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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended October 31, 2016**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to**

THE TORO COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

1-8649
(Commission File Number)

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

**8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196
Telephone number: (952) 888-8801**

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$1.00 per share	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting common stock held by non-affiliates of the registrant, based on the closing price of the common stock on April 29, 2016, the last business day of the registrant's most recently completed second fiscal quarter, as reported by the New York Stock Exchange, was approximately \$4.0 billion.

The number of shares of common stock outstanding as of December 16, 2016 was 108,108,667.

Documents Incorporated by Reference: Portions of the registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders expected to be held March 21, 2017 are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

Introduction

The Toro Company was incorporated in Minnesota in 1935 as a successor to a business founded in 1914 and reincorporated in Delaware in 1983. Unless the context indicates otherwise, the terms "company," "Toro," "we," "us," and "our" refer to The Toro Company and its consolidated subsidiaries. Our executive offices are located at 8111 Lyndale Avenue South, Bloomington, Minnesota, 55420-1196, and our telephone number is (952) 888-8801. Our web site for corporate and investor information is www.thetorocompany.com, which also contains links to our branded product sites. The information contained on our web sites or connected to our web sites is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

We design, manufacture, and market professional turf maintenance equipment and services, turf irrigation systems, landscaping equipment and lighting products, snow and ice management products, agricultural micro-irrigation systems, rental and specialty construction equipment, and residential yard and snow thrower products. We produced our first mower for golf course use in 1921 when we mounted five reel mowers on a Toro tractor, and we introduced our first lawn mower for residential use in 1935. We have continued to enhance our product lines over the more than 100 years we have been in business. We classify our operations into three reportable business segments: Professional, Residential, and Distribution. Our Distribution segment, which consists of our company-owned domestic distributorship, has been combined with our corporate activities and is shown as "Other." Net sales of our three reportable segments accounted for the following percentages of our consolidated net sales for fiscal 2016: Professional, 71 percent; Residential, 28 percent; and Other, 1 percent.

Our products are advertised and sold at the retail level under the primary trademarks of Toro®, Exmark®, BOSS®, Irritrol®, Hayter®, Pope®, Unique Lighting Systems®, and Lawn-Boy® most of which are registered in the United States and/or in the primary countries outside the United States where we market such products. This report also contains trademarks, trade names, and service marks that are owned by other persons or entities, such as The Home Depot, Inc. ("The Home Depot").

We emphasize quality and innovation in our products, customer service, manufacturing, and marketing. We strive to provide well-built, dependable products supported by an extensive service network. We have committed funding for research, development, and engineering in order to improve and enhance existing products and develop new products. Through these efforts, we seek to be responsive to trends that may affect our target markets now and in the future. A significant portion of our revenues has historically been, and we expect will continue to be, attributable to new and enhanced products. We define new products as those introduced in the current and previous two fiscal years. We plan to continue to pursue targeted acquisitions using a disciplined approach that adds value while supplementing our existing brands and product portfolio.

Our purpose is to help our customers enrich the beauty, productivity, and sustainability of the land. Our vision is to be the most trusted leader in solutions for the outdoor environment. Every day. Everywhere. Our mission, or how we strive to make our vision a reality and what we intend to accomplish, is to deliver superior innovation and to deliver superior customer care.

Products by Market

We strive to be a leader in adapting advanced technologies to products and services that provide solutions for turf care maintenance, landscapes, agricultural fields, rental and specialty construction, snow and ice management, and residential demands. The following is a summary of our products, by market, for our Professional segment and our products for the Residential segment:

Professional Segment — We design professional turf, landscape and lighting, rental and specialty construction, snow and ice management, and agricultural products and market them worldwide through a network of distributors and dealers, as well as directly to government customers, rental companies, and large retailers. These channel partners then sell our products primarily to professional users engaged in creating, renovating, and illuminating landscapes; irrigating turf and agricultural fields; installing, repairing, and replacing underground utilities; managing snow and ice needs; maintaining turf, such as golf courses, sports fields, municipal properties, as well as residential and commercial landscapes.

Golf Market. Products for the golf course market include large reel and rotary riding products for fairway, rough, and trim cutting; riding and walking mowers for putting greens and specialty areas; greens rollers; turf sprayer equipment; utility vehicles; aeration equipment; and bunker maintenance equipment. In fiscal 2016, we introduced the Reelmaster® 3555-D and Reelmaster® 3575-D, fairway mowers with a lighter design that are engineered to be more productive and fuel efficient with reduced turf compaction. These mowers, as well as most other Reelmaster® and Greensmaster® models, include our new EdgeSeries™ Reels introduced in fiscal 2016 that feature new reel material and geometry that are designed to facilitate a more accurate cut and improved after-cut appearance while reducing required maintenance.

We manufacture and market underground irrigation systems for the golf course market, including sprinkler heads, controllers, turf sensors, and electric, battery-operated, and hydraulic valves. These irrigation systems are designed to use computerized management systems and a variety of other technologies to help customers manage their consumption of water. Several of our golf course sprinklers are equipped with a unique TruJectory™ feature that provides an adjustable angle of nozzle trajectory, as well as enhanced water distribution control. Our Network VP® Satellite combines modular flexibility, ease of use, and increased control in a single controller with programming to the individual station level that supports station-based flow management. Our Turf Guard® wireless soil monitoring systems are designed to measure and communicate soil moisture, salinity, and temperature through sensors to a user's software. Our R Series™ conversion assemblies enable the upgrade of select competitive sprinklers to our technologies, such as the above-mentioned TruJectory™ or ratcheting riser. Our INFINITY® Series golf course sprinklers with the Smart Access® feature are designed to provide easy access to critical components of the sprinkler without needing to dig. Our popular Lynx® central control system allows superintendents to control the irrigation of their course from a web-enabled device, or via our National Support Network, which provides remote troubleshooting.

Additionally, we manufacture and market Twilight™ golf lighting products that include a collection of LED-powered cup lights and removable lighting fixtures designed to illuminate putting greens during club events or special functions.

Landscape Contractor Equipment Market. We market products to landscape contractors under the Toro and Exmark brands. Products for the landscape contractor market include zero-turn radius riding mowers, heavy-duty walk behind mowers, mid-size walk behind mowers, stand-on mowers, and turf renovation and tree care equipment. We offer some products with electronic fuel injection engine options, which are designed to provide improved fuel efficiency and lower emissions. In fiscal 2016, we introduced the TITAN® HD zero-turn radius riding mower which features the ability to attach tools and other accessories to the mower with tool-mounting brackets. We introduced the Exmark Radius™ zero-turn radius riding mower featuring a heavy-duty fabricated frame and improved control and handling in order to provide commercial durability, reliability, and comfort. We enhanced our line of Toro Z Master® mowers with a suspension system that provides a suspended operator platform and isolates the operator from the rest of the machine. Along with adjustable shocks, this design is intended to reduce impacts, bumps, and vibrations for a more comfortable ride. We introduced the next generation GrandStand® MULTI FORCE® stand-on mower in fiscal 2016, which features simplified hydraulic systems intended for easier maintenance, higher groundspeed for transport, and easier to use operator controls. The GrandStand® MULTI FORCE® is designed to provide year-long productivity by adding versatile attachments.

Sports Fields and Grounds Equipment Market. Products for the sports fields and grounds market include riding rotary and reel mowers and attachments, aerators, and debris management products, which include versatile debris vacuums, blowers, and sweepers. Other products include infield grooming equipment and multipurpose vehicles, such as the new Toro Workman® GTX introduced in fiscal 2016, that can be used for turf maintenance, towing, and industrial hauling. These products are sold through distributors, who then sell to owners and/or managers of sports fields, governmental properties, and residential and commercial landscapes, as well as directly to government customers.

Snow and Ice Management Market. Products for the snow and ice management market are marketed mainly in North America under the BOSS brand and include snowplows, salt and sand spreaders, and related parts and accessories for light and medium duty trucks, all-terrain vehicles ("ATVs"), utility task vehicles ("UTVs"), skid steers, and front-end loaders. These products are mainly sold through distributors and dealers, who then sell to end-users that in many cases are the same customers as those in our landscape contractor and grounds equipment markets, such as contractors, municipalities, and other governmental entities. In fiscal 2016, we introduced the EXT Plow, with pitched-forward wings that extend the plow width from eight feet to ten feet to enhance productivity. In addition, in fiscal 2016, we began offering the HTX V-Plow designed for light-duty and half-ton trucks that combines strength with less weight. Both are equipped with our new SmartLight™ 3 LED headlight system, which features our Ice Shield Technology™ designed to prevent snow and ice build-up.

Rental and Specialty Construction Market. Our compact utility loaders are the cornerstone products for our Toro Sitework Systems business, which are designed to improve the efficiency in creation and renovation of landscapes. Our Dingo® TX 1000 compact utility loader provides market leading operating capacity in a lightweight, maneuverable design. We offer over 35 attachments for our compact utility loaders, including trenchers, augers, vibratory plows, and backhoes.

Products for the rental and specialty construction market include compact utility loaders, walk-behind trenchers, stump grinders, and turf renovation products, many of which are also sold to landscape contractors. We also have a line of rental products that feature concrete and mortar mixers, material handlers, compaction equipment, and other concrete equipment.

Underground Construction Market. We manufacture a line of directional drills and riding trenchers used to install water, gas, electric, and telecommunication distribution systems. Our underground products are used by specialty contractors worldwide.

Residential/Commercial Irrigation and Lighting Market. Turf irrigation products marketed under the Toro and Irritrol brands

include rotors; sprinkler bodies and nozzles; plastic, brass, and hydraulic valves; drip tubing and subsurface irrigation; electric control devices; and wired and wireless rain, freeze, climate, and soil sensors. These products are designed for use in residential and commercial turf irrigation applications and can be installed into new systems or used to replace or retrofit existing systems. Most of the product lines are designed for professionally installed, underground automatic irrigation. Electric controllers activate valves and sprinklers in a typical irrigation system. Both the Toro and Irritrol brands have achieved Environmental Protection Agency ("EPA") WaterSense certification for numerous irrigation controller families and models. Our Irritrol Climate Logic® smart device automatically adjusts irrigation system watering times based on real-time weather data from an on-site sensor combined with historical averages, while our award-winning Toro Precision™ Soil Sensor wirelessly transmits soil moisture content to an irrigation controller and signals whether or not watering is needed. Our Precision™ Spray Nozzles & Precision™ Soil Sensor are intended to deliver an optimum precipitation rate and superior distribution uniformity, resulting in the use of less water without affecting the health of landscapes. The EVOLUTION® controller is an intuitive, menu-based controller family that offers computer programming, lighting control, multiple soil sensors, smart add-ons, and downloadable updates through a USB device. The T5 Rotor with RapidSet® technology allows convenient arc adjustment with no tools, and the new stainless steel model introduced in fiscal 2016 is designed for areas subject to heavy foot traffic and sandy soil conditions.

Our retail irrigation products are designed for homeowner installation and include sprinkler heads, valves, timers, sensors, and drip irrigation systems. The XTRA SMART® ECXTRA™ sprinkler timer and its intuitive, online Scheduling Advisor™ are designed to recommend the proper watering schedule based on the local weather, plant type, and sprinkler type.

We manufacture and market lighting products under the Unique Lighting Systems® brand name consisting of a line of high quality, professionally installed lighting fixtures and transformers for residential and commercial landscapes. Our lighting product line is offered through distributors and landscape contractors that also purchase our irrigation products. The Light Logic™ remote control system provides operators with wireless scene control for landscape lighting and can upgrade existing systems with expanded control.

In fiscal 2016, we introduced two cloud-based landscape control solutions. SMRT Logic™ under the Toro and Irritrol brands and Light Logic™ Plus under the Unique Lighting Systems brand are our first landscape solutions using our SMRTscape™ mobile app or website to control irrigation and lighting anywhere with an internet connection.

Micro-Irrigation Market. Products for the micro-irrigation market include products that are designed to apply water precisely, including Aqua-Traxx® PBX drip tape, Neptune® flat emitter dripline, Blue Stripe® polyethylene tubing, BlueLine® drip line, and NGE® emitters, all used in agriculture, mining, and landscape applications. Global food demand and increased water use restrictions have continued to drive the need for more efficient irrigation solutions for agriculture, including our Aqua-Traxx® FC (flow control) drip tape that is designed to allow growers to achieve water uniformity while retaining flexibility to adjust system flow rates when needed. In addition to these core products, we offer a full complement of control devices and connection options to complete the system, including a software package used to help design drip irrigation systems. These products are sold mainly through dealers and distributors who then sell to end-users for use primarily in vegetable fields, fruit and nut orchards, vineyards, landscapes, and mines.

Residential Segment — We market our Residential segment products to homeowners through a variety of distribution channels, including outdoor power equipment distributors and dealers, hardware retailers, home centers, mass retailers, and over the Internet. We also license our trademark on certain home solutions products as a means of expanding our brand presence.

Walk Power Mower Products. We manufacture and market numerous walk power mower models under our Toro and Lawn-Boy brand names, as well as the Hayter brand in the United Kingdom. Models differ as to cutting width, type of starter mechanism, method of grass clipping discharge, deck type, operational controls, and power sources, and are either self-propelled or push mowers. We offer a line of rear-roller walk power mowers, a design that provides a striped finish, for the United Kingdom market. In fiscal 2016, we extended our SmartStow® technology that allows the mower to be stored vertically, thereby reducing space needed for storage, to walk power motors with our Personal Pace® self-propel system. We introduced the new Lawn-Boy all-wheel drive lawnmower that delivers power to all four wheels, which is designed to make it easier to climb hills and power through rough terrain.

Riding Products. We manufacture and market riding products under the Toro brand name. Riding products primarily consist of zero-turn radius mowers that are designed to save homeowners time by using superior maneuverability to cut around obstacles more quickly and easily than tractor technology. Our TimeCutter® SS and TimeCutter® MX zero-turn radius riding mowers are equipped with our Smart Speed® control system, which is designed to allow the operator to choose different ground speed ranges with the flip of a lever without changing the blade or engine speed. We sell direct-collect riding mowers that are manufactured and sold in the European market. Many models of our riding products are available with a variety of engines, decks, transmissions, and accessories.

Home Solutions Products. We design and market home solutions products under the Toro and Pope brand names. Our Toro brand name products include yard tools such as electric, gas, and cordless grass trimmers; electric and cordless hedge trimmers; and electric, gas, and cordless blower-vacuums. In Australia, we design and market garden product offerings, such as underground, hose and hose-end retail irrigation products under the Pope brand name.

Snow Thrower Products. We manufacture and market a range of gas-powered single-stage and two-stage snow thrower models, as well as a range of electric snow thrower models. Single-stage snow throwers are walk behind units with lightweight four-cycle gasoline engines. Most single-stage snow thrower models include Power Curve® snow thrower technology, and some feature our Quick Shoot™ control system that is designed to enable operators to quickly change snow-throwing direction. Our pivoting scraper is designed to keep the rotor in constant contact with the pavement. Our two-stage snow throwers are generally designed for relatively large areas of deep and heavy snow. Our two-stage snow throwers include a line of models featuring our patented Anti-Clogging System and Quick Stick® chute control technology. Our electric snow throwers are lightweight and ideal for clearing up to six inches of snow from decks, steps, sidewalks, and small driveways. The Toro SnowMaster® snow thrower combines the power of a two-stage snow thrower to handle deep snow with the handling and maneuverability of a lightweight, single-stage snow thrower in a design intended to increase efficiency by clearing more snow per minute.

Financial Information about International Operations and Business Segments

We currently manufacture our products in the United States ("U.S."), Mexico, Australia, the United Kingdom, Italy, Romania, and China for sale throughout the world. We maintain sales offices in the U.S., Belgium, the United Kingdom, Australia, Singapore, Japan, China, Italy, South Korea, and Germany. New product development is pursued primarily in the U.S. Our net sales outside the U.S. were 24.2 percent, 25.5 percent, and 28.7 percent of total consolidated net sales for fiscal 2016, 2015, and 2014, respectively.

A portion of our cash flow is derived from sales and purchases denominated in foreign currencies. To reduce the uncertainty of foreign currency exchange rate movements on these sales and purchase commitments, we enter into foreign currency exchange contracts for select transactions. For additional information regarding our foreign currency exchange contracts, see Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" of this report. For additional financial information regarding our international operations and geographical areas, and each of our three reportable business segments, see Note 12 of the Notes to Consolidated Financial Statements, in the section entitled "Segment Data," included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

Engineering and Research

We are committed to an ongoing engineering program dedicated to developing innovative new products and improvements in the quality and performance of existing products. However, a focus on innovation also carries certain risks that new technology could be slow to be accepted or not accepted by the marketplace. We attempt to mitigate these risks through our focus on and commitment to understanding our customers' needs and requirements. We invest time upfront with customers, using "Voice of the Customer" tools, to help us develop innovative products that are intended to meet or exceed customer expectations. We use Design for Manufacturing and Assembly ("DFM/A") tools to ensure early manufacturing involvement in new product designs intended to reduce production costs. DFM/A focuses on reducing the number of parts required to assemble new products, as well as designing products to move more efficiently through the manufacturing process. We strive to make improvements to our new product development system as part of our continuing focus on Lean methods to shorten development time, reduce costs, and improve quality.

Our engineering expenses are primarily incurred in connection with the development of new products that may have additional applications or represent extensions of existing product lines, improvements to existing products, and cost reduction efforts. Our expenditures for engineering and research were \$77.4 million (3.2 percent of net sales) in fiscal 2016, \$73.6 million (3.1 percent of net sales) in fiscal 2015, and \$69.7 million (3.2 percent of net sales) in fiscal 2014.

Manufacturing and Production

We have strategically identified specific core manufacturing competencies for vertical integration, such as injection molding, extrusion, welding, stamping, fabrication, laser cutting, painting, machining, and aluminum die casting, and have chosen outside vendors to provide other services. We design component parts in cooperation with our vendors, contract with them for the development of tooling, and then enter into agreements with these vendors to purchase component parts manufactured using the tooling. In addition, our vendors regularly test new technologies to be applied in the design and production of component parts. Manufacturing operations include robotic and computer-automated equipment intended to speed production, reduce costs, and improve the quality, fit, and finish of our products. Operations are also designed to be flexible enough to accommodate product design changes that are necessary to respond to market conditions and changing customer requirements.

In order to utilize our manufacturing facilities and technology more effectively, we pursue continuous improvements in our

manufacturing processes with the use of Lean methods that are intended to streamline work and eliminate waste. We spend considerable effort to reduce manufacturing costs through Lean methods and process improvement, product and platform design, application of advanced technologies, enhanced environmental management systems, safety improvements, and improved supply-chain management. We also have some agreements with other third party manufacturers to manufacture products on our behalf.

Our Professional segment products are manufactured throughout the year. Our Residential segment lawn and garden products are also generally manufactured throughout the year. However, our Residential segment snow thrower products are manufactured in the summer and fall months but may be extended into the winter months, depending upon demand. Our products are tested in conditions and locations similar to those in which they are used. We use computer-aided design and manufacturing systems to shorten the time between initial concept and final production. DFM/A principles are used throughout the product development process to optimize product quality and cost.

Our production levels and inventory management goals are based on estimates of retail demand for our products, taking into account production capacity, timing of shipments, and field inventory levels. Our production system utilizes Kanban, supplier pull, and build-to-order methodologies in our manufacturing facilities, as appropriate, for the business units they support in order to better align the production of our products to meet customer demand. We believe this has resulted in improved service levels for our participating suppliers, distributors, and dealers.

We periodically shut down production at our manufacturing facilities in order to allow for maintenance, rearrangement, capital equipment installation, and as needed, to adjust for market demand. Capital expenditures for fiscal 2017 are planned to be approximately \$65 million as we continue to invest in tooling and technology, as well as the renovation of our corporate facilities located in Bloomington, Minnesota. Additionally, we plan to invest in production processes and equipment, replacement production equipment, and investments in new and existing facilities.

Raw Materials

We purchase raw materials such as steel, aluminum, petroleum and natural gas-based resins, linerboard, and other commodities, and components, such as engines, transmissions, transaxles, hydraulics, and electric motors, for use in our products. In addition, we are a purchaser of components and parts containing various commodities, including steel, aluminum, copper, lead, rubber, and others that are integrated into our end products. During fiscal 2016, we experienced lower average commodity prices compared to the average prices paid for commodities in fiscal 2015. We anticipate commodity prices in fiscal 2017 to be slightly higher than average prices paid for commodities during fiscal 2016. Historically, we have mitigated, and we currently expect that we would mitigate, commodity cost increases, if any, in part, by collaborating with suppliers, reviewing alternative sourcing options, substituting materials, engaging in internal cost reduction efforts, and increasing prices on some of our products, all as appropriate.

Most of the raw materials and components used in our products are affected by commodity cost pressures, are commercially available from a number of sources, and are in adequate supply. However, certain components are sourced from single suppliers. In fiscal 2016, we experienced no significant work stoppages because of shortages of raw materials or commodities. The largest spend for raw materials and components are generally for steel, engines, hydraulic components, transmissions, resin, and electric motors, all of which we purchase from several suppliers around the world.

Service and Warranty

Our products are warranted to ensure customer confidence in design, workmanship, and overall quality. Warranty coverage is generally for specified periods of time and on select products' hours of usage, and generally covers parts, labor, and other expenses for non-maintenance repairs. Warranty coverage generally does not cover operator abuse or improper use. An authorized company distributor or dealer must perform warranty work. Distributors and dealers submit claims for warranty reimbursement and are credited for the cost of repairs, labor, and other expenses as long as the repairs meet our prescribed standards. Warranty expense is accrued at the time of sale based on the estimated number of products under warranty, historical average costs incurred to service warranty claims, the trend in the historical ratio of claims to sales, the historical length of time between the sale and resulting warranty claim, and other minor factors. Special warranty reserves are also accrued for major rework campaigns. Service support outside of the warranty period is provided by authorized distributors and dealers at the customer's expense. We sell extended warranty coverage on select products for a prescribed period after the original warranty period expires.

Product Liability

We have rigorous product safety standards and continually work to improve the safety and reliability of our products. We monitor for accidents and possible claims and establish liability estimates based on internal evaluations of the merits of individual claims. We purchase insurance coverage for catastrophic product liability claims for incidents that exceed our self-insured retention levels.

Patents and Trademarks

We own patents, trademarks, and trade secrets related to our products in the U.S. and certain countries outside the U.S. in which we conduct business. We expect to apply for future patents and trademarks, as appropriate, in connection with the development of innovative new products, services, and enhancements. Although we believe that, in the aggregate, our patents are valuable, and patent protection is beneficial to our business and competitive positioning, our patent protection will not necessarily deter or prevent competitors from attempting to develop similar products. We are not materially dependent on any one or more of our patents. However, certain Toro trademarks that contribute to our identity and the recognition of our products and services, including the Toro® name and logo, are an integral part of our business.

We regularly review certain patents issued by the United States Patent and Trademark Office ("USPTO") and international patent offices to help avoid potential liability with respect to others' patents. Additionally, we periodically review competitors' products to prevent possible infringement of our patents by others. We believe these activities help us minimize our risk of being a defendant in patent infringement litigation. We are currently involved in patent litigation cases where we are asserting our patents against competitors and defending against patent infringement assertions by others. Such cases are at varying stages in the litigation process.

Similarly, we periodically monitor various trademark registers and the market to prevent infringement of and damage to our trademarks by others. From time to time, we are involved in trademark oppositions where we are asserting our trademarks against third parties who are attempting to establish rights in trademarks that are confusingly similar to ours. We believe these activities help minimize risk of harm to our trademarks, and help maintain distinct products and services that we believe are well regarded in the marketplace.

Seasonality

Shipments of our Residential segment products, which accounted for 28 percent of total consolidated net sales in fiscal 2016, are seasonal, with shipments of lawn and garden products occurring primarily between February and June, depending upon seasonal weather conditions and demand for our products. Shipments of snow thrower products occur primarily between July and January, depending upon in-season snowfalls, pre-season demand, and product availability. Opposite seasons in global markets in which we sell our products somewhat moderate this seasonality of our Residential segment product sales. Seasonality of Professional segment product sales also exists, but is tempered because the selling season in the Southern U.S. and our markets in the Southern hemisphere continue for a longer portion of the year than in Northern regions of the world. The BOSS business offers a portfolio of counter-seasonal products in our Professional segment with our shipments of snowplows and salt and sand spreaders occurring primarily between April and December, which also results in a greater variability of shipment volumes due to dependency on snowfalls for these products.

Overall, our worldwide shipment levels are historically highest in our fiscal second quarter and retail demand is generally highest in our fiscal third quarter. Typically, our accounts receivable balances increase between January and April because of higher shipment volumes and extended payment terms made available to our customers. Accounts receivable balances typically decrease between May and December when payments are received. Our financing requirements are subject to variations due to seasonal changes in working capital levels, which typically increase in the first half of our fiscal year and decrease in the second half of our fiscal year. Seasonal cash requirements of our business are financed from a combination of cash balances, cash flows from operations, and short-term borrowings under our credit facilities.

The following table shows total consolidated net sales and net earnings for each fiscal quarter as a percentage of the total fiscal year.

Quarter	Fiscal 2016		Fiscal 2015	
	Net Sales	Net Earnings	Net Sales	Net Earnings
First	20%	17%	20%	15%
Second	35	46	35	47
Third	25	24	25	26
Fourth	20	13	20	12

Effects of Weather

From time to time, weather conditions in particular geographic regions or markets may adversely or positively affect sales of some of our products and field inventory levels and result in a negative or positive impact on our future net sales. If the percentage of our net sales from outside the U.S. increases, our dependency on weather in any one part of the world decreases. Nonetheless, weather conditions could materially affect our future net sales.

Working Capital

Our businesses are seasonally working capital intensive and require funding for purchases of raw materials used in production; replacement parts inventory; payroll and other administrative costs; capital expenditures; establishment of new facilities; expansion, renovation, and upgrading of existing facilities; as well as for financing receivables from customers that are not financed with Red Iron Acceptance, LLC ("Red Iron"), our joint venture with TCF Inventory Finance, Inc. ("TCFIF"). We fund our operations through a combination of cash and cash equivalents, cash flows from operations, short-term borrowings under our credit facilities, and long-term debt. Cash management is centralized, and intercompany financing is used, wherever possible, to provide working capital to wholly owned subsidiaries as needed. In addition, our credit facilities are available for additional working capital needs, acquisitions, or other investment opportunities.

Distribution and Marketing

We market the majority of our products through 36 domestic and 110 international distributors, as well as a large number of equipment dealers, irrigation dealers and distributors, hardware retailers, home centers, mass retailers, and online in more than 90 countries worldwide.

Professional segment products are sold to distributors and dealers primarily for resale to golf courses, sports fields, industrial facilities, contractors, and government customers, and in some markets for resale to dealers. We sell some Professional segment products directly to government customers, rental companies, and agricultural irrigation dealers, as well as to end-users in certain international markets. Select residential/commercial irrigation and lighting products are sold to professional irrigation and lighting distributors and dealers, and certain retail irrigation products are sold directly to home centers. Products for the rental and specialty construction market are sold directly to dealers and rental companies. Toro and Exmark landscape contractor products are also sold directly to dealers in certain regions of North America. BOSS snow and ice management products are sold to distributors and dealers for resale to contractors.

Residential segment products, such as walk power mowers, zero-turn radius riding mowers, and snow throwers, are generally sold directly to home centers, dealers, hardware retailers, and mass retailers. In certain markets, these same products are sold to distributors for resale to hardware retailers and dealers. Home solutions products are primarily sold directly to home centers, mass retailers, and hardware retailers. We also sell select Residential segment products over the Internet. Internationally, Residential segment products are sold directly to dealers and mass merchandisers in Australia, Canada, and select countries in Europe. In most other countries, Residential segment products are mainly sold to distributors for resale to dealers and mass retailers.

On November 27, 2015, in our first quarter of fiscal 2016, we completed the sale of our Northwestern U.S. distribution company. During the remainder of fiscal 2016, we owned one domestic distribution company. Our primary purpose for continuing to own a domestic distributorship is to improve operations, as well as to test and deploy new strategies and business practices that could be replicated by our independent distributors.

Our distribution systems are intended to assure quality of sales and market presence, as well as to provide effective after-purchase service and support. We believe our distribution network provides a competitive advantage as it is focused on selling and marketing our products, as well as having long-term established relationships with experienced personnel to deliver high levels of customer satisfaction.

Our current marketing strategy is to maintain distinct brands and brand identification for Toro®, Exmark®, BOSS®, Irritrol®, Hayter®, Pope®, Unique Lighting Systems®, and Lawn-Boy® products.

Across our brands, we market our Professional segment and Residential segment products during the appropriate season through multiple channels, including television, radio, print, direct mail, email, digital and online media, and social media. Most of our advertising and marketing efforts emphasize our brands, products, features, and other valuable trademarks. Advertising is purchased by us, through our agency partners, as well as through cooperative programs with distributors, dealers, and retailers.

Customers

Overall, we believe that in the long-term we are not dependent on any single customer; however, the Residential segment of our business is dependent on The Home Depot as a customer, which accounted for approximately 11 percent of our total consolidated gross sales in fiscal 2016 and 2015. While the loss of any substantial customer, including The Home Depot, could have a material adverse short-term impact on our business, we believe that our diverse distribution channels and customer base should reduce the long-term impact of any such loss.

