The financial statements should be read in conjunction with the Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS The Toro Company

(Dollars in thousands)	Year Ended OCTOBER 31 1997	Year Ended October 31 1996	3 Months Ended October 31 1995	Year Ended July 31 1995
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net earnings	$ 34,845	$ 36,409	$ 3,997	$ 36,667
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:				
Extraordinary loss on early extinguishment of debt	1,663	-	-	-
Provision for depreciation and amortization	30,878	18,170	3,590	17,240
Loss (gain) on disposal of property, plant and equipment	573	(260)	(34)	(135)
Change in deferred income taxes	2,053	784	194	(1,282)
Tax benefits related to employee stock option transactions	2,611	1,490	-	1,178
Changes in operating assets and liabilities:				
Net receivables	15,067	(40,821)	13,640	(28,773)
Inventories	1,353	15,574	(22,142)	(4,956)
Prepaid expenses and deferred income tax benefits	(6,595)	(1,131)	1,962	(10,024)
Accounts payable and accrued expenses	1,425	2,218	(9,770)	5,622
Net cash provided by (used in) operating activities	83,873	32,433	(8,563)	15,537
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, plant and equipment	(37,023)	(21,389)	(3,302)	(28,162)
Proceeds from disposal of property, plant and equipment	1,163	543	43	843
(Increase) decrease in other assets/liabilities	(12,784)	(857)	1,793	3,935
Acquisition of James Hardie Irrigation, net of cash acquired	(118,030)	-	-	-
Net cash used in investing activities	(166,674)	(21,703)	(1,466)	(23,384)
CASH FLOWS FROM FINANCING ACTIVITIES:				
(Decrease) increase in sale of receivables	-	-	(2,331)	2,331
(Decrease) increase in short-term borrowing	(2,627)	(550)	19,040	22,535
Proceeds from issuance of long-term debt	175,000	-	-	-
Repayments of long-term debt	(50,350)	(15,334)	(12,326)	(20,300)
Payments of debt issue costs and prepayment penalty	(5,770)	-	-	-
Net payments for termination of interest rate swap agreements	(23,650)	-	-	-
Proceeds from interest rate swap agreement	-	12,742	-	-
Proceeds from exercise of stock options	8,407	4,627	3,586	8,251
Purchases of common stock	(7,952)	(13,339)	(891)	(26,225)
Dividends on common stock	(5,794)	(5,834)	(1,459)	(6,002)
Repayments from ESOP	-	-	-	2,612
Net cash provided by (used in) financing activities	87,264	(17,688)	5,619	(16,798)
Foreign currency translation adjustment	(4,521)	(678)	188	338
Net decrease in cash and cash equivalents	(58)	(7,636)	(4,222)	(24,307)
Cash and cash equivalents at beginning of period	66	7,702	11,924	36,231
Cash and cash equivalents at end of period	$ 8	$ 66	$ 7,702	$ 11,924
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$ 16,829	$ 15,335	$ 4,694	$ 9,567
Income taxes	25,459	20,447	109	34,936

The financial statements should be read in conjunction with the Notes to Consolidated Financial Statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED DATA

FISCAL YEAR CHANGE

Effective November 1995, the company changed its fiscal year from a fiscal year ended July 31 to a fiscal year ended October 31. The 3 month transition period ended October 31, 1995 bridges the gap between the company's old and new fiscal year-ends.

BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of The Toro Company and all wholly-owned and majority-owned domestic and foreign subsidiaries (the company). Investments in 50% or less owned companies are accounted for by the equity method. The accounts of foreign subsidiaries, which are not material, have been adjusted to conform to U.S. accounting principles and practices and have been translated to appropriate U.S. dollar equivalents. All material intercompany accounts and transactions have been eliminated from the consolidated financial statements. In fiscal 1997, the consolidated financial statements include the results of the James Hardie Irrigation Group (Hardie) from December 1, 1996, the effective date of the acquisition.

CASH AND CASH EQUIVALENTS

The company considers all highly liquid investments purchased with a maturity of 3 months or less to be cash equivalents. At October 31, 1997 and 1996 the company had $4,598,000 and $4,908,000, respectively, included in trade payables that represented the reclassification of outstanding checks in excess of related bank balances.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The provision for doubtful accounts included in selling, general and administrative expense was $812,000 and $3,358,000 for the years ended October 31, 1997 and 1996, respectively, $720,000 for the 3 months ended October 31, 1995 and $1,543,000 for the year ended July 31, 1995.

