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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended January 29, 1999 Commission File Number 1-8649

THE TORO COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE  
(State of Incorporation)

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

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

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

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

Yes   X  
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No  
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The number of shares of Common Stock outstanding as of February 26, 1999 was  
12,938,773.  
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THE TORO COMPANY  
INDEX TO FORM 10-Q

Page Number

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PART I.	FINANCIAL INFORMATION:	
ITEM 1.	Condensed Consolidated Statements of Operations (Unaudited) - Three Months Ended January 29, 1999 and January 30, 1998.....	3
	Condensed Consolidated Balance Sheets (Unaudited) - January 29, 1999, January 30, 1998 and October 31, 1998.....	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended January 29, 1999 and January 30, 1998.....	5
	Notes to Condensed Consolidated Financial Statements (Unaudited)....	6-8
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	9-15
PART II.	OTHER INFORMATION:	
ITEM 6.	Exhibits and Reports on Form 8-K .....	16-17
	Signatures.....	18

## PART I. ITEM 1. FINANCIAL INFORMATION

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

	Three Months Ended	
	January 29, 1999	January 30, 1998
Net sales.....	\$ 250,761	\$ 210,059
Cost of sales.....	162,817	137,007
Gross profit.....	87,944	73,052
Selling, general, and administrative expense.....	82,361	71,864
Earnings from operations.....	5,583	1,188
Interest expense.....	(5,029)	(5,805)
Other income, net.....	784	2,863
Earnings (loss) before income taxes.....	1,338	(1,754)
Provision (benefit) for income taxes.....	542	(693)
Net earnings (loss).....	\$ 796	\$ (1,061)
Basic net earnings (loss) per share of common stock.....	\$ 0.06	\$ (0.08)
Diluted net earnings (loss) per share of common stock.....	\$ 0.06	\$ (0.08)
Weighted average number of common shares outstanding and assumed issuance of contingent shares.....	13,139	12,636
Weighted average number of common shares outstanding, assumed issuance of contingent shares, and assumed conversion shares outstanding.....	13,321	12,636

See accompanying notes to condensed consolidated financial statements.

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

	January 29, 1999	January 30, 1998	October 31, 1998
	-----	-----	-----
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 95	\$ 16	\$ 90
Receivables, net.....	287,772	287,813	241,426
Inventories, net.....	216,730	209,334	184,306
Prepaid expenses and other current assets.....	17,036	15,336	14,618
Deferred income taxes.....	38,460	42,586	38,997
	-----	-----	-----
Total current assets.....	560,093	555,085	479,437
	-----	-----	-----
Property, plant, and equipment.....	333,908	308,466	330,539
Less accumulated depreciation.....	208,217	183,672	203,402
	-----	-----	-----
	125,691	124,794	127,137
	-----	-----	-----
Deferred income taxes.....	3,786	1,182	3,763
Goodwill and other assets.....	128,563	98,323	113,654
	-----	-----	-----
Total assets.....	\$ 818,133	\$ 779,384	\$ 723,991
	-----	-----	-----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current portion of long-term debt.....	\$ 715	\$ 664	\$ 580
Short-term borrowing.....	140,385	134,500	31,000
Accounts payable.....	61,248	72,157	65,273
Other accrued liabilities.....	147,051	123,835	161,357
	-----	-----	-----
Total current liabilities.....	349,399	331,156	258,210
	-----	-----	-----
Long-term debt, less current portion.....	196,796	178,068	196,844
Other long-term liabilities.....	5,590	4,976	5,538
	-----	-----	-----
Stockholders' equity:			
Stock par value \$1.00, authorized 35,000,000 shares; issued and outstanding 12,960,334 shares at January 29, 1999 (net of 547,721 treasury shares), 12,831,973 shares at January 30, 1998 (net of 676,082 treasury shares), and 12,769,560 shares at October 31, 1998 (net of 738,495 treasury shares).....	12,960	12,832	12,770
Additional paid-in capital.....	60,190	58,355	56,546
Retained earnings.....	199,884	200,085	200,609
Foreign currency translation adjustment.....	(6,686)	(6,088)	(6,526)
	-----	-----	-----
Total stockholders' equity.....	266,348	265,184	263,399
	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 818,133	\$ 779,384	\$ 723,991
	-----	-----	-----

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	January 29, 1999	January 30, 1998
Cash flows from operating activities:		
Net earnings (loss).....\$	796	\$ (1,061)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Provision for depreciation and amortization.....	7,890	6,818
(Gain) loss on disposal of property, plant, and equipment.....	(106)	105
Deferred income taxes.....	976	23
Tax benefits related to employee stock option transactions.....	-	1,815
Changes in operating assets and liabilities:		
Receivables, net.....	(46,346)	(23,762)
Inventories, net.....	(32,424)	(39,185)
Prepaid expenses and other current assets.....	(2,856)	(2,599)
Accounts payable and accrued expenses.....	(18,076)	(12,599)
Net cash used in operating activities.....	(90,146)	(70,445)
Cash flows from investing activities:		
Purchases of property, plant, and equipment.....	(4,958)	(10,500)
Proceeds from asset disposals.....	340	1,321
Increase in investment in affiliates.....	(2,939)	-
Increase in other assets.....	(776)	(6,119)
Acquisitions, net of cash acquired.....	-	(6,349)
Net cash used in investing activities.....	(8,333)	(21,647)
Cash flows from financing activities:		
Increase in short-term borrowings.....	109,385	93,500
(Repayments) proceeds from long-term debt.....	(27)	114
Increase (decrease) in other long-term liabilities.....	28	(12)
Proceeds from exercise of stock options.....	909	1,043
Purchases of common stock.....	(10,130)	-
Dividends on common stock.....	(1,521)	(1,535)
Net cash provided by financing activities.....	98,644	93,110
Foreign currency translation adjustment.....	(160)	(1,010)
Net increase in cash and cash equivalents.....	5	8
Cash and cash equivalents at beginning of period.....	90	8
Cash and cash equivalents at end of period.....	\$ 95	\$ 16

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
JANUARY 29, 1999

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by generally accepted accounting principles for complete financial statements. Unless the context indicates otherwise, the terms "company" and "Toro" refer to The Toro Company and its subsidiaries. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting primarily of recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. Since the company's business is seasonal, operating results for the three months ended January 29, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 1999. Certain amounts from prior period's financial statements have been reclassified to conform to this period's presentation.

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

INVENTORIES

The majority of inventories are valued at the lower of cost or net realizable value with cost determined by the last-in, first-out (LIFO) method.

Inventories were as follows:

(Dollars in thousands)	January 29, 1999	January 30, 1998
	-----	-----
Raw materials and work in process.....	\$ 105,225	\$ 105,153
Finished goods.....	157,316	146,141
	-----	-----
	262,541	251,294
Less LIFO and other reserves.....	45,811	41,960
	-----	-----
Total.....	\$ 216,730	\$ 209,334
	-----	-----
	-----	-----

RESTRUCTURING AND OTHER UNUSUAL EXPENSE

At January 29, 1999, the company had \$7.5 million of restructuring and other unusual expense remaining in other accrued liabilities. The company has utilized \$3.2 million of these reserves since October 31, 1998. The company expects the majority of these reserves to be utilized by the end of fiscal 1999.

COMPREHENSIVE INCOME

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

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

(Dollars in thousands)	Three Months Ended	
	January 29, 1999	January 30, 1998
Net earnings (loss).....	\$ 796	\$ (1,061)
Other comprehensive loss.....	(160)	(1,010)
Comprehensive income (loss).....	\$ 636	\$ (2,071)

NET EARNINGS PER SHARE

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

BASIC (Shares in thousands)	January 29, 1999	January 30, 1998
Weighted average number of common shares outstanding.....	12,627	12,636
Assumed issuance of contingent shares .....	512	-
Weighted average number of common shares and assumed issuance of contingent shares.....	13,139	12,636
DILUTIVE (Shares in thousands)	January 29, 1999	January 30, 1998
Weighted average number of common shares and assumed issuance of contingent shares.....	13,139	12,636
Assumed conversion of stock options.....	182	-
Weighted average number of common shares, assumed issuance of contingent shares, and assumed conversion shares outstanding.....	13,321	12,636

BUSINESS ACQUISITIONS, INVESTMENTS, AND DIVESTITURES

During the first quarter of fiscal 1999, Toro announced that it became an equity partner in ProShot Golf, Inc. (ProShot). ProShot is a Newport Beach, California based provider of information and communication products to the golf industry, featuring Global Positioning Satellite (GPS)-based measurement and course management systems for golf applications. Under the terms of this agreement, Toro and ProShot will share engineering expertise as well as leverage Toro's distribution network.