Backlog of Orders

Our backlog of orders is dependent upon when customers place orders and is not necessarily an indicator of our expected results for our fiscal 2017 net sales. The approximate backlog of orders as of October 31, 2016 and 2015 was \$92.4 million and \$106.7 million, respectively, a decrease of 13.4 percent. The decrease was mainly driven by low snowfall totals in the 2015/2016 winter season which decreased pre-season demand of our snow products; this decrease was partially offset by increased orders of new products. We expect the existing backlog of orders will be filled in early fiscal 2017.

Competition

Our products are sold in highly competitive markets throughout the world. The principal competitive factors in our markets are product innovation, quality and reliability, pricing, product support and customer service, warranty, brand awareness, reputation, distribution, shelf space, and financing options. We believe we offer total solutions and full service packages with high quality products that have the latest technology and design innovations. In addition, by selling our products through a network of distributors, dealers, hardware retailers, home centers, and mass retailers, we offer comprehensive service support during and after the warranty period. We compete in many product lines with numerous manufacturers, some of which have substantially larger operations and financial resources than us. We believe that we have a competitive advantage because we manufacture a broad range of product lines, we are committed to product innovation and customer service, we have a strong history in and focus on irrigation and maintaining turf and landscapes, and our distribution channels position us well to compete in various markets.

Internationally, our Residential segment products face more competition because many foreign competitors design, manufacture, and market products in their respective countries. We experience this competition primarily in Europe. In addition, fluctuations in the value of the U.S. dollar affect the price of our products in foreign markets, thereby impacting their competitiveness. We provide pricing support, as needed, to foreign customers to remain competitive in international markets.

Environmental Matters and Other Governmental Regulation

We are subject to numerous international, federal, state, and other governmental laws, rules, and regulations relating to, among others, climate change; emissions to air, including Tier 4 or similar engine emission regulations; discharges to water; restrictions placed on water usage and water availability; product and associated packaging; use of certain chemicals; restricted substances, including "conflict minerals" disclosure rules; import and export compliance, including country of origin certification requirements; worker and product user health and safety; energy efficiency; product life-cycles; outdoor noise laws; and the generation, use, handling, labeling, collection, management, storage, transportation, treatment, and disposal of hazardous substances, wastes, and other regulated materials. For example:

- The United States EPA, the California Air Resources Board, and similar regulators in other U.S. states and foreign jurisdictions in which we sell our products have phased in, or are phasing in, emission regulations setting maximum emission standards for certain equipment. Specifically, these agencies from time to time adopt increasingly stringent engine emission regulations. Following the EPA implementation of Tier 4 emission requirements applicable to diesel engines several years ago, China and the European Union ("EU") also have adopted similar regulations, and similar emission regulations are also being considered in other markets in which we sell our products.
- The United States federal government, several U.S. states, and certain international jurisdictions in which we sell our products, including the EU and each of its member states, have implemented one or more of the following: (i) product life-cycle laws, rules, or regulations, which are intended to reduce waste and environmental and human health impact, and require manufacturers to label, collect, dispose, and recycle certain products, including some of our products, at the end of their useful life, including the Waste Electrical and Electronic Equipment ("WEEE") directive, which mandates the labeling, collection, and disposal of specified waste electrical and electronic equipment; (ii) the Restriction on the use of Hazardous Substances ("RoHS") directive or similar substance level laws, rules, or regulations, which restrict the use of several specified hazardous materials in the manufacture of specific types of electrical and electronic equipment; (iii) the Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH") directive or similar substance level laws, rules, or regulations that require notification of use of certain chemicals, or ban or restrict the use of certain chemicals; (iv) country of origin laws, rules, or regulations, which require certification of the geographic origin of our finished goods products and/or components used in our products through documentation and/or physical markings, as applicable; (v) energy efficiency laws, rules, or regulations, which are intended to reduce the use and inefficiencies associated with energy and natural resource consumption and require specified efficiency ratings and capabilities for certain products; (vi) outdoor noise laws, which are intended to reduce noise emissions in the environment from outdoor equipment; and (vii) conflict minerals laws, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules promulgated by the Securities and Exchange Commission, which require specific procedures for the determination and disclosure of the use of certain minerals, known as "conflict minerals," which are mined from the Democratic Republic of the Congo and adjoining countries.
- Our products, when used by residential customers, may be subject to various federal, state, and international laws, rules, and regulations that are designed to protect consumers, including rules and regulations of the United States Consumer Product Safety Commission.

Although we believe that we are in substantial compliance with currently applicable laws, rules, and regulations, we are unable to predict the ultimate impact of adopted or future laws, rules, and regulations on our business, properties or products. Such laws, rules, or regulations may cause us to incur significant expenses to achieve or maintain compliance, may require us to modify our products, may adversely affect the price of or demand for some of our products, and may ultimately affect the way we conduct

our operations. Failure to comply with these current or future laws, rules, or regulations could result in harm to our reputation and/or could lead to fines and other penalties, including restrictions on the importation of our products into, or the sale of our products in, one or more jurisdictions until compliance is achieved.

We are also involved in the evaluation and clean-up of a limited number of properties currently and previously owned. We do not expect that these matters will have a material adverse effect on our consolidated financial position or results of operations.

Customer Financing

Wholesale Financing. We are party to a joint venture with TCFIF, a subsidiary of TCF National Bank, established as Red Iron. The primary purpose of Red Iron is to provide inventory financing to certain distributors and dealers of our products in the U.S. Under a separate arrangement, TCF Commercial Finance Canada, Inc. ("TCFCFC") provides inventory financing to dealers of our products in Canada. Under these financing arrangements, down payments are not required, and depending on the finance program for each product line, finance charges are incurred by us, shared between us and the distributor and/or the dealer, or paid by the distributor or dealer. Red Iron retains a security interest in the distributors' and dealers' financed inventories, and those inventories are monitored regularly. Floor plan terms to the distributors and dealers require payment as the equipment, which secures the indebtedness, is sold to customers or when payment terms become due, whichever occurs first. Rates are generally indexed to LIBOR plus a fixed percentage that differs based on whether the financing is for a distributor or dealer. Rates may also vary based on the product that is financed.

We continue to provide financing in the form of open account terms directly to home centers and mass retailers; general line irrigation dealers; international distributors and dealers other than the Canadian distributors and dealers to whom Red Iron provides financing arrangements; micro-irrigation dealers and distributors; government customers; rental companies; and a limited number of BOSS dealers. Some independent international dealers continue to finance their products with third party sources.

End-User Financing. We have agreements with third party financing companies to provide lease-financing options to golf course and sports fields and grounds equipment customers in the U.S and select countries in Europe. The purpose of these agreements is to increase sales by giving buyers of our products alternative financing options when purchasing our products.

We have agreements with third party financing companies to provide financing programs under both generic and private label programs in the U.S. and Canada. These programs, offered primarily to Toro and Exmark dealers, provide end-user customers revolving and installment lines of credit for Toro and Exmark products, parts, and services.

Distributor Financing. Occasionally, we enter into long-term loan agreements with some distributors. These transactions are used for expansion of the distributors' businesses, acquisitions, refinancing working capital agreements, or ownership transitions.

Employees

During fiscal 2016, we employed an average of 6,834 employees. The total number of employees as of October 31, 2016 was 6,329. We consider our employee relations to be good. As of October 31, 2016, we had four collective bargaining agreements that expire in October 2017, March 2018, May 2018, and October 2019, and cover approximately 17 percent of our total employees.

Available Information

We are a U.S. public reporting company under the Securities Exchange Act of 1934, as amended ("Exchange Act"), and file reports, proxy statements, and other information with the Securities and Exchange Commission ("SEC"). Copies of these reports, proxy statements, and other information can be inspected and copied at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Because we make filings to the SEC electronically, you may also access this information from the SEC's home page on the Internet at <http://www.sec.gov>.

We make available, free of charge on our web site www.thetorocompany.com (select the "Investor Information" link and then the "Financials" link), our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A, Section 16 reports, amendments to those reports, and other documents filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our web site or connected to our web site is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

Forward-Looking Statements

This Annual Report on Form 10-K contains, or incorporates by reference, not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Exchange Act and that are subject to the safe harbor created by those sections. In addition, we or others on our behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences and/or web casts

open to the public, in press releases or reports, on our web sites or otherwise. Statements that are not historical are forward-looking and reflect expectations and assumptions. Forward-looking statements are based on our current expectations of future events, and often can be identified in this report and elsewhere by using words such as "expect," "strive," "looking ahead," "outlook," "guidance," "forecast," "goal," "optimistic," "anticipate," "continue," "plan," "estimate," "project," "believe," "should," "could," "can," "will," "would," "possible," "may," "likely," "intend," "seek," "potential," "pro forma," or the negative thereof and similar expressions or future dates. Our forward-looking statements generally relate to our future performance, including our anticipated operating results, liquidity requirements, and financial condition; our business strategies and goals; and the effect of laws, rules, regulations, new accounting pronouncements, and outstanding litigation on our business and future performance.

Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or implied. The most significant factors known to us that could materially adversely affect our business, reputation, operations, industry, financial position, or future financial performance are described below in Part I, Item 1A, "Risk Factors." We caution readers not to place undue reliance on any forward-looking statement which speaks only as of the date made and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described elsewhere in this report, including in Part I, Item 1A, "Risk Factors," as well as others that we may consider immaterial or do not anticipate at this time. The risks and uncertainties described in this report, including in Part I, Item 1A, "Risk Factors," are not exclusive and further information concerning our company and our businesses, including factors that potentially could materially affect our operating results or financial condition, may emerge from time to time.

We make no commitment to revise or update any forward-looking statements in order to reflect actual results, events or circumstances occurring or existing after the date any forward-looking statement is made, or changes in factors or assumptions affecting such forward-looking statements. We advise you, however, to consult any further disclosures we make on related subjects in our future Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that we file with or furnish to the SEC.

ITEM 1A. RISK FACTORS

The following are significant factors known to us that could materially adversely affect our business, reputation, operating results, industry, financial position, or future financial performance.

Our net sales and earnings could be adversely affected by economic conditions and outlook in the United States and in other countries in which we conduct business.

Adverse economic conditions and outlook in the U.S. and in other countries in which we conduct business can impact demand for our products and, ultimately, our net sales and earnings. These include, but are not limited to, recessionary conditions; slow or negative economic growth rates; the impact of U.S. federal debt, state debt, and sovereign debt defaults and austerity measures by certain European countries; slow down or reductions in levels of golf course development, renovation, and improvement; golf course closures; reduced levels of home ownership, construction, and sales; home foreclosures; negative consumer confidence; reduced consumer spending levels resulting from tax increases or other factors; prolonged high unemployment rates; higher commodity and components costs and fuel prices; inflationary or deflationary pressures; reduced credit availability or unfavorable credit terms for our distributors, dealers, and end-user customers; higher short-term, mortgage, and other interest rates; and general economic and political conditions and expectations. In the past, some of these factors have caused our distributors, dealers, and end-user customers to reduce spending and delay or forego purchases of our products, which have had an adverse effect on our net sales and earnings. Our net sales and earnings could be adversely impacted by economic conditions and outlook in the U.S. and in other countries in which we conduct business.

Weather conditions may reduce demand for some of our products and adversely affect our net sales or otherwise adversely affect our operating results.

From time to time, weather conditions in a particular geographic region may adversely affect sales, demand, and field inventory levels of some of our products. For example, in the past, drought conditions have had an adverse effect on sales of certain mowing equipment products, unusually rainy weather or severe drought conditions that result in watering bans have had an adverse effect on sales of our irrigation products, and lower snowfall accumulations in key markets have had an adverse effect on sales of our snow thrower products and sales of products of our BOSS professional snow and ice management business. Similarly, adverse weather conditions in one season may negatively impact customer purchasing patterns and our net sales for some of our products in another season. For example, lower snowfall accumulations may result in lower winter season revenues for landscape contractor professionals, causing such customers to forego or postpone spring purchases of our mowing products. To the extent that unfavorable weather conditions are exacerbated by global climate change or otherwise, our sales and operating results may be affected to a greater degree than we have previously experienced.

Fluctuations in foreign currency exchange rates have in the past affected our operating results and could continue to result in declines in our reported net sales and net earnings.

Because the functional currency of most of our foreign operations is the applicable local currency, and because our financial reporting currency is the U.S. dollar, preparation of our consolidated financial statements requires that we translate the assets, liabilities, expenses, and revenues of our foreign operations into U.S. dollars at applicable exchange rates. Accordingly, we are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales and loans to wholly owned subsidiaries, as well as sales to third party customers, purchases from suppliers, and bank lines of credit with creditors denominated in foreign currencies. Our reported net sales and net earnings are subject to fluctuations in foreign currency exchange rates that have in the past affected our operating results and could continue to result in declines in our reported net sales and net earnings. Because our products are manufactured or sourced primarily from the U.S. and Mexico, a stronger U.S. dollar and Mexican peso generally have a negative impact on our operating results, while a weaker U.S. dollar and Mexican peso generally have a positive effect. In addition, currency exchange rate fluctuations may affect the comparative prices between products we sell and products our foreign competitors sell in the same market, which may adversely affect demand for our products. Substantial exchange rate fluctuations as a result of the strengthening of the U.S. dollar or otherwise, may have an adverse effect on our operating results, financial condition, and cash flows, as well as the comparability of our consolidated financial statements between reporting periods. Our primary foreign currency exchange rate exposure is with the Euro, the Australian dollar, the Canadian dollar, the British pound, the Mexican peso, the Japanese yen, the Chinese Renminbi, and the Romanian New Leu against the U.S. dollar, as well as the Romanian New Leu against the Euro including exposure as a result of the volatility and uncertainty that may arise as a result of the United Kingdom's vote to exit the European Union. While we actively manage the exposure of our foreign currency market risk in the normal course of business by entering into various foreign exchange contracts, these instruments involve risks and may not effectively limit our underlying exposure from foreign currency exchange rate fluctuations or minimize our net earnings and cash volatility associated with foreign currency exchange rate changes. Further, the failure of one or more counterparties to our foreign currency exchange rate contracts to fulfill their obligations to us could adversely affect our operating results.

Increases in the cost of raw materials and components that we purchase and/or increases in our other costs of doing business, may adversely affect our profit margins and businesses.

We purchase raw materials such as steel, aluminum, petroleum and natural gas-based resins, linerboard, and other commodities, and components, such as engines, transmissions, transaxles, hydraulics, and electric motors, for use in our products. In addition, we are a purchaser of components and parts containing various commodities, including steel, aluminum, copper, lead, rubber, and others that are integrated into our end products. To the extent that commodity prices increase and we do not have firm pricing from our suppliers, or our suppliers are not able to honor such prices, increases in the cost of such raw materials and components and parts may adversely affect our profit margins. In addition, increases in other costs of doing business may also adversely affect our profit margins and businesses. For example, an increase in fuel costs may result in an increase in our transportation costs, which also could adversely affect our operating results and businesses. In addition, changes to international trade agreements could result in additional tariffs, duties or other charges on raw materials or components we import into the U.S.

Historically, we have mitigated cost increases, in part, by collaborating with suppliers, reviewing alternative sourcing options, substituting materials, engaging in internal cost reduction efforts, and increasing prices on some of our products, all as appropriate. However, we may not be able to fully offset such increased costs in the future. Further, if our price increases are not accepted by our customers and the market, our net sales, profit margins, earnings, and market share could be adversely affected.

Disruption in the availability of raw materials and components used in our products may adversely affect our business.

Although most of the raw materials and components used in our products are generally commercially available from a number of sources and in adequate supply, certain components are sourced from single suppliers. Any disruption in the availability of raw materials and components used in our products, our inability to timely or otherwise obtain substitutes for such items, or any deterioration in our relationships with, the financial viability or quality of, or the personnel relationships at our suppliers, could adversely affect our business.

Our Professional segment net sales are dependent upon certain factors, including golf course revenues and the amount of investment in golf course renovations and improvements; the level of new golf course development and golf course closures; the level of property owners who outsource their lawn care and snow and ice removal activities; the level of residential and commercial construction; continued acceptance of and demand for micro-irrigation solutions for agricultural markets; the timing and occurrence of winter weather conditions; the demand for our products in the rental and specialty construction market; the availability of cash or credit to Professional segment customers on acceptable terms to finance new product purchases; and the amount of government revenues, budget, and spending levels for grounds maintenance equipment.

Our Professional segment products are sold by distributors or dealers, or directly to government customers, rental companies, and professional users engaged in maintaining and creating properties and landscapes, such as golf courses, sports fields,

residential and commercial properties and landscapes, and governmental and municipal properties. Accordingly, our professional segment net sales are impacted by golf course revenues and the amount of investment in golf course renovations and improvements; the level of new golf course development and golf course closures; the level of property owners who outsource their lawn care and snow and ice removal activities; continued acceptance of and demand for micro-irrigation solutions for agricultural markets; the timing and occurrence of winter weather conditions; the demand for our products in the rental and specialty construction market; the level of residential and commercial construction; availability of cash or credit on acceptable terms to finance new product purchases; and the amount of government spending for new grounds maintenance equipment. Among other things, any one or a combination of the following factors could have an adverse effect on our Professional segment net sales:

- reduced levels of investment in golf course renovations and improvements and new golf course development; reduced number of golf rounds played at public and private golf courses resulting in reduced revenue for such golf courses; decreased membership at private golf courses resulting in reduced revenue and, in certain cases, financial difficulties for such golf courses; and increased number of golf course closures, any one of which or any combination of which could result in a decrease in spending and demand for our products;
- reduced consumer and business spending on property maintenance and/or unfavorable weather conditions, causing property owners, including homeowners, and landscape contractor professionals to forego or postpone purchases of our products;
- low or reduced levels of commercial and residential construction, resulting in a decrease in demand for our products;
- a decline in acceptance of and demand for micro-irrigation solutions for agricultural markets and our products in the rental and specialty construction market; and
- reduced tax revenue, increased governmental expenses in other areas, tighter government budgets and government deficits, generally resulting in reduced government spending for grounds maintenance equipment.

Our Residential segment net sales are dependent upon consumers buying our Residential segment products at dealers, mass retailers, and home centers, such as The Home Depot, Inc.; the amount of product placement at mass retailers and home centers; consumer confidence and spending levels; and changing buying patterns of customers.

The elimination or reduction of shelf space assigned to our residential products or other changes to the placement of our products by mass retailers and home centers, such as The Home Depot, could adversely affect our Residential segment net sales. Our Residential segment net sales also are dependent upon buying patterns of customers. For example, as consumers purchase products at home centers and mass retailers that offer broader and lower price points than dealers, we have experienced increased demand and sales of our Residential segment products purchased at mass retailers and home centers. The Home Depot is a substantial customer of ours, which accounted for approximately 11 percent of our total consolidated gross sales in each of fiscal 2016, 2015, and 2014. We believe that our diverse distribution channels and customer base should reduce the long-term impact on us if we were to lose The Home Depot or any other substantial customer. However, the loss of any substantial customer, a significant reduction in sales to The Home Depot or other customers, or our inability to maintain adequate product placement at retailers and home centers or our inability to respond to future changes in buying patterns of customers or new distribution channels could have a material adverse impact on our business and operating results. Changing buying patterns of customers could also result in reduced sales of one or more of our Residential segment products, resulting in increased inventory levels.

Changes in our product mix impact our financial performance, including profit margins and net earnings.

Our Professional segment products generally have higher profit margins than our Residential segment products. Our financial performance, including our profit margins and net earnings, can be impacted depending on the mix of products we sell during a given period. For example, if we experience lower sales of our Professional segment products that generally carry higher profit margins than our Residential segment products, our financial performance, including profit margins and net earnings, could be negatively impacted.

We intend to grow our business in part through acquisitions and alliances, strong customer relations, and new joint ventures and partnerships, which could be risky and may harm our business, reputation, financial condition, and operating results.

One of our growth strategies is to drive growth in our businesses and accelerate opportunities to expand our global presence through targeted acquisitions and alliances, strong customer relations, and new joint ventures and partnerships that add value while supplementing our existing brands and product portfolio. Our ability to grow through acquisitions will depend, in part, on the availability of suitable candidates at acceptable prices, terms, and conditions, our ability to compete effectively for acquisition candidates, and the availability of capital and personnel to complete such acquisitions and run the acquired business effectively. Any acquisition, alliance, joint venture, or partnership could impair our business, financial condition, reputation, and operating results. The benefits of an acquisition, or new alliance, joint venture, or partnership may take more time than expected to develop or integrate into our operations, and we cannot guarantee that previous or future acquisitions, alliances, joint ventures, or partnerships will, in fact, produce any benefits. Acquisitions, alliances, joint ventures, and partnerships may involve a number of risks, including:

- diversion of management's attention;

- disruption to our existing operations and plans;
- inability to effectively manage our expanded operations;
- difficulties or delays in integrating and assimilating information and financial systems, operations, and products of an acquired business or other business venture or in realizing projected efficiencies, growth prospects, cost savings, and synergies;
- inability to successfully integrate or develop a distribution channel for acquired product lines;
- potential loss of key employees, customers, distributors, or dealers of the acquired businesses or adverse effects on existing business relationships with suppliers, customers, distributors, and dealers;
- delays or challenges in transitioning distributors and dealers of acquired businesses to using our Red Iron financing joint venture with TCFIF;
- violation of any non-compete agreement by any key employee of an acquired business;
- adverse impact on overall profitability if our expanded operations do not achieve the financial results projected in our valuation models;
- reallocation of amounts of capital from other operating initiatives and/or an increase in our leverage and debt service requirements to pay acquisition purchase prices or other business venture investment costs, which could in turn restrict our ability to access additional capital when needed or pursue other important elements of our business strategy;
- failure by acquired businesses or other business ventures to comply with applicable international, federal, and state product safety or other regulatory standards;
- infringement by acquired businesses or other business ventures of intellectual property rights of others;
- inaccurate assessment of additional post-acquisition or business venture investments, undisclosed, contingent or other liabilities or problems, unanticipated costs associated with an acquisition or other business venture, and an inability to recover or manage such liabilities and costs; and
- incorrect estimates made in the accounting for acquisitions, incurrence of non-recurring charges, and write-off of significant amounts of goodwill or other assets that could adversely affect our operating results.

In addition, effective internal controls are necessary for us to provide reliable and accurate financial reports and to effectively prevent fraud. The integration of acquired businesses may result in our systems and controls becoming increasingly complex and more difficult to manage. We devote significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. However, we cannot be certain that these measures will ensure that we design, implement, and maintain adequate control over our financial processes and reporting in the future, especially in the context of acquisitions of other businesses. Any difficulties in the assimilation of acquired businesses into our control system could harm our operating results or cause us to fail to meet our financial reporting obligations. Also, some acquisitions may require the consent of the lenders under our credit agreements. We cannot predict whether such approvals would be forthcoming or the terms on which the lenders would approve such acquisitions. These risks, among others, could be heightened if we complete a large acquisition or other business venture or multiple transactions within a relatively short period of time.

If we underestimate or overestimate demand for our products and do not maintain appropriate inventory levels, our net sales and/or working capital could be negatively impacted.

Our ability to manage our inventory levels to meet our customers' demand for our products is important for our business. For example, our residential lawn and garden products are generally manufactured throughout the year and our residential snow thrower products are manufactured in the summer and fall months but may be extended into the winter months, depending upon demand. However, our production levels and inventory management goals for our Residential segment products are based on estimates of retail demand for our products, taking into account production capacity, timing of shipments, and field inventory levels. If we overestimate or underestimate demand for any of our products during a given season, we may not maintain appropriate inventory levels, which could negatively impact our net sales or working capital, hinder our ability to meet customer demand, or cause us to incur excess and obsolete inventory charges.

Our business and operating results are subject to the inventory management decisions of our distribution channel customers.

We sell many of our products through various distribution channels and are subject to risks relating to their inventory management decisions and operational and sourcing practices. Our distribution channel customers carry inventories of our products as part of their ongoing operations and adjust those inventories based on their assessments of future needs. Such adjustments may impact our inventory management and working capital goals as well as operating results. If the inventory levels of our distribution channel customers are higher than they desire, they may postpone product purchases from us, which could cause our sales to be lower than the end-user demand for our products and negatively impact our inventory management and working capital goals as well as our operating results. Similarly, our results could be negatively impacted through the loss of sales if our distribution channel customers do not maintain field inventory levels sufficient to meet end-user demand.

We face intense competition in all of our product lines with numerous manufacturers, including some that have larger operations and financial resources than us. We may not be able to compete effectively against competitors' actions, which could harm our business and operating results.

Our products are sold in highly competitive markets throughout the world. Principal competitive factors in our markets include

product innovation, quality and reliability, pricing, product support and customer service, warranty, brand awareness, reputation, distribution, product placement and shelf space, and financing options. We compete in many product lines with numerous manufacturers, some of which have substantially larger operations and financial resources than us. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer preferences, or devote greater resources to the development, promotion, and sale of their products than we can. In addition, competition could increase if new companies enter the market, existing competitors consolidate their operations or if existing competitors expand their product lines or intensify efforts within existing product lines. Our current products, products under development, and our ability to develop new and improved products may be insufficient to enable us to compete effectively with our competitors. Internationally, our Residential segment products typically face more competition because many foreign competitors design, manufacture, and market products in their respective countries. We experience this competition primarily in Europe. In addition, fluctuations in the value of the U.S. dollar may affect the price of our products in foreign markets, thereby impacting their competitiveness. We may not be able to compete effectively against competitors' actions, which may include the movement by competitors with manufacturing operations to low cost countries for significant cost and price reductions, and could harm our business and operating results.

A significant percentage of our consolidated net sales are generated outside of the United States, a portion of which are financed by third parties, and we intend to continue to expand our international operations. Our international operations require significant management attention and financial resources, expose us to difficulties presented by international economic, political, legal, regulatory, accounting, and business factors, and may not be successful or produce desired levels of net sales.

We currently manufacture our products in the U.S., Mexico, Australia, the United Kingdom, Italy, Romania, and China for sale throughout the world. We maintain sales offices in the United States, Belgium, the United Kingdom, Australia, Singapore, Japan, China, Italy, South Korea, and Germany. Our net sales outside the U.S. were 24.2 percent, 25.5 percent, and 28.7 percent of our total consolidated net sales for fiscal 2016, 2015, and 2014, respectively. International markets have been, and will continue to be, a focus for us for revenue growth, both organically and through acquisitions. We believe many opportunities exist in the international markets, and over time, we intend for international net sales to comprise a larger percentage of our total consolidated net sales. Several factors, including the implications of the United Kingdom's vote to exit the European Union, implications of withdrawal by the U.S. from, or revision to, international trade agreements, foreign policy changes between the U.S. and other countries, weakened international economic conditions or the impact of sovereign debt defaults by certain European countries, could adversely affect our international net sales. Additionally, the expansion of our existing international operations and entry into additional international markets require significant management attention and financial resources. Many of the countries in which we manufacture or sell our products, or otherwise have an international presence are, to some degree, subject to political, economic, and/or social instability, including drug cartel-related violence, which may disrupt our production activities and maquiladora operations based in Juarez, Mexico. Our international operations expose us and our representatives, agents, and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- increased costs of customizing products for foreign countries;
- difficulties in managing and staffing international operations and increases in infrastructure costs including legal, tax, accounting, and information technology;
- the imposition of additional U.S. and foreign governmental controls or regulations; new or enhanced trade restrictions and restrictions on the activities of foreign agents, representatives, and distributors; withdrawal from or revision to international trade agreements and the imposition or increases in import and export licensing and other compliance requirements, customs duties and tariffs, import and export quotas and other trade restrictions, license obligations, and other non-tariff barriers to trade;
- the imposition of U.S. and/or international sanctions against a country, company, person, or entity with whom we do business that would restrict or prohibit our business with the sanctioned country, company, person, or entity;
- international pricing pressures;
- laws and business practices favoring local companies;
- adverse currency exchange rate fluctuations;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- higher tax rates and potentially adverse tax consequences, including restrictions on repatriating cash and/or earnings to the U.S.;
- fluctuations in our operating performance based on our geographic mix of sales;
- transportation delays and interruptions;
- national and international conflicts, including foreign policy changes or terrorist acts;
- difficulties in protecting, enforcing or defending intellectual property rights; and
- multiple, changing, and often inconsistent enforcement of laws, rules, and regulations, including rules relating to environmental, health, and safety matters.

Our international operations may not produce desired levels of net sales or, among other things one or more of the factors listed above may harm our business and operating results. Any material decrease in our international sales or profitability could also adversely impact our operating results.

In addition, a portion of our international net sales are financed by third parties. The termination of our agreements with these third parties, any material change to the terms of our agreements with these third parties or in the availability or terms of credit offered to our international customers by these third parties, or any delay in securing replacement credit sources, could adversely affect our sales and operating results.

If we are unable to continue to enhance existing products, as well as develop and market new products, that respond to customer needs and preferences and achieve market acceptance, we may experience a decrease in demand for our products, and our net sales, which have historically benefited from sales of new products, may be adversely affected.