INVENTORIES

The majority of all inventories are valued at the lower of cost or net realizable value with cost determined by the last-in, first-out (LIFO) method. Had the first-in, first-out (FIFO) method of cost determination been used, inventories would have been $27,219,000 and $25,642,000 higher than reported at October 31, 1997 and 1996, respectively. Under the FIFO method, work-in-process inventories were $78,570,000 and $69,182,000 and finished goods inventories were $108,771,000 and $86,748,000 at October 31, 1997 and 1996, respectively.

PROPERTY AND DEPRECIATION

Property, plant and equipment are carried at cost including capitalization of interest incurred during the construction period for significant capital projects. During the year ended October 31, 1997 the company capitalized $500,000 of interest. The company provides for depreciation of plant and equipment utilizing the straight-line method over the estimated useful lives of the assets. Buildings, including leasehold improvements, are generally depreciated over 10 to 45 years, and equipment over 3 to 7 years. Tooling costs are generally amortized using the units of production method. Expenditures for major renewals and betterments which substantially increase the useful lives of existing assets are capitalized, and maintenance and repairs are charged to operating expenses as incurred. Software is expensed at the time of purchase. The cost and related accumulated depreciation of all plant and equipment disposed of are removed from the accounts, and any gain or loss from such disposal is included in current period earnings.

INTANGIBLE ASSETS

Intangible assets, consisting primarily of goodwill, are amortized on a straight-line basis over periods ranging from 3 to 20 years. The company periodically reviews the value of its goodwill and other intangible assets to determine if impairment has occurred. Goodwill included in "Other assets" totaled $53,667,000 and $9,267,000 at October 31, 1997 and 1996, respectively, net of accumulated amortization of $13,744,000 at October 31, 1997 and $3,625,000 at October 31, 1996.

ACCRUED WARRANTY

The company provides an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to sales.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The functional currency of the company's foreign operations is the applicable local currency. The functional currency is translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," which is translated for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The gains or losses resulting from such translations are included in stockholders' equity. Gains or losses resulting from transactions denominated in foreign currencies are included in other income, net.

ACCOUNTING FOR REVENUES

Revenue is recognized at the time products are shipped to distributors, dealers or mass merchandisers.

COST OF FINANCING DISTRIBUTOR/DEALER INVENTORY

Included in selling, general and administrative expense are costs associated with programs in which the company shares the expense of financing distributor and dealer inventories. These costs of $10,192,000 for the year ended October 31, 1997, $10,252,000 for the year ended October 31, 1996, $2,063,000 for the 3 months ended October 31, 1995, and $9,675,000 for the year ended July 31, 1995, are charged against operations as incurred.

RESEARCH AND DEVELOPMENT

Expenditures for research and development, including engineering, of $36,574,000 for the year ended October 31, 1997, $31,343,000 for the year ended October 31, 1996, $6,864,000 for the 3 months ended October 31, 1995, and $26,513,000 for the year ended July 31, 1995 are charged against operations as incurred.

DISTRIBUTION

Included in selling, general and administrative expense are costs associated with changes to the company's distribution channels. These costs were $898,000 for the year ended October 31, 1997, $2,533,000 for the year ended October 31, 1996, $823,000 for the 3 months ended October 31, 1995 and $3,400,000 for the year ended July 31, 1995. Those costs associated with business changes are accrued on the basis of historical experience, while costs related to specific changes to the company's distribution system are recorded when authorized.

INCOME TAXES

In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The company has reflected the necessary deferred tax asset/liability in the accompanying balance sheets. Management believes the future tax deductions will be realized principally through carryback to taxable income in prior years, future reversals of existing taxable temporary differences, and to a lesser extent, future taxable income.

NET EARNINGS PER SHARE OF COMMON STOCK AND COMMON STOCK EQUIVALENTS

Net earnings per share of common stock and common stock equivalents are computed by dividing net earnings by the weighted average number of common shares and common stock equivalents outstanding during the respective periods. Common stock equivalents include potentially dilutive stock options. These shares are included under the treasury stock method using the average market price of the company's stock during each period. The effect of full dilution using the year-end price of the company's stock was not significant.