During the first quarter of fiscal 1999, Toro also announced the signing of a letter of intent to purchase the assets of Multi-Core Aerators Limited, a European distributor of large turf aeration equipment. The purchase of Multi-Core Aerators augments Toro's full-line of turf aeration equipment that is expected to have an immediate appeal to the company's customer base.

## BUSINESS ACQUISITIONS, INVESTMENTS, AND DIVESTITURES (CONTINUED)

Under the terms of the purchase agreement with Exmark dated November 25, 1997, the company is required to make contingent payments to the former Exmark stockholders 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 value of these contingent payments is \$28.0 million. The company issued 511,991 shares of Toro Common Stock valued at \$13.1 million and paid \$1.8 million of cash in January 1999 as the fiscal 1998 contingent payment.

Effective February 1999, Toro entered into an agreement to sell a portion of its professional fertilizer business. The company recognized an impairment loss of \$1.8 million in the fourth quarter of fiscal 1998 related to the restructuring of its professional fertilizer business, including the expected sale of this portion of the business.

## NEW ACCOUNTING PRONOUNCEMENTS

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

SFAS 133 establishes new standards for recognizing all derivatives as either assets or liabilities, and measuring those instruments at fair value. The company plans to adopt the new standard beginning with the first quarter of fiscal year 2000, as required. The company is in the process of evaluating SFAS 133 and the impact on the company.

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

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



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

FORWARD-LOOKING INFORMATION

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

Statements that are not historical are forward-looking. When used by or on behalf of the company, the words "expect", "anticipate", "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 throughout the world; whether an announced profit improvement plan will be successful; increased competition in the company's businesses from competitors that have greater financial resources; the cost of closing certain plants and selling certain business units; the success of marketing programs; continued deterioration in the company's markets in Asia and softening in other international markets; the strong dollar which increases the cost of the company's products in foreign markets resulting in cancellation of planned projects and limiting the company's ability to increase prices; competitive implications and price transparencies related to the euro conversion; changing buying patterns affecting the company's consumer business, including but not limited to a trend away from purchases at dealer outlets to price and value conscious purchases at hardware, home center, and mass retailers; changes in distributor ownership; the company's expansion into selected home center markets; the company's ability to integrate business acquisitions and to manage alliances successfully; successful implementation of strategies to use outside providers for warehousing and transportation services; the company's ability to develop and manufacture new and existing products profitably; market acceptance of existing and new products; changes in distributors, dealers, home center, or mass retailers' purchasing practices; success in rationalizing product lines and plant configurations; the company's ability to manage costs at its manufacturing facilities; the company's ability to obtain resources from its suppliers on a timely basis in order to meet consumer demands; the company's ability to maintain good relations with its union employees; and the ability to retain and hire quality employees.

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

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

RESULTS OF OPERATIONS

First quarter net sales were \$250.8 million compared to \$210.1 million last year, an increase of 19.4 percent. Sales were strong for consumer products due introduction of new products, introduction of Toro-Registered Trademark-brand lawn mowers to home centers, and timing of snowthrower shipments. Sales were also strong for professional turf products led by a significant increase in revenues to the landscape contractor market, new product introductions, and continued growth of the agricultural irrigation market as well as the domestic golf market for irrigation and commercial products. International sales were also up for the quarter due to strong sales to the Canadian and European regions for commercial products.

First quarter net earnings were \$0.8 million compared to a net loss of \$1.1 million for the same quarter in the previous year. Diluted earnings per share for the quarter was \$0.06 compared to basic and dilutive loss per share of \$0.08 for the same quarter in the previous year. The increase in net earnings was due to a significant increase in net sales as noted above.

The following table sets forth net sales by product line:

(Dollars in thousands)	Three Months Ended			
	January 29, 1999	January 30, 1998	\$ Change	% Change
Consumer products.....	\$ 87,161	\$ 57,444	\$ 29,717	51.7%
Commercial products.....	108,307	98,167	10,140	10.3
Irrigation products.....	55,293	54,448	845	1.6
Total*.....	\$ 250,761	\$ 210,059	\$ 40,702	19.4%
* Includes international sales of:.....	\$ 58,470	\$ 55,172	\$ 3,298	6.0%

CONSUMER PRODUCT SALES

Net sales of worldwide consumer products in the first quarter of fiscal 1999 were \$87.2 million compared to \$57.4 million for the first quarter of fiscal 1998, a significant increase of 51.7 percent. Initial orders from home centers, a new distribution channel for the Toro-Registered Trademark-brand walk power mowers, contributed to the sales increase, as did strong sales from traditional dealers. The newly introduced Toro-Registered Trademark-Personal Pace-Registered Trademark-lawn mower had strong first quarter sales. DuraForce-TM-Lawn-Boy-Registered Trademark-walk power mower sales were also higher due to better availability of engines compared to the first quarter of fiscal 1998. Sales were higher for snowthrowers due to the timing of shipments from the fourth quarter of fiscal 1998 to the first quarter of fiscal 1999 as compared to the prior year due mainly to customers ordering product closer to retail demand. Sales of blower vacuums, including a new quieter version of electric leaf blower, were also strong due to the warm fall weather experienced in 1998. Offsetting those positive factors were lower sales for riding products due to lower demand for garden tractors and an availability of engines from a key supplier. International consumer product sales were also down due mainly to continued weakness in foreign currencies against the US dollar.

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

## COMMERCIAL PRODUCT SALES

Net sales of worldwide commercial products in the first quarter of fiscal 1999 were \$108.3 million compared to \$98.2 million for the first quarter of fiscal 1998, an increase of 10.3 percent. The increase was largely a result of the sales growth due to increased demand in the landscape contractor market and market acceptance of newly introduced products. Sales of equipment to golf courses also did well due to market acceptance of new products and continued growth of the golf market. International commercial sales increased significantly from the comparable period in fiscal 1998 due to strong stocking orders from Canada and Europe as well as market acceptance of new products.

## IRRIGATION PRODUCT SALES

Net sales of worldwide irrigation products in the first quarter of fiscal 1999 were \$55.3 million compared to \$54.4 million for the first quarter of fiscal 1998, an increase of 1.6 percent. Without the incremental revenue of Drip In, which was acquired during the second quarter of fiscal 1998, sales would have been down slightly. Strong domestic golf revenues, Drip In sales, and a growing worldwide agricultural irrigation market were offset by weak sales of Irritrol-Registered Trademark- residential/commercial irrigation product compared to an unusually large volume of sales in the comparable quarter of fiscal 1998. International sales were down from the previous quarter due to the conversion of the Australian denominated dollar sales into U.S. dollars at a lower exchange rate and production delays for certain international irrigation products. International sales of agricultural irrigation products were strong and helped minimize the impact of these negative factors.

## GROSS PROFIT

First quarter gross profit was \$87.9 million compared to \$73.1 million last year, an increase of 20.4 percent. As a percentage of net sales, gross profit for the first quarter was 35.1 percent compared to 34.8 percent last year. The higher gross margin resulted primarily from higher sales that spread fixed manufacturing overhead over higher sales volumes and from slightly higher margins for the consumer product line.

## SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE

First quarter selling, general, and administrative expenses (SG&A) were \$82.4 million compared to \$71.9 million in the same period last year, an increase of \$10.5 million. However, as a percentage of net sales, SG&A decreased to 32.8 percent from 34.2 percent for the same quarter in fiscal 1998. The dollar increase is mainly due to increases for direct marketing expenses, warehousing costs, and warranty expenses due to higher sales levels and the inclusion of Drip In. Incentive expenses were also higher due to improved financial performance of the company in the first quarter of fiscal 1999. Information system costs were higher due to the continued implementation of an enterprise-wide software system.

## INTEREST EXPENSE

First quarter interest expense was \$5.0 million compared to \$5.8 million in the same period last year, a decrease of \$0.8 million. Interest expense declined primarily due to lower levels of average working capital as a result of better asset management.

## OTHER INCOME, NET

First quarter other income, net, was \$0.8 million compared to \$2.9 million in the same period last year, a decrease of \$2.1 million. The decrease was due to one-time income items recognized in the first quarter of fiscal 1998 for a favorable patent infringement action settlement and recoveries notes receivable that had previously been written off.

## PROVISION FOR INCOME TAXES

The effective tax rate for the first quarter was 40.5 percent compared to 39.5 percent last year. The increase was due to higher levels of non-deductible goodwill amortization, resulting from the company's recent acquisitions.