One of our growth strategies is to develop innovative, customer-valued products to generate revenue growth. In the past, our sales from new products, which we define as those introduced in the current and previous two fiscal years, have represented a significant component of our net sales and are expected to continue to represent a significant component of our future net sales. We may not be able to compete as effectively with our competitors, and ultimately satisfy the needs and preferences of our customers, unless we can continue to enhance existing products and develop new innovative products for the markets in which we compete. Product development requires significant financial, technological, and other resources. Product improvements and new product introductions also require significant research, planning, design, development, engineering, and testing at the technological, product, and manufacturing process levels and we may not be able to timely develop and introduce product improvements or new products. Our competitors' new products may beat our products to market, be higher quality or more reliable, be more effective with more features and/or less expensive than our products, obtain better market acceptance, or render our products obsolete. Any new products that we develop may not receive market acceptance or otherwise generate any meaningful net sales or profits for us relative to our expectations based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs, and research and development.

We manufacture our products at, and distribute our products from, several locations in the U.S. and internationally. Any disruption at any of these facilities or our inability to cost-effectively expand existing, open and manage new, and/or move production between manufacturing facilities could adversely affect our business and operating results.

We currently manufacture most of our products at ten locations in the U.S., two locations in Mexico, and one location in each of Australia, Italy, the United Kingdom, Romania, and China. We have several locations that serve as distribution centers, warehouses, test labs, and corporate offices. In addition, we have agreements with other third-party manufacturers to manufacture products on our behalf. These facilities may be affected by natural or man-made disasters and other external events, including drug cartel-related violence that may disrupt our production activities and maquiladora operations based in Juarez, Mexico. In the event that one of our manufacturing facilities was affected by a disaster or other event, we could be forced to shift production to one of our other manufacturing facilities. Although we maintain insurance for damage to our property and disruption of our business from casualties, such insurance may not be sufficient to cover all of our potential losses. Furthermore, from time to time, we may decide to open new manufacturing or distribution facilities or move production between our facilities to align production capacity with production goals, which could result in disruption and/or additional expense. Any disruption in our manufacturing capacity could have an adverse impact on our ability to produce sufficient inventory of our products or may require us to incur additional expenses in order to produce sufficient inventory, and therefore, may adversely affect our net sales and operating results. Any disruption or delay at our manufacturing facilities, including a work slowdown, strike, or similar action at any one of our facilities operating under a collective bargaining agreement, or the failure to renew or enter into new collective bargaining agreements, could impair our ability to meet the demands of our customers, and our customers may cancel orders or purchase products from our competitors, which could adversely affect our business and operating results.

Our production labor needs fluctuate throughout the year. During periods of peak production, it is necessary to sharply increase the number of production staff. Such production staff may be new to our manufacturing processes and safety protocols. Any failure by our production labor force to adequately and safely perform their jobs could adversely affect our business, operating results, and reputation.

Our production labor needs fluctuate throughout the year. During periods of peak manufacturing activity it is necessary to sharply increase the number of production staff by utilizing new hires and temporary labor. Production staff that we hire during such periods of peak manufacturing activity may not have the same level of training, competency, experience, or commitment as our regular production employees. In addition, from time to time, we may not have available to us a sufficient pool of experienced and competent individuals to fulfill our production labor requirements on a cost-effective basis. If we are unable to adequately staff our manufacturing operations, particularly during periods of peak manufacturing activity, or if our production staff are not adequately trained or do not adhere to protocols we have established to create a safe workplace, our business, operating results, and reputation could suffer.

Management information systems are critical to our business. If our management information systems or those of our business partners or third party service providers fail to adequately perform, or if we, our business partners, or third party service providers experience an interruption in their operation, our business, reputation, financial condition, and operating results could be adversely affected.

We have many management information systems that are critical to our business, some of which are managed by third parties.

These management information systems are used to record, process, summarize, transmit, and store electronic information, and to manage or support a variety of business processes and activities, including, among other things, our accounting and financial functions, including maintaining our internal controls; our manufacturing and supply chain processes; and the data related to our research and development efforts. The failure of our management information systems or those of our business partners or third party service providers to perform properly, or difficulties encountered in the development of new systems or the upgrade of existing systems, could disrupt our business and harm our reputation, which may result in decreased sales, increased overhead costs, excess or obsolete inventory, and product shortages, causing our business, reputation, financial condition, and operating results to suffer. Although we take steps to secure our management information systems and any access provided by our business partners or third party service providers, including our computer systems, intranet and internet sites, email and other telecommunications and data networks, the security measures we have implemented may not be effective and our systems may be vulnerable to theft, loss, damage, and interruption from a number of potential sources and events, including unauthorized access or security breaches, natural or man-made disasters, cyber attacks, computer viruses, phishing, power loss, or other disruptive events. Information technology security threats are increasing in frequency and sophistication. Cyber attacks may be random, coordinated, or targeted, including sophisticated computer crime threats. These threats pose a risk to the security of our systems and networks, and those of our business partners and third party service providers, and to the confidentiality, availability, and integrity of our data. Our business, reputation, operating results, and financial condition could be adversely affected if, as a result of a significant cyber event or otherwise, our operations are disrupted or shutdown; our confidential, proprietary information is stolen or disclosed; our intranet and internet sites are compromised; data is manipulated or destroyed; we incur costs or are required to pay fines in connection with stolen customer, employee, or other confidential information; we must dedicate significant resources to system repairs or increase cyber security protection; or we otherwise incur significant litigation or other costs.

Our reliance upon patents, trademark laws, and contractual provisions to protect our proprietary rights may not be sufficient to protect our intellectual property from others who may sell similar products. Our products may infringe the proprietary rights of others.

We hold patents relating to various aspects of our products and believe that proprietary technical know-how is important to our business and their loss could have a material adverse effect on our business and operating results. Proprietary rights relating to our products are protected from unauthorized use by third parties only to the extent that they are covered by valid and enforceable patents or are maintained in confidence as trade secrets. We cannot be certain that we will be issued any patents from any pending or future patent applications owned by or licensed to us, or that the claims allowed under any issued patents will be sufficiently broad to protect our technology. In the absence of enforceable patent protection, we may be vulnerable to competitors who attempt to copy our products or gain access to our trade secrets and know-how. Others may initiate litigation to challenge the validity of our patents, or allege that we infringe their patents, or they may use their resources to design comparable products that do not infringe our patents. We may incur substantial costs if our competitors or others initiate litigation to challenge the validity of our patents, or allege that we infringe their patents, or if we initiate any proceedings to protect our proprietary rights. If the outcome of any such litigation is unfavorable to us, our business, operating results, and financial condition could be adversely affected. We also cannot be certain that our products or technologies have not infringed or will not infringe the proprietary rights of others. Any such infringement could cause third parties, including our competitors, to bring claims against us, resulting in significant costs, possible damages and substantial uncertainty. We could also be forced to develop an alternative that could be costly and time-consuming, or acquire a license, which we might not be able to do on terms favorable to us, or at all.

We rely on trade secrets and proprietary know-how that we seek to protect, in part, by confidentiality agreements with our employees, suppliers, consultants, and others. These agreements may be breached, and we may not have adequate remedies for any such breach. Even if these confidentiality agreements are not breached, our trade secrets may otherwise become known or be independently developed by competitors.

Our business, properties, and products are subject to governmental regulation with which compliance may require us to incur expenses, or modify our products or operations, and non-compliance may result in harm to our reputation and/or expose us to penalties. Governmental regulation may also adversely affect the demand for some of our products and our operating results.

Our business, properties, and products are subject to numerous international, federal, state, and other governmental laws, rules, and regulations relating to, among other things; climate change; emissions to air, including Tier 4 or similar engine emission requirements; discharges to water; restrictions placed on water usage and water availability; product and associated packaging; use of certain chemicals; restricted substances, including "conflict minerals" disclosure rules; import and export compliance, including country of origin certification requirements; worker and product user health and safety; energy efficiency; product life-cycles; outdoor noise laws; and the generation, use, handling, labeling, collection, management, storage, transportation, treatment, and disposal of hazardous substances, wastes, and other regulated materials. In addition, our business is subject to numerous international, federal, state, and other governmental laws, rules, and regulations that may adversely affect our operating results, including, (i) taxation and tax policy changes, tax rate changes, new tax laws, or revised tax law interpretations, which individually or in combination may cause our effective tax rate to increase, (ii) new, recently enacted, or revised healthcare laws or

regulations or, (iii) changes to international trade agreements that could result in additional tariffs, duties or other charges on raw materials, whole goods or components that we import. Although we believe that we are in substantial compliance with currently applicable laws, rules, and regulations, we are unable to predict the ultimate impact of adopted or future laws, rules, and regulations on our business, properties, or products. Any of these laws, rules, or regulations may cause us to incur significant expenses to achieve or maintain compliance, require us to modify our products, adversely affect the price of or demand for some of our products, and ultimately affect the way we conduct our operations. Failure to comply with any of these laws, rules, or regulations could result in harm to our reputation and/or could lead to fines and other penalties, including restrictions on the importation of our products into, and the sale of our products in, one or more jurisdictions until compliance is achieved. In addition, our competitors may adopt strategies with respect to regulatory compliance that differ significantly from our strategies. This may have the effect of changing customer preferences and our markets in ways that we did not anticipate which may adversely affect market demand for our products and, ultimately, our net sales and financial results.

Climate change and climate change regulations may adversely impact our operations.

There is growing concern from members of the scientific community and the general public that an increase in global average temperatures due to emissions of greenhouse gases ("GHG") and other human activities have or will cause significant changes in weather patterns and increase the frequency and severity of natural disasters. We are currently subject to rules limiting emissions and other climate related rules and regulations in certain jurisdictions where we operate. In addition, we may become subject to additional legislation and regulation regarding climate change, and compliance with any new rules could be difficult and costly. Concerned parties, such as legislators, regulators, and non-governmental organizations, are considering ways to reduce GHG emissions. Foreign, federal, state, and local regulatory and legislative bodies have proposed various legislative and regulatory measures relating to climate change, regulating GHG emissions, and energy policies. If such legislation is enacted, we could incur increased energy, environmental, and other costs and capital expenditures to comply with the limitations. Due to uncertainty in the regulatory and legislative processes, as well as the scope of such requirements and initiatives, we cannot currently determine the effect such legislation and regulation may have on our products and operations.

The costs of complying with the various environmental laws related to our ownership and/or lease of real property, such as clean-up costs and liability that may be associated with certain hazardous waste disposal activities, could adversely affect our financial condition and operating results.

Because we own and lease real property, various environmental laws may impose liability on us for the costs of cleaning up and responding to hazardous substances that may have been released on our property, including releases unknown to us. These environmental laws and regulations could also require us to pay for environmental remediation and response costs at third-party locations where we disposed of or recycled hazardous substances. We are currently involved in the evaluation and clean-up of a limited number of properties we either currently or previously owned. Although we do not expect that these current matters will have a material adverse effect on our financial position or operating results, our future costs of complying with the various environmental requirements, as they now exist or may be altered in the future, could adversely affect our financial condition and operating results.

Legislative enactments could impact the competitive landscape within our markets and affect demand for our products.

Various legislative proposals, if enacted, could put us in a competitively advantaged or disadvantaged position and affect customer demand for our products relative to the product offerings of our competitors. For example, any fiscal-stimulus or other legislative enactment that inordinately impacts the lawn and garden, outdoor power equipment, or irrigation industries generally by promoting the purchase, such as through customer rebate or other incentive programs, of certain types of mowing, snow and ice management or irrigation equipment or other products that we sell, could impact us positively or negatively, depending on whether we manufacture products that meet the specified legislative criteria, including in areas such as fuel efficiency, alternative energy or water usage, or if, as a result of such legislation, customers perceive our product offerings to be relatively more or less attractive than our competitors' product offerings. We cannot currently predict whether any such legislation will be enacted, what any such legislation's specific terms and conditions would encompass, how any such legislation would impact the competitive landscape within our markets, or how, if at all, any such legislation might ultimately affect customer demand for our products or our operating results.

We operate in many different jurisdictions and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-corruption laws.

The U.S. Foreign Corrupt Practices Act and similar worldwide anti-corruption laws generally prohibit companies and their intermediaries from making certain improper payments for the purpose of obtaining or retaining business. The continued expansion of our international operations could increase the risk of violations of these laws in the future. Significant violations of these laws, or allegations of such violations, could harm our reputation, could disrupt our business, and could result in significant fines and penalties that could have a material adverse effect on our results of operations or financial condition.

We are required to comply with the "conflict minerals" rules promulgated by the SEC, which impose costs on us and could raise reputational and other risks.

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted rules regarding disclosure of the use of certain minerals, known as "conflict minerals," which are mined from the Democratic Republic of the Congo and adjoining countries, as well as procedures regarding manufacturers' efforts to discover the origin of such minerals and metals produced from those minerals. These conflict minerals are commonly referred to as "3TG" and include tin, tantalum, tungsten, and gold. We have, and we expect that we will continue to, incur additional costs and expenses, which may be significant in order to comply with these rules, including for (i) due diligence to determine whether conflict minerals are necessary to the functionality or production of any of our products and, if so, verify the sources of such conflict minerals; and (ii) any changes that we may desire to make to our products, processes, or sources of supply as a result of such diligence and verification activities. Since our supply chain is complex, ultimately we may not be able to sufficiently verify the origin of the conflict minerals used in our products through the due diligence procedures that we implement, which may adversely affect our reputation with our customers, shareholders, and other stakeholders. In such event, we may also face difficulties in satisfying customers who require that all of our products are certified as conflict mineral free. If we are not able to meet such requirements, customers may choose not to purchase our products, which could adversely affect our sales and the value of portions of our inventory. Further, there may be only a limited number of suppliers offering conflict free minerals and, as a result, we cannot be sure that we will be able to obtain metals, if necessary, from such suppliers in sufficient quantities or at competitive prices. Any one or a combination of these various factors could harm our business, reduce market demand for our products, and adversely affect our profit margins, net sales, and overall financial results.

We are subject to product liability claims, product quality issues, and other litigation from time to time that could adversely affect our business, reputation, operating results or financial condition.

The manufacture, sale, and use of our products expose us to significant risks associated with product liability claims. If a product liability claim or series of claims is brought against us for uninsured liabilities or in excess of our insurance coverage, and it is ultimately determined that we are liable, our business could suffer. While we believe that we appropriately instruct our customers on the proper usage of our products, we cannot ensure that they will implement our instructions accurately or completely. If our products are defective or used incorrectly by our customers, injury may result and this could give rise to product liability claims against us or adversely affect our brand image or reputation. Any losses that we may suffer from any liability claims, and the effect that any product liability litigation may have upon the reputation and marketability of our products, may have a negative impact on our business, reputation, and operating results. Product defects can occur through our own product development, design, and manufacturing processes or through our reliance on third parties for certain component design and manufacturing activities. Some of our products or product improvements were developed relatively recently and defects or risks that we have not yet identified, such as unanticipated use of our products, may give rise to product liability claims. Additionally, we could experience a material design, testing, or manufacturing failure in our products, a quality system failure, failures in our products and other challenges that are associated with our inability to properly manage changes in the suppliers and components that we use in our products, insufficient testing procedures, other safety issues, or heightened regulatory scrutiny that could warrant a recall of some of our products. A recall of some of our products could also result in increased product liability claims. Unforeseen product quality problems in the development and production of new and existing products could also result in loss of market share, reduced sales, rework costs, and higher warranty expense.

We are also subject to other litigation from time to time that could adversely affect our business, reputation, operating results or financial condition.

If we are unable to retain our executive officers or other key employees, attract and retain other qualified personnel, or successfully implement executive officer, key employee or other personnel transitions, we may not be able to meet strategic objectives and our business could suffer.

Our ability to meet our strategic objectives and otherwise grow our business will depend to a significant extent on the continued contributions of our leadership team. Our future success will also depend in large part on our ability to identify, attract, and retain other highly qualified managerial, technical, sales and marketing, operations, and customer service personnel. Competition for these individuals is intense, and we may not succeed in identifying, attracting, or retaining qualified personnel. The loss or interruption of services of any of our executive officers or other key employees, the inability to identify, attract, or retain qualified personnel in the future, the inability to successfully implement executive officer, key employee or other personnel transitions, delays in hiring qualified personnel, or any employee work slowdowns, strikes, or similar actions could make it difficult for us to conduct and manage our business and meet key objectives, which could harm our business, financial condition, and operating results.

As a result of our Red Iron financing joint venture with TCFIF, we are dependent upon the joint venture to provide competitive inventory financing programs to certain distributors and dealers of our products. Any material change in the availability or terms of credit offered to our customers by the joint venture, challenges or delays in transferring new distributors and dealers from any business we might acquire or otherwise to this financing platform, any termination or disruption of our joint venture relationship or any delay in securing replacement credit sources could adversely affect our net sales and operating results.

We are a party to a financing joint venture with TCFIF for the primary purpose of providing reliable, competitive financing to certain of our distributors and dealers in the U.S. to support their businesses and increase our net sales, as well as to free up our working capital for our other strategic purposes. As a result, we are dependent upon the joint venture for our inventory financing programs. Additionally, we are dependent upon TCFCFC to provide inventory financing to dealers of our products in Canada.

The availability of financing from our joint venture or otherwise will be affected by many factors, including, among others, the overall credit markets, the credit worthiness of our dealers and distributors, and regulations that may affect TCFIF, as the majority owner of the joint venture and a subsidiary of TCF National Bank, a national banking association. Any material change in the availability or terms of credit offered to our customers by the joint venture, challenges or delays in transferring new distributors and dealers from any business we might acquire or otherwise to this financing platform, any termination or disruption of our joint venture relationship or any delay in securing replacement credit sources could adversely affect our sales and operating results.

The terms of our credit arrangements and the indentures governing our senior notes and debentures could limit our ability to conduct our business, take advantage of business opportunities and respond to changing business, market, and economic conditions. Additionally, we are subject to counterparty risk in our credit arrangements.

Our credit arrangements and the indentures governing our 6.625% senior notes and 7.800% debentures include a number of financial and operating restrictions. For example, our credit arrangements contain financial covenants that, among other things, require us to maintain a minimum interest coverage ratio and a maximum debt to earnings ratio. Our credit arrangements and/or indentures also contain provisions that restrict our ability, subject to specified exceptions, to, among other things:

- make loans and investments, including acquisitions and transactions with affiliates;
- create liens or other encumbrances on our assets;
- dispose of assets;
- enter into contingent obligations;
- engage in mergers or consolidations; and
- pay dividends that are significantly higher than those currently being paid, make other distributions to our shareholders, or redeem shares of our common stock.

These provisions may limit our ability to conduct our business, take advantage of business opportunities, and respond to changing business, market, and economic conditions. In addition, they may place us at a competitive disadvantage relative to other companies that may be subject to fewer, if any, restrictions or may otherwise adversely affect our business. Transactions that we may view as important opportunities, such as significant acquisitions, may be subject to the consent of the lenders under our credit arrangements, which consent may be withheld or granted subject to conditions specified at the time that may affect the attractiveness or viability of the transaction.

Although we have in place a \$150 million revolving credit facility that does not expire until October 2019, market deterioration or other factors could jeopardize the counterparty obligations of one or more of the banks participating in our revolving credit facility, which could have an adverse effect on our business if we are not able to replace such revolving credit facility or find other sources of liquidity on acceptable terms.

If we are unable to comply with the terms of our credit arrangements and indentures, especially the financial covenants, our credit arrangements could be terminated and our senior notes, debentures, term loan, and any amounts outstanding under our revolving credit facility could become due and payable.

We cannot assure you that we will be able to comply with all of the terms of our credit arrangements and indentures, especially the financial covenants. Our ability to comply with such terms depends on the success of our business and our operating results. Various risks, uncertainties, and events beyond our control could affect our ability to comply with the terms of our credit arrangements and/or indentures. If we were out of compliance with any covenant required by our credit arrangements following any applicable cure periods, the banks could terminate their commitments unless we could negotiate a covenant waiver. The banks could condition such waiver on amendments to the terms of our credit arrangements that may be unfavorable to us. In addition, our 6.625% senior notes, 7.800% debentures, term loan, and any amounts outstanding under our revolving credit facility could become due and payable if we were unable to obtain a covenant waiver or refinance our medium-term debt under our credit arrangements. If our credit rating falls below investment grade and/or our debt to earnings before interest, tax, depreciation, and amortization ("EBITDA") ratio rises above 1.50, the interest rate we currently pay on outstanding debt under our credit arrangements would increase, which could adversely affect our operating results.

We are expanding and renovating our corporate facilities and could experience disruptions to our operations in connection with such efforts.

We are expanding and renovating our corporate facilities, driven by our need to expand the space available for our product

development and test capacities, as well as our need for additional information technology and office space. These expansion efforts included the construction of a new corporate facility that was completed in fiscal 2014, and we are renovating our corporate facilities located in Bloomington, Minnesota to accommodate expansion needs of our product development, test, and business capacities. We financed, and expect to continue to finance, such efforts with cash on hand and cash from operating activities. The expansion and renovation of our corporate facilities entail risks that could cause disruption in the operations of our business. Such risks include potential interruption in data flow; unforeseen construction, scheduling, engineering, environmental, or geological problems; and unanticipated cost increases.

Our business is subject to a number of other miscellaneous risks that may adversely affect our operating results, financial condition, or business.

Other miscellaneous risks that could affect our operating results, financial condition, or business include:

- our ability to achieve the revenue growth, operating earnings, and working capital goals of our "Destination PRIME" initiative or any quarterly financial guidance;
- natural or man-made disasters or global pandemics, which may result in shortages of raw materials and components, higher fuel and commodity costs, delays in shipments to customers, and increases in insurance premiums;
- financial viability of distributors and dealers, changes in distributor ownership, changes in channel distribution of our products, relationships with our distribution channel partners, our success in partnering with new dealers and our customers' ability to pay amounts owed to us;
- a decline in retail sales or financial difficulties of our distributors or dealers, which could cause us to repurchase financed product;
- new or revised accounting standards; and
- the threat of terrorist acts and war, which may result in heightened security and higher costs for import and export shipments of components or finished goods, reduced leisure travel, and contraction of the U.S. and worldwide economies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of October 31, 2016, we utilized manufacturing, distribution, warehouse, and office facilities totaling approximately 6.3 million square feet of space worldwide. We had approximately 72 acres of excess land in Wisconsin adjacent to a distribution center, 70 acres of land in Minnesota utilized as a testing and storage facility, and 21 acres of land in California used as a testing site. Plant utilization varies during the year depending on the production cycle. We consider each of our current facilities to be in good operating condition. Management believes we have sufficient manufacturing capacity for fiscal 2017, although strategies for future operational growth are currently being assessed. We are expanding and renovating our corporate facilities located in Bloomington, Minnesota, which included the construction of a 75,000 square foot facility that was completed in fiscal 2014, renovation of a portion of our original corporate facility that was completed in fiscal 2016 to accommodate additional expansion needs for our product development and test capacities, and future planned renovations in fiscal 2017. Our significant facilities are listed below by location, ownership, and function as of October 31, 2016:

Location	Ownership	Products Manufactured / Use
Bloomington, MN	Owned/Leased	Corporate headquarters, warehouse, and test lab
El Paso, TX	Owned/Leased	Components for professional and residential products, warehouse and distribution center
Ankeny, IA	Leased	Residential and professional distribution center
Juarez, Mexico	Leased	Professional and residential products
Plymouth, WI	Owned	Professional and residential parts distribution center
Tomah, WI	Owned/Leased	Professional products and distribution center
Windom, MN	Owned/Leased	Residential and professional products and warehouse
Beatrice, NE	Owned/Leased	Professional products, test facility, and office
Iron Mountain, MI	Owned	Professional products, distribution facility, and office
Riverside, CA	Owned/Leased	Professional products, test facility, distribution center, and office
Xiamen City, China	Leased	Professional products, distribution center, and office
Braeside, Australia	Leased	Distribution center, service area, and office
Hertfordshire, United Kingdom	Owned	Professional and residential products, distribution center, test lab, and office
Ploiesti, Romania	Owned	Professional products, distribution center, test lab, and office
Shakopee, MN	Owned	Components for professional and residential products
Beverley, Australia	Owned	Professional products, distribution center, service area, and office
Baraboo, WI	Leased	Professional and residential distribution center
El Cajon, CA	Owned	Professional and residential products, distribution center, test lab, and office
Brooklyn Center, MN	Leased	Distribution facility, service area, and office
Capena, Italy	Leased	Distribution center
Fresno, CA	Leased	Professional products warehouse
Sanford, FL	Leased	Professional products and distribution center
Fiano Romano, Italy	Owned/Leased	Professional products, distribution center, and office
St. Louis, MO	Leased	Distribution facility, service area, and office
Oevel, Belgium	Owned	Distribution center, service area, and office
Abilene, TX	Leased	Office, professional products, and service center

ITEM 3. LEGAL PROCEEDINGS

We are a party to litigation in the ordinary course of business. Litigation occasionally involves claims for punitive, as well as compensatory, damages arising out of the use of our products. Although we are self-insured to some extent, we maintain insurance against certain product liability losses. We are also subject to litigation, administrative, and judicial proceedings with respect to claims involving asbestos and the discharge of hazardous substances into the environment. Some of these claims assert damages and liability for personal injury, remedial investigations or clean-up, and other costs and damages. We are also typically involved in commercial disputes, employment disputes, and patent litigation cases in the ordinary course of business. To prevent possible infringement of our patents by others, we periodically review competitors' products. To avoid potential liability with respect to others' patents, we regularly review certain patents issued by the USPTO and foreign patent offices. We believe these activities help us minimize our risk of being a defendant in patent infringement litigation. We are currently involved in patent litigation cases, including cases by or against competitors, where we are asserting and defending against claims of patent infringement. Such cases are at varying stages in the litigation process.

For a description of our material legal proceedings, see Note 13 of the Notes to Consolidated Financial Statements under the heading "Commitments and Contingent Liabilities – Litigation" included in Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K, which is incorporated into this Item 3 by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

The list below identifies those persons designated by our Board of Directors as executive officers of the company. The list sets forth each such person's age and position with the company as of December 16, 2016, as well as other positions held by him or her for at least the last five years. There are no family relationships between any director, executive officer, or person nominated to become a director or executive officer of the company. There are no arrangements or understandings between any executive officer and any other person pursuant to which he or she was selected as an officer of the company.

Name, Age, and Position	Business Experience during the Last Five or More Years
Richard M. Olson 52, President and Chief Executive Officer	President and Chief Executive Officer since November 2016. From September 2015 through October 2016, he served as President and Chief Operating Officer. From June 2014 through August 2015, he served as Group Vice President, International Business, Global Micro-Irrigation Business, and Distributor Development. From March 2013 through May 2014, he served as Vice President, International Business. From March 2012 to March 2013, he served as Vice President, Exmark. From September 2010 to March 2012, he served as General Manager, Exmark.
Michael J. Hoffman 61, Chairman of the Board	Chairman of the Board since March 2006. From March 2005 through October 2016, he served as Chief Executive Officer. He served as President from October 2004 through August 2015.
David H. Alkire 54, Vice President, Residential and Landscape Contractor Businesses	Vice President, Residential and Landscape Contractor Businesses since November 2014. From June 2012 through October 2014, he served as General Manager, Residential and Landscape Contractor Businesses. From March 2011 through May 2012, he served as Director, Sourcing.
Judy L. Altmaier 55, Vice President, Exmark	Vice President, Exmark since June 2013. From October 2011 to June 2013, she served as Vice President, Operations and Quality Management. From October 2009 to October 2011, she served as Vice President, Operations.
William E. Brown, Jr. 55, Group Vice President, Residential and Contractor Businesses	Group Vice President, Residential and Contractor Businesses since February 2016. From March 2013 through January 2016, he served as Group Vice President, Commercial and Irrigation Businesses. From March 2012 to March 2013, he served as Group Vice President, International and Commercial Businesses. From August 2010 to March 2012, he served as Vice President, International Business.
Philip A. Burkart 54, Vice President, Irrigation and Lighting Businesses	Vice President, Irrigation and Lighting Businesses since January 2011.
Amy E. Dahl 42, Vice President, Human Resources	Vice President, Human Resources since April 2015. From June 2013 through March 2015, she served as Managing Director, Corporate Communications and Investor Relations. From July 2012 to June 2013, she served as Assistant General Counsel and Assistant Secretary. From November 2008 to July 2012, she served as Director, Corporate Counsel.
Timothy P. Dordell 54, Vice President, Secretary and General Counsel	Vice President, Secretary and General Counsel since May 2007.
Blake M. Grams 49, Vice President, Global Operations	Vice President, Global Operations since June 2013. From December 2008 to June 2013, he served as Vice President, Corporate Controller.
Bradley A. Hamilton 52, Vice President, Commercial Business	Vice President, Commercial since October 2016. From April 2015 to October 2016, he served as General Manager, Commercial. From June 2014 through March 2015, he served as Managing Director, Distributor Development and Financial Services. From March 2012 through May 2014, he served as Director, Distributor Development. From December 2006 to March 2012, he served as Director, Marketing.
Thomas J. Larson 59, Vice President, Corporate Controller	Vice President, Corporate Controller since June 2013. From December 2008 to June 2013, he served as Vice President, Treasurer. He retained the office of Treasurer until July 2013.
Renee J. Peterson 55, Vice President, Treasurer and Chief Financial Officer	Vice President, Treasurer and Chief Financial Officer since July 2013. From August 2011 to July 2013, she served as Vice President, Finance and Chief Financial Officer. In March 2012, she also assumed responsibility for our Information Services function. From July 2009 to August 2011, she served as Vice President – Finance and Planning for the Truck and Automotive Segments of Eaton Corporation, a diversified industrial manufacturer.
Darren L. Redetzke 52, Vice President, International Business	Vice President, International Business since April 2015. From August 2010 to April 2015, he served as Vice President, Commercial Business.
Richard W. Rodier 56, Vice President, Sitework Systems Business	Vice President, Sitework Systems since October 2016. From February 2009 to October 2016, he served as General Manager, Sitework Systems.
Kurt D. Svendsen 50, Vice President, Information Services	Vice President, Information Services since June 2013. From September 2011 to June 2013, he served as Managing Director, Corporate Communications and Investor Relations.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed for trading on the New York Stock Exchange and trades under the symbol "TTC." The high, low, and last sales prices for our common stock and cash dividends paid for each of the quarterly periods for fiscal 2016 and 2015 were as follows:

Fiscal year ended October 31, 2016	First	Second	Third	Fourth
Market price per share of common stock¹				
High sales price	\$ 39.24	\$ 44.71	\$ 46.50	\$ 49.50
Low sales price	32.35	34.79	40.42	44.90
Last sales price	37.26	43.23	45.98	47.88
Cash dividends per share of common stock^{1,2}	0.15	0.15	0.15	0.15

Fiscal year ended October 31, 2015	First	Second	Third	Fourth
Market price per share of common stock¹				
High sales price	\$ 33.74	\$ 35.14	\$ 35.30	\$ 37.91
Low sales price	30.10	32.31	33.02	33.28
Last sales price	32.46	33.95	34.16	37.64
Cash dividends per share of common stock^{1,2}	0.125	0.125	0.125	0.125

¹ Per share data and sales prices have been adjusted for all periods presented to reflect the impact of the company's two-for-one stock split effective September 16, 2016.