ACCOUNTING ESTIMATES

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

NEW ACCOUNTING PRONOUNCEMENTS

During fiscal 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," which establishes new standards for computing and presenting earnings per share information. The company will be required to adopt the new standard beginning in the first quarter of fiscal 1998; earlier application is not permitted. Prior period information is required to be restated to conform with the requirements of the new standard. Pro forma earnings per share for the years ended October 31, 1997 and 1996, the 3 month period ended October 31, 1995 and the year ended July 31, 1995 as computed under SFAS No. 128 are as follows:

	Year Ended		3 Months Ended	Year Ended
	OCTOBER 31 1997	October 31 1996	October 31 1995	July 31 1995
Basic earnings per share, before extraordinary loss	$ 3.02	$3.00	$0.33	$2.92
Extraordinary loss, net of income tax benefit	(0.14)	-	-	-
Basic earnings per share	$ 2.88	$3.00	$0.33	$2.92
Diluted earnings per share, before extraordinary loss	$ 2.93	$2.90	$0.32	$2.81
Extraordinary loss, net of income tax benefit	(0.13)	-	-	-
Diluted earnings per share	$ 2.80	$2.90	$0.32	$2.81

In fiscal 1997, the FASB also issued SFAS 129, SFAS 130 and SFAS 131. SFAS 129, "Disclosure of Information about Capital Structure," consolidates existing disclosure requirements and will have no impact on the company's financial statements. SFAS 130, "Reporting Comprehensive Income," establishes standards for reporting and displaying the components of comprehensive income and will be adopted by the company in fiscal 1998. The statement requires additional disclosures, but has no impact on consolidated net earnings. SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for determining operating segments and reporting operating segment information. SFAS 131 is required to be adopted beginning with the the company's fiscal 1999 year-end annual report. The company has not yet evaluated the effects of this pronouncement to determine what changes, if any, to its current reporting format will be required.

BUSINESS ACQUISITIONS

Effective December 1, 1996 the company acquired the James Hardie Irrigation Group (Hardie) from James Hardie Industries Limited (JHI Limited) for $118,030,000 based on estimated, unaudited aggregate shareholders' equity of Hardie on December 1, 1996, subject to further adjustment based on final audit results.

Based on the financial statements of Hardie as of the acquisition date, shareholders' equity at the acquisition date was approximately $10,545,000 less than the estimated equity used as the closing date purchase price, and this $10,545,000 is to be returned from JHI Limited to the company. In addition, under the procedures established in the purchase agreement, the company and JHI Limited have entered into an arbitration process related to the valuation of assets, accounting methods applied, estimates used and other items. The resolution of these matters may result in an additional reduction of the purchase price.

The acquisition is accounted for using the purchase accounting method and, accordingly, the initial purchase price of $118,030,000 has been allocated based on the estimated fair values of assets acquired and liabilities assumed on the date of acquisition. The excess of the purchase price over the estimated fair value of net tangible assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over 20 years. Any additional reductions in the purchase price, as a result of resolution of the objections discussed in the preceding paragraph, will result in a reduction of goodwill. The related effect of these adjustments on the Consolidated Statement of Earnings of the company is not expected to be material.

The following unaudited pro forma information presents a summary of consolidated results of operations of the company and Hardie as if the acquisition had occurred at the beginning of fiscal 1996, with pro forma adjustments to give effect to amortization of goodwill, interest expense on acquisition debt and certain other adjustments, together with the related income tax effects.

	Year Ended	
(Dollars in thousands, except per share data)	OCTOBER 31 1997	October 31 1996
Net sales	$1,065,370	$1,074,783
Net earnings before extraordinary loss	$ 34,811	$ 30,423
Extraordinary loss, net of income tax benefit	1,663	-
Net earnings	$ 33,148	$ 30,423
Primary earnings per share before extraordinary loss	$ 2.79	$ 2.42
Extraordinary loss per share, net of income tax benefit	0.13	-
Primary earnings per share	$ 2.66	$ 2.42

Effective November 1, 1997 the company acquired Exmark Manufacturing Company Incorporated (Exmark), a leading manufacturer of equipment for the professional landscape contractor industry. Exmark is headquartered in Beatrice, Nebraska and produces mid-sized walk-behind power mowers and zero-turning-radius riding mowers for professional contractors. Exmark had net sales of $53.4 million and net earnings of $2.8 million for its fiscal year ended August 31, 1997.

In exchange for all of the capital stock of Exmark, the company issued 598,051 shares of its common stock and paid approximately $5.5 million in cash. In addition, under the terms of the purchase agreement, the company will be required to make contingent payments to Exmark shareholders if Exmark's post-acquisition earnings and sales growth from November 1, 1997 through October 31, 1999 exceed minimum levels established in the purchase agreement. The maximum amount of these contingent payments is $28,000,000. Contingent payments will be paid with a combination of cash and the company's common stock. The acquisition is accounted for using the purchase method of accounting and accordingly, the purchase price is allocated based on the fair value of assets acquired and liabilities assumed. The excess of the purchase price, including any contingent payment amounts, over the fair value of net assets acquired will be recorded as goodwill, and amortized on a straight-line basis over a 20 year period.