FINANCIAL POSITION AS OF JANUARY 29, 1999

JANUARY 29, 1999 COMPARED TO JANUARY 30, 1998

Total assets at January 29, 1999 were \$818.1 million compared to \$779.4 million on January 30, 1998, an increase of \$38.7 million. Net accounts receivable was consistent with the prior period at \$287.8 million. Net accounts receivable increased in most divisions due to increased sales volumes, which was offset by lower receivables for the Toro Credit Company due to lower consumer field inventory levels resulting in lower levels of financing and the collection of a receivable from James Hardie Irrigation Limited (Hardie) related to the adjustment of the purchase price for the acquisition of Hardie in fiscal 1997. Inventory increased \$7.4 million due to new product introductions and building of inventory in advance of the spring selling season due to capacity limitations at certain manufacturing facilities caused by seasonal demand for certain product lines. Inventory also increased due to changes in distribution, including selling product directly to commercial customers in Australia. Goodwill and other assets increased \$30.2 million primarily as a result of the Exmark contingent payment made during the quarter and the capitalization of the excess purchase price of Drip In over the fair value of the assets acquired in the second quarter of fiscal 1998.

Total current liabilities were \$349.4 million compared to \$331.2 million last year, an increase of \$18.2 million. Short-term borrowings increased by \$5.9 million for funding of repurchases of Common Stock on the open market, which were offset by lower levels of working capital. Accounts payable decreased \$10.9 million due to timing of inventory purchases and payments. Other accrued liabilities increased \$23.2 million as a result of higher accruals for warranty, sales and marketing programs, and restructuring and other unusual expense. Long-term debt increased \$18.7 million as a result of long-term debt issued and assumed in the Drip In acquisition.

JANUARY 29, 1999 COMPARED TO OCTOBER 31, 1998

Total assets at January 29, 1999 were \$818.1 million compared to \$724.0 million at October 31, 1998, an increase of \$94.1 million. Net accounts receivable increased \$46.3 million from October 31, 1998 due to the seasonal increase in accounts receivable, which historically occurs between January and April. Inventory increased by \$32.4 million due to the normal seasonal buildup of inventory in the first quarter. Goodwill and other assets increased \$14.9 million as a result of the Exmark contingent payment.

Total current liabilities at January 29, 1999 were \$349.4 million compared to \$258.2 million at October 31, 1998, an increase of \$91.2 million. The increase was the result of additional short-term borrowings of \$109.4 million, reflecting the company's strategy of utilizing short-term borrowings to fund seasonal working capital needs. These requirements are historically greatest in the winter and spring months. Accounts payable decreased \$4.0 million compared to October 31, 1998 due to the timing of inventory purchases and payments. Other accrued liabilities decreased \$14.3 million primarily as a result of the annual payment of profit sharing and related accruals.

LIQUIDITY AND CAPITAL RESOURCES

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

The company's domestic and international working capital needs are funded with approximately \$274 million of committed unsecured bank credit lines. The company also has banker's acceptance financing agreements under which an additional \$40 million is available. The company's business is seasonal, with peak borrowing under the working capital lines described above generally occurring between February and May each year.

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

## YEAR 2000 COMPLIANCE

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

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

Toro assessed its products and believes them to be year 2000 compliant with the exception of six irrigation control systems. Soon after testing is completed, which is expected to be by mid-1999, Toro will distribute year 2000 remediations.

Toro's year 2000 issues list, based on the company's initial assessment, has over three hundred software and hardware items, the majority of which are single-user, departmental or plant systems. The company plans to test the following business-critical systems: ERP, payroll, Product Data Management (PDM), all non-ERP core-business information systems, and associated infrastructure and support technologies. The company has experienced delays in testing progress because certain technology vendors have not supplied working, compliant versions of their products in a timely manner. The company has also experienced delays caused by internal programming resource limitations, which has slowed the de-installation of the non-compliant mainframe computer system. The current plan is to complete the de-installation from the mainframe computer by the fourth quarter of fiscal 1999.

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

**COSTS** - Year 2000 costs through January 29, 1999 were approximately \$1.7 million and have been expensed as incurred. These costs include contractor support and ERP implementation for the company's recently acquired businesses. Costs remaining that have been identified are estimated to be less than \$2.1 million, which include expenses for contractor support, telephone system upgrades, software modifications for irrigation systems, and business unit system upgrades. The estimated cost of year 2000 adaptation is less than 15 percent of the company's information system budget. No significant information system projects have been deferred to accommodate the year 2000 issues.

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

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

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

## YEAR 2000 COMPLIANCE (CONTINUED)

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

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

With respect to non-compliant irrigation systems that have been identified, the company intends to develop software modifications to correct the year 2000 problem and complete testing by mid-1999. The worst case scenario to make the irrigation systems year 2000 compliant would be to replace the Toro manufactured hardware and software systems, at an additional cost of approximately \$2.0 million. However, the company believes a simple software modification or a minor upgrade will make the units compliant.

## EURO CURRENCY

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

The company continued its program to evaluate whether the company's computer systems and programs will experience operational problems when the euro is fully implemented. The company's European subsidiaries' financial systems have completed initial testing and no problems were discovered for their ability to function using the euro. These subsidiaries began disclosing the euro value on each customer's invoice in January 1999, and the company is considering to begin invoicing in euros in fiscal 2000. The company plans to continue testing its computer systems in fiscal 1999 for additional euro functionality. The risk is thought to be minimal as billing and banking functions are already being performed in multiple currencies within these entities. Further, the company is monitoring the rules and regulations as they become known in order to make any changes to its computer programs that are deemed necessary to comply. Although the company believes that it will be able to accommodate any required euro currency changes in its computer programs, there can be no assurance that once the EMU's final rules and regulations are adopted, the company's computer programs will contain all of the necessary changes or meet all of the euro currency requirements.

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

## INFLATION

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

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### FOREIGN CURRENCY

The following forward exchange contracts held by the company have maturity dates in fiscal year 1999. All items are non-trading and stated in U.S. dollars. The average contracted rate, notional amount, and fair value impact at January 29, 1999 were as follows:

DOLLARS IN THOUSANDS (EXCEPT AVERAGE CONTRACTED RATE)	AVERAGE CONTRACTED RATE	NOTIONAL AMOUNT	FAIR VALUE IMPACT GAIN (LOSS)
Buy Australian dollar/Sell US dollar	.6281	\$ 965.3	\$ .2
Buy US dollar/Sell Australian dollar	.6043	5,454.1	(239.9)
Buy US dollar/Sell Canadian dollar	1.5123	5,653.8	(3.3)
Buy US dollar/Sell German mark	1.6903	769.1	8.5
Buy German mark/Sell US dollar	1.7797	2,725.3	109.7

### DEBT FINANCING

The company is exposed to interest rate risk arising from transactions that are entered into during the normal course of business. The company's short-term borrowing rates are dependent upon the LIBOR rate plus an additional percentage based on the company's current borrowing level. See the company's most recent annual report filed on Form 10-K (Item 7A). There has been no material change in this information.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3(i)(a) and 4(a) Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form S-3, Registration No. 33-16125).
- 3(i)(b) and 4(b) Certificate of Amendment to Certificate of Incorporation of Registrant dated December 9, 1986 (incorporated by reference to Exhibit 3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 30, 1987, Commission File No. 1-8649).
- 3(i)(c) and 4(c) Certificate of Designation to Certificate of Incorporation of Registrant dated May 28, 1998 (incorporated by reference to Exhibit (1)(A) to Registrants' Current Report on Form 8-K dated May 27, 1998).
- 3(ii) and 4(d) Bylaws of Registrant, as amended (incorporated by reference to Exhibits 3(ii) and 4(d) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).
- 4(e) Specimen form of Common Stock certificate (incorporated by reference to Exhibit 4(c) to Registrant's Registration Statement on Form S-8, Registration No. 2-94417).
- 4(f) Rights Agreement dated as of May 20, 1998, between Registrant and Norwest Bank Minnesota, National Association relating to rights to purchase Series B Junior Participating Voting Preferred Stock, as amended (incorporated by reference to Registrant's Current Report on Form 8-K dated May 27, 1998, Commission File No. 1-8649).
- 4(g) Indenture as dated as of January 31, 1997, between Registrant and First National Trust Association, as Trustee, relating to the Registrant's 7.125% Notes due June 15, 2007 and its 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K for June 24, 1997, Commission File No. 1-8649).
- 10(a) Form of Employment Agreement in effect for certain officers of Registrant (incorporated by reference to Exhibit 10(iii)(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended May 1, 1998).\*
- 10(b) Directors Stock Plan, as amended (incorporated by reference to Exhibits 10(b) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).\*
- 10(c) Annual Management Incentive Plan II for officers of Registrant, as amended (incorporated by reference to Exhibits 10(c) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).\*
- 10(d) 1985 Incentive Stock Option Plan (incorporated by reference to Exhibit 10(b) to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1993).\*
- 10(e) 1989 Stock Option Plan, as amended (incorporated by reference to Exhibits 10(e) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).\*



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

- 10(f) 1993 Stock Option Plan, as amended (incorporated by reference to Exhibits 10(f) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).\*
- 10(g) Continuous Performance Award Plan, as amended (incorporated by reference to Exhibits 10(g) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1998).\*
- 10(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 year ended October 31, 1996).\*
- 10(i) Chief Executive Officer Succession Incentive Agreement dated as of July 31, 1995 (incorporated by reference to Exhibit 10(iii)(i) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1998).\*
- 10(j) The Toro Company Deferred Compensation Plan for Officers, as amended.\*
- 10(k) The Toro Company Deferred Compensation Plan for Non-Employee Directors.\*
- 27 Supplemental Data Schedule; electronic filing only.