² Future cash dividends will depend upon our financial condition, capital requirements, results of operations, and other factors deemed relevant by our Board of Directors. Restrictions on our ability to pay dividends are disclosed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data."

Common Stock – 175,000,000 shares authorized, \$1.00 par value, as of October 31, 2016 and 2015. 108,427,393 and 109,301,832 shares outstanding as of October 31, 2016 and 2015, respectively.

Preferred Stock - 1,000,000 voting shares and 850,000 non-voting shares authorized, \$1.00 par value, no shares outstanding.

Shareholders - As of December 15, 2016, we had approximately 3,225 shareholders of record.

Purchases of Equity Securities - The following table sets forth information with respect to shares of our common stock purchased by the company during each of the three fiscal months in our fourth quarter ended October 31, 2016.

Period	Total Number of Shares Purchased ^{1,2,3,4}	Average Price Paid per Share ¹	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs ^{1,2}	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ^{1,2}
July 30, 2016 through August 26, 2016	–	\$ –	–	8,593,922
August 27, 2016 through September 30, 2016	532,400	47.87	532,400	8,061,522
October 1, 2016 through October, 31 2016	370,502	46.97	368,807	7,692,715
Total	902,902	\$ 47.50	901,207	

¹ Shares and per share data have been adjusted for all periods presented to reflect the impact of the company's two-for-one stock split effective September 16, 2016.

² On December 11, 2012, the company's Board of Directors authorized the repurchase of 10,000,000 shares of our common stock in open-market or in privately negotiated transactions. This program has no expiration date but may be terminated by our Board of Directors at any time. The company repurchased 593,922 shares during the period indicated above under this program and no shares remain available to repurchase under this program.

³ On December 3, 2015, the company's Board of Directors authorized the repurchase of an additional 8,000,000 shares of the company's common stock in open-market or in privately negotiated transactions. This program has no expiration date but may be terminated by the company's Board of Directors at any time. The company repurchased 307,285 shares during the period indicated above under this program and 7,692,715 shares remain available to repurchase under this program.

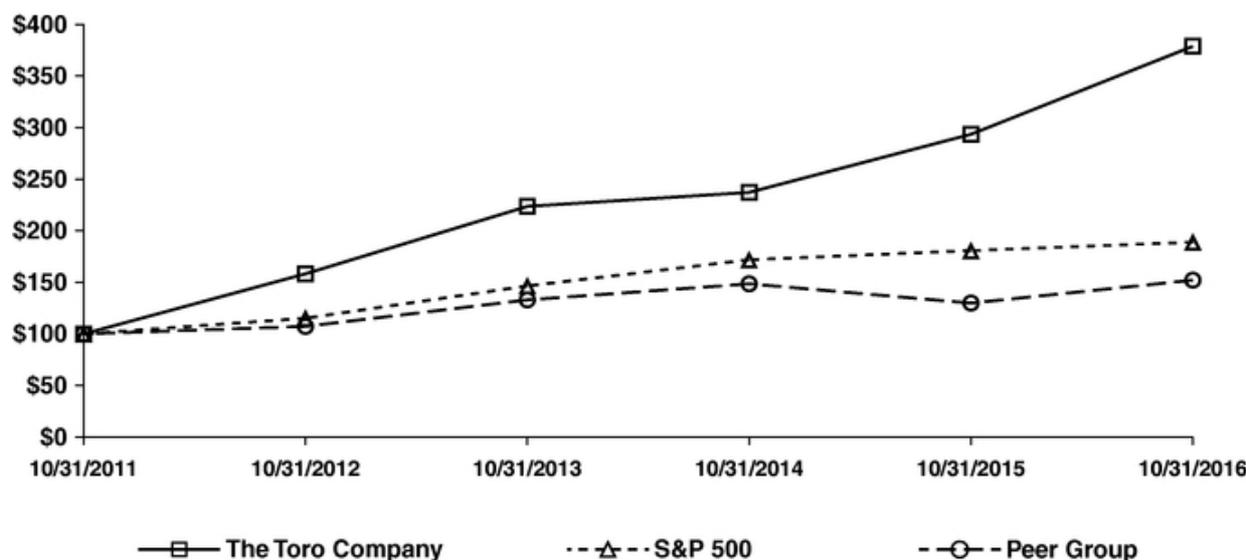
⁴ Includes 1,695 units (shares) of our common stock purchased in open-market transactions at an average price of \$47.59 per share on behalf of a rabbi trust formed to pay benefit obligations to participants in deferred compensation plans. These 1,695 shares were not repurchased under our repurchase program, described in footnotes 2 and 3 above.

The Toro Company Common Stock Comparative Performance Graph

The information contained in The Toro Company Common Stock Comparative Performance Graph section shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically request that it be treated as soliciting material or incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

The following graph and table depict the cumulative total shareholder return (assuming reinvestment of dividends) on \$100 invested in each of Toro common stock, the S&P 500 Index, and an industry peer group for the five-year period from October 31, 2011 through October 31, 2016. Data has been adjusted for all periods presented to reflect the impact of the company's two-for-one stock split effective September 16, 2016.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among The Toro Company, the S&P 500 Index,
and Peer Group



*\$100 invested on 10/31/11 in stock or index, including reinvestment of dividends.

Fiscal years ending October 31.

Fiscal year ending October 31	2011	2012	2013	2014	2015	2016
The Toro Company	\$ 100.00	\$ 158.25	\$ 223.57	\$ 237.16	\$ 293.49	\$ 378.74
S&P 500	100.00	115.21	146.52	171.82	180.75	188.90
Peer Group	100.00	107.27	132.98	148.53	129.87	152.10

The industry peer group is based on companies previously included in the Fortune 500 Industrial and Farm Equipment Index, which was discontinued after 2002 and currently includes: AGCO Corporation, The Alpine Group, Briggs & Stratton Corporation, Caterpillar Inc., Crane Co., Cummins Inc., Deere & Company, Dover Corporation, Flowserve Corporation, General Cable Corporation, Harsco Corporation, Illinois Tool Works Inc., International Game Technology Plc, ITT Inc., Kennametal Inc., Lennox International Inc., NACCO Industries, Inc., Parker-Hannifin Corporation, Pentair Plc, Snap-On Inc., Teleflex Inc., Terex Corporation, The Timken Company, and Walter Energy Inc.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents our selected financial data for each of the fiscal years in the five-year period ended October 31, 2016. The table should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

(Dollars in thousands, except per share data) Fiscal years ended October 31	2016 ¹	2015 ¹	2014	2013	2012
OPERATING RESULTS:					
Net sales	\$ 2,392,175	\$ 2,390,875	\$ 2,172,691	\$ 2,041,431	\$ 1,958,690
Net sales growth from prior year	0.1%	10.0%	6.4%	4.2%	4.0%
Gross profit as a percentage of net sales	36.6%	35.0%	35.6%	35.5%	34.4%
Selling, general, and administrative expense as a percentage of net sales	22.6%	22.5%	23.5%	24.2%	23.9%
Operating earnings	\$ 334,396	\$ 299,114	\$ 263,157	\$ 230,662	\$ 205,613
As a percentage of net sales	14.0%	12.5%	12.1%	11.3%	10.5%
Net earnings	\$ 230,994	\$ 201,591	\$ 173,870	\$ 154,845	\$ 129,541
As a percentage of net sales	9.7%	8.4%	8.0%	7.6%	6.6%
Basic net earnings per share ²	\$ 2.10	\$ 1.81	\$ 1.54	\$ 1.34	\$ 1.09
Diluted net earnings per share ²	\$ 2.06	\$ 1.78	\$ 1.51	\$ 1.31	\$ 1.07
Return on average stockholders' equity	43.0%	44.7%	45.3%	46.1%	44.7%
SUMMARY OF FINANCIAL POSITION:					
Total assets	\$ 1,387,518	\$ 1,303,658	\$ 1,192,415	\$ 1,002,748	\$ 935,199
Average net working capital as a percentage of net sales ³	15.9%	16.0%	15.1%	16.6%	15.2%
Long-term debt, including current portion	\$ 353,907	\$ 377,952	\$ 353,956	\$ 223,544	\$ 225,340
Stockholders' equity	\$ 550,035	\$ 462,165	\$ 408,727	\$ 358,738	\$ 312,402
Debt-to-capitalization ratio	39.2%	45.0%	47.8%	38.4%	41.9%
CASH FLOW DATA:					
Cash provided by operating activities	\$ 361,942	\$ 236,869	\$ 182,365	\$ 221,876	\$ 185,798
Repurchases of Toro common stock	\$ 111,999	\$ 106,964	\$ 103,039	\$ 99,587	\$ 93,395
Cash dividends per share of Toro common stock ²	\$ 0.60	\$ 0.50	\$ 0.40	\$ 0.28	\$ 0.22
OTHER STATISTICAL DATA:					
Market price range:					
High sales price ²	\$ 49.50	\$ 37.91	\$ 33.68	\$ 29.75	\$ 21.18
Low sales price ²	\$ 32.35	\$ 30.10	\$ 27.88	\$ 20.12	\$ 12.94
Average number of employees	6,834	6,682	5,979	5,002	5,066

¹ The company's consolidated financial statements include results of the BOSS business from November 14, 2014, the date of acquisition.

² Per share data and sales prices have been adjusted for all periods presented to reflect the impact of the company's two-for-one stock splits effective September 16, 2016 and June 29, 2012.

³ Average net working capital is defined as monthly average net accounts receivable plus net inventory less accounts payable.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Unless expressly stated otherwise, the comparisons presented in this MD&A refer to the prior fiscal year. Statements that are not historical are forward-looking and involve risks and uncertainties, including those discussed in Part I, Item 1A, "Risk Factors" and elsewhere in this report. These risks could cause our actual results to differ materially from any future performance suggested below.

OVERVIEW

The Toro Company is in the business of designing, manufacturing, and marketing professional turf maintenance equipment and services, turf irrigation systems, landscaping equipment and lighting products, snow and ice management products, agricultural micro-irrigation systems, rental and specialty construction equipment, and residential yard and snow thrower products. We sell our products worldwide through a network of distributors, dealers, hardware retailers, home centers, mass retailers, and online. Our businesses are organized into three reportable business segments: Professional, Residential, and Distribution. Our Distribution segment, which consists of our company-owned domestic distributorship, has been combined with our corporate activities and is shown as "Other." We strive to provide innovative, well-built, and dependable products supported by an extensive

service network. A significant portion of our net sales has historically been, and we expect will continue to be, attributable to new and enhanced products. We define new products as those introduced in the current and previous two fiscal years. Shares and per share data have been adjusted for all periods presented to reflect the impact of our two-for-one stock split effective September 16, 2016.

Summary of Fiscal 2016 Results

In fiscal 2016, we achieved net sales of \$2,392.2 million and net earnings growth of 14.6 percent. Our fiscal 2016 results included the following items of significance:

- Net sales for fiscal 2016 increased by 0.1 percent compared to fiscal 2015 to \$2,392.2 million. Foreign currency exchange rate fluctuations negatively impacted our net sales growth by 1.3 percent. The sales increase was primarily attributable to strong demand of our Professional segment products including the successful introduction of new innovative products, primarily offset by lower Residential segment sales driven mainly by decreased pre-season snow products demand.
- Professional segment net sales grew 4.0 percent in fiscal 2016 compared to fiscal 2015. Sales increased primarily from strong demand for our golf and landscape contractor equipment, increased product placement of our micro-irrigation products, along with continued growth in our rental and specialty construction businesses.
- Residential segment net sales decreased 7.8 percent in fiscal 2016 compared to fiscal 2015, primarily due to lower sales of snow products and decreased shipments of zero-turn radius riding mowers, partially offset by increased shipments of walk power mowers.
- International net sales for fiscal 2016 decreased by 5.1 percent compared to fiscal 2015 mainly due to changes in foreign currency exchange rates that reduced our total net sales by approximately \$30.6 million in fiscal 2016. International net sales comprised 24.2 percent of our total consolidated net sales in fiscal 2016 compared to 25.5 percent in fiscal 2015 and 28.7 percent in fiscal 2014. These declines were primarily the result of foreign currency exchange rate changes.
- Fiscal 2016 net earnings of \$231.0 million increased 14.6 percent compared to fiscal 2015, and diluted net earnings per share increased 15.7 percent to \$2.06 in fiscal 2016 compared to \$1.78 in fiscal 2015.
- Gross margin was 36.6 percent in fiscal 2016, an increase of 160 basis points from 35.0 percent in fiscal 2015. This increase was primarily the result of favorable commodity costs and enhanced productivity, as well as favorable segment mix.
- Selling, general, and administrative ("SG&A") expense was up 0.6 percent in fiscal 2016 compared to fiscal 2015, or up 10 basis points to 22.6 percent.
- Receivables decreased by 7.8 percent as of the end of fiscal 2016 compared to the end of fiscal 2015 primarily as a result of more receivables financed through Red Iron. Our inventory levels were down by 8.2 percent as of the end of fiscal 2016 compared to the end of fiscal 2015 primarily due to focused production planning in the latter half of fiscal 2016. Average net working capital (net accounts receivable plus net inventory less trade payables) as a percent of net sales was 15.9 percent as of the end of fiscal 2016 compared to 16.0 percent as of the end of fiscal 2015. Our domestic field inventory levels were up as of the end of fiscal 2016 compared to the end of fiscal 2015, primarily due to higher levels in the Professional segment with higher retail demand and anticipated strong retail of new products in fiscal 2017.
- We continued our history of paying quarterly cash dividends in fiscal 2016. We increased our fiscal 2016 quarterly cash dividend by 20 percent to \$0.15 per share compared to our quarterly cash dividend in fiscal 2015 of \$0.125 per share.
- Our stock repurchase program returned \$112.0 million to our shareholders during fiscal 2016, which reduced our number of shares outstanding. This reduction resulted in a benefit to our diluted net earnings per share of \$0.03 per share in fiscal 2016 compared to fiscal 2015.

Destination PRIME

Our current multi-year initiative, "Destination PRIME," began our journey into our second century. Similar to our previous Destination 2014 initiative, this three-year initiative is intended to help us drive revenue and earnings growth and further improve productivity, while also continuing our century-long commitment to innovation, relationships, and excellence. Through our Destination PRIME initiative, we will strive to achieve our goals by pursuing a progression of milestones for organic revenue growth, operating earnings, and working capital.

Organic Revenue Growth. We intend to pursue strategic growth of our existing businesses and product categories with an annual organic revenue growth goal. The organic revenue growth goal of our Destination PRIME initiative is to achieve at least five percent organic revenue growth each fiscal year of this initiative. We define organic revenue growth as the increase in net sales, less net sales from acquisitions that occurred in the prior twelve-month period. In both fiscal 2016 and fiscal 2015, we fell short of this goal by achieving 0.1 percent and 4.1 percent organic revenue growth, respectively.

Operating Earnings. The operating earnings goal is to raise operating earnings as a percentage of net sales to 13 percent or higher by the end of fiscal 2017. In fiscal 2016, we achieved this goal as we realized 14.0 percent of operating earnings as a percentage of net sales. In fiscal 2015, we realized 12.5 percent of operating earnings as a percentage of net sales.

Working Capital. The working capital goal of our Destination PRIME initiative is to drive down average net working capital as

a percentage of net sales to 13 percent or lower by the end of fiscal 2017. In fiscal 2016 and fiscal 2015, our average net working capital as a percentage of net sales was 15.9 percent and 16.0 percent, respectively.

RESULTS OF OPERATIONS

Fiscal 2016 net earnings were \$231.0 million compared to \$201.6 million in fiscal 2015, an increase of 14.6 percent. Fiscal 2016 diluted net earnings per share were \$2.06, an increase of 15.7 percent from \$1.78 per share in fiscal 2015. The primary factors contributing to the net earnings increase were gross margin improvement and a decrease in our effective tax rate. However, these improvements were partially offset by an increase in our SG&A expense. Our net earnings per diluted share were also benefited by \$0.03 per share in fiscal 2016 compared to fiscal 2015 as a result of reduced shares outstanding from repurchases of our common stock.

Fiscal 2015 net earnings were \$201.6 million compared to \$173.9 million in fiscal 2014, an increase of 15.9 percent. Fiscal 2015 diluted net earnings per share were \$1.78, an increase of 17.5 percent from \$1.51 per share in fiscal 2014. The primary factors contributing to the net earnings improvement were higher net sales, leveraging fixed SG&A costs over higher sales volumes, and a decrease in our effective tax rate. However, these improvements were partially offset by a decline in our gross margin rate and an increase in interest expense. Our net earnings per diluted share were also benefited by \$0.03 per share in fiscal 2015 compared to fiscal 2014 as a result of reduced shares outstanding from repurchases of our common stock.

The following table summarizes our results of operations as a percentage of our consolidated net sales.

Fiscal years ended October 31	2016	2015	2014
Net sales	100.0%	100.0%	100.0%
Cost of sales	(63.4)	(65.0)	(64.4)
Gross margin	36.6	35.0	35.6
SG&A expense	(22.6)	(22.5)	(23.5)
Operating earnings	14.0	12.5	12.1
Interest expense	(0.8)	(0.8)	(0.7)
Other income, net	0.6	0.4	0.4
Provision for income taxes	(4.1)	(3.7)	(3.8)
Net earnings	9.7%	8.4%	8.0%

Fiscal 2016 Compared with Fiscal 2015

Net Sales. Worldwide net sales in fiscal 2016 were \$2,392.2 million compared to \$2,390.9 million in fiscal 2015, an increase of 0.1 percent. This net sales change was attributable to the following factors:

- Increased sales of Professional segment products were driven by higher shipments and demand of golf, landscape contractor, and rental and specialty equipment products primarily due to continued market growth and increased demand for our innovative product offerings and the successful introduction of new products. Micro-irrigation and irrigation product sales also increased mainly due to improved product placement and higher project sales. However, sales of snow and ice management products were down primarily due to decreased pre-season demand.
- Decreased sales of Residential segment products were mainly driven by lower sales and pre-season retail demand of snow thrower products, decreased shipments of zero-turn radius riding mowers, and unfavorable weather conditions in many of our markets. However, sales of our walk power mowers increased mainly due to strong shipments driven by our innovative product offerings and favorable growing season weather in key markets.
- Our overall net sales in international markets decreased by 5.1 percent in fiscal 2016 compared to fiscal 2015 due to unfavorable foreign currency exchange rate fluctuations that reduced our total net sales by approximately \$30.6 million in fiscal 2016.

Gross Margin. Gross margin represents gross profit (net sales less cost of sales) as a percentage of net sales. See Note 1 of the Notes to Consolidated Financial Statements, in the section entitled "Cost of Sales," for a description of expenses included in cost of sales. Gross margin increased by 160 basis points to 36.6 percent in fiscal 2016 from 35.0 percent in fiscal 2015. This increase was mainly the result of the following factors:

- Lower costs to purchase commodities, primarily steel and resin, and productivity improvements.
- Segment mix from a higher mix of Professional segment product sales.

Somewhat offsetting those positive factors were unfavorable foreign currency exchange rate fluctuations.

Selling, General, and Administrative Expense. SG&A expense increased \$3.4 million, or 0.6 percent, in fiscal 2016 compared to fiscal 2015. See Note 1 of the Notes to Consolidated Financial Statements, in the section entitled "Selling, General, and Administrative Expense," for a description of expenses included in SG&A expense. SG&A expense rate represents SG&A expense as a percentage of net sales. SG&A expense rate in fiscal 2016 increased 10 basis points to 22.6 percent compared to 22.5 percent in fiscal 2015. The increase in SG&A expense was driven primarily by the following factors:

- Continued investments in engineering and new product development that resulted in higher expense of \$3.8 million.
- Increased warranty expense of \$3.1 million driven by higher claims experience for the year.
- Higher direct marketing expense of \$2.2 million mainly due to increased media spend and paid commissions.

Somewhat offsetting those increases were:

- Decreased administrative expense of \$3.4 million.
- Decreased incentive expense of \$3.3 million due to actual performance against specified goals.

Interest Expense. Interest expense for fiscal 2016 increased \$0.6 million compared to fiscal 2015.

Other Income, Net. Other income, net consists mainly of our proportionate share of income or losses from equity investments (affiliates), currency exchange rate gains and losses, litigation settlements and recoveries, interest income, and retail financing revenue. Other income for fiscal 2016 was \$15.4 million compared to \$10.7 million in fiscal 2015, an increase of \$4.7 million. The increase in other income, net was primarily due to foreign currency contract exchange gains of \$1.8 million, a fiscal 2016 litigation recovery of \$1.3 million, and higher earnings from our equity investment in Red Iron of \$1.2 million.

Provision for Income Taxes. The effective tax rate for fiscal 2016 was 30.1 percent compared to 30.7 percent in fiscal 2015. The decrease was primarily the result of more favorable one-time adjustments related to prior years, and the permanent extension of the federal research credit.

Fiscal 2015 Compared with Fiscal 2014

Net Sales. Worldwide net sales in fiscal 2015 were \$2,390.9 million compared to \$2,172.7 million in fiscal 2014, an increase of 10.0 percent. This net sales change was attributable to the following factors:

- Increased sales of Professional segment products driven by the acquisition of the BOSS business which resulted in incremental net sales of \$128.5 million for fiscal 2015. In addition, our Professional segment net sales were positively impacted by higher shipments of landscape contractor and rental and specialty equipment products due to continued market growth and increased demand for our innovative product offerings and newly introduced products. However, sales of irrigation products were down primarily due to unfavorable weather conditions in key markets, and sales of micro-irrigation products were lower due to unfavorable foreign currency exchange rates and continued adverse political and economic conditions in key international markets.
- Increased sales of Residential segment products due to strong shipments and demand for our newly introduced zero-turn radius riding and walk power mower products and expanded product placement. However, Residential segment net sales in Australia were down due to unfavorable foreign currency exchange rate changes.
- Our overall net sales in international markets slightly decreased by 1.9 percent in fiscal 2015 compared to fiscal 2014 due to unfavorable foreign currency exchange rate fluctuations that reduced our total net sales by approximately \$47 million in fiscal 2015.

Gross Margin. Gross margin decreased by 60 basis points to 35.0 percent in fiscal 2015 from 35.6 percent in fiscal 2014. This decline was mainly the result of the following factors:

- Unfavorable foreign currency exchange rate movements.
- Purchase accounting impact of the incremental charge for the sale of inventory that was written-up to fair value as a result of the acquisition of the BOSS business.

Somewhat offsetting those negative factors were:

- Improved price realization.
- Costs for a supplier component rework issue that impacted certain walk power mowers in fiscal 2014 that was not repeated in fiscal 2015.

Selling, General, and Administrative Expense. SG&A expense increased \$26.7 million, or 5.2 percent, in fiscal 2015 compared to fiscal 2014. SG&A expense rate in fiscal 2015 decreased 100 basis points to 22.5 percent compared to 23.5 percent in fiscal 2014 due to fixed SG&A costs spread over higher sales volumes. However, the increase in SG&A expense of \$26.7 million was driven mainly by the following factors:

- Incremental SG&A expense of \$19 million from the BOSS business.
- Increased administrative expenses of \$7 million.
- Investments in engineering and new product development that resulted in higher expense of \$2 million.

Interest Expense. Interest expense for fiscal 2015 increased \$3.3 million compared to fiscal 2014 due to higher levels of debt as a result of borrowings that were used to pay the purchase price for the BOSS business.

Other Income, Net. Other income for fiscal 2015 was \$10.7 million compared to \$8.7 million in fiscal 2014, an increase of \$2.0 million. This increase in other income, net was primarily due to higher earnings from our equity investment in Red Iron of \$1.1 million and lower foreign currency exchange rate losses of \$0.7 million in fiscal 2015 compared to fiscal 2014.

Provision for Income Taxes. The effective tax rate for fiscal 2015 was 30.7 percent compared to 32.2 percent in fiscal 2014. The decrease in the effective tax rate was attributable to the benefit in the first quarter of fiscal 2015 for the retroactive re-enactment of the federal research credit for calendar 2014 and higher earnings in lower tax jurisdictions.

PERFORMANCE BY BUSINESS SEGMENT

As more fully described in Note 12 of the Notes to Consolidated Financial Statements, we operate in three reportable business segments: Professional, Residential, and Distribution. Our Distribution segment, which consists of our company-owned domestic distributorship, has been combined with our corporate activities and is shown as "Other." Operating earnings for our Professional and Residential segments are defined as earnings from operations plus other income, net. Operating loss for the Other segment includes earnings (loss) from our wholly owned domestic distribution companies, corporate activities, other income, and interest expense. The following information provides perspective on our business segments' net sales and operating results.

Professional Segment

Professional segment net sales represented 71 percent of consolidated net sales for fiscal 2016, 69 percent for fiscal 2015, and 68 percent for fiscal 2014. The following table shows the Professional segment net sales, operating earnings, and operating earnings as a percent of net sales.

(Dollars in millions)				
Fiscal years ended October 31				
	2016	2015	2014	
Net sales	\$ 1,705.3	\$ 1,639.7	\$ 1,477.6	
% change from prior year	4.0%	11.0%	3.7%	
Operating earnings	\$ 352.1	\$ 308.0	\$ 276.3	
As a percent of net sales	20.6%	18.8%	18.7%	

Net Sales. Worldwide net sales for the Professional segment in fiscal 2016 were up by 4.0 percent compared to fiscal 2015 primarily as a result of the following factors:

- Higher shipments of golf equipment and irrigation products, mainly due to demand for our innovative product offerings, the successful introduction of new products, increased golf irrigation projects, and favorable weather conditions.
- Increased sales of landscape contractor equipment driven by strong demand of our riding and stand-on mower product lines.
- Higher sales of micro-irrigation products which were mainly driven by improved product placement.
- Increased sales driven by strong demand and market growth for rental and specialty construction equipment, as well as positive customer response for new products.

Somewhat offsetting those positive factors were:

- Unfavorable foreign currency exchange rate fluctuations.
- A decline in sales of snow and ice management products which was driven mainly from decreased pre-season demand.

Our domestic field inventory levels of our Professional segment products were higher as of the end of fiscal 2016 compared to the end of fiscal 2015 due, primarily to anticipated strong shipments of new product introductions and higher retail demand.

Worldwide net sales for the Professional segment in fiscal 2015 were up by 11.0 percent compared to fiscal 2014 primarily as a result of the following factors:

- Incremental sales from the acquisition of the BOSS business of \$128.5 million.
- Higher shipments of landscape contractor equipment, including new and enhanced products, as contractors continued to invest in turf maintenance equipment.
- Increased sales driven by strong demand and market growth for rental and specialty construction equipment, as well as positive customer response for new products we introduced in that market.

Somewhat offsetting those positive factors were:

- Unfavorable foreign currency exchange rate fluctuations.
- A decline in sales of irrigation products due to unfavorable weather conditions in key markets.
- Lower sales of micro-irrigation products due to unfavorable foreign currency exchange rate fluctuations and continued adverse political and economic conditions in key international markets.