SHORT-TERM CAPITAL RESOURCES

At October 31, 1997 the company had available unsecured lines of credit with four banks in the aggregate of $190,000,000. Most of these agreements require the company to pay a fee of 0.175% per year on the available lines of credit, which is included in interest expense.

The company had $41,000,000 outstanding at October 31, 1997 and $41,025,000 outstanding at October 31, 1996. The weighted average interest rate on short-term borrowing was 5.95% and 6.18% at October 31, 1997 and 1996, respectively.

LONG-TERM DEBT

A summary of long-term debt is as follows:

(Dollars in thousands) October 31	1997	1996
7.125% Notes, due June 15, 2007	$ 75,000	$ -
7.80% Debentures, due June 15, 2027	100,000	-
11% Sinking Fund Debentures due annually August 1998-2017 called August 1, 1997	-	50,000
Industrial Revenue Bond due annually June 1997-2004 with various interest rates	3,015	3,365
	178,015	53,365
Less current portion	365	350
Long-term debt, less current portion	$177,650	$53,015

In June 1997, the company issued $175.0 million of debt securities consisting of $75.0 million of 7.125% coupon 10-year Notes and $100.0 million of 7.80% coupon 30-year Debentures. The proceeds from the debt securities issued were used, in part, to repay short-term indebtedness, which was primarily related to the acquisition of Hardie, and to redeem on August 1, 1997 the company's $50.0 million principal amount of 11% Sinking Fund Debentures. The company paid a prepayment penalty of $2.8 million for the early retirement of the 11% Debentures. This penalty is reported in the consolidated statement of earnings as an extraordinary loss, net of the related income tax benefit.

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

Under the terms of the long-term debt agreements the company is subject to certain covenants. At October 31, 1997 the company was in compliance with all such covenants.

Principal payments required on long-term debt in each of the next five years ending October 31 are as follows: 1998, $365,000; 1999, $385,000; 2000, $405,000; 2001, $425,000; 2002, $450,000; and after 2002, $175,985,000.

INCOME TAXES

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

	Year Ended		3 Months Ended	Year Ended
	OCTOBER 31 1997	October 31 1996	October 31 1995	July 31 1995
Statutory federal income tax rate	35.0%	35.0%	35.0%	35.0%
Increase (reduction) in income taxes resulting from:				
Benefits from foreign sales corporation	(1.4)	(0.8)	(0.2)	(0.8)
State and local income taxes, net of federal income tax benefit	2.9	2.5	4.6	2.4
Effect of foreign source income	0.9	-	1.5	0.5
Goodwill amortization	2.3	0.4	0.6	0.4
Other, net	(0.2)	2.4	(2.0)	2.5
Consolidated effective tax rate	39.5%	39.5%	39.5%	40.0%

Components of the provision for income taxes are as follows:

	Year Ended		3 Months Ended	Year Ended
(Dollars in thousands)	OCTOBER 31 1997	October 31 1996	October 31 1995	July 31 1995
Current:				
Federal	$15,985	$22,479	$ 731	$24,878
State	1,445	2,754	238	2,942
Current provision	17,430	25,233	969	27,820
Deferred:				
Federal	4,182	(1,051)	1,414	(2,689)
State	1,137	(411)	226	(686)
Deferred provision	5,319	(1,462)	1,640	(3,375)
Total provision for income taxes	$22,749	$23,771	$2,609	$24,445

The tax effects of temporary differences that give rise to the net deferred income tax assets at October 31, 1997 and 1996 are presented below.

(Dollars in thousands)	1997	1996
Allowance for doubtful accounts	$ 5,070	$ 5,151
Inventory reserves	1,900	536
Uniform capitalization	2,328	2,252
Depreciation	2,201	1,600
Warranty reserves	15,028	12,881
Marketing programs	1,811	2,018
Distributor reserves	2,044	2,603
Restructuring reserves	1,954	1,091
Product liability	2,316	1,957
Accrued retirement	3,961	3,410
Accrued vacation pay	2,087	1,912
Other	2,808	(3,934)
Consolidated deferred income tax assets	$43,508	$31,477

During the years ended October 31, 1997 and 1996, respectively, $2,611,000 and $1,490,000 was added to additional paid-in capital in accordance with Accounting Principal Board Opinion 25 reflecting the permanent book to tax difference in accounting for tax benefits related to employee stock option transactions.