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

(b) Reports on Form 8-K

None.

SIGNATURES

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

THE TORO COMPANY  
(Registrant)

By /s/ Stephen P. Wolfe

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

Date: March 12, 1999

THE TORO COMPANY  
DEFERRED COMPENSATION PLAN  
FOR OFFICERS

JANUARY 29, 1999 RESTATEMENT

CONTENTS

I.	DEFINITIONS . . . . .	1
II.	ELIGIBILITY, PARTICIPATION, DEFERRAL . . . . .	4
	2.1 Eligibility . . . . .	4
	2.2. Participation . . . . .	4
	2.3 Deferral Election . . . . .	4
III.	PARTICIPANTS' ACCOUNTS . . . . .	5
	3.1 General . . . . .	5
	3.2 Number of Units to be Credited . . . . .	6
IV.	VESTING . . . . .	7
	4.1 Retained Units Account and Performance Share Units Account . . . . .	7
	4.2 Matching Units Account . . . . .	7
	4.3 No Interest in Assets . . . . .	8
V.	DISTRIBUTIONS . . . . .	9
	5.1 Distributable Events . . . . .	9
	5.2 Distribution of Benefits . . . . .	9
	5.3 Other Distributions . . . . .	10
	5.4 Commencement of Distributions . . . . .	10
	5.5 Form of Payment . . . . .	11
VI.	THE TRUST . . . . .	11
	6.1 The Trust . . . . .	11
	6.2 Enforcement of Funding . . . . .	12
VII.	NONTRANSFERABILITY . . . . .	12
	7.1 Anti-Alienation of Benefits . . . . .	12
	7.2 Incompetent Participants . . . . .	12
	7.3 Designated Beneficiary . . . . .	13

VIII. WITHHOLDING . . . . . 13

IX. VOTING OF STOCK . . . . . 13

X. ADMINISTRATION OF THE PLAN . . . . . 13

    10.1 Administrator . . . . . 13

    10.2 Authority of Administrator . . . . . 13

    10.3 Operation of Plan . . . . . 14

    10.4 Claims Procedures . . . . . 14

    10.5 Arbitration . . . . . 15

    10.6 Participant's Address . . . . . 16

    10.7 Liability . . . . . 16

XI. MISCELLANEOUS PROVISIONS . . . . . 17

    11.1 No Employment Rights . . . . . 17

    11.2 Unfunded and Unsecured . . . . . 17

    11.3 Singular and Plural . . . . . 17

    11.4 Severability . . . . . 17

    11.5 Applicable Law . . . . . 17

XII. AMENDMENT OR TERMINATION . . . . . 18

    12.1 Amendment or Termination of the Plan . . . . . 18

    12.2 Accounts After Termination . . . . . 18

THE TORO COMPANY  
DEFERRED COMPENSATION PLAN  
FOR OFFICERS

JANUARY 29, 1999 RESTATEMENT

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

I. DEFINITIONS

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

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

"AMIP II" means The Toro Company Annual Management Incentive Plan II, as amended from time to time, and any successor plan designated as such by the Board of Directors.

"ANNUAL PERFORMANCE AWARD" means an award granted under AMIP II pursuant to which annual incentive compensation based on achievement of annual performance goals may be paid.

"AWARD TERM" means the period established by the Compensation Committee for awards granted under the Performance Share Plan.

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

"BOARD OF DIRECTORS" means the Board of Directors of the Company.

"CHANGE OF CONTROL" means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act")) of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of

15% or more of the outstanding shares of Common Stock of the Company, or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election, or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

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

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

"COMMON STOCK" means the Common Stock, par value \$1.00 per share, and the related Preferred Share Purchase Rights, of the Company as such shares may be adjusted in accordance with AMIP II and the Performance Share Plan.

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

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

"DEFERRAL ELECTION" shall mean a Participant's election under Section 2.3 hereof, made in the form prescribed by the Company.

"DISABILITY" means a Participant is permanently disabled and unable to work and entitled to a disability benefit under a long-term disability program sponsored or maintained by the Company. "Disability" does not include short-term disability under any program sponsored or maintained by the Company that provides short-term disability benefits.

"EFFECTIVE DATE" means January 21, 1998, the date the Plan was originally adopted by the Board of Directors.

"ELIGIBLE OFFICER" means an officer of the Company or a Subsidiary, described in Section 2.1.

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

"FAIR MARKET VALUE" means the closing price of one share of Common Stock as reported in THE WALL STREET JOURNAL, except that where a different meaning is established in AMIP II or the Performance Share Plan for any particular purpose, that meaning shall govern for that purpose.

"FISCAL YEAR" means the fiscal year of the Company, which begins on November 1 and ends on the following October 31.

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

"OPTIONAL INVESTMENT ACCOUNT" means an Account maintained for a Participant in accordance with Section 4.3.

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

"PERFORMANCE SHARES" are rights to receive shares of Common Stock or Common Stock Units, awarded under the Performance Share Plan.

"PERFORMANCE SHARE UNITS ACCOUNT" means an Account with entries denominated in Units that are credited in accordance with Section 3.4.

"PERFORMANCE SHARE AWARD" means the award that sets forth the number of Performance Shares granted under the Performance Share Plan.

"PERFORMANCE SHARE PLAN" means The Toro Company Performance Share Plan, as amended from time to time, and any successor plan designated as such by the Board of Directors.

"PLAN" means this Deferred Compensation Plan for Officers, as amended from time to time.

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

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



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

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

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

A "UNIT" has a value equal to one share of Common Stock or fraction thereof. To the extent AMIP II provides for adjustment of Unit values, the value as adjusted in accordance with AMIP II shall control with respect to Base Cash Awards deferred hereunder.

## II. ELIGIBILITY, PARTICIPATION, DEFERRAL

### 2.1 ELIGIBILITY

An officer of the Company or a Subsidiary who is granted a Stock Retention Award under AMIP II or a Performance Share Award under the Performance Share Plan is eligible to participate in the Plan.

### 2.2. PARTICIPATION

An Eligible Officer may become a Participant in the Plan by executing and delivering to the Director of Compensation and Benefits, or successor position, of the Company a Deferral Election in the form prescribed by the Company.

### 2.3 DEFERRAL ELECTION

- (a) **DEADLINE FOR DELIVERY.** An Eligible Officer may elect to defer Base Cash Award compensation that may be earned under AMIP II or Performance Shares that may be delivered in settlement of a Performance Share Award, or both, by completing and submitting a Deferral Election to the Director of Compensation and Benefits, or successor position, not later than the December 31 immediately following the grant to such individual of a Stock Retention Award or Performance Share Award.

(i) Notwithstanding the foregoing, the deadline for delivering a Deferral Election in the year in which the Plan is implemented or amended and for newly Eligible Officers shall be as follows:

(A) In the year in which the Plan is first implemented or amended to permit deferral of compensation not previously subject to deferral, an Eligible Officer may submit a Deferral Election not later than 30 days after the Effective Date of the Plan or such amendment, but at least six months prior to the date on which an award either vests or becomes payable.

(B) In the year in which an individual first becomes an Eligible Officer, if at a time other than that date the Compensation Committee typically makes awards to other officers, the Eligible Officer may submit a Deferral Election not later than 30 days after the date the individual becomes an Eligible Officer, but at least six months prior to the date on which an award either vests or becomes payable.

(b) AMOUNT TO BE DEFERRED. The Deferral Election shall relate to compensation that may be earned with respect to the Fiscal Year to which a Stock Retention Award relates or the Award Term to which a Performance Share Award relates. A Deferral Election may designate up to 50% of a Base Cash Award and up to 100% of Performance Shares in a Performance Share Award to be deferred.