Operating Earnings. Operating earnings for the Professional segment in fiscal 2016 increased 14.3 percent compared to fiscal 2015, primarily due to higher sales volumes, higher gross margin, and lower SG&A expense. Expressed as a percentage of net sales, Professional segment operating margins increased by 180 basis points to 20.6 percent in fiscal 2016 compared to 18.8 percent in fiscal 2015. The following factors impacted Professional segment operating earnings as a percentage of net sales for fiscal 2016:

- Higher gross margin in fiscal 2016 compared to fiscal 2015 mainly due to lower commodity costs and productivity improvements, as well as favorable product mix, partially offset by unfavorable foreign currency exchange rate fluctuations.
- A decline in SG&A expense rate in fiscal 2016 compared to fiscal 2015 due to lower administration costs.

Operating earnings for the Professional segment in fiscal 2015 increased 11.5 percent compared to fiscal 2014 primarily due to higher sales volumes. Expressed as a percentage of net sales, Professional segment operating margins slightly increased by 10 basis points to 18.8 percent in fiscal 2015 compared to 18.7 percent in fiscal 2014. The following factors impacted Professional segment operating earnings as a percentage of net sales for fiscal 2015:

- Lower gross margin in fiscal 2015 compared to fiscal 2014 mainly due to unfavorable foreign currency exchange rate movements and the purchase accounting impact for the acquisition of the BOSS business, as previously discussed.
- A decline in SG&A expense rate in fiscal 2015 compared to fiscal 2014 due to further leveraging fixed SG&A costs over higher sales volumes.

Residential Segment

Residential segment net sales represented 28 percent of consolidated net sales for fiscal 2016, 30 percent for fiscal 2015, and 31 percent for fiscal 2014.

The following table shows the Residential segment net sales, operating earnings, and operating earnings as a percent of net sales.

(Dollars in millions)			
Fiscal years ended October 31			
	2016	2015	2014
Net sales	\$ 669.1	\$ 725.7	\$ 672.4
% change from prior year	(7.8)%	7.9%	13.1%
Operating earnings	\$ 73.7	\$ 85.0	\$ 76.9
As a percent of net sales	11.0%	11.7%	11.4%

Net Sales. Worldwide net sales for the Residential segment in fiscal 2016 were down by 7.8 percent compared to fiscal 2015 primarily as a result of the following factors:

- Decreased shipments and lower retail demand of snow products due to low snowfall totals in the 2015/2016 season.
- Lower sales of zero-turn radius riding mowers primarily driven by variable weather conditions throughout the year and a slight reduction in retail placement.
- Unfavorable weather conditions in many of our markets.

Somewhat offsetting the decrease in Residential segment net sales were higher sales of walk power mowers driven by increased demand for our product offerings and strong customer response for our innovative models, including our SMARTSTOW® and all-wheel drive models.

Our domestic field inventory levels of our Residential segment products were lower as of the end of fiscal 2016 compared to the end of fiscal 2015 primarily due to decreased pre-season snow thrower product channel demand for the 2016-2017 winter season and inventory sell-through of walk power mowers from a strong fall growing season.

Worldwide net sales for the Residential segment in fiscal 2015 were up by 7.9 percent compared to fiscal 2014 primarily as a result of the following factors:

- Increased shipments driven by strong retail demand and additional product placement for our new platform of zero-turn radius riding mowers.
- Higher sales of walk power mowers due to enhanced product placement and increased demand for our product offerings, including our new all-wheel drive model.

Somewhat offsetting the increase in Residential segment net sales was a decline in sales in Australia from unfavorable foreign currency exchange rate fluctuations.

Operating Earnings. Operating earnings for the Residential segment in fiscal 2016 decreased 13.3 percent compared to fiscal 2015. Expressed as a percentage of net sales, Residential segment operating margins decreased 70 basis points to 11.0 percent in fiscal 2016 compared to 11.7 percent in fiscal 2015. The following factors impacted Residential segment operating earnings:

- Higher gross margin in fiscal 2016 compared to fiscal 2015 mainly due to lower commodity costs and freight expense, partially offset by unfavorable foreign currency exchange rate fluctuations.
- Increased SG&A expense rate attributable to lower sales as well as increased engineering, marketing and warehousing expenses.

Operating earnings for the Residential segment in fiscal 2015 increased 10.5 percent compared to fiscal 2014. Expressed as a percentage of net sales, Residential segment operating margins increased 30 basis points to 11.7 percent in fiscal 2015 compared to 11.4 percent in fiscal 2014. The following factors impacted Residential segment operating earnings:

- Lower gross margins primarily from unfavorable foreign currency exchange rate fluctuations and increased manufacturing expenses.
- Lower SG&A expense rate attributable to further leveraging of fixed SG&A costs over higher sales volumes.

Other Segment

Other segment net sales, which includes our company-owned domestic distributors, represented 1 percent of consolidated net sales for each of fiscal 2016, 2015, and 2014. During the first quarter of fiscal 2016, we sold our Northwestern U.S. distribution company. The following table shows the other segment net sales and operating losses.

(Dollars in millions)			
Fiscal years ended October 31			
	2016	2015	2014
Net sales	\$ 17.7	\$ 25.5	\$ 22.7
% change from prior year	(30.6)%	12.6%	4.2%
Operating losses	\$ (95.3)	\$ (101.9)	\$ (96.8)

Net Sales. Net sales for the Other segment includes sales from our wholly owned domestic distribution companies less sales from the Professional and Residential segments to those distribution companies. The Other segment net sales in fiscal 2016 were down \$7.8 million compared to fiscal 2015, primarily due to the sale of our Northwestern U.S. distribution company.

The Other segment net sales in fiscal 2015 were up by \$2.8 million compared to fiscal 2014 due to higher sales volumes driven by strong demand for golf and grounds equipment at our company-owned distribution companies.

Operating Loss. Operating loss for the Other segment in fiscal 2016 decreased by 6.5 percent compared to fiscal 2015. This loss

decrease was primarily attributable to increased income from our investment in Red Iron and a fiscal 2016 litigation settlement recovery.

Operating loss for the Other segment in fiscal 2015 increased by 5.3 percent compared to fiscal 2014. This loss increase was primarily attributable to an increase in interest expense and higher administrative expenses.

FINANCIAL CONDITION

Working Capital

During fiscal 2016, our average net working capital (net accounts receivable plus net inventory less accounts payable) as a percentage of net sales decreased slightly mainly due to lower average net receivables and higher average accounts payable levels. As of the end of fiscal 2016, our average net working capital decreased to 15.9 percent compared to 16.0 percent as of the end of fiscal 2015.

The following table highlights several key measures of our working capital performance.

(Dollars in millions)		
Fiscal years ended October 31		
	2016	2015
Average cash and cash equivalents	\$ 194.3	\$ 108.7
Average receivables, net	\$ 205.7	\$ 219.9
Average inventories, net	\$ 375.0	\$ 356.2
Average accounts payable	\$ 199.4	\$ 193.9
Average days outstanding for receivables	31.4	33.6
Average inventory turnover (times)	4.05	4.36

The following factors impacted our working capital:

- Average net receivables decreased by 6.5 percent in fiscal 2016 compared to fiscal 2015 as more receivables were financed through Red Iron. Our average days outstanding for receivables decreased to 31.4 days in fiscal 2016 compared to 33.6 days in fiscal 2015.
- Average inventories increased by 5.3 percent in fiscal 2016 compared to fiscal 2015. Inventory levels as of the end of fiscal 2016 compared to the end of fiscal 2015 were down by \$27.5 million, or 8.2 percent, primarily due to efforts to reduce high inventory levels in early fiscal 2016 through focused production planning in the latter half of fiscal 2016.
- Average accounts payable increased by 2.9 percent in fiscal 2016 compared to fiscal 2015, mainly due to initiatives to increase days payables outstanding, which included extending payment terms with suppliers.

In fiscal 2017, we plan to place increased emphasis on improving asset utilization with a focus on reducing the amount of working capital in the supply chain, adjusting production plans, and maintaining or improving order replenishment and service levels to end users. We anticipate our average net working capital as a percentage of net sales in fiscal 2017 to decrease as compared to fiscal 2016. We plan to place continued importance on managing our average receivables and payables. Additionally, we expect improvements in our average inventory levels primarily driven by increased focus and coordination between our businesses and operations.

Capital Expenditures and Other Long-Term Assets

Fiscal 2016 capital expenditures of \$50.7 million were lower by \$5.7 million compared to fiscal 2015. This decrease was primarily attributable to the fiscal 2015 renovation of a portion of our original corporate facility to accommodate additional expansion needs for our product development and test capacities. Capital expenditures for fiscal 2017 are planned to be approximately \$65 million as we plan to invest in new product tooling, new technology in production processes and equipment, replacement of production equipment, and investments in new and existing facilities.

Long-term assets as of October 31, 2016 were \$608.5 million compared to \$631.1 million as of October 31, 2015, a decrease of \$22.6 million. This decrease was driven mainly by amortization expense of intangible assets and decreases in deferred tax assets. Included in long-term assets as of October 31, 2016 was goodwill in the amount of \$194.8 million. Based on our annual impairment analysis, we determined there was no goodwill impairment for any of our reporting units as their related fair values were substantially in excess of their carrying values.

Cash Flow

Cash flows provided by/(used in) operating, investing, and financing activities during the past three fiscal years are shown in the following table.

(Dollars in millions)	Cash Provided by /(Used in)		
	2016	2015	2014
Fiscal years ended October 31			
Operating activities	\$ 361.9	\$ 236.9	\$ 182.4
Investing activities	(39.1)	(250.3)	(65.7)
Financing activities	(170.4)	(173.4)	17.0
Effect of exchange rates on cash	(5.1)	(1.8)	(1.8)
Net cash (decrease) increase	\$ 147.3	\$ (188.6)	\$ 131.9
Cash and cash equivalents as of fiscal year end	\$ 273.6	\$ 126.3	\$ 314.9

Cash Flows from Operating Activities. Our primary source of funds is cash generated from operations. In fiscal 2016, cash provided by operating activities increased \$125.1 million, or 52.8 percent, from fiscal 2015. This increase was mainly due to lower net receivables as more net receivables were financed through Red Iron and favorable movement in net inventories from focused production planning in the latter half of fiscal 2016.

In fiscal 2015, cash provided by operating activities increased \$54.5 million, or 29.9 percent, from fiscal 2014. This increase was mainly due to higher net earnings and a smaller increase in working capital needs, as well as higher accounts payable and accrued liabilities.

Cash Flows from Investing Activities. Capital expenditures and acquisitions are a significant use of our capital resources. These investments are intended to enable sales growth in new and expanding markets, help us to meet product demand, and increase our manufacturing efficiencies and capacity. Cash used in investing activities in fiscal 2016 decreased \$211.2 million from fiscal 2015 due to cash utilized in fiscal 2015 for the acquisition of the BOSS business and lower purchases of property, plant, and equipment, partially offset by increased distributions from our joint venture with Red Iron and proceeds from the sale of our Northwestern distribution company in fiscal 2016.

Cash used in investing activities in fiscal 2015 increased \$184.6 million from fiscal 2014 due to cash utilized for the acquisition of the BOSS business, partially offset by lower purchases of property, plant, and equipment.

Cash Flows from Financing Activities. Cash used in financing activities in fiscal 2016 was \$170.4 million compared \$173.4 million in fiscal 2015. The decrease in cash used in financing activities was mainly due to favorable benefits from stock-based compensation and less cash utilized for repayments of debt in fiscal 2016 compared fiscal 2015. Partially offsetting this decrease was an increase in cash dividends paid on our common stock and higher amounts of cash utilized for common stock repurchases in fiscal 2016 compared to fiscal 2015.

Cash used in financing activities in fiscal 2015 was \$173.4 million compared to cash provided by financing activities of \$17.0 million in fiscal 2014. The increase in cash used in financing activities was mainly due to repayments of debt in fiscal 2015 compared to cash received from borrowings of debt in fiscal 2014. Additionally, an increase in cash dividends paid on our common stock and higher amounts of cash utilized for stock repurchases in fiscal 2015 compared to fiscal 2014 contributed to the increase in cash used in financing activities.

Cash and Cash Equivalents. Cash and cash equivalents as of the end of fiscal 2016 were higher by \$147.3 million compared to the end of fiscal 2015.

Liquidity and Capital Resources

Our businesses are seasonally working capital intensive and require funding for purchases of raw materials used in production, replacement parts inventory, payroll and other administrative costs, capital expenditures, establishment of new facilities, expansion and renovation of existing facilities, as well as for financing receivables from customers that are not financed with Red Iron. Our accounts receivable balances historically increase between January and April as a result of typically higher sales volumes and extended payment terms made available to our customers, and typically decrease between May and December when payments are received. We believe that the funds available through existing financing arrangements and forecasted cash flows will be sufficient to provide the necessary capital resources for our anticipated working capital needs, capital expenditures, investments, debt repayments, quarterly cash dividend payments, and common stock repurchases for at least the next twelve months. As of October 31, 2016, cash and short-term investments held by our foreign subsidiaries that are not available to fund domestic operations unless repatriated were \$105.5 million. We currently do not intend to repatriate this cash held by our foreign subsidiaries; however, if circumstances changed and these funds were needed for our U.S. operations, we would be required to accrue and pay U.S. taxes to repatriate these funds. Determination of the unrecognized deferred tax liability related to these earnings is not practicable because of the complexities with its hypothetical calculation.

Seasonal cash requirements are financed from operations, cash on hand, and with short-term financing arrangements, including our \$150.0 million unsecured senior five-year revolving credit facility that expires in October 2019. Included in our \$150.0 million revolving credit facility is a \$20.0 million sublimit for standby letters of credit and a \$20.0 million sublimit for swingline loans. At our election, and with the approval of the named borrowers on the revolving credit facility and the election of the lenders to fund such increase, the aggregate maximum principal amount available under the facility may be increased by an amount up to \$100.0 million in aggregate. Funds are available under the revolving credit facility for working capital, capital expenditures, and other lawful purposes, including, but not limited to, acquisitions and stock repurchases. Interest expense on this credit line is determined based on a LIBOR rate (or other rates quoted by the Administrative Agent, Bank of America, N.A.) plus a basis point spread defined in the credit agreement. In addition, our non-U.S. operations maintain unsecured short-term lines of credit in the aggregate amount of \$9.1 million. These facilities bear interest at various rates depending on the rates in their respective countries of operation. As of October 31, 2016 and October 31, 2015 we had no outstanding short-term debt under these lines of credit. As of October 31, 2016, we had \$9.0 million of outstanding letters of credit and \$150.8 million of unutilized availability under our credit agreements.

Additionally, as of October 31, 2016, we had \$353.9 million outstanding in long-term debt that includes \$100.0 million of 7.8% debentures due June 15, 2027, \$123.7 million of 6.625% senior notes due May 1, 2037, \$19.7 million due to the former owners of the BOSS business, and \$110.5 million in an outstanding term loan. The term loan bears interest based on a LIBOR rate (or other rates quoted by the Administrative Agent, Bank of America, N.A.) plus a basis point spread defined in the credit agreement. The term loan can be repaid in part or in full at any time without penalty, but in any event must be paid in full by October 2019.

Our revolving and term loan credit facility contains standard covenants, including, without limitation, financial covenants, such as the maintenance of minimum interest coverage and maximum debt to earnings before interest, tax, depreciation, and amortization ("EBITDA") ratios; and negative covenants, which among other things, limit loans and investments, disposition of assets, consolidations and mergers, transactions with affiliates, restricted payments, contingent obligations, liens, and other matters customarily restricted in such agreements. Most of these restrictions are subject to certain minimum thresholds and exceptions. Under the revolving credit facility, we are not limited in the amount for payments of cash dividends and common stock repurchases as long as our debt to EBITDA ratio from the previous quarter compliance certificate is less than or equal to 3.25, provided that immediately after giving effect of any such proposed action, no default or event of default would exist. As of October 31, 2016, we were not limited in the amount for payments of cash dividends and stock repurchases. We were in compliance with all covenants related to our credit agreement for our revolving credit facility as of October 31, 2016, and we expect to be in compliance with all covenants during fiscal 2017. If we were out of compliance with any covenant required by this credit agreement following the applicable cure period, the banks could terminate their commitments unless we could negotiate a covenant waiver from the banks. In addition, our long-term senior notes, debentures, term loan, and any amounts outstanding under the revolving credit facility could become due and payable if we were unable to obtain a covenant waiver or refinance our short-term debt under our credit agreement. If our credit rating falls below and our debt to EBITDA ratio rises above 1.50, the basis point spread over LIBOR (or other rates quoted by the Administrative Agent, Bank of America, N.A.) we currently pay on outstanding debt under the credit agreement would increase. However, the credit commitment could not be cancelled by the banks based solely on a ratings downgrade. Our debt rating for long-term unsecured senior, non-credit enhanced debt was unchanged during fiscal 2016 by Standard and Poor's Ratings Group at BBB and by Moody's Investors Service at Baa3.

Capital Structure

The following table details the components of our total capitalization and debt-to-capitalization ratio.

(Dollars in millions) October 31	2016	2015
Short-term debt	\$ —	\$ 0.2
Long-term debt, including current portion	353.9	378.0
Stockholders' equity	550.0	462.2
Debt-to-capitalization ratio	39.2%	45.0%

Our debt-to-capitalization ratio decreased in fiscal 2016 compared to fiscal 2015 primarily due to an increase in stockholders' equity from higher net earnings and repayments of our long-term debt, partially offset by an increase in dividends paid and repurchases of our common stock in fiscal 2016 as compared to fiscal 2015.

Cash Dividends

Each quarter in fiscal 2016, our Board of Directors declared a cash dividend of \$0.15 per share, which was a 20 percent increase over our cash dividend of \$0.125 per share paid each quarter in fiscal 2015. As announced on December 8, 2016, our Board of Directors increased our fiscal 2017 first quarter cash dividend by 16.7 percent to \$0.175 per share from the quarterly cash dividend paid in the first quarter of fiscal 2016.

Stock Split

On August 18, 2016, we announced that our Board of Directors declared a two-for-one stock split of our common stock, effected in the form of a 100 percent stock dividend. The stock split dividend was distributed or paid on September 16, 2016, to stockholders of record as of September 1, 2016. As a result of this action, 54.5 million shares were issued to stockholders of record as of September 1, 2016. The par value of the common stock remains at \$1.00 per share and, accordingly, approximately \$54.5 million was transferred from retained earnings to common stock. Earnings and dividends declared per share and weighted average shares outstanding are presented in this report after the effect of the 100 percent stock dividend. The two-for-one stock split is reflected in the share amounts in all periods presented in this report.

Share Repurchase Plan

During fiscal 2016, we continued repurchasing shares of our common stock in the open market, thereby reducing our shares outstanding. In addition, our repurchase program provided shares for use in connection with our equity compensation plans. As of October 31, 2016, 7,692,715 shares remained available for repurchase under our Board authorization. We expect to continue repurchasing shares of our common stock in fiscal 2017, depending upon market conditions.

The following table provides information with respect to repurchases of our common stock during the past three fiscal years.

(Dollars in millions, except share and per share data)			
Fiscal years ended October 31			
	2016	2015	2014
Shares of common stock purchased ^{1,2}	2,560,567	3,122,358	3,245,138
Cost to repurchase common stock ^{1,2}	\$ 107.5	\$ 106.0	\$ 101.7
Average price paid per share ^{1,2}	\$ 41.99	\$ 33.94	\$ 31.33

1 Share and per share data have been adjusted for all periods presented to reflect the impact of our two-for-one stock split effective September 16, 2016.

2 Does not include shares of our common stock surrendered by employees to satisfy minimum tax withholding obligations upon vesting of restricted stock granted under our stock-based compensation plans.

Customer Financing Arrangements

Wholesale Financing. We are party to a joint venture with TCFIF, established as Red Iron, the primary purpose of which is to provide inventory financing to certain distributors and dealers of our products in the U.S. that enables them to carry representative inventories of our products. Under a separate arrangement, TCFFCFC provides inventory financing to dealers of our products in Canada. Under these financing arrangements, down payments are not required and, depending on the finance program for each product line, finance charges are incurred by us, shared between us and the distributor and/or the dealer, or paid by the distributor or dealer. Red Iron retains a security interest in the distributors' and dealers' financed inventories, and those inventories are monitored regularly. Financing terms to the distributors and dealers require payment as the equipment, which secures the indebtedness, is sold to customers or when payment terms become due, whichever occurs first. Rates are generally indexed to LIBOR plus a fixed percentage that differs based on whether the financing is for a distributor or dealer. Rates may also vary based on the product that is financed. Red Iron financed \$1,713.6 million of new receivables for dealers and distributors during fiscal 2016, of which \$371.1 million was outstanding as of October 31, 2016.

Some independent international dealers continue to finance their products with a third-party financing company. This third-party financing company purchased \$28.9 million of receivables from us during fiscal 2016, of which \$12.3 million was outstanding as of October 31, 2016.

We enter into limited inventory repurchase agreements with third party financing companies and Red Iron for receivables financed by them. As of October 31, 2016, we were contingently liable to repurchase up to a maximum amount of \$10.4 million of inventory related to receivables under these financing arrangements. We have repurchased immaterial amounts of inventory from third party financing companies and Red Iron over the past three fiscal years. However, a decline in retail sales or financial difficulties of our distributors or dealers could cause this situation to change and thereby require us to repurchase financed product up to but not exceeding our limited obligation, which could have an adverse effect on our operating results.

We continue to provide financing in the form of open account terms to home centers and mass retailers; general line irrigation dealers; international distributors and dealers other than the Canadian distributors and dealers to whom Red Iron provides financing arrangements; micro-irrigation dealers and distributors; government customers; and rental companies.

End-User Financing. We have agreements with third party financing companies to provide lease-financing options to golf course and sports fields and grounds equipment customers in the U.S. and select countries in Europe. The purpose of these agreements is to increase sales by giving buyers of our products alternative financing options when purchasing our products. We have no contingent liabilities for residual value or credit collection risk under these agreements with third party financing companies.

From time to time, we enter into agreements where we provide recourse to third-party finance companies in the event of default by the customer for lease payments to the third-party finance company. Our maximum exposure for credit collection under those arrangements as of October 31, 2016 was \$4.9 million.

Termination or any material change to the terms of our end-user financing arrangements, availability of credit for our customers, including any delay in securing replacement credit sources, or significant financed product repurchase requirements could have a material adverse impact on our future operating results.

Distributor Financing. From time to time, we enter into long-term loan agreements with some distributors. These transactions are used for expansion of the distributors' businesses, acquisitions, refinancing working capital agreements, or facilitation of ownership changes. As of October 31, 2016, we had an outstanding note receivable in the amount of \$0.9 million, which is included in other current and long-term assets on our consolidated balance sheet.

Off-Balance Sheet Arrangements and Contractual Obligations

The following table summarizes our contractual obligations as of October 31, 2016.

(Dollars in thousands)	Payments Due by Period				
	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Contractual Obligations					
Long-term debt ¹	\$ 22,484	\$ 107,693	\$ —	\$ 223,730	\$ 353,907
Interest payments ²	18,990	37,236	32,163	172,210	260,599
Deferred compensation arrangements ³	531	618	—	—	1,149
Purchase obligations ⁴	5,140	—	—	—	5,140
Operating leases ⁵	15,002	25,137	20,622	35,375	96,136
Other ⁶	3,001	159	—	—	3,160
Total	\$ 65,148	\$ 170,843	\$ 52,785	\$ 431,315	\$ 720,091

1 Principal payments in accordance with our credit facilities and long-term debt agreements.

2 Interest payments for outstanding long-term debt obligations. Interest on variable rate debt was calculated using the interest rate as of October 31, 2016.

3 The unfunded deferred compensation arrangements, covering certain current and retired management employees, consist primarily of salary and bonus deferrals under our deferred compensation plans. Our estimated distributions in the contractual obligations table are based upon a number of assumptions including termination dates and participant elections.

4 Purchase obligations represent contracts or commitments for the purchase of raw materials.

5 Operating lease obligations do not include payments to property owners covering real estate taxes and common area maintenance.

6 Payment obligations in connection with renovations of our corporate facilities located at Bloomington, Minnesota and corporate information technology payment obligations.

As of October 31, 2016, we also had \$9.0 million in outstanding letters of credit issued, including standby letters of credit and import letters of credit, during the normal course of business, as required by some vendor contracts, as well as \$4.9 million in surety bonds, which include workers compensation self-insured bonds. In addition to the contractual obligations described in the preceding table, we may be obligated for additional net cash outflows related to \$5.1 million of unrecognized tax benefits, including interest and penalties. The payment and timing of any such payments is affected by the ultimate resolution of the tax years that are under audit or remain subject to examination by the relevant taxing authorities.

We have off-balance sheet arrangements with Red Iron, our joint venture with TCFIF, and TCFFCFC in which inventory receivables for certain dealers and distributors are financed by Red Iron or TCFFCFC. More information regarding the terms and our arrangements with Red Iron and TCFFCFC are disclosed herein under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 3 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data."

Market Risk

Due to the nature and scope of our operations, we are subject to exposures that arise from fluctuations in interest rates, foreign currency exchange rates, and commodity prices. We are also exposed to equity market risk pertaining to the trading price of our common stock. Additional information is presented in Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," and Note 14 of the Notes to Consolidated Financial Statements.

Inflation

We are subject to the effects of inflation, deflation, and changing prices. During fiscal 2016, we experienced lower average commodity prices compared to the average prices paid for commodities in fiscal 2015. We intend to continue to closely follow prices of commodities and components that affect our product lines, and we anticipate average prices paid for some commodities and components to be slightly higher in fiscal 2017 as compared to fiscal 2016. Historically, we have mitigated, and we expect that we would continue to mitigate, commodity price increases, if any, in part, by collaborating with suppliers, reviewing alternative sourcing options, substituting materials, engaging in internal cost reduction efforts, and increasing prices on some of our products, all as appropriate.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), we must make decisions that impact the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgments based on our understanding and analysis of the relevant circumstances, historical experience, and actuarial valuations. Actual amounts could differ from those estimated at the time the consolidated financial statements are prepared.

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements. Some of those significant accounting policies require us to make difficult subjective or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (i) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (ii) different estimates reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period may have a material impact on the presentation of our financial condition, changes in financial condition, or results of operations. Our critical accounting estimates include the following:

Warranty Reserve. Warranty coverage on our products is generally for specified periods of time and on select products' hours of usage, and generally covers parts, labor, and other expenses for non-maintenance repairs. Warranty coverage generally does not cover operator abuse or improper use. At the time of sale, we

accrue a warranty reserve by product line for estimated costs in connection with future warranty claims. We also establish reserves for major rework campaigns. The amount of our warranty reserves is based primarily on the estimated number of products under warranty, historical average costs incurred to service warranty claims, the trend in the historical ratio of claims to sales, and the historical length of time between the sale and resulting warranty claim. We periodically assess the adequacy of our warranty reserves based on changes in these factors and record any necessary adjustments if actual claim experience indicates that adjustments are necessary. Actual claims could be higher or lower than amounts estimated, as the number and value of warranty claims can vary due to such factors as performance of new products, significant manufacturing or design defects not discovered until after the product is delivered to customers, product failure rates, and higher or lower than expected service costs for a repair. We believe that analysis of historical trends and knowledge of potential manufacturing or design problems provide sufficient information to establish a reasonable estimate for warranty claims at the time of sale. However, since we cannot predict with certainty future warranty claims or costs associated with servicing those claims, our actual warranty costs may differ from our estimates. An unexpected increase in warranty claims or in the costs associated with servicing those claims would result in an increase in our warranty accrual and a decrease in our net earnings.

Sales Promotions and Incentives. At the time of sale to a customer, we record an estimate for sales promotion and incentive costs that are classified as a reduction from gross sales or as a component of SG&A expense. Examples of sales promotion and incentive programs include off-invoice discounts, rebate programs, volume discounts, retail financing support, commissions, and other sales discounts and promotional programs. The estimates for sales promotion and incentive costs are based on the terms of the arrangements with customers, historical payment experience, field inventory levels, volume purchases, and expectations for changes in relevant trends in the future. Actual results may differ from these estimates if competitive factors dictate the need to enhance or reduce sales promotion and incentive accruals or if customer usage and field inventory levels vary from historical trends. Adjustments to sales promotions and incentive accruals are made from time to time as actual usage becomes known in order to properly estimate the amounts necessary to generate consumer demand based on market conditions as of the balance sheet date.

Goodwill and Other Intangibles. Identifiable intangible assets are amortized over their useful lives, unless the useful life is determined to be indefinite. The useful life of an identifiable intangible asset is based on an analysis of several factors, including contractual, regulatory or legal obligations, demand, competition, and industry trends. Goodwill and indefinite-life intangible assets are not amortized, but are tested at least annually for impairment and whenever events or changes in circumstances indicate that impairment may have occurred.

Our impairment testing for goodwill is performed separately from our impairment testing of indefinite-life intangible assets, and the income approach is utilized for both. We test goodwill for impairment at the reporting unit level. Under the income approach, we calculate the fair value of our reporting units and indefinite-life intangible assets using the present value of future cash flows. Individual indefinite-life intangible assets are tested by comparing the book values of each asset to the estimated fair value. Our estimate of fair value for indefinite-life intangible assets uses projected revenues from our forecasting process, assumed royalty rates, and a discount rate. Assumptions used in our impairment evaluations, such as forecasted growth rates and cost of capital, are consistent with internal projections and operating plans. Materially different assumptions regarding future performance of our businesses or a different weighted-average cost of capital could result in impairment losses or additional amortization expense.