COMMON STOCKHOLDERS' EQUITY

Changes in the components of common stockholders' equity during the fiscal years ended October 31, 1997 and 1996, the 3 months ended October 31, 1995 and the fiscal year ended July 31, 1995 were as follows:

(Dollars in thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Receivable from ESOP	Foreign Currency Translation Adjustment
Balance at July 31, 1994	$12,561	$ 49,420	$109,688	$(2,612)	$ (405)
Common dividends paid ($0.48 per share)	-	-	(6,002)	-	-
Issuance of 444,783 shares under stock option plans	445	7,806	-	-	-
Purchase of 965,757 common shares	(966)	(25,259)	-	-	-
Payment received from ESOP	-	-	-	2,612	-
Foreign currency translation adjustment	-	-	-	-	338
Tax benefits related to employee stock option transactions	-	1,178	-	-	-
Net earnings	-	-	36,667	-	-
Balance at July 31, 1995	$12,040	$ 33,145	$140,353	$ 0	$ (67)
Common dividends paid ($0.12 per share)	-	-	(1,459)	-	-
Issuance of 156,263 shares under stock option plans	156	3,431	-	-	-
Purchase of 28,204 common shares	(28)	(864)	-	-	-
Foreign currency translation adjustment	-	-	-	-	188
Net earnings	-	-	3,997	-	-
Balance at October 31, 1995	$12,168	$ 35,712	$142,891	$ 0	$ 121
Common dividends paid ($0.48 per share)	-	-	(5,834)	-	-
Issuance of 294,324 shares under stock option plans	294	4,333	-	-	-
Purchase of 429,692 common shares	(430)	(13,073)	-	-	-
Foreign currency translation adjustment	-	-	-	-	(678)
Tax benefits related to employee stock option transactions	-	1,490	-	-	-
Other	-	-	164	-	-
Net earnings	-	-	36,409	-	-
Balance at October 31, 1996	$12,032	$ 28,462	$173,630	$ 0	$ (557)
Common dividends paid ($0.48 per share)	-	-	(5,794)	-	-
Issuance of 389,101 shares under stock option plans	389	8,018	-	-	-
Purchase of 232,000 common shares	(232)	(7,720)	-	-	-
Foreign currency translation adjustment	-	-	-	-	(4,521)
Tax benefits related to employee stock option transactions	-	2,611	-	-	-
Net earnings	-	-	34,845	-	-
BALANCE AT OCTOBER 31, 1997	$12,189	$ 31,371	$202,681	$ 0	$(5,078)

Under the terms of a Rights Agreement established June 14, 1988 each share of the company's common stock entitles its holder to one preferred share purchase right. Each right entitles the registered holder to purchase from the company one one-hundredth of a share of Series B Junior Participating Voting Preferred Stock, $1.00 par value at a price of $85 per one one-hundredth of a Preferred Share. The rights become exercisable and tradable 10 days after a person or a group acquires 20% or more, or makes an offer to acquire 20% or more, of the company's outstanding common stock. At no time do the rights have any voting power. The rights may be redeemed by the company for $0.01 per right at any time prior to the time that a person or group has acquired beneficial ownership of 20% or more of the common shares.

STOCK OPTION PLANS

The company grants incentive and nonqualified stock options under the terms of the 1989 and 1993 Stock Option Plans. Each option is granted at an exercise price equal to 100% of the fair market value of the common stock on the date of grant, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan (CPAP) for which the exercise price is an average of the closing stock prices for the 3 months preceding the grant date and may be higher or lower than fair market value. Stock options other than performance based options are generally exercisable immediately and can be exercised in whole or in part until expiration or termination of employment. Stock options granted under the plans, with the exception of options granted in connection with the CPAP, expire 5 to 10 years from the date of grant.

Performance based options are granted under the CPAP and generally vest at the end of the succeeding three fiscal years. Vested options expire 90 days after the public release of the fiscal year-end earnings. Based on performance over the three year term, some or all of the options granted may be cancelled. Options granted under this plan totaled 40,474 and 48,768 for the years ended October 31, 1997 and 1996, respectively, zero for the 3 months ended October 31, 1995 and 40,031 for the year ended July 31, 1995. CPAP options cancelled were 33,812 during the year ended October 31, 1997 and 18,532 during the year ended July 31, 1995. There were no CPAP options cancelled during the year ended October 31, 1996 or during the 3 months ended October 31, 1995.

The company also grants options to members of its Board of Directors under the 1992 Director Stock Plan. Each option granted under the plan is exercisable at 100% of the fair market value of the common stock on the date of grant. Options granted under this plan were 7,000 and 6,000 for the years ended October 31, 1997 and 1996, respectively.