(c) CREDITING. Upon certification as required by Section 3.1(a), amounts deferred under AMIP II shall be credited to the Participant's Retained Units Account and Performance Shares deferred under the Performance Share Plan shall be credited to the Participant's Performance Share Units Account.

(d) EFFECTIVENESS. The Deferral Election is irrevocable, shall be effective upon delivery and shall remain in effect only with respect to the Fiscal Year or Award Term for which it is made.

(e) RECORD OF PARTICIPANTS. The name of each Participant and the date on which participation commences shall be recorded, and the record shall be maintained by the Secretary or Assistant Secretary of the Company, or their designee.

### III. PARTICIPANTS' ACCOUNTS

#### 3.1 GENERAL

(a) CERTIFICATION REQUIRED. No Units or other amount shall be credited to any Account with respect to any Stock Retention Award or Performance Share

Award until the Compensation Committee has certified in writing as required by AMIP II or the Performance Share Plan that the performance goals established with respect to such award have been achieved and, in the case of a Performance Share Award, Performance Shares in such award have vested.

- (b) SEPARATE ACCOUNTS. The value of each of a Participant's Retained Units Account, Matching Units Account and Performance Share Units Account shall be accounted for separately.
- (c) ACCOUNT VALUE. The value of Units in any Account shall fluctuate with the Fair Market Value of the Common Stock.
- (d) DIVIDENDS. In the event that the Company pays dividends on its Common Stock, each of the Retained Units Account, Matching Units Account and Performance Share Units Account shall be credited with additional Units (including fractions). The number of additional Units to be credited shall be determined by dividing the aggregate dollar value of the dividends that would be paid on the Units, if such Units were Common Stock, by the Fair Market Value of one share of the Common Stock on the record date for payment of dividends.
- (e) CONTINUATION OF ACCOUNTS. Notwithstanding that a Participant ceases to be an Eligible Officer, any Accounts established for such Participant shall continue to be maintained until distribution of the assets in accordance with the Plan and the Participant's Deferral Election.

### 3.2 NUMBER OF UNITS TO BE CREDITED

- (a) RETAINED UNITS ACCOUNT. The dollar amount of the portion of a Base Cash Award subject to a Deferral Election with respect to any Stock Retention Award shall be divided by the Fair Market Value of the Common Stock and the resulting number of Units (including fractions) shall be credited to a Participant's Retained Units Account.

For purposes of Sections 3.2(a) and (b), Fair Market Value shall be determined as of the date that the Compensation Committee makes the certification required under Section 3.1(a) of this Plan.

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

(c) PERFORMANCE SHARE UNITS ACCOUNT. The number of Performance Shares Units to be credited to a Participant's Performance Share Account with respect to a Performance Share Award shall be the number or portion of the total number of Performance Shares in the award and subject to the Deferral Election that have vested.

IV. VESTING

4.1 RETAINED UNITS ACCOUNT AND PERFORMANCE SHARE UNITS ACCOUNT

Retained Units (including fractions) and Performance Share Units credited to a Participant's Accounts shall be 100% vested at all times.

4.2 MATCHING UNITS ACCOUNT

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

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

- (c) DEATH OR DISABILITY. Notwithstanding any provision herein or in AMIP II to the contrary, in the event of a Participant's death or Disability, vesting shall accelerate and all Matching Units shall vest in full.
- (d) RETIREMENT. Notwithstanding any provision herein or in AMIP II to the contrary, in the event of a Participant's retirement from the Company at or

after age 65, vesting shall accelerate and all Matching Units shall vest in full. Notwithstanding the foregoing, if within one year after such retirement the Participant is employed or retained by a company that competes with the business of the Company, or such individual violates any confidentiality agreement with the Company, the Company may require the Participant to return the economic value of the Matching Units which vested early under this Section 4.2(d).

- (e) EARLY RETIREMENT. Notwithstanding any provision herein or in AMIP II to the contrary, but subject to the distribution election permitted under Section 5.4(c), in the event of a Participant's retirement from the Company at or after age 55 but before age 65, the Participant's Retained Units shall remain credited to the Retained Units Account until the earlier of the date the Participant reaches age 65 or until applicable vesting requirements have been fulfilled, and Matching Units shall continue to vest in accordance with the vesting schedule of Section 4.2(b), or until vesting is accelerated by Participant's attaining age 65, whichever occurs earlier. Notwithstanding the foregoing, if within one year after such early retirement the Participant is employed or retained by a company that competes with the business of Company, or violates any confidentiality agreement with the Company, the Company may require the Participant to return the economic value of the Matching Units which vested after the date of early retirement under this Section 4.2(e).
- (f) VOLUNTARY RESIGNATION. In the event that a Participant resigns from the Company voluntarily, Matching Units held in such Participant's Account that have not yet vested shall not vest and shall be forfeited, unless otherwise determined by the Chair of the Compensation Committee, in his or her discretion, upon recommendation by the Chief Executive Officer of the Company.
- (g) CHANGE OF CONTROL. All Matching Units that have not yet vested shall vest upon a Change of Control.

#### 4.3 NO INTEREST IN ASSETS

The Company may set aside or earmark funds or other assets to meet its obligations under the Plan, but title to and ownership of such funds and assets shall remain in the Company. No Participant nor any beneficiary shall have any ownership rights or any property interest in any of such funds or other assets, or in any other assets of the Company, until they are distributed in accordance with the Plan.

## V. DISTRIBUTIONS

### 5.1 DISTRIBUTABLE EVENTS

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

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

### 5.2 DISTRIBUTION OF BENEFITS

- (a) VALUE OF BENEFITS. In the event a Participant becomes eligible to receive a payment under the Plan, the Participant shall be entitled to receive the value of the Retained Units Account the value of the vested portion of the Matching Units Account and the value of the Performance Share Units Account. If a Participant elects to receive benefits under the installment payment method referred to in Section 5.2(d) or as an early distribution in accordance with Section 5.3(a), the Participant's Accounts shall continue to be credited with additional Units equal in value to dividends that would be paid on Units remaining in the Accounts, as if such Units were Common Stock.
- (b) ELECTION OF METHOD OF PAYMENT. Benefits payable to a Participant or, in the event of the Participant's death, to the Participant's designated beneficiary under the Plan shall be paid in accordance with one of the available methods of payment referred to in Section 5.2(d) in accordance with the Participant's most recent valid Deferral Election form.
- (c) CHANGE IN ELECTION OF METHOD OF PAYMENT. An election of a method of payment will apply to all benefits payable to or on behalf of a participant under the Plan, including amounts deferred in prior years and subject to a prior election. A Participant may change the method of payment by electing another method available under the Plan at any time up to two years before the date of the Participant's retirement from the Company. Further, in no event will any such change in the method of payment be effective if such change is elected during the calendar year in which the distributable event occurs and no further elections may be made once a distributable event occurs.
- (d) AVAILABLE METHODS OF PAYMENT. Available methods of payment are
  - (i) approximately equal annual installment payments over a period certain (not

to exceed ten (10), unless a longer period is approved by the Compensation Committee) or (ii) a lump sum payment.

- (e) COMPENSATION COMMITTEE DISCRETION. The Compensation Committee may, in its sole discretion, reduce the payment period over which payments would have been made pursuant to the method of payment selected by a Participant.
- (f) ABSENCE OF ELECTION OF METHOD OF PAYMENT. Absent a Deferral Election specifying a method of payment, benefits payable under the Plan to or on behalf of a Participant shall be paid in a lump sum payment to the Participant, or in the event of the Participant's death, to the Participant's designated beneficiary under the Plan.

### 5.3 OTHER DISTRIBUTIONS

- (a) EARLY DISTRIBUTIONS. Notwithstanding Section 5.1, a Participant may irrevocably elect to receive a distribution of a portion or all of the Participant's Retained Units Account and the vested portion of the Matching Units Account prior to Participant's death, Disability or termination of employment provided that the Participant will have attained age 55 at the date such distribution will begin, and provided further that only benefits credited to an Account for at least two years may be paid. The election shall be made on a Deferral Election form not later than two years prior to the year in which the early distribution is to begin. The election is subject to the consent of the Compensation Committee.
- (b) TAX-RELATED DISTRIBUTIONS. Notwithstanding any provision in this Plan to the contrary, if at any time a court or the Internal Revenue Service determines that the value of any Units credited to a Participant's Accounts under the Plan or Trust is includable in the gross income of the Participant and subject to tax, the Compensation Committee shall make a lump sum distribution to the Participant of an amount equal to the amount determined to be includable in the Participant's gross income, and the value of the Participant's Accounts shall be reduced by a like amount.