In conducting the goodwill impairment test, we first perform a qualitative assessment to determine whether it is more likely than not the fair value of any reporting unit is less than its carrying amount. If we conclude that this is the case, a two-step quantitative test for goodwill impairment is performed. In conducting the initial qualitative assessment, we analyze actual and projected growth trends for net sales, gross margin, and earnings for each reporting unit, as well as historical versus planned performance. Additionally, each reporting unit assesses critical areas that may impact its business, including macroeconomic conditions, market-related exposures, competitive changes, new or discontinued products, changes in key personnel, or any other potential risks to projected financial results. All assumptions used in the qualitative assessment require significant judgment.

If performed due to impairment indicators or the amount of time since the last analysis, the quantitative goodwill impairment test is a two-step process. First, we compare the carrying value of a reporting unit, including goodwill, to its fair value. The fair value of each reporting unit is estimated using a discounted cash flow model. Where available, and as appropriate, comparable market multiples and our company's market capitalization are also used to corroborate the results of the discounted cash flow models. If the first step indicates the carrying value exceeds the fair value of the reporting unit, then a second step must be completed in order to determine the amount of goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill. The implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference.

Inventory Valuation. We value our inventories at the lower of the cost of inventory or net realizable value, with cost determined by either the last-in, first-out ("LIFO") method for most U.S. inventories or the first-in, first-out ("FIFO") method for all other inventories. We establish reserves for excess, slow moving, and obsolete inventory based on inventory levels, expected product life, and forecasted sales demand. Valuation of inventory can also be affected by significant redesign of existing products or replacement of an existing product by an entirely new generation product. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements compared with inventory levels. Reserve requirements are developed according to our projected demand requirements based on historical demand, competitive factors, and technological and product life cycle changes. It is possible that an increase in our reserve may be required in the future if there is a significant decline in demand for our products and we do not adjust our production schedule accordingly.

We record a reserve for inventory shrinkage. Our inventory shrinkage reserve represents anticipated physical inventory losses that are recorded based on historical loss trends, ongoing cycle-count and periodic testing adjustments, and inventory levels.

Though management considers reserve balances adequate and proper, changes in economic conditions in specific markets in which we operate could have an effect on the reserve balances required for excess, slow moving and obsolete inventory.

New Accounting Pronouncements to be Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* that updates the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date of this standard by one year. We expect to adopt this guidance on November 1, 2018, as required, based on the new effective date. The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method but plan to select a transition method no later than the fourth quarter of our fiscal 2017. We are currently assessing our contracts with customers and related financial disclosures to evaluate the impact of the amended guidance on our existing revenue recognition policies and procedures.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. The amended guidance will become effective for us commencing in the first quarter of fiscal 2017. Early adoption is permitted. We anticipate the adoption of this guidance will not have a material impact on our consolidated financial position.

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. This amended guidance requires customers to determine whether or not an arrangement contains a software license element. If the arrangement contains a software element, the related fees paid should be accounted for as an acquisition of a software license. If the arrangement does not contain a software license, it is accounted for as a service contract. The amended guidance will become effective for us commencing in the first quarter of fiscal 2017. Early adoption is permitted. We anticipate the adoption of this guidance will not have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This amended guidance changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. The amended guidance will become effective for us commencing in the first quarter of fiscal 2018. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which, among other things, requires lessees to recognize most leases on-balance sheet. The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The amended guidance will become effective for us commencing in the first quarter of fiscal 2020. Entities are required to use a modified retrospective approach, with early adoption permitted. We are reviewing the revised guidance and assessing the impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Stock-based Compensation: Improvements to Employee Share-based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, and statement of cash flow classification. The amended guidance will become effective for us commencing in the first quarter of fiscal 2018. Early adoption is permitted. We plan to early adopt this amended guidance in the first quarter of our fiscal 2017 and are currently evaluating the impact of this new standard on our

consolidated financial statements, including the impact on our provision for income taxes on our consolidated income statement. Adoption of this amended guidance will add increased volatility to our provision for income taxes mainly due to timing of stock option exercises, vesting of restricted stock units and common stock price.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which amends guidance on the classification of certain cash receipts and payments in the statement of cash flows. The amended guidance will become effective for us commencing in the first quarter of fiscal 2019. Early adoption is permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which removes the prohibition against the immediate recognition of the current and deferred tax effects of intra-entity transfers of assets other than inventory. The amended guidance will become effective for us commencing in the first quarter of fiscal 2019. Early adoption is permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, *Consolidation (Topic 810): Interests Held through Related Parties That Are Under Common Control*, which amends guidance on related parties that are under common control. The amended guidance will become effective for us commencing in the first quarter of fiscal 2017. Early adoption is permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements.

No other new accounting pronouncement that has been issued but not yet effective for us during fiscal 2016 has had or is expected to have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

We enter into various contracts, primarily forward contracts that change in value as foreign currency exchange rates change, to protect the value of existing foreign currency assets, liabilities, anticipated sales, and probable commitments. Decisions on whether to use such contracts are made based on the amount of exposures to the currency involved and an assessment of the near-term market value for each currency. Worldwide foreign currency exchange rate exposures are reviewed monthly. The gains and losses on these contracts offset changes in values of the related exposures. Therefore, changes in values of these hedge instruments are highly correlated with changes in market values of underlying hedged items both at inception of the hedge and over the life of the hedge contract. Further information regarding gains and losses on our derivative instruments is presented in Note 14 of the Notes to Consolidated Financial Statements.

The following foreign currency exchange contracts held by us have maturity dates in fiscal 2017 and 2018. All items are non-trading and stated in U.S. dollars. Some derivative instruments we enter into do not meet cash flow hedge accounting criteria; therefore, changes in fair value are recorded in other income, net.

The average contracted rate, notional amount, pre-tax value of derivative instruments in accumulated other comprehensive loss ("AOCL"), and fair value impact of derivative instruments in other income, net as of and for the fiscal year ended October 31, 2016 were as follows:

(Dollars in thousands, except average contracted rate)	Average Contracted Rate	Notional Amount	Value in AOCL Income (Loss)	Fair Value Impact (Loss) Gain
Buy US dollar/Sell Australian dollar	0.7367	\$52,023.1	\$ (818.9)	\$(1,195.9)
Buy US dollar/Sell Canadian dollar	1.3027	9,649.4	272.7	26.6
Buy US dollar/Sell Euro	1.1225	60,805.6	485.7	1,310.5
Buy US dollar/Sell British pound	1.3109	28,040.6	905.7	1,736.8
Buy Mexican peso/Sell US dollar	17.9613	15,962.1	(1,038.9)	(2,596.5)

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

Interest Rate Risk. Our market risk on interest rates relates primarily to LIBOR-based short-term debt and a term loan from commercial banks, as well as the potential increase in fair value of our fixed-rate long-term debt resulting from a potential decrease in interest rates. We generally do not use interest rate swaps to mitigate the impact of fluctuations in interest rates. Included in long-term debt is \$223.7 million of fixed-rate debt that is not subject to variable interest rate fluctuations, a fixed-rate promissory note for the principal amount of \$19.7 million issued to the former owners of the BOSS business, and a \$110.5 million LIBOR-based term loan, which is subject to market risk based on changes in LIBOR rates. We have no earnings or cash flow exposure due to market risks on our fixed-rate long-term debt obligations. As of October 31, 2016, the estimated fair value of long-term debt with fixed interest rates was \$293.3 million compared to its carrying amount of \$243.4 million. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10 percent decrease in interest rates, and amounts to approximately \$14.1 million. The fair value is estimated by discounting the projected cash flows using the rate that similar amounts and terms of debt could currently be borrowed.

Commodity Risk. We are subject to market risk from fluctuating market prices of certain purchased commodity raw materials including steel, aluminum, petroleum and natural gas-based resins, and linerboard. In addition, we are a purchaser of components and parts containing various commodities, including steel, aluminum, copper, lead, rubber, and others that are integrated into our end products. While such materials are typically available from numerous suppliers, commodity raw materials are subject to price fluctuations. We generally buy these commodities and components based upon market prices that are established with the vendor as part of the purchase process. We generally attempt to obtain firm pricing from most of our suppliers for volumes consistent with planned production. To the extent that commodity prices increase and we do not have firm pricing from our suppliers, or our suppliers are not able to honor such prices, we may experience a decline in our gross margins to the extent we are not able to increase selling prices of our products or obtain manufacturing efficiencies to offset increases in commodity costs. Further information regarding rising prices for commodities is presented in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report in the section entitled "Inflation." We enter into fixed-price contracts for future purchases of natural gas in the normal course of operations as a means to manage natural gas price risks. In fiscal 2016, our manufacturing facilities entered into these fixed-price contracts for approximately 50 percent of their monthly-anticipated usage.

Equity Price Risk. The trading price volatility of our common stock impacts compensation expense related to our stock-based compensation plans. Further information is presented in Note 10 of the Notes to Consolidated Financial Statements regarding our stock-based compensation plans.

Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, for The Toro Company and its subsidiaries. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. In addition, projection of any evaluation of the effectiveness of internal control over financial reporting to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Management, with the participation of the company's President and Chief Executive Officer and Vice President, Treasurer and Chief Financial Officer, evaluated the effectiveness of the company's internal control over financial reporting as of October 31, 2016. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on this assessment, management concluded that the company's internal control over financial reporting was effective as of October 31, 2016. Our internal control over financial reporting as of October 31, 2016, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

/s/ Richard M. Olson

President and Chief Executive Officer

/s/ Renee J. Peterson

Vice President, Treasurer and Chief Financial Officer

December 22, 2016

Further discussion of the Company's internal controls and procedures is included in Part II, Item 9A, "Controls and Procedures" of this report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Toro Company:

We have audited the accompanying consolidated balance sheets of The Toro Company and subsidiaries (the Company) as of October 31, 2016 and 2015 and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended October 31, 2016. In connection with our audits of the consolidated financial statements, we have audited the financial statement schedule listed in Item 15(a) 2. We have also audited The Toro Company's internal control over financial reporting as of October 31, 2016 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Toro Company's management is responsible for these consolidated financial statements and the identified financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements and financial statement schedule included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Toro Company and subsidiaries as of October 31, 2016 and 2015 and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended October 31, 2016, in conformity with U.S. generally accepted accounting principles. In our opinion, the identified financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information therein. Also in our opinion, The Toro Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2016 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Minneapolis, Minnesota
December 22, 2016

THE TORO COMPANY AND SUBSIDIARIES**Consolidated Statements of Earnings**

(Dollars and shares in thousands, except per share data)

Fiscal Years Ended October 31	2016	2015	2014
Net sales	\$ 2,392,175	\$ 2,390,875	\$ 2,172,691
Cost of sales	1,517,580	1,554,940	1,399,420
Gross profit	874,595	835,935	773,271
Selling, general, and administrative expense	540,199	536,821	510,114
Operating earnings	334,396	299,114	263,157
Interest expense	(19,336)	(18,757)	(15,426)
Other income, net	15,400	10,674	8,714
Earnings before income taxes	330,460	291,031	256,445
Provision for income taxes	99,466	89,440	82,575
Net earnings	\$ 230,994	\$ 201,591	\$ 173,870
Basic net earnings per share of common stock	\$ 2.10	\$ 1.81	\$ 1.54
Diluted net earnings per share of common stock	\$ 2.06	\$ 1.78	\$ 1.51
Weighted-average number of shares of common stock outstanding – Basic	109,834	111,130	112,718
Weighted-average number of shares of common stock outstanding – Diluted	111,987	113,514	115,255

Shares and per share data have been adjusted for all periods presented to reflect a two-for-one stock split effective September 16, 2016.

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

THE TORO COMPANY AND SUBSIDIARIES**Consolidated Statements of Comprehensive Income**

(Dollars in thousands)

Fiscal Years Ended October 31	2016	2015	2014
Net earnings	\$ 230,994	\$ 201,591	\$ 173,870
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments, net of tax of \$(161), \$(51), and \$(34), respectively	(7,102)	(11,792)	(4,758)
Pension and retiree medical benefits, net of tax of \$(1,294), \$299, and \$10, respectively	(973)	(120)	(1,583)
Derivative instruments, net of tax of \$(605), \$(933), and \$2,350, respectively	(518)	(2,226)	3,206
Other comprehensive (loss) income	(8,593)	(14,138)	(3,135)
Comprehensive income	\$ 222,401	\$ 187,453	\$ 170,735

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

THE TORO COMPANY AND SUBSIDIARIES**Consolidated Balance Sheets**

(Dollars in thousands, except per share data)

October 31	2016	2015
ASSETS		
Cash and cash equivalents	\$ 273,555	\$ 126,275
Receivables, net:		
Customers, net of allowances (2016 - \$1,609; 2015 - \$1,378)	157,908	171,172
Other	5,357	5,841
Total receivables, net	163,265	177,013
Inventories, net	307,034	334,514
Prepaid expenses and other current assets	35,155	34,782
Total current assets	779,009	672,584
Property, plant, and equipment, net	222,038	224,995
Long-term deferred income taxes	57,228	66,663
Goodwill	194,782	195,533
Other intangible assets, net	108,093	119,010
Other assets	26,368	24,873
Total assets	\$ 1,387,518	\$ 1,303,658
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	\$ 22,484	\$ 23,134
Short-term debt	—	222
Accounts payable	174,668	152,017
Accrued liabilities:		
Warranty	72,158	70,734
Advertising and marketing programs	81,315	76,689
Compensation and benefit costs	52,139	56,269
Insurance	7,502	6,814
Income taxes	—	4,275
Other	53,573	53,580
Total current liabilities	463,839	443,734
Long-term debt, less current portion	331,423	354,818
Deferred revenue	11,830	11,365
Deferred income taxes	—	7
Other long-term liabilities	30,391	31,569
Stockholders' equity:		
Preferred stock, par value \$1.00 per share, authorized 1,000,000 voting and 850,000 non-voting shares, none issued and outstanding	—	—
Common stock, par value \$1.00 per share, authorized 175,000,000 shares; issued and outstanding 108,427,393 shares as of October 31, 2016 and 109,301,832 shares as of October 31, 2015	108,427	109,302
Retained earnings	480,044	382,706
Accumulated other comprehensive loss	(38,436)	(29,843)
Total stockholders' equity	550,035	462,165
Total liabilities and stockholders' equity	\$ 1,387,518	\$ 1,303,658

Shares and per share data have been adjusted for all periods presented to reflect a two-for-one stock split effective September 16, 2016.

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

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

Fiscal Years Ended October 31	2016	2015	2014
Cash flows from operating activities:			
Net earnings	\$ 230,994	\$ 201,591	\$ 173,870
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for depreciation, amortization, and impairment loss	64,097	63,143	53,138
Non-cash income from finance affiliate	(9,588)	(8,353)	(7,262)
Stock-based compensation expense	10,637	10,836	11,291
Decrease/(increase) in deferred income taxes	10,075	200	(4,700)
Other	(464)	(128)	28
Changes in operating assets and liabilities, net of effect of acquisitions:			
Receivables, net	15,785	(25,647)	(5,042)
Inventories, net	23,192	(52,656)	(37,183)
Prepaid expenses and other assets	(905)	(607)	(3,245)
Accounts payable, accrued liabilities, deferred revenue, and other long-term liabilities	18,119	48,490	1,470
Net cash provided by/(used in) operating activities	361,942	236,869	182,365
Cash flows from investing activities:			
Purchases of property, plant, and equipment	(50,723)	(56,374)	(71,138)
Proceeds from asset disposals	310	179	479
Distributions from finance affiliate, net	9,848	4,264	5,672
Proceeds from sale of a business	1,500	—	—
Acquisitions, net of cash acquired	—	(198,329)	(715)
Net cash provided by/(used in) investing activities	(39,065)	(250,260)	(65,702)
Cash flows from financing activities:			
(Repayments of)/increase in short-term debt	(1,161)	(21,283)	19,498
(Repayments of)/increase in long-term debt	(24,107)	(7,227)	129,557
Excess tax benefits from stock-based awards	12,495	8,459	8,857
Proceeds from exercise of stock options	20,226	9,203	7,192
Purchases of Toro common stock	(111,999)	(106,964)	(103,039)
Dividends paid on Toro common stock	(65,890)	(55,549)	(45,048)
Net cash provided by/(used in) financing activities	(170,436)	(173,361)	17,017
Effect of exchange rates on cash and cash equivalents	(5,161)	(1,846)	(1,800)
Net increase/(decrease) in cash and cash equivalents	147,280	(188,598)	131,880
Cash and cash equivalents as of the beginning of the fiscal period	126,275	314,873	182,993
Cash and cash equivalents as of the end of the fiscal period	\$ 273,555	\$ 126,275	\$ 314,873
Supplemental disclosures of cash flow information:			
Cash paid during the fiscal year for:			
Interest	\$ 19,883	\$ 18,133	\$ 16,925
Income taxes	82,225	77,043	76,325
Shares issued in connection with stock-based compensation plans	6,985	7,705	6,619
Payment obligations issued in connection with acquisitions	—	31,161	420

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

THE TORO COMPANY AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Dollars in thousands, except per share data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of October 31, 2013	\$ 113,578	\$ 257,730	\$ (12,570)	\$ 358,738
Cash dividends paid on common stock - \$0.40 per share	—	(45,048)	—	(45,048)
Issuance of 1,065,384 shares for stock options exercised and restricted stock units vested	1,066	4,446	—	5,512
Stock-based compensation expense	—	11,291	—	11,291
Contribution of stock to a deferred compensation trust	—	1,681	—	1,681
Purchase of 3,288,460 shares of common stock	(3,288)	(99,751)	—	(103,039)
Excess tax benefits from stock-based awards	—	8,857	—	8,857
Other comprehensive loss	—	—	(3,135)	(3,135)
Net earnings	—	173,870	—	173,870
Balance as of October 31, 2014	\$ 111,356	\$ 313,076	\$ (15,705)	\$ 408,727
Cash dividends paid on common stock - \$0.50 per share	—	(55,549)	—	(55,549)
Issuance of 1,096,972 shares for stock options exercised and restricted stock units vested	1,098	7,138	—	8,236
Stock-based compensation expense	—	10,836	—	10,836
Contribution of stock to a deferred compensation trust	—	967	—	967
Purchase of 3,151,978 shares of common stock	(3,152)	(103,812)	—	(106,964)
Excess tax benefits from stock-based awards	—	8,459	—	8,459
Other comprehensive loss	—	—	(14,138)	(14,138)
Net earnings	—	201,591	—	201,591
Balance as of October 31, 2015	\$ 109,302	\$ 382,706	\$ (29,843)	\$ 462,165
Cash dividends paid on common stock - \$0.60 per share	—	(65,890)	—	(65,890)
Issuance of 1,801,136 shares for stock options exercised and restricted stock units vested	1,801	17,225	—	19,026
Stock-based compensation expense	—	10,637	—	10,637
Contribution of stock to a deferred compensation trust	—	1,200	—	1,200
Purchase of 2,675,575 shares of common stock	(2,676)	(109,323)	—	(111,999)
Excess tax benefits from stock-based awards	—	12,495	—	12,495
Other comprehensive loss	—	—	(8,593)	(8,593)
Net earnings	—	230,994	—	230,994
Balance as of October 31, 2016	\$ 108,427	\$ 480,044	\$ (38,436)	\$ 550,035

Shares and per share data have been adjusted for all periods presented to reflect a two-for-one stock split effective September 16, 2016.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
• THE TORO COMPANY AND SUBSIDIARIES •
(Dollars in thousands, except per share data)

1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED DATA

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of the company and its wholly owned subsidiaries. The company uses the equity method to account for investments over which it has the ability to exercise significant influence over operating and financial policies. Consolidated net earnings include the company's share of the net earnings (losses) of these companies. The cost method is used to account for investments in companies that the company does not control and for which it does not have the ability to exercise significant influence over operating and financial policies. These investments are recorded at cost. All intercompany accounts and transactions have been eliminated from the consolidated financial statements.

Stock Split

On August 18, 2016, the company announced that its Board of Directors declared a two-for-one stock split of the company's common stock, effected in the form of a 100 percent stock dividend. The stock split dividend was distributed or paid on September 16, 2016, to stockholders of record as of September 1, 2016. Earnings and dividends declared per share and weighted average shares outstanding are presented in this report after the effect of the 100 percent stock dividend. The two-for-one stock split is reflected in the share amounts in all periods presented in this report.

Accounting Estimates

In preparing the consolidated financial statements in conformity with United States generally accepted accounting principles ("GAAP"), management must make decisions that impact the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures, including disclosures of contingent assets and liabilities. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. Estimates are used in determining, among other items, sales promotions and incentives accruals, incentive compensation accruals, inventory valuation, warranty reserves, earnout liabilities, allowance for doubtful accounts, pension and postretirement accruals, self-insurance accruals, useful lives for tangible and intangible assets, and future cash flows associated with impairment testing for goodwill and other long-lived assets. These estimates and assumptions are based on management's best estimates and judgments at the time they are made. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances, including the current economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with certainty, actual amounts could differ significantly from those estimated at the time the consolidated financial statements are prepared. Changes in those estimates will be reflected in the consolidated financial statements in future periods.

Cash and Cash Equivalents

The company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents and are stated at cost, which approximates fair value. As of October 31, 2016, cash and short-term investments held by the company's foreign subsidiaries that are not available to fund domestic operations unless repatriated were \$105,515.

Receivables

The company's financial exposure to collection of accounts receivable is reduced due to its Red Iron Acceptance, LLC ("Red Iron") joint venture with TCF Inventory Finance, Inc. ("TCFIF"), as further discussed in Note 3. For receivables not serviced through Red Iron, the company grants credit to customers in the normal course of business and performs on-going credit evaluations of customers. Receivables are recorded at original carrying amount less reserves for estimated uncollectible accounts, as described below.

Allowance for Doubtful Accounts

The company estimates the balance of allowance for doubtful accounts by analyzing the age of accounts and notes receivable balances and applying historical write-off trend rates. The company also estimates separately specific customer balances when it is deemed probable that the balance is uncollectible. Account balances are charged off against the allowance when all collection efforts have been exhausted.

Inventory Valuations

Inventories are valued at the lower of cost or net realizable value, with cost determined by the last-in, first-out ("LIFO") method for a majority of the company's inventories. The first-in, first-out ("FIFO") method is used for all other inventories, constituting 33 percent and 26 percent of total inventories as of October 31,

2016 and 2015, respectively. The company establishes a reserve for excess, slow-moving, and obsolete inventory that is equal to the difference between the cost and estimated net realizable value for that inventory. These reserves are based on a review and comparison of current inventory levels to planned production, as well as planned and historical sales of the inventory. During fiscal 2016 and 2015, LIFO layers were reduced, which resulted in charging lower inventory costs prevailing in previous years to cost of sales, thus reducing cost of sales by \$60 and \$1,348, respectively.

Inventories as of October 31 were as follows:

	2016	2015
Raw materials and work in process	\$ 90,463	\$ 107,086
Finished goods and service parts	274,929	291,468
Total FIFO value	365,392	398,554
Less: adjustment to LIFO value	58,358	64,040
Total inventories, net	\$ 307,034	\$ 334,514

Property and Depreciation

Property, plant, and equipment are carried at cost. The company provides for depreciation of plant and equipment utilizing the straight-line method over the estimated useful lives of the assets. Buildings, including leasehold improvements, are generally depreciated over 10 to 40 years, and equipment over two to seven years. Tooling costs are generally depreciated over three to five years using the straight-line method. Software and website development costs are generally amortized over two to five years utilizing the straight-line method. Expenditures for major renewals and improvements, which substantially increase the useful lives of existing assets, are capitalized, and maintenance and repairs are charged to operating expenses as incurred. Interest is capitalized during the construction period for significant capital projects. During the fiscal years ended October 31, 2016, 2015, and 2014, the company capitalized \$549, \$897, and \$1,710 of interest, respectively.

Property, plant, and equipment as of October 31 was as follows:

	2016	2015
Land and land improvements	\$ 34,744	\$ 34,240
Buildings and leasehold improvements	182,121	170,342
Machinery and equipment	325,595	315,884
Tooling	200,842	187,652
Computer hardware and software	85,173	81,131
Construction in process	9,561	15,349
Subtotal	838,036	804,598
Less: accumulated depreciation	615,998	579,603
Total property, plant, and equipment, net	\$ 222,038	\$ 224,995

During fiscal years 2016, 2015, and 2014, the company recorded depreciation expense of \$53,355, \$50,322, and \$47,136, respectively.

Goodwill and Indefinite-Life Intangible Assets

Goodwill represents the cost of acquisitions in excess of the fair values assigned to identifiable net assets acquired. Goodwill is assigned to reporting units based upon the expected benefit of the synergies of the acquisition. Goodwill and some trade names, which are considered to have indefinite lives, are not amortized; however, the company reviews them for impairment annually during each fiscal fourth quarter or more frequently if changes in circumstances or occurrence of events suggest the fair value may not be recoverable.

The company reviewed the fair value of its reporting units that have goodwill on their respective balance sheets and compared these fair values to the respective carrying amounts during the fourth quarter of fiscal 2016. The company determined that it has nine reporting units, which are the same as its nine operating segments. Seven reporting units contain goodwill on their respective balance sheets. As of August 26, 2016, the company performed an analysis of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a two-step goodwill impairment test. Based on the company's analysis of qualitative factors, the company determined that it was not necessary to perform a two-step goodwill impairment test for any of its reporting units.

As of August 26, 2016, the company also performed an assessment of its indefinite-life intangible assets, which consist of certain trade names. The company's estimate of the fair value of its trade names are based on a discounted cash flow model using inputs which included: projected revenues from the company's forecasting process; assumed royalty rates that could be payable if the company did not own the trade name; and a discount rate. Based on this analysis, which was also performed in prior fiscal years, the company concluded its indefinite-life intangible assets were not impaired during fiscal 2016, 2015, or 2014.

Other Long-Lived Assets

Other long-lived assets include property, plant, and equipment and definite-life intangible assets, which are identifiable assets that arose from purchase acquisitions consisting primarily of patents, non-compete agreements, customer relationships, trade names, and developed technology and are amortized on a straight-line basis over periods ranging from 1.5 to 20 years. The company reviews other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. An impairment loss is recognized when estimated undiscounted future cash flows from the operation or disposition of the asset group are less than the carrying amount of the asset group. Asset groups have identifiable cash flows and are largely independent of other asset groups. Measurement of an impairment loss is based on the excess of the carrying amount of the asset group

over its fair value. Fair value is measured using a discounted cash flow model or independent appraisals, as appropriate. For long-lived assets to be abandoned, the company tests for potential impairment. If the company commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates are revised.

Based on the company's impairment analysis for definite-life intangible assets, the company did not have any impairment losses of other long-lived assets. For fiscal 2015, the company wrote down \$1,383 of other long-lived assets. Additionally, based on the company's analysis of estimated useful lives of property, plant, and equipment, the company had \$0, \$531, and \$0 of accelerated depreciation expense during fiscal 2016, 2015, and 2014, respectively.

Accounts Payable

The company has a customer-managed service agreement with a third party to provide a web-based platform that facilitates participating suppliers' ability to finance payment obligations from the company with a designated third party financial institution. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the company prior to their scheduled due dates at a discounted price to a participating financial institution.

The company's obligations to its suppliers, including amounts due and scheduled payment dates, are not affected by suppliers' decisions to finance amounts under this arrangement. As of October 31, 2016 and 2015, \$16,249 and \$16,101, respectively, of the company's outstanding payment obligations had been placed on the accounts payable tracking system.

Insurance

The company is self-insured for certain losses relating to medical, dental, and workers' compensation claims, and certain product liability occurrences. Specific stop loss coverages are provided for catastrophic claims in order to limit exposure to significant claims. Losses and claims are charged to operations when it is probable a loss has been incurred and the amount can be reasonably estimated. Self-insured liabilities are based on a number of factors, including historical claims experience, an estimate of claims incurred but not reported, demographic and severity factors, and utilizing valuations provided by independent third-party actuaries.

Accrued Warranties

The company provides an accrual for estimated future warranty costs at the time of sale. The company also establishes accruals for major rework campaigns. The amount of warranty accruals is based primarily on the estimated number of products under warranty, historical average costs incurred to service warranty claims, the trend in the historical ratio of claims to sales, and the historical length of time between the sale and resulting warranty claim. The company periodically assesses the adequacy of its warranty accruals based on changes in these factors and records any necessary adjustments if actual claims experience indicates that adjustments are necessary.