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

	Options available for grant	Options outstanding	Weighted average exercise price
August 1, 1994	1,005,486	1,259,509	$16.35
Granted	(323,474)	323,474	23.69
Exercised	-	(394,432)	16.61
Cancelled	21,972	(21,972)	19.37
July 31, 1995	703,984	1,166,579	18.24
Granted	(256,496)	256,496	29.00
Exercised	-	(161,694)	17.49
Cancelled	8,070	(8,070)	15.12
October 31, 1995	455,558	1,253,311	20.56
Granted	(48,768)	48,768	29.77
Exercised	-	(193,221)	18.85
Cancelled	1,000	(1,000)	29.13
Increase in options available for grant	600,000	-	-
October 31, 1996	1,007,790	1,107,858	21.25
Granted	(251,620)	251,620	32.74
Exercised	-	(443,516)	21.93
Cancelled	33,812	(33,812)	24.49
OCTOBER 31, 1997	789,982	882,150	$24.06

The table below presents the number, weighted average remaining contractual life and weighted average exercise price for options outstanding at October 31, 1997.

Exercise price range	Number of options	Weighted average exercise price	Weighted average time to expiration
Options exercisable at October 31, 1997:			
$14.75	300,000	$14.75	8.1 years
$20.40 - $23.625	118,098	23.09	1.6 years
$25.50 - $29.125	204,059	28.30	2.4 years
$31.75 - $36.375	162,208	33.85	4.0 years
Total	784,365	$23.48	4.8 years
Options not exercisable at October 31, 1997:			
$24.12 - $32.31	97,785	$28.76	1.3 years
Grand total	882,150	$24.06	4.4 years

The company applies APB Opinion No. 25 and related interpretations in accounting for its stock options. Accordingly, no compensation expense has been recognized for stock option grants, except performance based options. The company recognized compensation expense of $545,000, $483,000, $127,000 and $534,000 for the years ended October 31, 1997 and 1996, the 3 month transition period ended October 31, 1995 and the year ended July 31, 1995, respectively. If the company had elected to recognize compensation cost consistent with the methodology prescribed under SFAS 123, "Accounting for Stock-Based Compensation," the company's net income and earnings per share for the years ended October 31, 1997 and 1996 would have been as follows:

	Year ended	
(Dollars in thousands, except per share amounts)	OCTOBER 31 1997	October 31 1996
Net income, as reported	$34,845	$36,409
Pro forma net income	34,289	36,640
Earnings per share, as reported	$ 2.80	$ 2.90
Pro forma earnings per share	2.75	2.92

The fair market value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model and using an expected dividend yield of 1.5%, expected stock price volatility of 20%, risk free interest rate of 5.75% and an expected life of 3.5 years for performance based options and 3 years for all other options.

The weighted average fair market value of options on the grant date was $6.44 and $6.07 for options issued during the years ended October 31, 1997 and 1996, respectively.

On July 31, 1995 the company issued 17,467 shares of restricted stock and 17,467 performance units to the CEO under the terms of the Chief Executive Officer Succession Plan. The value of each performance unit is equal to the fair market value of a share of common stock. The restricted stock and performance units vest based upon achievement of specified succession planning goals. Dividends are paid and the shares may be voted. Portions of the restricted stock and performance unit awards will be forfeited if certain goals are not achieved at various dates, ending on October 31, 2003 or termination of employment. Compensation expense related to this plan was $350,000, $254,000 and $57,000 for the years ended October 31, 1997 and 1996 and the 3 month transition period ended October 31, 1995 respectively. There was no expense for the period ended July 31, 1995.

EMPLOYEE BENEFIT PROGRAMS

The company adopted a new employee benefit program effective August 1, 1995 replacing the existing employee benefit plans. Under this new benefit program, eligible employees receive a pre-established percentage of their salary. Contributions to the plan were $7,245,000 in fiscal 1997 for benefits earned in fiscal 1996, and $2,539,000 in fiscal 1996 for benefits earned during the 3 month transition period ended October 31, 1995. In addition, this plan provides for company matching contributions of up to two percent of salary. Matching contributions were $2,024,000 and $1,679,000 for the years ended October 31, 1997 and 1996, respectively.

Prior to August 1, 1995 employee benefits consisted of a leveraged Employee Stock Ownership Plan (ESOP), as well as a profit sharing and matching stock plan. At July 31, 1995 the ESOP indebtedness was repaid in full. For the year ended July 31, 1995 principal payments of ESOP debt were $2,612,000, interest incurred on ESOP debt and received by the company was $258,000 and dividends on ESOP shares used for debt service were $107,000. The company's contributions to the ESOP, net of dividends, were $639,000 for the year ended October 31, 1996 and $2,762,000 for the year ended July 31, 1995. Contributions to the former profit sharing and matching stock plans were $3,833,000 for the 3 month period ended October 31,1995 and $4,760,000 for the year ended July 31, 1995.