### 5.4 COMMENCEMENT OF DISTRIBUTIONS

Payment of a benefit shall begin in accordance with the provisions of this Section 5.4.

- (a) DEATH OR DISABILITY. If a benefit is payable because of a Participant's death or Disability, payment shall begin on the 15th day of the first month immediately following the month in which the Participant's death occurs or the determination of Disability is made.

- (b) OTHER TERMINATION. If a benefit is payable because of a Participant's termination of employment with the Company for any reason other than death or Disability or pursuant to an early retirement election approved by the Compensation Committee, payment shall begin on or about the 15th day of January immediately following the calendar year in which the termination of employment occurs.
- (c) EARLY RETIREMENT. A Participant may irrevocably elect to receive a distribution of all of the Participant's Retained Units Account upon Participant's retirement at or after age 55 but prior to age 65 and to forfeit Matching Units that have not vested. If a Participant has properly made an early retirement election to which the Compensation Committee has consented, and if the Participant retires from the Company at or after the Participant attains age 55 but prior to age 65, at a time when Units in the Participant's Matching Units Account are not yet fully vested under Section 4.2(b) of the Plan, the Participant shall forfeit Units that have not vested at the date of such early retirement and payments shall begin on or about the 15th day of January immediately following the calendar year in which the Participant's early retirement occurs. If a Participant has not made such an early retirement election, payment will begin on or about the 15th day of January immediately following the calendar year in which (i) the applicable vesting requirements are fulfilled or (ii) the Participant attains age 65, whichever is earlier.
- (d) EARLY DISTRIBUTION. If a Participant has properly made an early distribution election to which the Compensation Committee has consented and the Participant has attained age 55, payment shall begin on or about the 15th day of January immediately following the calendar year in which the Participant attains the age set forth in Participant's Deferral Election, provided the age is not less than 55.

#### 5.5 FORM OF PAYMENT

If a benefit is payable to or on behalf of a Participant under the Plan, vested Units in the Participant's Accounts shall be distributed in the form of an equal number of shares of Common Stock and any vested fractional Unit shall be converted into cash based on the Fair Market Value of the Common Stock immediately prior to distribution. Common Stock may be original issue shares, treasury shares or shares purchased in the market or from private sources of a combination thereof.

### VI. THE TRUST

#### 6.1 THE TRUST

In order to provide assets from which to pay the benefit obligations to the Participants and their beneficiaries under the Plan, the Company shall maintain a Trust by a trust



agreement with a third party, the Trustee, to which it may, in its discretion, contribute cash or other property, including securities issued by the Company, to provide for the benefit payments under the Plan. In the event of a Change of Control, the Company shall, as soon as possible, but in no event longer than 30 days following the Change of Control, make irrevocable contributions to the Trust in amounts that are sufficient to pay the Participants or beneficiaries the benefits to which the Participants or their beneficiaries would be entitled pursuant to the terms of the Plan as of the date on which the Change of Control occurred, including benefits that vest under the Plan as a result of the Change of Control. The Trustee will have the duty to invest the Trust assets and funds in accordance with the terms of the Trust. The Company is entitled at any time or times prior to a Change of Control, in its sole discretion, to substitute assets of equal fair market value for any assets held in the Trust. All rights associated with the assets of the Trust will be exercised by the Trustee or the person designated by the Trustee, and will in no event be exercisable by or rest with Participants or their beneficiaries. The Trust shall provide that in the event of the insolvency of the Company, the Trustee shall hold the assets for the benefit of the general creditors of the Company.

## 6.2 ENFORCEMENT OF FUNDING

If following a Change of Control, irrevocable contributions to the Trust have not been made as required in Section 6.1 hereof, any Participant or beneficiary shall have the right to seek specific performance from the Company of its obligation to make such contributions. The Company consents to the jurisdiction of the district courts of the State of Minnesota to determine any action for such specific performance.

## VII. NONTRANSFERABILITY

### 7.1 ANTI-ALIENATION OF BENEFITS

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

### 7.2 INCOMPETENT PARTICIPANTS

If any person who may be eligible to receive a benefit under the Plan has been declared incompetent and a conservator or other person legally charged with the care of such person or of his or her estate has been appointed, any benefit payable under the Plan which the person is eligible to receive shall be paid to such conservator or other person legally charged with the care of the person or his or her estate. Except as provided above, when the Compensation Committee has determined that such a person is unable to manage his or her affairs, the Compensation Committee may provide for such payment or any part thereof to be

made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Company and the Plan therefor.

### 7.3 DESIGNATED BENEFICIARY

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

### VIII. WITHHOLDING

Any amounts payable pursuant to the Plan may be reduced by the amount of any federal, state or local taxes required by law to be withheld with respect to such payments, and by any amount owed by the Participant to the Company.

### IX. VOTING OF STOCK

Participants shall not be entitled to voting rights with respect to Units held in their Accounts.

### X. ADMINISTRATION OF THE PLAN

#### 10.1 ADMINISTRATOR

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

## 10.2 AUTHORITY OF ADMINISTRATOR

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

## 10.3 OPERATION OF PLAN

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

## 10.4 CLAIMS PROCEDURES

The Company intends to make payments under the Plan without requiring that a Participant submit a claim form. However, a Participant who believes a payment is due under the Plan may submit a claim for payments. For claims procedures purposes, the "Claims Manager" shall be the Company.

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

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

#### 10.5 ARBITRATION

- (a) In the event that a claimant has exhausted all of the remedies afforded by the claims procedures of Section 10.4, and a claim or controversy relating to the Plan remains, the claim or controversy shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "AAA"), as modified by this Section.
  - (b) An award rendered in connection with an arbitration pursuant to this Section 10.5 shall be final and binding and judgment upon such an award may be entered and enforced in any court of competent jurisdiction.
  - (c) The forum for arbitration under this Plan shall be Minneapolis, Minnesota and the governing law for such arbitration shall be laws of the State of Delaware.
  - (d) Arbitration under this Section shall be conducted by a single arbitrator selected jointly by the Company and the claimant.
- If within 30 days after a demand for arbitration is made, the Company and the claimant are unable to agree on a single arbitrator, three arbitrators shall be appointed.

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

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

#### 10.6 PARTICIPANT'S ADDRESS

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

#### 10.7 LIABILITY

Notwithstanding any of the provisions of the Plan to the contrary, neither the Company nor any individual acting as an employee or agent of the Company shall be liable to any Participant or any other person for any claim, loss, liability or expense incurred in connection

with the Plan, unless attributable to fraud or willful misconduct on the part of the Company or any such employee or agent of the Company.

## XI. MISCELLANEOUS PROVISIONS

### 11.1 NO EMPLOYMENT RIGHTS

Neither the Plan nor any action taken hereunder shall be construed as giving any employee a right to be employed by the Company.

### 11.2 UNFUNDED AND UNSECURED

The Plan shall at all times be considered entirely unfunded both for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. Funds invested hereunder shall continue for all purposes to be part of the general assets of the Company and available to the general creditors of the Company in the event of a bankruptcy (involvement in a pending proceeding under the Federal Bankruptcy Code) or insolvency (inability to pay debts as they mature). In the event of such a bankruptcy or insolvency, the Company shall notify the Trustee of the Trust and each Participant in writing of such an occurrence within three (3) business days after the Company obtains knowledge of such occurrence. No Participant or any other person shall have any interest in any particular assets of the Company by reason of the right to receive a benefit under the Plan and to the extent a Participant or any other person acquires a right to receive benefits under the Plan, such right shall be no greater than the right of any general unsecured creditor of the Company. The Plan constitutes a mere promise by the Company to make payments to the Participants in the future. Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that any funds in any trust or the assets of the Company will be sufficient to pay any benefit hereunder. Furthermore, no Participant shall have any right to a benefit under the Plan except in accordance with the terms of the Plan.

### 11.3 SINGULAR AND PLURAL

Except when otherwise required by the context, any singular terminology shall include the plural.

### 11.4 SEVERABILITY

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

## 11.5 APPLICABLE LAW

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

## XII. AMENDMENT OR TERMINATION

### 12.1 AMENDMENT OR TERMINATION OF THE PLAN

The Company reserves the power to amend or terminate the Plan at any time by action of the Compensation Committee, ratified by the Board of Directors, but

- (a) no amendment or termination of the Plan may alter, impair or reduce any benefit of a Participant under the Plan to which such Participant may have previously become entitled prior to the effective date of such amendment or termination, without the written consent of such Participant, and
- (b) no amendment may be made that would contravene the provisions of paragraph 12 of AMIP II, or paragraph 8 of the Performance Share Plan, if applicable, and
- (c) no amendment may increase the benefits payable to a Participant who is referred to in Section 162(m) of the Code unless AMIP II or the Performance Share Plan, as the case may be, has first been amended to permit an increase, in accordance with the provisions of paragraph 12 of AMIP II or paragraph 8 of the Performance Share Plan, relating to stockholder approval.