The changes in accrued warranties were as follows:

Fiscal years ended October 31	2016	2015
Beginning balance	\$ 70,734	\$ 71,080
Warranty provisions	44,260	41,747
Warranty claims	(41,102)	(39,730)
Changes in estimates	(1,734)	(2,363)
Ending balance	\$ 72,158	\$ 70,734

Derivatives

Derivatives, consisting mainly of forward currency contracts, are used to hedge most foreign currency transactions, including forecasted sales and purchases denominated in foreign currencies. The company also in the past utilized and may in the future utilize cross currency swaps to offset foreign currency intercompany loan exposures. Derivatives are recognized on the consolidated balance sheet at fair value. If the derivative is designated as a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded as a component of other comprehensive income within the consolidated statements of comprehensive income and the consolidated statements of stockholders' equity, and recognized in earnings when the hedged item affects earnings. Derivatives that do not meet the requirements for hedge accounting are adjusted to fair value through other income, net in the consolidated statements of earnings.

Foreign Currency Translation and Transactions

The functional currency of the company's foreign operations is generally the applicable local currency. The functional currency is translated into U.S. dollars for balance sheet accounts using current exchange rates in effect as of the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the fiscal year. The translation adjustments are deferred as a component of other comprehensive income (loss) within the consolidated statements of comprehensive income and the consolidated statements of stockholders' equity. Gains or losses resulting from transactions denominated in foreign currencies are included in other income, net in the consolidated statements of earnings.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable

income in the years that those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. A valuation allowance is provided when, in management's judgment, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The company has reflected the necessary deferred tax assets and liabilities in the accompanying consolidated balance sheets. Management believes the future tax deductions will be realized principally through carryback to taxable income in prior years, future reversals of existing taxable temporary differences, and future taxable income.

The company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The company also records interest and penalties related to unrecognized tax benefits in income tax expense.

Revenue Recognition

The company recognizes revenue for product sales when persuasive evidence of an arrangement exists, title and risk of ownership passes to the customer, the sales price is fixed or determinable, and collectability is probable. These criteria are typically met at the time product is shipped, or in the case of certain agreements, when product is delivered. A provision is made at the time the related revenue is recognized for estimated product returns, floor plan costs, rebates, and other sales promotion expenses. Sales, use, value-added, and other excise taxes are not recognized in revenue. Freight revenue billed to customers is included in net sales.

The company ships some of its products to a key retailer's seasonal distribution centers on a consignment basis. The company retains title to its products stored at the seasonal distribution centers. As the company's products are removed from the seasonal distribution centers by the key retailer and shipped to the key retailer's stores, title passes from the company to the key retailer. At that time, the company invoices the key retailer and recognizes revenue for these consignment transactions. The company does not offer a right of return for products shipped to the key retailer's stores from the seasonal distribution centers. From time to time, the company also stores inventory on a consignment basis at other customers' locations. The amount of consignment inventory as of October 31, 2016 and 2015 was \$22,443 and \$23,566, respectively.

Revenue earned from service and maintenance contracts is recognized ratably over the contractual period. Revenue from extended warranty programs is deferred at the time the contract is sold and amortized into net sales using the straight-line method over the extended warranty period.

Sales Promotions and Incentives

At the time of sale, the company records an estimate for sales promotion and incentive costs. Examples of sales promotion and incentive programs include off-invoice discounts, rebate programs, volume discounts, retail financing support, commissions, and other sales discounts and promotional programs. The estimates of sales promotion and incentive costs are based on the terms of the arrangements with customers, historical payment experience, field inventory levels, volume purchases, and expectations for changes in relevant trends in the future. The expense of each program is classified as a reduction from gross sales or as a component of selling, general, and administrative expense.

Cost of Sales

Cost of sales primarily comprises direct materials and supplies consumed in the manufacture of product, as well as manufacturing labor, depreciation expense, and direct overhead expense necessary to convert purchased materials and supplies into finished product. Cost of sales also includes inbound freight costs, outbound freight costs for shipping products to customers, obsolescence expense, cost of services provided, and cash discounts on payments to vendors.

Selling, General, and Administrative Expense

Selling, general, and administrative expense primarily comprises payroll and benefit costs, occupancy and operating costs of distribution and corporate facilities, warranty expense, depreciation and amortization expense on non-manufacturing assets, advertising and marketing expenses, selling expenses, engineering and research costs, information systems costs, incentive and profit sharing expense, and other miscellaneous administrative costs, such as legal costs for internal and outside services that are expensed as incurred.

Cost of Financing Distributor / Dealer Inventory

The company enters into limited inventory repurchase agreements with a third-party financing company and Red Iron. The company has repurchased immaterial amounts of inventory under these repurchase agreements over the last three fiscal years. However, an adverse change in retail sales could cause this situation to change, and thereby require the company to repurchase a portion of financed product. See Note 13 for additional information regarding the company's repurchase arrangements.

Included as a reduction to net sales are costs associated with programs under which the company shares the expense of financing distributor and dealer inventories, referred to as floor plan expenses. This charge represents interest for a pre-established length of time based on a predefined rate from a contract with third party financing sources to finance distributor and dealer inventory purchases. These financing arrangements are used by the company as a marketing tool to assist customers to buy inventory. The financing costs for distributor and dealer inventories were \$28,773, \$24,130, and \$21,080 for the fiscal years ended October 31, 2016, 2015, and 2014, respectively.

Advertising

General advertising expenditures are expensed the first time advertising takes place. Production costs associated with advertising are expensed in the period incurred. Cooperative advertising represents expenditures for shared advertising costs that the company reimburses to customers and is classified as a component of selling, general, and administrative expense. These obligations are accrued and expensed when the related revenues are recognized in accordance with the programs established for various product lines. Advertising costs were \$41,837, \$42,843, and \$43,590 for the fiscal years ended October 31, 2016, 2015, and 2014, respectively.

Stock-Based Compensation

The company's stock-based compensation awards are generally granted to executive officers, other employees, and non-employee members of the company's Board of Directors, and include performance share awards that are contingent on the achievement of performance goals of the company, non-qualified stock options, restricted stock units, and restricted stock awards. Generally, compensation expense equal to the grant date fair value is recognized for these awards over the vesting period and is classified in selling, general and administrative expense. Stock options granted to executive officers and other employees are subject to accelerated expensing if the option holder meets the retirement definition set forth in The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended and restated (the "2010 plan"). In that case, the fair value of the options is expensed in the fiscal year of grant because generally the option holder must be employed as of the end of the fiscal year in which the options are granted in order for the options to continue to vest following retirement. Similarly, if a non-employee director has served on the company's Board of Directors for ten full fiscal years or more, the awards vest immediately upon retirement; and therefore, the fair value of the options granted is fully expensed on the date of the grant. See Note 10 for additional information regarding stock-based compensation plans.

Net Earnings Per Share

Basic net earnings per share is calculated using net earnings available to common stockholders divided by the weighted-average number of shares of common stock outstanding during the year plus the assumed issuance of contingent shares. Diluted net earnings per share is similar to basic net earnings per share except that the weighted-average number of shares of common stock outstanding plus the assumed issuance of contingent shares is increased to include the number of additional shares of common stock that would have been outstanding assuming the issuance of all potentially dilutive shares, such as common stock to be issued upon exercise of options, contingently issuable shares, and restricted stock units.

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

(Shares in thousands)

<i>Basic</i>	2016	2015	2014
Weighted-average number of shares of common stock	109,816	111,107	112,692
Assumed issuance of contingent shares	18	23	26
Weighted-average number of shares of common stock and assumed issuance of contingent shares	109,834	111,130	112,718
<i>Diluted</i>			
Weighted-average number of shares of common stock and assumed issuance of contingent shares	109,834	111,130	112,718
Effect of dilutive securities	2,153	2,384	2,537
Weighted-average number of shares of common stock, assumed issuance of contingent shares, and effect of dilutive securities	111,987	113,514	115,255

Share data has been adjusted for all periods presented to reflect a two-for-one stock split effective September 16, 2016.

Incremental shares from options and restricted stock units are computed by the treasury stock method. Options for the purchase of 310,566, 290,120, and 519,850 shares of common stock during fiscal 2016, 2015, and 2014, respectively, were excluded from the computation of diluted net earnings per share because they were anti-dilutive.

Cash Flow Presentation

The consolidated statements of cash flows are prepared using the indirect method, which reconciles net earnings to cash flow from operating activities. The necessary adjustments include the removal of timing differences between the occurrence of operating receipts and payments and their recognition in net earnings. The adjustments also remove from operating activities cash flows arising from investing and financing activities, which are presented separately from operating activities. Cash flows from foreign currency transactions and operations are translated at an average exchange rate for the period. Cash paid for acquisitions is classified as investing activities.

New Accounting Pronouncements Adopted

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-02, *Consolidation* (Topic 810), which amends certain requirements for determining whether a variable interest entity must be consolidated. The company adopted this amended guidance in the fourth quarter of its fiscal 2016. The adoption of this

guidance did not change the company's conclusion on consolidation of a variable interest entity.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This amended guidance requires an entity to present deferred tax assets and liabilities, along with any related valuation allowance, as non-current on the Consolidated Balance Sheets. As a result of the new guidance, each jurisdiction will now only have one net non-current deferred tax asset or liability. The new guidance does not change the existing requirement that only permits offsetting deferred tax assets and liabilities within a single jurisdiction. Entities have the option to apply the new guidance prospectively or retrospectively. This amended guidance was retrospectively adopted in the fourth quarter of fiscal 2016. Prior periods have been retrospectively adjusted for the adoption of this amended guidance and are reclassified in the Consolidated Balance Sheets presentation of deferred tax balances as of October 31, 2015 by including \$38,095 of previously classified current deferred tax assets as non-current.

2 ACQUISITION

On November 14, 2014, during the first quarter of fiscal 2015, the company acquired substantially all of the assets (excluding accounts receivable) of the BOSS® professional snow and ice management business of privately held Northern Star Industries, Inc. The purchase price of this acquisition was \$229,490, which included a cash payment of \$198,329 and issuance of a note payable at fair value of \$31,161. The company funded the acquisition with cash on hand, a \$130,000 term loan, and short-term debt under the company's revolving credit facility.

The purchase price of this acquisition was allocated to the identifiable assets acquired and liabilities assumed based on estimates of their fair value, with the excess purchase price for acquisitions recorded as goodwill.

3 INVESTMENT IN JOINT VENTURE

In fiscal 2009, the company and TCF Inventory Finance, Inc. ("TCFIF"), a subsidiary of TCF National Bank, established Red Iron Acceptance, LLC ("Red Iron"), a joint venture in the form of a Delaware limited liability company that primarily provides inventory financing to certain distributors and dealers of the company's products in the U.S. As of October 31, 2016, the initial term of Red Iron would have expired on October 31, 2017, unless it would have been extended for an additional two year term. See Note 17 as the Red Iron arrangement, including the initial term, were amended subsequent to October 31, 2016. Additionally, in connection with the joint venture, the company and an affiliate of TCFIF entered into an arrangement to provide inventory financing to dealers of the company's products in Canada.

The company owns 45 percent of Red Iron and TCFIF owns 55 percent of Red Iron. The company accounts for its investment in Red Iron under the equity method of accounting. The company and TCFIF each contributed a specified amount of the estimated cash required to enable Red Iron to purchase the company's inventory financing receivables and to provide financial support for Red Iron's inventory financing programs. As of October 31, 2016, Red Iron borrowed the remaining requisite estimated cash utilizing a \$450,000 secured revolving credit facility established under a credit agreement between Red Iron and TCFIF. The company's total investment in Red Iron as of October 31, 2016 and 2015 was \$18,719 and \$18,979, respectively. The company has not guaranteed the outstanding indebtedness of Red Iron. The company has agreed to repurchase products repossessed by Red Iron and the TCFIF Canadian affiliate, up to a maximum aggregate amount of \$7,500 in a calendar year.

Under the repurchase agreement between Red Iron and the company, Red Iron provides financing for certain dealers and distributors. These transactions are structured as an advance in the form of a payment by Red Iron to the company on behalf of a distributor or dealer with respect to invoices financed by Red Iron. These payments extinguish the obligation of the dealer or distributor to make payment to the company under the terms of the applicable invoice. Under separate agreements between Red Iron and the dealers and distributors, Red Iron provides loans to the dealers and distributors for the advances paid by Red Iron to the company. The net amount of receivables financed for dealers and distributors under this arrangement during fiscal 2016, 2015, and 2014 was \$1,713,588, \$1,430,855, and \$1,280,505, respectively.

Summarized financial information for Red Iron is presented as follows:

For the twelve months ended October 31	2016	2015	2014
Revenue	\$ 31,812	\$ 27,483	\$ 22,678
Net income	21,306	18,598	16,139

As of October 31	2016	2015
Finance receivables, net	\$ 370,169	\$ 366,397
Other assets	4,416	5,928
Total liabilities	332,985	330,149

4 OTHER INCOME, NET

Other income (expense) is as follows:

Fiscal years ended October 31	2016	2015	2014
Interest income	\$ 827	\$ 494	\$ 465
Retail financing revenue	1,087	1,086	1,077
Foreign currency exchange rate gain/(loss)	974	(324)	(1,006)
Gain on sale of business	340	—	—
Noncash income from finance affiliate	9,588	8,353	7,262
Litigation recovery, net	1,300	125	127
Miscellaneous	1,284	940	789
Total other income, net	\$ 15,400	\$ 10,674	\$ 8,714

5 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill — The changes in the net carrying amount of goodwill for fiscal 2016 and 2015 were as follows:

	Professional Segment	Residential Segment	Total
Balance as of October 31, 2014	\$ 80,946	\$ 10,905	\$ 91,851
Goodwill acquired	103,028	—	103,028
Translation and other adjustments	792	(138)	654
Balance as of October 31, 2015	184,766	10,767	195,533
Translation adjustments	(428)	(323)	(751)
Balance as of October 31, 2016	\$ 184,338	\$ 10,444	\$ 194,782

Other Intangible Assets — The components of other intangible assets were as follows:

	Weighted-average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
October 31, 2016				
Patents	3.1	\$ 15,151	\$(10,866)	\$ 4,285
Non-compete agreements	0.4	6,886	(6,681)	205
Customer-related	16.5	84,353	(14,434)	69,919
Developed technology	1.4	28,648	(23,712)	4,936
Trade names	17.1	28,715	(4,235)	24,480
Other		800	(800)	—
Total amortizable		164,553	(60,728)	103,825
Non-amortizable - trade names		4,268	—	4,268
Total other intangible assets, net		\$168,821	\$(60,728)	\$108,093
October 31, 2015				
Patents	3.6	\$ 15,191	\$(10,175)	\$ 5,016
Non-compete agreements	0.9	6,922	(6,206)	716
Customer-related	17.4	84,599	(10,316)	74,283
Developed technology	2.3	28,804	(20,530)	8,274
Trade names	18.0	28,715	(2,825)	25,890
Other		800	(800)	—
Total amortizable		165,031	(50,852)	114,179
Non-amortizable - trade names		4,831	—	4,831
Total other intangible assets, net		\$169,862	\$(50,852)	\$119,010

Amortization expense for intangible assets for the fiscal years ended October 31, 2016, 2015, and 2014 was \$9,550, \$11,438, and \$6,002, respectively. Estimated amortization expense for the succeeding fiscal years is as follows: 2017, \$9,458; 2018, \$7,440; 2019, \$6,562; 2020, \$6,006; 2021, \$5,601; and after 2021, \$68,758.

6 SHORT-TERM CAPITAL RESOURCES

As of October 31, 2016, the company had a \$150,000 unsecured senior five-year revolving credit facility that expires in October 2019. Included in this \$150,000 revolving credit facility is a sublimit of \$20,000 for standby letters of credit and a sublimit for swingline loans of \$20,000. At the election of the company, and the approval of the named borrowers on the revolving credit facility and the election of the lenders to fund such increase, the aggregate maximum principal amount available under the facility may be increased by an amount up to \$100,000 in aggregate. Funds are available under the revolving credit facility for working capital, capital expenditures, and other lawful purposes, including, but not limited to, acquisitions and stock repurchases. Interest expense on this credit line is determined based on a LIBOR rate (or other rates quoted by the Administrative Agent, Bank of America, N.A.) plus a basis point spread defined in the credit agreement. The company's non-U.S. operations also maintain unsecured short-term lines of credit in the aggregate amount of \$9,130. These facilities bear interest at various rates depending on the rates in their respective countries of operation. Under the company's lines of credit, there was no outstanding debt as of October 31, 2016 and October 31, 2015.

The credit agreement that contains the revolving credit facility and term loan, which is described in more detail in Note 7, contains standard covenants, including, without limitation, financial covenants, such as the maintenance of minimum interest

coverage and maximum debt to earnings before interest, tax, depreciation, and amortization ("EBITDA") ratios; and negative covenants, which among other things, limit loans and investments, disposition of assets, consolidations and mergers, transactions with affiliates, restricted payments, contingent obligations, liens, and other matters customarily restricted in such agreements. Most of these restrictions are subject to certain minimum thresholds and exceptions. Under the revolving credit facility, the company is not limited in the amount for payments of cash dividends and stock repurchases as long as the debt to EBITDA ratio from the previous quarter compliance certificate is less than or equal to 3.25, provided that immediately after giving effect of any such proposed action, no default or event of default would exist. In fiscal 2016, 2015, and 2014, the company was not limited in the amount for payments of cash dividends and stock repurchases as its debt to EBITDA ratio was below the thresholds. The company was in compliance with all covenants related to the lines of credit described above as of October 31, 2016 and 2015.

7

LONG-TERM DEBT

A summary of long-term debt as of October 31 is as follows:

	2016	2015
Term loan, due October 25, 2019	\$ 110,500	\$123,500
7.800% Debentures, due June 15, 2027	100,000	100,000
6.625% Senior Notes, due May 1, 2037	123,730	123,668
4% Unsecured Note, due November 14, 2017	19,677	30,604
Other	—	180
Total long-term debt	353,907	377,952
Less current portion	22,484	23,134
Long-term debt, less current portion	\$331,423	\$354,818

On November 14, 2014, the company issued a note with the aggregate principal amount of \$30,000 to the former owner of the BOSS business, Northern Star Industries, Inc., which was recorded at fair value of \$31,161.

In October 2014, the company obtained a \$130,000 term loan with various banks, which was a part of the new credit agreement that included the new revolving credit facility. Under the credit agreement, the term loan bears interest based on a LIBOR rate (or other rates quoted by the Administrative Agent, Bank of America, N.A.) plus a basis point spread defined in the credit agreement. The term loan can be repaid in part or in full at any time without penalty, but in any event must be paid in full by October 2019.

On April 26, 2007, the company issued \$125,000 in aggregate principal amount of 6.625% senior notes due May 1, 2037. The senior notes were priced at 98.513% of par value, and the resulting discount of \$1,859 associated with the issuance of these senior notes is being amortized over the term of the notes using the effective interest rate method. The underwriting fee and direct debt issue costs totaling \$1,524 will be amortized over the life of the notes. Although the coupon rate of the senior notes is 6.625%, the effective interest rate is 6.741% after taking into account the issuance discount. Interest on the senior notes is payable semi-annually on May 1 and November 1 of each year. The senior notes are unsecured senior obligations of the company and rank equally with the company's other unsecured and unsubordinated indebtedness. The indentures under which the senior notes were issued contain customary covenants and event of default provisions. The company may redeem some or all of the senior notes at any time at the greater of the full principal amount of the senior notes being redeemed or the present value of the remaining scheduled payments of principal and interest discounted to the redemption date on a semi-annual basis at the treasury rate plus 30 basis points, plus, in both cases, accrued and unpaid interest. In the event of the occurrence of both (i) a change of control of the company, and (ii) a downgrade of the notes below an investment grade rating by both Moody's Investors Service, Inc. and Standard & Poor's Ratings Services within a specified period, the company would be required to make an offer to purchase the senior notes at a price equal to 101% of the principal amount of the senior notes plus accrued and unpaid interest to the date of repurchase.

In June 1997, the company issued \$175,000 of debt securities consisting of \$75,000 of 7.125% coupon 10-year notes and \$100,000 of 7.80% coupon 30-year debentures. The \$75,000 of 7.125% coupon 10-year notes were repaid at maturity during fiscal 2007. In connection with the issuance of \$175,000 in long-term debt securities, the company paid \$23,688 to terminate three forward-starting interest rate swap agreements with notional amounts totaling \$125,000. These swap agreements had been entered into to reduce exposure to interest rate risk prior to the issuance of the new long-term debt securities. As of the inception of one of the swap agreements, the company had received payments that were recorded as deferred income to be recognized as an adjustment to interest expense over the term of the new debt securities. As of the date the swaps were terminated, this deferred income totaled \$18,710. The excess termination fees over the deferred income recorded has been deferred and is being recognized as an adjustment to interest expense over the term of the debt securities issued. As of October 31, 2016, the company had \$1,680 remaining in other assets for the excess termination fees over deferred income.

Principal payments required on long-term debt in each of the next five fiscal years ending October 31 are as follows: 2017, \$22,484; 2018, \$23,193; 2019, \$84,500; 2020, \$0; 2021, \$0; and after 2021, \$223,730.

8 STOCKHOLDERS' EQUITY

Shares have been adjusted for all periods presented to reflect a two-for-one stock split effective September 16, 2016.

Stock Repurchase Program. On December 11, 2012, the company's Board of Directors authorized the repurchase of 10,000,000 shares of the company's common stock in open-market or in privately negotiated transactions. This program has no expiration date but may be terminated by the Board at any time. On December 3, 2015, the company's Board of Directors authorized the repurchase of up to an additional 8,000,000 shares of the company's common stock in open-market or in privately negotiated transactions. This repurchase program has no expiration date but may be terminated by the Board at any time.

During fiscal 2016, 2015, and 2014, the company paid \$107,517, \$105,964, and \$101,674 to repurchase Board of Director authorized shares for repurchase in an aggregate of 2,560,567 shares, 3,122,358 shares, and 3,245,138 shares, respectively. As of October 31, 2016, 7,692,715 shares remained authorized by the Board of Directors for repurchase. The Board of Director authorized shares for repurchase does not include shares of our common stock surrendered by employees to satisfy minimum tax withholding obligations upon vesting of restricted stock granted under our stock-based compensation plans.

Treasury Shares. As of October 31, 2016, the company had 19,700,607 treasury shares at a cost of \$1,280,495. On May 17, 2016, the company's Board of Directors authorized the retirement of 14,000,440 treasury shares, and the retired shares are included in the company's pool of authorized and unissued shares of common stock. As of October 31, 2015, the company had 46,827,048 treasury shares at a cost of \$1,243,729.

Accumulated Other Comprehensive Loss. Components of accumulated other comprehensive loss ("AOCL"), net of tax, within the consolidated statements of stockholders' equity are as follows:

As of October 31	2016	2015	2014
Foreign currency translation adjustments	\$ 31,430	\$ 24,328	\$ 12,536
Pension and post-retirement benefits	6,359	5,386	5,266
Derivative instruments	647	129	(2,097)
Total accumulated other comprehensive loss	\$ 38,436	\$ 29,843	\$ 15,705

The components and activity of AOCL are as follows:

	Foreign Currency Translation Adjustments	Pension and Postretirement Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2015	\$ 24,328	\$ 5,386	\$ 129	\$ 29,843
Other comprehensive loss (income) before reclassifications	7,102	973	1,116	9,191
Amounts reclassified from AOCL	—	—	(598)	(598)
Net current period other comprehensive (income) loss	7,102	973	518	8,593
Balance as of October 31, 2016	\$ 31,430	\$ 6,359	\$ 647	\$ 38,436
	Foreign Currency Translation Adjustments	Pension and Postretirement Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2014	\$ 12,536	\$ 5,266	\$ (2,097)	\$ 15,705
Other comprehensive loss (income) before reclassifications	11,792	—	(7,680)	4,112
Amounts reclassified from AOCL	—	120	9,906	10,026
Net current period other comprehensive (income) loss	11,792	120	2,226	14,138
Balance as of October 31, 2015	\$ 24,328	\$ 5,386	\$ 129	\$ 29,843

AOCL associated with pension and postretirement benefits are included in Note 11. Details of amounts reclassified from accumulated other comprehensive loss to the respective line items in net earnings for cash flow derivative instruments are included in Note 14.

9 INCOME TAXES

Earnings before income taxes were as follows:

Fiscal years ended October 31	2016	2015	2014
Earnings before income taxes:			
U.S.	\$ 292,184	\$ 254,276	\$ 239,501
Non-U.S.	38,276	36,755	16,944
Total	\$ 330,460	\$ 291,031	\$ 256,445

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

Fiscal years ended October 31	2016	2015	2014
Statutory federal income tax rate	35.0%	35.0%	35.0%
Domestic manufacturer's deduction	(0.8)	(1.7)	(1.9)
State and local income taxes, net of federal benefit	1.5	2.2	1.5
Non-U.S. taxes	(1.8)	(3.1)	(1.2)
Federal research tax credit	(1.5)	(0.9)	(0.2)
Other, net	(2.3)	(0.8)	(1.0)
Consolidated effective tax rate	30.1%	30.7%	32.2%

Components of the provision for income taxes were as follows:

Fiscal years ended October 31	2016	2015	2014
Provision for income taxes:			
Current:			
Federal	\$ 77,685	\$ 75,496	\$ 75,815
State	6,929	9,389	5,997
Non-U.S.	6,295	6,219	3,672
Current provision	\$ 90,909	\$ 91,104	\$ 85,484
Deferred:			
Federal	\$ 7,283	\$ 430	\$ (3,047)
State	297	—	(81)
Non-U.S.	977	(2,094)	219
Deferred benefit	8,557	(1,664)	(2,909)
Total provision for income taxes	\$ 99,466	\$ 89,440	\$ 82,575

The tax effects of temporary differences that give rise to the net deferred income tax assets are presented below:

October 31	2016	2015
Deferred tax assets (liabilities):		
Compensation and benefits	\$ 37,200	\$ 41,341
Warranty and insurance	17,443	12,067
Advertising and sales allowance	11,185	10,474
Depreciation	(13,578)	(7,689)
Other	6,845	12,264
Deferred tax assets	\$ 59,095	\$ 68,457
Valuation allowance	(1,867)	(1,801)
Net deferred tax assets	\$ 57,228	\$ 66,656

The valuation allowance as of October 31, 2016 and 2015 principally applies to capital loss carryforwards and foreign net operating loss carryforwards that are expected to expire prior to utilization. In fiscal 2016, the valuation allowance increased slightly for certain foreign jurisdictions with existing valuation allowances.

As of October 31, 2016, the company had net operating loss carryforwards of approximately \$8,068 in foreign jurisdictions. The carryforward periods are as follows: \$4,858 that do not expire; and \$3,210 that expire between fiscal years 2017 and 2022.

No provision has been made for U.S. federal income taxes on certain undistributed earnings of foreign subsidiaries the company intends to permanently invest or that may be remitted substantially tax-free. The total of undistributed earnings that would be subject to federal income tax if remitted under existing law is approximately \$117,866 as of October 31, 2016. Determination of the unrecognized deferred tax liability related to these earnings is not practicable because of the complexities with its hypothetical calculation. Upon distribution of these earnings, the company will be subject to U.S. taxes and withholding taxes payable to various foreign governments. A credit for foreign taxes already paid would be available to reduce the U.S. tax liability.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance as of October 31, 2015	\$ 6,343
Increase as a result of tax positions taken during a prior period	683
Increase as a result of tax positions taken during the current period	453
Decrease relating to settlements with taxing authorities	(1,666)
Reductions as a result of statute of limitations lapses	(638)
Balance as of October 31, 2016	\$ 5,175

The company recognizes interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes. In addition to the liability of \$5,175 for unrecognized tax benefits as of October 31, 2016 was an amount of approximately \$1,850 for accrued interest and penalties.

Included in the balance of unrecognized tax benefits as of October 31, 2016 are potential benefits of \$5,089 that, if recognized, would affect the effective tax rate from continuing operations.

The company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and numerous state and foreign jurisdictions. With few exceptions, the company is no longer subject to U.S. federal, state and local, and non-U.S. income tax examinations by tax authorities for taxable years before fiscal 2012. The company is under audit in several state jurisdictions, and expects various statutes of limitation to expire during the next 12 months. Due to the uncertain response of taxing authorities, a range of outcomes cannot be reasonably estimated at this time.

10 STOCK-BASED COMPENSATION PLANS

The company maintains the 2010 plan for executive officers, other employees, and non-employee members of the company's Board of Directors. The 2010 plan allows the company to grant equity-based compensation awards, including stock options, restricted stock units, restricted stock, and performance share awards.

Shares and per share data have been adjusted for all periods presented to reflect a two-for-one stock split effective September 16, 2016.

The compensation costs related to stock-based awards were as follows:

Fiscal years ended October 31	2016	2015	2014
Stock option awards	\$ 4,606	\$ 4,704	\$ 5,142
Restricted stock and restricted stock units	1,891	1,756	1,653
Performance share awards	3,676	3,964	4,496
Unrestricted common stock awards	464	412	409
Total compensation cost for stock-based awards	\$ 10,637	\$ 10,836	\$ 11,700
Related tax benefit from stock-based awards	\$ 3,936	\$ 4,009	\$ 4,329

The number of unissued shares of common stock available for future equity-based grants under the 2010 plan was 6,158,207 as of October 31, 2016. Shares of common stock issued upon exercise or settlement of stock options, restricted stock units, and performance shares are issued from treasury shares.