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

SEGMENT DATA

The company classifies its operations into one industry segment, outdoor maintenance equipment. International sales were $232,808,000 for the year ended October 31, 1997, $174,249,000 for the year ended October 31, 1996, $20,935,000 for the 3 months ended October 31, 1995 and $152,409,000 for the year ended July 31, 1995. Of these amounts, export sales were $161,836,000 for the year ended October 31, 1997, $140,919,000 for the year ended October 31, 1996, $18,557,000 for the 3 months ended October 31, 1995 and $126,560,000 for the year ended July 31, 1995. Export sales by geographic area are as follows:

	Year Ended		3 Months Ended	Year Ended
(Dollars in thousands)	OCTOBER 31 1997	October 31 1996	October 31 1995	July 31 1995
Europe	$ 79,515	$ 71,325	$ 6,098	$ 60,239
Canada	33,349	29,578	4,848	31,921
Pacific Rim	34,417	34,975	6,955	28,979
Other	14,555	5,041	656	5,421
Total export sales	$161,836	$140,919	$18,557	$126,560

LEASE COMMITMENTS

Minimum lease commitments in future years under noncancelable operating leases are as follows: 1998, $7,555,000; 1999, $5,431,000; 2000, 3,339,000; 2001, $2,135,000; 2002, $845,000; and after 2002, $178,000.

Total lease expense was as follows:

	Year Ended		3 Months Ended	Year Ended
(Dollars in thousands)	OCTOBER 31 1997	October 31 1996	October 31 1995	July 31 1995
Warehouse and office space	$3,604	$3,291	$ 905	$3,360
Trucks and autos	1,959	2,191	374	1,890
Equipment	4,297	3,933	924	3,721
Total	$9,860	$9,415	$2,203	$8,971

COMMITMENTS AND CONTINGENT LIABILITIES

The company was contingently liable to repurchase $9,438,000 at October 31, 1997 and $10,578,000 at October 31, 1996 of inventory relating to receivables under dealer financing arrangements. Additionally, debts incurred by certain distributors, aggregating $5,600,000 at October 31, 1997 and $1,008,000 at October 31, 1996 have been guaranteed by the company.

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

FINANCIAL INSTRUMENTS

OFF-BALANCE SHEET RISK

Letters of credit are issued by the company during the ordinary course of business, as required by certain vendor contracts, through major domestic banks. As of October 31, 1997 and 1996 the company had $25,985,000 and $19,705,000, respectively, in outstanding letters of credit.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the company to concentrations of credit risk consist principally of accounts receivable which are concentrated in a single business segment, outdoor maintenance equipment. The credit risk associated with this segment is limited because of the large number of customers in the company's customer base and their geographic dispersion.

FOREIGN CURRENCY INVESTMENTS

A portion of the company's cash flow is derived from sales and purchases denominated in foreign currencies. To reduce the uncertainty of foreign currency exchange rate movements on these sales and purchase commitments, the company enters into foreign currency exchange contracts. These contracts are designed to hedge firm anticipated foreign currency transactions. Gains and losses on foreign currency contracts are deferred and recognized upon settlement of the underlying hedged transaction.

At October 31, 1997 the company had contracts maturing at various dates to purchase $5,781,000 in foreign currencies and to sell $42,478,000 in foreign currencies at the contract rates. In addition, the company had range forward options of $3,000,000 at October 31, 1997.

The company enters into forward currency exchange contracts on behalf of certain distributors in order to cover a portion of the payments owed by the distributor to the company. Any currency losses incurred by the company are reimbursed by the distributor.

Changes in the market value of the foreign currency instruments are recognized in the financial statements upon settlement of the hedged transaction.

As discussed under the Long-term Debt caption in these Notes to the Consolidated Financial Statements, the company entered into interest rate exchange or swap agreements to hedge interest rate exposure on the anticipated issuance of new long-term debt securities. The net loss on these swap agreements has been deferred and is being amortized as an adjustment to interest expense over the term of the debt securities. In June 1997, the company terminated all of its outstanding interest rate exchange agreements upon the issuance of the new long-term debt securities.

FAIR VALUE

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of FAS Statement 107, "Disclosures about Fair Value of Financial Instruments." Estimated fair value amounts have been determined using available information and appropriate valuation methodologies. Because considerable judgment is required in developing the estimates of fair value, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

For cash and cash equivalents, receivables and accounts payable, carrying value is a reasonable estimate of fair value.