### 12.2 ACCOUNTS AFTER TERMINATION

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

DATED as of January 29, 1999.

THE TORO COMPANY

By

-----  
Chairman, Chief Executive Officer  
and President



THE TORO COMPANY  
DEFERRED COMPENSATION PLAN  
FOR NON-EMPLOYEE DIRECTORS

EFFECTIVE JANUARY 1, 1999

CONTENTS

Purpose	1
I. DEFINITIONS	1
II. ENROLLMENT	4
III. VESTING; CREDITING; TAXES	4
3.1 Vesting	4
3.2 Crediting or Debiting of Account Balance	5
3.3 Self-Employment and Other Taxes	5
3.4 Withholding	5
3.5 Deductions	6
IV. DISTRIBUTIONS	6
4.1 Payment of Distributions	6
4.2 Death Prior to Completion of Retirement Benefit	6
4.3 Unforeseeable Financial Emergencies	6
V. BENEFICIARY DESIGNATION	6
VI. TERMINATION; AMENDMENT OR MODIFICATION	7
6.1 Termination	7
6.2 Amendment or Modification	7
VII. ADMINISTRATION	7
7.1 Committee Duties	7
7.2 Administrative Committee; Agents	8
7.3 Binding Effect of Decisions	8
7.4 Indemnity of Committee and Administrative Committee	8
VIII. TRUST	8
IX. MISCELLANEOUS	9
9.1 Status of Plan	9
9.2 Unsecured General Creditor	9
9.3 Nonassignability	9
9.4 Discharge of Obligations	9
9.5 Not a Contract of Employment	10
9.6 Governing Law	10
9.7 Notice	10
9.8 Successors	10
9.9 Validity	10
9.10 Court Order	11
9.11 No Assurance of Tax Consequences	11
9.12 Distribution in the Event of Taxation	11

THE TORO COMPANY  
DEFERRED COMPENSATION PLAN  
FOR NON-EMPLOYEE DIRECTORS

Effective January 1, 1999

PURPOSE

The growth and success of The Toro Company (the "Company") depend on its ability to attract and retain the services of Directors of the highest competence, initiative, integrity, and ability. The purpose of this Plan is to advance the interests of the Company and its shareholders through a deferred compensation program designed to attract, motivate and retain such non-employee Directors and selected Consultants. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

I. DEFINITIONS

For purposes of this Plan, the following words and phrases have the meanings indicated, unless a different meaning is clearly indicated by the context:

"Account Balance" means a credit on the records of the Company equal to a Participant's Deferral Account. The Account Balance shall be a bookkeeping entry only, used solely to determine amounts due a Participant or Beneficiary under this Plan.

"Beneficiary" means one or more individuals, trusts, estates or other entities, designated in accordance with Article 7 to receive benefits under this Plan upon the death of a Participant.

"Board" means the Board of Directors of the Company.

"Change of Control" means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act")) of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of

Common Stock of the Company, or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election, or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of the Company or any parent of or successor to the Company.

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

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time.

"Committee" means the committee described in Article 7, and if an Administrative Committee has been appointed pursuant to Section 7.2 shall include such Administrative Committee.

"Common Stock" means The Toro Company Common Stock, \$1.00 par value, and related preferred share purchase rights, or any other equity security of the Company designated by the Committee.

"Company" means The Toro Company, a Delaware corporation, and any successor to all or substantially all of the Company's assets or business.

"Consultant" means an individual engaged by the Company as an independent contractor to perform consulting or similar services for the Company or a subsidiary of the Company under a written agreement that specifically designates certain Consulting Fees as eligible for deferral under this Plan.

"Consulting Fees" means the consideration paid by the Company or a subsidiary to a Consultant for services. Consulting Fees shall be calculated before

reduction for amounts voluntarily deferred or contributed by the Participant pursuant to this Plan.

"Deferral Account" means an account on the books of the Company that reflects (i) the sum of a Participant's Annual Deferral Amounts, plus (ii) amounts credited to the Participant's Deferral Account in accordance with the applicable crediting provisions of this Plan, less (iii) all distributions made to the Participant or the Participant's Beneficiary from the Participant's Deferral Account.

"Director" means any member of the Board who is not an employee of the Company or of any subsidiary of the Company.

"Directors Fees" means amounts paid to a Director as compensation (but not as reimbursement of expenses) for serving on the Board, including retainer fees and meeting fees. At the discretion of the Committee, Directors Fees may include amounts payable in Common Stock.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended and as in effect from time to time.

"Participant" means a Director who elects to participate in the Plan, and includes a Consultant who is selected to participate in the Plan and who elects to do so. Status as a Participant shall continue for as long as the individual has an Account Balance under the Plan, even if the Participant is no longer a Director or Consultant. A Beneficiary or a spouse or former spouse of a Participant shall not be treated as a Participant even if such spouse has an interest in the Participant's benefits under the Plan.

"Plan" means this Deferred Compensation Plan for Non-Employee Directors, as it may be amended from time to time.

"Plan Year" means the calendar year.

"Retirement", "Retire(s)" or "Retired" refer to resignation or retirement from the Board or termination of service as a Director for any reason; and, with respect to a Consultant, means termination of service as a Consultant for any reason.

"Trust" means one or more trusts established by the Company to be used in connection with the Plan.

"Trustee" means the financial institution acting at the time as trustee of the Trust.

"Unforeseeable Financial Emergency" means an unanticipated severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness of or accident to the Participant or a dependent of the Participant, (ii) a loss of the Participant's residence or other property due to casualty, or (iii) other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

## II. ENROLLMENT

A Director desiring to participate in the Plan, and a Consultant selected by the Company to participate in the Plan and desiring to do so, shall complete and return to the Corporate Secretary a deferral election, a beneficiary designation, and such other material as the Committee may request, within 30 days after election to the Board or (in the case of a Consultant) selection to participate.

An election once made shall be irrevocable with respect to the Plan Year in which it becomes effective. After the initial election, a Participant may change a deferral election by delivering a revised election form to the Corporate Secretary. A revised election shall become effective on January 1 of the Plan Year following the year in which it is received by the Corporate Secretary.

For Directors holding office as of January 1, 1999 (the effective date of this Plan) election forms shall be returned to the Corporate Secretary by February 1, 1999 and shall be effective for amounts earned after the election is received by the Corporate Secretary.

Directors Fees and Consulting Fees deferred under this Plan shall be withheld at the time they otherwise would be paid to the Participant, whether or not payment occurs during the Plan Year itself.

## III. VESTING; CREDITING; TAXES

### 3.1 VESTING

A Participant's Account Balance shall at all times be fully vested, subject only to the Participant's status as a general creditor of the Company, as provided in Section 9.2.

### 3.2 CREDITING OR DEBITING OF ACCOUNT BALANCE

(a) A Participant's Account Balance shall be credited with interest at a rate and in a manner determined by the Committee to be consistent with the prime rate of interest charged to individual borrowers by U.S. Bank, National Association,

(formerly First Bank National Association) or its successor. Prior to a Change of Control the method for determining the interest crediting rate may be changed at any time, at the discretion of the Committee. After a Change of Control, the Trustee shall have authority to change the method of determining the interest crediting rate.

Interest shall be credited at the end of each quarter.

(b) A Participant's Account Balance shall be credited with any cash dividends or other cash distributions payable on Common Stock deferred to the Participant's account, and such cash dividends or other distributions (but not the Common Stock itself) shall thereafter be credited with interest as provided in clause (a) of this Section. Common Stock allocated to a Deferral Account shall be appropriately adjusted to reflect stock splits, stock dividends and other like adjustments in the Common Stock, and any distributions made to a Participant or Beneficiary that decrease the portion of the Deferral Account allocated to Common Stock.

A Participant's Deferral Account that is allocated to Common Stock shall be payable only in Common Stock, plus cash for any fractional shares. Distributions of Common Stock shall be made either in a lump sum or in annual installments.

### 3.3 SELF-EMPLOYMENT AND OTHER TAXES

The Company may withhold from a Participant's Directors Fees or Consulting Fees, in a manner determined by the Committee, the Participant's share of self-employment, FICA and other taxes that may be required to be withheld. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.3.