At October 31, 1997 the estimated fair value of long-term debt with fixed interest rates was $187,713,000 compared to its carrying value of $178,015,000. The fair value is estimated by discounting the projected cash flows using the rate at which similar amounts could currently be borrowed.

(unaudited)

Summarized quarterly financial data for 1997 and 1996 is as follows:

Quarter (Dollars in thousands, except per share data)	FISCAL YEAR ENDED OCTOBER 31, 1997 FIRST	SECOND	THIRD	FOURTH
Net sales	$208,957	$352,203	$249,274	$240,770
Gross profit	75,227	125,117	92,395	95,298
Net earnings, before extraordinary loss	2,491	19,040	9,949	5,028
Net earnings	2,491	19,040	8,286	5,028
Net earnings per share of common stock and common stock equivalent, before extraordinary loss	0.20	1.53	0.80	0.40
Net earnings per share of common stock and common stock equivalent	0.20	1.53	0.67	0.40
Dividends per common share	0.12	0.12	0.12	0.12
Market price of common stock				
High bid	36 5/8	36 7/8	38 7/8	43 3/4
Low bid	31 1/2	33	35 1/8	35 7/16

Quarter (Dollars in thousands, except per share data)	Fiscal Year Ended October 31, 1996 First	Second	Third	Fourth
Net sales	$211,501	$288,646	$232,565	$198,197
Gross Profit	76,329	103,810	85,884	75,700
Net earnings	8,498	16,820	6,465	4,626
Net earnings per share of common stock and common stock equivalent	0.67	1.33	0.52	0.37
Dividends per common share	0.12	0.12	0.12	0.12
Market price of common stock				
High bid	36 1/4	35 1/4	34 5/8	34 1/8
Low bid	28 3/8	30 5/8	30	30 1/4

Exhibit 21

THE TORO COMPANY
SUBSIDIARIES OF REGISTRANT

All of the following are subsidiaries of The Toro Company as of December 17, 1997.

NAME	STATE OR OTHER JURISDICTION OF INCORPORATION	PERCENTAGE OF VOTING SECURITIES OWNED BY IMMEDIATE PARENT
Toro Australia Pty. Limited	Australia	100%
Toro Credit Company	Minnesota	100%
Toro Europe	Belgium	100%
Toro Foreign Sales Corporation	Barbados	100%
Lawn-Boy Inc.	Delaware	100%
Toro Probiotic Products, Inc.	Minnesota	100%
Toro Sales Company	Minnesota	100%
Toro Southwest, Inc.	California	100%
Toro International Company	Minnesota	100%
Hahn Equipment Co.	Minnesota	100%
Professional Turf Products of Texas, Inc.	Texas	100%
Integration Control Systems & Services, Inc.	Texas	100%
Turf Management Systems, Inc.	Minnesota	100%
James Hardie Irrigation Pty. Limited	Australia	100%
Irritrol Systems of Europe S.p.A.	Italy	100%
Exmark Manufacturing Company Incorporated	Nebraska	100%

[LETTERHEAD]

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
The Toro Company:

We consent to incorporation by reference in the Registration Statements (Nos. 33-26268, 33-31586, 33-38308, 33-44668, 33-51563, 33-55550, 33-59563, 333-4521 and 333-20901) on Forms S-3 and S-8 of The Toro Company of our reports dated December 12, 1997, relating to the consolidated balance sheets of The Toro Company and subsidiaries as of October 31, 1997 and 1996, and the related consolidated statements of earnings and cash flows and related financial statement schedule for the years ended October 31, 1997 and 1996, three-month period ended October 31, 1995 and the year ended July 31, 1995, which reports are included in or incorporated by reference in the annual report on Form 10-K of The Toro Company.

KPMG Peat Marwick LLP

Minneapolis, Minnesota
January 29, 1998

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED STATEMENTS OF EARNINGS, THE BALANCE SHEETS AND 10-K
SCHEDULE II AND EXHIBIT 11 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE
TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR
OCT-31-1997
NOV-01-1996
OCT-31-1997
8
0
255,318
9,832
160,122
472,044
297,841
180,989
661,634
237,833
178,015
0
0
12,189
228,974
661,634
1,051,204
1,051,204
663,167
315,690
(7,897)
812
19,900
60,344
23,836
36,508
0
(1,663)
0
34,845
2.80
2.77

Total long-term debt
Does not include additional-paid-in capital
Other income, net