### 3.4 WITHHOLDING

The Committee or the Trustee shall withhold from any payments to a Participant or Beneficiary all federal, state and local income, employment and other taxes required to be withheld from such payments, in amounts and in a manner determined in the discretion of the Company and the Trustee.

### 3.5 DEDUCTIONS

Prior to a Change of Control, the Company may deduct from any payment to a Participant or Beneficiary any amounts due from the Participant to the Company.

#### IV. DISTRIBUTIONS

##### 4.1 PAYMENT OF DISTRIBUTIONS

A Participant may elect, in a manner determined by the Committee, to receive distributions from his or her Deferral Account in a lump sum, or in installments over such period as the Committee may determine. The election may be changed to an allowable alternative payment period by submitting a new election to the Committee, in a form approved by the Committee, provided that an election submitted less than two years before the Participant's Retirement shall not be given effect. The most recent effective election received by the Committee shall govern the payment of the Retirement Benefit. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the date the Participant Retires.

Any payments of Common Stock shall be either in a lump sum or in annual installments.

##### 4.2 DEATH PRIOR TO COMPLETION OF RETIREMENT BENEFIT

If a Participant dies after Retirement but before his or her Account Balance is paid in full, the remaining Account Balance shall be paid to the Participant's Beneficiary, in a lump sum or, if the Participant has so elected, in installments.

##### 4.3 UNFORESEEABLE FINANCIAL EMERGENCIES

A Participant who experiences an Unforeseeable Financial Emergency may request either or both of (i) suspension of any deferrals then in effect and (ii) a partial or full payment from the Plan. The Committee shall in its discretion act on the Participant's request, but payment shall not exceed the lesser of the Participant's Account Balance and the amount reasonably needed to satisfy the Unforeseeable Financial Emergency.

#### V. BENEFICIARY DESIGNATION

Each Participant shall have the right to designate one or more Beneficiaries (including primary and contingent Beneficiaries) to receive any benefits payable under the Plan. A Participant shall have the right to change a Beneficiary by completing a new beneficiary designation on a form approved by the Committee.

If a Participant fails to designate a Beneficiary or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's



benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

## VI. TERMINATION; AMENDMENT OR MODIFICATION

### 6.1 TERMINATION

Although the Company anticipates that the Plan will continue for an indefinite period of time, it reserves the right to terminate the Plan at any time with respect to any or all Participants. Upon termination, the Account Balances of the affected Participants shall be paid pursuant to the Participants' election or, at the discretion of the Company, in a lump sum.

Termination of the Plan shall not adversely affect the rights under the Plan of any Participant or Beneficiary who has become entitled to the payment of any Plan benefits as of the date of termination. The Company shall, however, have the right to accelerate installment payments without a premium or prepayment penalty by paying the Account Balance in a lump sum.

### 6.2 AMENDMENT OR MODIFICATION

The Company may, at any time, amend or modify the Plan in whole or in part; provided, that no amendment or modification shall decrease a Participant's Account Balance. No amendment or modification of the Plan shall affect the rights of any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification. The Company shall, however, have the right to accelerate installment payments by paying the Account Balance in a lump sum without a premium or prepayment penalty.

## VII. ADMINISTRATION

### 7.1 COMMITTEE DUTIES

This Plan shall be administered by a Committee, which shall consist of the Board, or such committee as the Board may appoint. Members of the Committee may be Participants. The Committee shall have the discretion and authority, subject to Section 6.2, to make amendments to this Plan or in its discretion it may recommend amendments to the Board for its action. The Committee shall have the discretion and authority to make, amend, interpret, and enforce appropriate rules and regulations for the administration of this Plan and to decide or resolve, in its discretion, any and all

questions involving interpretation of the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or by the Company.

#### 7.2 ADMINISTRATIVE COMMITTEE; AGENTS

The Committee may, from time to time, appoint an Administrative Committee and delegate to the Administrative Committee such duties and responsibilities (including the authority to make ministerial or administrative amendments to this Plan) with respect to the Plan as the Committee may determine. The Committee, and the Administrative Committee, may employ agents and delegate to them such duties as either Committee sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to the Company.

#### 7.3 BINDING EFFECT OF DECISIONS

The decisions or actions of the Committee, and of the Administrative Committee, with respect to the administration, interpretation and application of the Plan and the rules and regulations hereunder shall be final and conclusive and shall be binding upon all persons having any interest in the Plan.

#### 7.4 INDEMNITY OF COMMITTEE AND ADMINISTRATIVE COMMITTEE

The Company shall indemnify and hold harmless the members of the Committee, the Administrative Committee, and any agent or employee to whom the duties of the Committee or the Administrative Committee may be delegated, against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, the Administrative Committee or any of their members or any such agent or employee.

### VIII. TRUST

The Company may transfer to the Trust such assets as it determines, in its sole discretion, are necessary or appropriate to provide for its liabilities under the Plan.

The provisions of the Plan shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Company, Participants and the creditors of the Company to any assets held by the Trust.

The Company's obligations under this Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and the Company's obligations under the Plan shall be reduced to the extent of any such distributions.

## IX. MISCELLANEOUS

### 9.1 STATUS OF PLAN

The Plan is intended to be a plan that is not qualified within the meaning of Section 401(a) of the Code and that is unfunded and maintained by an employer primarily for the purpose of providing deferred compensation for a select management group, within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted in a manner consistent with that intent.

### 9.2 UNSECURED GENERAL CREDITOR

Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Company or of the Trust. For purposes of the payment of benefits under this Plan, any and all of the Company's assets including any assets of the Trust shall be, and remain until paid, the general, unpledged unrestricted assets of the Company. The Company's obligation under the Plan shall consist solely of an unfunded and unsecured promise to pay money in the future.

### 9.3 NONASSIGNABILITY

Neither a Participant nor a Beneficiary nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof. All of such rights are expressly declared to be unassignable and nontransferable. None of the amounts payable under the Plan shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

#### 9.4 DISCHARGE OF OBLIGATIONS

The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge the Company and the Committee from all further obligations under this Plan with respect to the Participant and any other Beneficiary.

#### 9.5 NOT A CONTRACT OF EMPLOYMENT

The terms and conditions of this Plan shall not constitute a contract of employment between the Company and the Participant. Nothing in this Plan shall be deemed to give a Participant the right to be retained as a Director of the Company or a Consultant to the Company, or interfere with the right of the Company to sever its relationship with the Participant at any time.

#### 9.6 GOVERNING LAW

The provisions of this Plan shall be construed and interpreted according to the laws of the State of Delaware without regard to its conflicts of laws principles, to the extent not superseded by ERISA.

#### 9.7 NOTICE

Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail or by facsimile, to the address below:

Corporate Secretary  
The Toro Company  
8111 Lyndale Avenue South  
Bloomington, Minnesota 55420

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

#### 9.8 SUCCESSORS

The provisions of this Plan shall bind and inure to the benefit of the Company and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

#### 9.9 VALIDITY

If any provision of this Plan shall be found to be illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

#### 9.10 COURT ORDER

The Committee is authorized to make any payments directed by court order. If a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

#### 9.11 NO ASSURANCE OF TAX CONSEQUENCES

Neither the Company nor the Board nor any other person guarantees or assures a Participant or Beneficiary of any particular federal or state income tax, payroll tax, or other tax consequence of participation in this Plan. A Participant should consult with professional tax advisors regarding all questions related to the tax consequences of participation.

#### 9.12 DISTRIBUTION IN THE EVENT OF TAXATION

A Participant or Beneficiary may request the Committee before a Change of Control, or the Trustee after a Change of Control, for a distribution of that portion of any benefit under the Plan that has become taxable to such Participant or Beneficiary prior to its receipt. The Committee shall not unreasonably withhold its consent to any such request. After a Change of Control, the Trustee shall consent to any such request upon a proper showing that the benefits are taxable. Once consent to such a request is granted, the Plan shall distribute to the Participant or Beneficiary an amount equal to the taxable portion of the benefit, but not more than the Participant's unpaid Account Balance. Distribution shall be made within 90 days of the date when the request is

granted. Such a distribution shall reduce the Account Balance and the benefits to be paid under this Plan.

IN WITNESS WHEREOF, the Company has signed this Plan document as of January 1, 1999.

THE TORO COMPANY

By .....

Title .....



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

1,000

3-MOS	
	OCT-31-1999
	NOV-01-1998
	JAN-29-1999
	95
	0
	287,772
	0
	216,730
	560,093
	333,908
	208,217
	818,133
349,399	
	197,511
0	
	0
	12,960
	253,388
818,133	
	250,761
	250,761
	162,817
	82,361
	(784)
	0
	5,029
	1,338
	542
	796
	0
	0
	0
	796
	0.06
	0.06

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