During fiscal 2016, 2015 and 2014, 12,320, 13,360 and 14,000 shares, respectively, of fully vested unrestricted common stock awards were granted to certain members of the company's Board of Directors as a component of their compensation for their service on the board and is recorded in selling, general, and administrative expense in the consolidated statements of earnings.

Stock Option Awards. Under the 2010 plan, stock options are granted with an exercise price equal to the closing price of the company's common stock on the date of grant, as reported by the New York Stock Exchange. Options are generally granted to executive officers, other employees, and non-employee members of the company's Board of Directors on an annual basis in the first quarter of the company's fiscal year. Options generally vest one-third each year over a three-year period and have a ten-year term. Other options granted to certain employees vest in full on the three-year anniversary of the date of grant and have a ten-year term. Generally, compensation expense equal to the grant date fair value is generally recognized for these awards over the vesting period. Stock options granted to executive officers and other employees are subject to accelerated expensing if the option holder meets the retirement definition set forth in the 2010 plan. In that case, the fair value of the options is expensed in the fiscal year of grant because generally the option holder must be employed as of the end of the fiscal year in which the options are granted in order for the options to continue to vest following retirement. Similarly, if a non-employee director has served on the company's Board of Directors for ten full fiscal years or more, the awards vest immediately upon retirement, and therefore, the fair value of the options granted is fully expensed on the date of the grant.

The table below presents stock option activity for fiscal 2016:

	Stock Option Awards	Weighted-Average Exercise Price	Weighted-Average Contractual Life (years)	Intrinsic Value
Outstanding as of October 31, 2015	5,829,442	\$ 16.60	5.2	\$ 122,606
Granted	618,884	38.73		
Exercised	(1,491,666)	13.50		
Cancelled/forfeited	(76,676)	34.80		
Expired	—	—		
Outstanding as of October 31, 2016	4,879,984	\$ 20.07	5.3	\$ 135,697
Exercisable as of October 31, 2016	3,748,816	\$ 15.61	4.4	\$ 120,973

As of October 31, 2016, there was \$1,888 of total unrecognized compensation expense related to unvested stock options. That cost is expected to be recognized over a weighted-average period of 1.93 years.

The table below presents the total market value of stock options exercised and the total intrinsic value of options exercised during the following fiscal years:

Fiscal years ended October 31	2016	2015	2014
Market value of stock options exercised	\$ 61,468	\$ 27,860	\$ 19,017
Intrinsic value of options exercised¹	41,365	18,739	12,311

¹ Intrinsic value is calculated as amount by which the stock price at exercise date exceeded the option exercise price.

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

The table below illustrates the weighted-average valuation assumptions for all employee and non-employee director stock-based compensation for the following fiscal years:

Fiscal years ended October 31	2016	2015	2014
Expected life of option in years	5.97	5.94	6.00
Expected stock price volatility	24.04%	29.66%	34.29%
Risk-free interest rate	1.80%	1.61%	1.92%
Expected dividend yield	1.24%	1.29%	1.25%
Weighted-average fair value at date of grant	\$8.79	\$8.41	\$9.35

Restricted Stock and Restricted Stock Units. Under the 2010 plan, restricted stock and restricted stock unit awards are generally granted to certain employees that are not executive officers. Occasionally, restricted stock or restricted stock unit awards may be granted, including to executive officers, in connection with hiring, mid-year promotions, leadership transition, or retention. Restricted stock and restricted stock unit awards generally vest one-third each year over a three-year period, or vest in full on the three-year anniversary of the date of grant. Such awards may have performance-based rather than time-based vesting requirements. Compensation expense equal to the grant date fair value, which is equal to the closing price of the company's common stock on the date of grant multiplied by the number of shares subject to the restricted stock and restricted stock unit awards, is recognized for these awards over the vesting period.

Factors related to the company's restricted stock and restricted stock units during the following fiscal years are as follows:

Fiscal years ended October 31	2016	2015	2014
Weighted-average fair value at date of grant	\$ 41.83	\$ 33.88	\$ 31.53
Fair value of restricted stock and restricted stock units vested	1,265	1,702	1,890

The table below summarizes the activity during fiscal 2016 for unvested restricted stock and restricted stock units:

	Restricted Stock and Units	Weighted-Average Fair Value at Date of Grant
Unvested as of October 31, 2015	183,594	\$ 31.39
Granted	52,990	41.83
Vested	(41,874)	30.21
Forfeited	(19,370)	33.17
Unvested as of October 31, 2016	175,340	\$ 34.63

As of October 31, 2016, there was \$2,670 of total unrecognized compensation expense related to unvested restricted stock units. That cost is expected to be recognized over a weighted-average period of 2.14 years.

Performance Share Awards. The company grants performance share awards to executive officers and other employees under which they are entitled to receive shares of the company's common stock contingent on the achievement of performance goals of the company and businesses of the company, which are generally measured over a three-year period. The number of shares of common stock a participant receives will be increased (up to 200 percent of target levels) or reduced (down to zero) based on the level of achievement of performance goals and vest at the end of a three-year period. Performance share awards are generally granted on an annual basis in the first quarter of the company's fiscal year. Compensation expense is recognized for these awards on a straight-line basis over the vesting period based on the per share fair value as of the date of grant and the probability of achieving each performance goal.

Factors related to the company's performance share awards are as follows:

Fiscal years ended October 31	2016	2015	2014
Weighted-average fair value at date of grant	\$ 38.89	\$ 32.84	\$ 29.66
Fair value of performance share awards vested	7,454	7,989	7,926

The table below summarizes the activity during fiscal 2016 for unvested performance share awards:

	Performance Shares	Weighted-Average Fair Value at Date of Grant
Unvested as of October 31, 2015	659,600	\$ 26.43
Granted	116,400	38.89
Vested	(302,800)	21.03
Cancelled/forfeited	(52,152)	32.39
Unvested as of October 31, 2016	421,048	\$ 33.00

As of October 31, 2016, there was \$4,416 of total unrecognized compensation expense related to unvested performance share awards. That cost is expected to be recognized over a weighted-average period of 1.69 years.

11 EMPLOYEE RETIREMENT PLANS

The company maintains The Toro Company Investment, Savings, and Employee Stock Ownership Plan for eligible employees. The company's expenses under this plan were \$16,986, \$17,400, and \$15,550 for the fiscal years ended October 31, 2016, 2015, and 2014, respectively.

In addition, the company and its subsidiaries have defined benefit, supplemental, and other retirement plans covering certain employees in the U.S. and the United Kingdom. The projected benefit obligation of these plans as of October 31, 2016 and 2015 was \$45,603 and \$46,427, respectively, and the net liability amount recognized in the consolidated balance sheets as of

October 31, 2016 and 2015 was \$4,243 and \$4,829, respectively. The accumulated benefit obligation of these plans as of October 31, 2016 and 2015 was \$45,603 and \$43,145, respectively. The funded status of these plans as of October 31, 2016 and 2015 was \$12,984 and \$11,303, respectively. The fair value of the plan assets as of October 31, 2016 and 2015 was \$32,619 and \$35,124, respectively. The net expense recognized in the consolidated financial statements for these plans was \$1,220, \$2,406, and \$1,092 for the fiscal years ended October 31, 2016, 2015, and 2014, respectively.

Amounts recognized in accumulated other comprehensive loss consisted of:

Fiscal years ended October 31	Defined Benefit Pension Plans	Postretirement Benefit Plan	Total
2016			
Net actuarial loss (gain)	\$ 5,496	\$ 554	\$ 6,050
Net prior service cost	309	—	309
Accumulated other comprehensive loss	\$ 5,805	\$ 554	\$ 6,359
2015			
Net actuarial loss	\$ 5,100	\$ (66)	\$ 5,034
Net prior service cost (credit)	352	—	352
Accumulated other comprehensive loss	\$ 5,452	\$ (66)	\$ 5,386

The following amounts are included in accumulated other comprehensive loss as of October 31, 2016 and are expected to be recognized as components of net periodic benefit cost during fiscal 2017.

	Defined Benefit Pension Plans	Postretirement Benefit Plan	Total
Net actuarial loss	\$ 121	\$ 7	\$ 128
Net prior service cost	67	—	67
Total	\$ 188	\$ 7	\$ 195

Amounts recognized in net periodic benefit cost and other comprehensive loss consisted of:

Fiscal years ended October 31	Defined Benefit Pension Plans	Postretirement Benefit Plan	Total
2016			
Net actuarial loss (gain)	\$ 469	\$ 619	\$ 1,088
Prior service cost	—	—	—
Amortization of unrecognized prior service (credit) cost	(42)	—	(42)
Amortization of unrecognized actuarial loss (gain)	(73)	—	(73)
Total recognized in other comprehensive loss (income)	\$ 354	\$ 619	\$ 973
Total recognized in net periodic benefit cost and other comprehensive loss	\$ 976	\$ 1,217	\$ 2,193
2015			
Net actuarial loss (gain)	\$ 37	\$ (577)	\$ (540)
Prior service cost	126	—	126
Amortization of unrecognized prior service (credit) cost	(32)	25	(7)
Amortization of unrecognized actuarial loss (gain)	542	(1)	541
Total recognized in other comprehensive loss (income)	\$ 673	\$ (553)	\$ 120
Total recognized in net periodic benefit cost and other comprehensive loss	\$ 2,475	\$ 51	\$ 2,526

The company has omitted the remaining disclosures for its defined benefit plans and postretirement healthcare plan as the company deems these plans to be immaterial to its consolidated financial position and results of operations.

12 SEGMENT DATA

The company's businesses are organized, managed, and internally grouped into segments based on differences in products and services. Segment selection was based on the manner in which management organizes segments for making operating and investment decisions and assessing performance. The company has identified nine operating segments and has aggregated those segments into three reportable segments: Professional, Residential, and Distribution. The aggregation of the company's segments is based on the segments having the following similarities: economic characteristics, types of products and services, types of production processes, type or class of customers, and method of distribution. The company's Distribution segment, which consists of a company-owned domestic distributorship, has been combined with the company's corporate activities and elimination of intersegment revenues and expenses and is shown as "Other" due to the insignificance of the segment.

The Professional business segment consists of turf and landscape equipment, snow and ice management equipment, and irrigation products. Turf and landscape equipment products include sports fields and grounds maintenance equipment, golf course mowing and maintenance equipment, landscape contractor mowing equipment, landscape creation and renovation equipment, rental and specialty construction equipment, and other maintenance equipment. Snow and ice management equipment products include snowplows, salt and sand spreaders, and related parts and accessories for light and medium duty trucks, ATVs, UTVs, skid steers, and front-end loaders. Irrigation products consist of sprinkler heads, electric and hydraulic valves, controllers, computer irrigation central control systems, and micro-irrigation drip tape and hose products, as well as professionally installed lighting products offered through distributors and landscape contractors that also purchase irrigation products. Professional business segment products are sold mainly through a network of distributors and dealers to professional users engaged in maintaining golf courses, sports fields, municipal properties, agricultural fields, residential and commercial landscapes, and removing snow, as well as directly to government customers, rental companies, and large retailers.

The Residential business segment consists of walk power mowers, riding mowers, snow throwers, replacement parts, and home solutions products, including trimmers, blowers, blower-vacuums, and underground and hose-end retail irrigation products sold in Australia. Residential business segment products are sold to homeowners through a network of distributors and dealers, and through a broad array of home centers, hardware retailers, and mass retailers, as well as over the internet.

The Other segment consists of the company's Distribution segment and corporate activities and elimination of intersegment revenues and expenses. Corporate activities include general corporate expenditures (finance, human resources, legal, information services, public relations, and similar activities) and other unallocated corporate assets and liabilities, such as corporate facilities, parts inventory, and deferred tax assets.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. The company evaluates the performance of its Professional and Residential business segment results based on earnings from operations plus other income, net. Operating loss for the Other segment includes earnings (loss) from domestic wholly owned distribution companies, corporate activities, other income, and interest expense. The business segment's operating profits or losses include direct costs incurred at the segment's operating level plus allocated expenses, such as profit sharing and manufacturing expenses. The allocated expenses represent costs that these operations would have incurred otherwise, but do not include general corporate expenses, interest expense, and income taxes. The company accounts for intersegment gross sales at current market prices.

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

Fiscal years ended October 31	Professional	Residential	Other	Total
2016				
Net sales	\$ 1,705,312	\$ 669,131	\$ 17,732	\$ 2,392,175
Intersegment gross sales	28,138	354	(28,492)	—
Earnings (loss) before income taxes	352,060	73,691	(95,291)	330,460
Total assets	774,762	188,920	423,836	1,387,518
Capital expenditures	27,296	13,794	9,633	50,723
Depreciation and amortization	40,715	10,406	12,976	64,097
2015				
Net sales	\$ 1,639,659	\$ 725,682	\$ 25,534	\$ 2,390,875
Intersegment gross sales	45,634	406	(46,040)	—
Earnings (loss) before income taxes	308,010	84,956	(101,935)	291,031
Total assets	805,686	217,093	280,879	1,303,658
Capital expenditures	29,016	9,953	17,405	56,374
Depreciation and amortization	42,799	9,131	11,213	63,143
2014				
Net sales	\$ 1,477,578	\$ 672,443	\$ 22,670	\$ 2,172,691
Intersegment gross sales	41,376	424	(41,800)	—
Earnings (loss) before income taxes	276,305	76,916	(96,776)	256,445
Total assets	573,086	172,984	446,345	1,192,415
Capital expenditures	25,226	12,417	33,495	71,138
Depreciation and amortization	34,228	8,883	10,027	53,138

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

Fiscal years ended October 31	2016	2015	2014
Corporate expenses	\$ (95,288)	\$ (95,167)	\$ (88,539)
Interest expense	(19,336)	(18,757)	(15,426)
Other income	19,333	11,989	7,189
Total	\$ (95,291)	\$ (101,935)	\$ (96,776)

The following table presents net sales for groups of similar products and services:

Fiscal years ended October 31	2016	2015	2014
Equipment	\$ 2,001,150	\$ 2,004,274	\$ 1,765,845
Irrigation and lighting	391,025	386,601	406,846
Total	\$ 2,392,175	\$ 2,390,875	\$ 2,172,691

Sales to one customer in the Residential segment accounted for 11 percent of total consolidated gross sales in fiscal 2016, 2015, and 2014.

Geographic Data

The following geographic area data includes net sales based on product shipment destination. Long-lived assets consist of net property, plant, and equipment, which is determined based on physical location in addition to allocated capital tooling from U.S. plant facilities.

Fiscal years ended October 31	United States	Foreign Countries	Total
2016			
Net sales	\$ 1,812,587	\$ 579,588	\$ 2,392,175
Long-lived assets	188,869	33,169	222,038
2015			
Net sales	\$ 1,780,240	\$ 610,635	\$ 2,390,875
Long-lived assets	190,262	34,733	224,995
2014			
Net sales	\$ 1,550,077	\$ 622,614	\$ 2,172,691
Long-lived assets	169,797	35,398	205,195

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COMMITMENTS AND CONTINGENT LIABILITIES

Leases

Total rental expense for operating leases was \$26,363, \$24,986, and \$24,329 for the fiscal years ended October 31, 2016, 2015, and 2014, respectively. As of October 31, 2016, future minimum lease payments under noncancelable operating leases amounted to \$96,136 as follows: 2017, \$15,002; 2018, \$13,540; 2019, \$11,597; 2020, \$10,580; 2021, \$10,042; and after 2021, \$35,375.

Customer Financing

Wholesale Financing. The company is party to a joint venture with TCFIF established as Red Iron. See Note 3 for additional information related to Red Iron. Some products sold to independent dealers in Australia are financed by a third-party finance company. This third-party financing company purchased \$28,887 of receivables from the company during fiscal 2016. As of October 31, 2016, \$12,316 of receivables financed by the third-party financing company, excluding Red Iron, was outstanding.

The company also enters into limited inventory repurchase agreements with third party financing companies and Red Iron for receivables financed by third party financing companies and Red Iron. As of October 31, 2016, the company was contingently liable to repurchase up to a maximum amount of \$10,389 of inventory related to receivables under these financing arrangements. The company has repurchased only immaterial amounts of inventory under these repurchase agreements since inception.

End-User Financing. The company has agreements with third party financing companies to provide lease-financing options to golf course and sports fields and grounds equipment customers in the U.S. and select countries in Europe. The company has no contingent liabilities for residual value or credit collection risk under these agreements with third party financing companies.

From time to time, the company enters into agreements where it provides recourse to third party finance companies in the event of default by the customer for lease payments to the third-party finance company. The company's maximum exposure for credit collection as of October 31, 2016 was \$4,904.

Purchase Commitments

As of October 31, 2016, the company had \$5,140 of noncancelable purchase commitments with some suppliers for materials and supplies as part of the normal course of business. The company also entered into a construction agreement for renovations at its corporate facilities located in Bloomington, Minnesota, for a maximum obligation, subject to certain exceptions, of \$3,038. The amount of the remaining obligation as of October 31, 2016 was \$2,524.

Letters of Credit

Letters of credit are issued by the company during the normal course of business, as required by some vendor contracts. As of October 31, 2016 and 2015, the company had \$8,984 and \$16,245, respectively, in outstanding letters of credit.

Litigation

The company is party to litigation in the ordinary course of business. Such matters are generally subject to uncertainties and to outcomes that are not predictable with assurance and that may not be known for extended periods of time. Litigation occasionally involves claims for punitive, as well as compensatory, damages arising out of the use of the company's products. Although the company is self-insured to some extent, the company maintains insurance against certain product liability losses. The company is also subject to litigation and administrative and judicial proceedings with respect to claims involving asbestos and the discharge of hazardous substances into the environment. Some of these claims assert damages and liability for personal injury, remedial investigations or clean up and other costs and damages. The company is also typically involved in commercial disputes, employment disputes, and patent litigation cases in which it is asserting or defending against patent infringement claims. To prevent possible infringement of the company's patents by others, the company periodically reviews competitors' products. To avoid potential liability with respect to others' patents, the company regularly reviews certain patents issued by the United States Patent and Trademark Office and foreign patent offices. Management believes these activities help minimize its risk of

being a defendant in patent infringement litigation. The company is currently involved in patent litigation cases, including cases by or against competitors, where it is asserting and defending against claims of patent infringement. Such cases are at varying stages in the litigation process. The company records a liability in its consolidated financial statements for costs related to claims, including future legal costs, settlements and judgments, where the company has assessed that a loss is probable and an amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range, the company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. The company discloses a contingent liability even if the liability is not probable or the amount is not estimable, or both, if there is a reasonable possibility that a material loss may have been incurred. In the opinion of management, the amount of liability, if any, with respect to these matters, individually or in the aggregate, will not materially affect its consolidated results of operations, financial position, or cash flows.

14 FINANCIAL INSTRUMENTS

Concentrations of Credit Risk

Financial instruments, which potentially subject the company to concentrations of credit risk, consist principally of accounts receivable that are concentrated in the Professional and Residential business segments. The credit risk associated with these segments is limited because of the large number of customers in the company's customer base and their geographic dispersion, except for the Residential segment that has significant sales to The Home Depot.

Derivative Instruments and Hedging Activities

The company is exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales to third party customers, sales and loans to wholly owned foreign subsidiaries, foreign plant operations, and purchases from suppliers. The company actively manages the exposure of its foreign currency exchange rate market risk by entering into various hedging instruments, authorized under company policies that place controls on these activities, with counterparties that are highly rated financial institutions. The company's hedging activities primarily involve the use of forward currency contracts, as well as cross currency swaps that are intended to offset intercompany loan exposures. The company uses derivative instruments only in an attempt to limit underlying exposure from foreign currency exchange rate fluctuations and to minimize earnings and cash flow volatility associated with foreign currency exchange rate changes. Decisions on whether to use such contracts are primarily based on the amount of exposure to the currency involved and an assessment of the near-term market value for each currency. The company's policy does not allow the use of derivatives for trading or speculative purposes. The company also made an accounting policy election to use the portfolio exception with respect to measuring counterparty credit risk for derivative instruments, and to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position with each counterparty. The company's primary currency exchange rate exposures are with the Euro, the Australian dollar, the Canadian dollar, the British pound, the Mexican peso, the Japanese yen, the Chinese Renminbi, and the Romanian New Leu against the U.S. dollar, as well as the Romanian New Leu against the Euro.

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

The company formally assesses, at a hedge's inception and on an ongoing basis, whether the derivatives that are designated as hedges have been highly effective in offsetting changes in the cash flows of the hedged transactions and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the company discontinues hedge accounting prospectively. When the company discontinues hedge accounting because it is no longer probable, but it is still reasonably possible that the forecasted transaction will occur by the end of the originally expected period or within an additional two-month period of time thereafter, the gain or loss on the derivative remains in AOCL and is reclassified to net earnings when the forecasted transaction affects net earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were in AOCL are recognized immediately in net earnings. In all

situations in which hedge accounting is discontinued and the derivative remains outstanding, the company carries the derivative at its fair value on the consolidated balance sheets, recognizing future changes in the fair value in other income, net. For the fiscal years ended October 31, 2016 and 2015, there were immaterial gains and losses on contracts reclassified into earnings as a result of the discontinuance of cash flow hedges. As of October 31, 2016, the notional amount of outstanding forward contracts designated as cash flow hedges was \$122,497. During the third quarter of fiscal 2016, the company terminated its one cross currency interest rate swap instrument outstanding with gains on the instrument recorded in other income.

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

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

Fair Value at October 31	2016	2015
Asset Derivatives		
<i>Derivatives Designated as Hedging Instruments</i>		
Prepaid expenses and other current assets		
Forward currency contracts	\$ 1,535	\$ 2,102
Cross currency contract	—	—
<i>Derivatives Not Designated as Hedging Instruments</i>		
Prepaid expenses and other current assets		
Forward currency contracts	432	1,071
Cross currency contract	—	2,136
Total Assets	\$ 1,967	\$ 5,309
Liability Derivatives		
<i>Derivatives Designated as Hedging Instruments</i>		
Accrued liabilities		
Forward currency contracts	\$ 973	\$ 1,363
Cross currency contract	—	134
<i>Derivatives Not Designated as Hedging Instruments</i>		
Accrued liabilities		
Forward currency contracts	792	348
Cross currency contract	—	—
Total Liabilities	\$ 1,765	\$ 1,845

The following table presents the impact of derivative instruments on the consolidated statements of earnings and the consolidated statements of comprehensive income for the company's derivatives designated as cash flow hedging instruments for the fiscal years ended October 31, 2016 and 2015, respectively.

October 31	Effective Portion				Ineffective Portion and excluded from Effectiveness Testing				
	Gain (Loss) Recognized in OCI on Derivatives		Location of Gain (Loss) Reclassified from AOCL into Income	Gain (Loss) Reclassified from AOCL into Income		Location of Gain (Loss) Recognized in Income on Derivatives		Gain (Loss) Recognized in Income on Derivatives	
	2016	2015		2016	2015		2016	2015	
Forward currency contracts	\$ (961)	\$ (745)	Net sales	\$ 2,094	\$ 13,067	Other income, net	\$ 608	\$ 747	
Forward currency contracts	181	(1,687)	Cost of sales	(2,598)	(2,806)				
Cross currency contracts	255	200	Other income, net	(94)	(355)				
Total derivatives designated as cash flow hedges	\$ (525)	\$ (2,232)	Total	\$ (598)	\$ 9,906	Total	\$ 608	\$ 747	

As of October 31, 2016, the company anticipates to reclassify approximately \$153 of gains from AOCL to earnings during the next twelve months.

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

Fiscal Years Ended	Location of Gain (Loss)	2016	2015
October 31	Recognized in Net Earnings		
Forward currency contracts	Other income, net	\$ (4)	\$ 7,703
Cross currency contracts	Other income, net	(191)	1,400
Total derivatives not designated as hedges		\$ (195)	\$ 9,103

The company entered into an International Swap Dealers Association ("ISDA") Master Agreement with each counterparty that permits the net settlement of amounts owed under their respective contracts. The ISDA Master Agreement is an industry standardized contract that governs all derivative contracts entered into between the company and the respective counterparty. Under these master netting agreements, net settlement generally permits the company or the counterparty to determine the net amount payable or receivable for contracts due on the same date or in the same currency for similar types of derivative transactions. The company records the fair value of its derivative contracts at the net amount in its consolidated balance sheets.

The following tables show the effects of the master netting arrangements on the fair value of the company's derivative contracts that are recorded in the consolidated balance sheets.

October 31	2016	2015
Assets		
<i>Forward currency contracts</i>		
Gross Amounts of Recognized Assets	\$ 2,264	\$ 3,380
Gross Liabilities Offset in the Balance Sheets	(297)	(207)
Net Amounts of Assets Presented in the Balance Sheets	1,967	3,173
<i>Cross currency contracts</i>		
Gross Amounts of Recognized Assets	—	2,136
Gross Liabilities Offset in the Balance Sheets	—	—
Net Amounts of Assets Presented in the Balance Sheets	—	2,136
Total Assets	\$ 1,967	\$ 5,309
Liabilities		
<i>Forward currency contracts</i>		
Gross Amounts of Recognized Liabilities	\$ (1,765)	\$ (1,711)
Gross Assets Offset in the Balance Sheets	—	—
Net Amounts of Liabilities Presented in the Balance Sheets	(1,765)	(1,711)
<i>Cross currency contracts</i>		
Gross Amounts of Recognized Liabilities	—	(134)
Gross Assets Offset in the Balance Sheets	—	—
Net Amounts of Liabilities Presented in the Balance Sheets	—	(134)
Total Liabilities	\$ (1,765)	\$ (1,845)

15 FAIR VALUE

The company categorizes its assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Estimates of fair value for financial assets and financial liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value, and requires certain disclosures. The framework discusses valuation techniques such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

- **Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities.
- **Level 2:** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3:** Unobservable inputs reflecting management's assumptions about the inputs used in pricing the asset or liability.

Cash balances are valued at their carrying amounts in the consolidated balance sheets, which are reasonable estimates of their fair value due to their short-term nature. Forward currency contracts are valued based on observable market transactions of forward currency prices and spot currency rates as of the reporting date. The fair value of cross currency contracts is determined using discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs such as interest rates and foreign currency exchange rates. In addition, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, such as collateral postings, thresholds, mutual puts, and guarantees, are incorporated in the fair values to account for potential nonperformance risk. The unfunded deferred compensation liability is primarily subject to changes in fixed-income investment contracts based on current yields. For accounts receivable and accounts payable, carrying amounts are a reasonable estimate of fair value given their short-term nature.

Assets and liabilities measured at fair value on a recurring basis, as of October 31, 2016 and 2015, respectively, are summarized below:

October 31, 2016	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 273,555	\$ 273,555	\$ —	\$ —
Forward currency contracts	1,967	—	1,967	—
Cross currency contracts	—	—	—	—
Total Assets	\$ 275,522	\$ 273,555	\$ 1,967	\$ —
Liabilities:				
Forward currency contracts	\$ 1,765	\$ —	\$ 1,765	\$ —
Cross currency contracts	—	—	—	—
Deferred compensation liabilities	1,149	—	1,149	—
Total Liabilities	\$ 2,914	\$ —	\$ 2,914	\$ —

October 31, 2015	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 126,275	\$ 126,275	\$ —	\$ —
Forward currency contracts	3,173	—	3,173	—
Cross currency contracts	2,136	—	2,136	—
Total Assets	\$ 131,584	\$ 126,275	\$ 5,309	\$ —
Liabilities:				
Forward currency contracts	\$ 1,711	\$ —	\$ 1,711	\$ —
Cross currency contracts	134	—	134	—
Deferred compensation liabilities	1,652	—	1,652	—
Total Liabilities	\$ 3,497	\$ —	\$ 3,497	\$ —

The company measures certain assets and liabilities at fair value on a non-recurring basis. Assets acquired and liabilities assumed as part of acquisitions are measured at fair value. Refer to Note 2 for additional information. There were no transfers between Level 1 and Level 2 during the fiscal years ended October 31, 2016 and 2015.

As of October 31, 2016, the estimated fair value of long-term debt with fixed interest rates was \$293,295 compared to its carrying amount of \$243,407. As of October 31, 2015, the estimated fair value of long-term debt with fixed interest rates was \$298,541 compared to its carrying amount of \$254,452. The fair value is estimated by discounting the projected cash flows using the rate at which similar amounts of debt could currently be borrowed. Long-term debt is a Level 2 liability in the fair value hierarchy.

16 RELATED PARTY TRANSACTION

On November 14, 2014, during the first quarter of fiscal 2015, the company acquired substantially all of the assets (excluding accounts receivable) of the BOSS® professional snow and ice management business of privately held Northern Star Industries, Inc. The purchase price included a cash payment and issuance of an unsecured promissory note in the aggregate principal amount of \$30 million. Under the terms of the note, interest will accrue at the rate of 4.0% per year and principal payments of \$10 million each, together with accrued interest, will be payable on the first, second, and third anniversaries of the closing date of the acquisition, subject to certain conditions. Effective as of the closing of the acquisition on November 14, 2014 and through May 31, 2016, the company employed David J. Brule II, who is also a minority shareholder of Northern Star Industries, Inc., as an executive officer of the company.

17 SUBSEQUENT EVENTS

On November 3, 2016, the company entered into an agreement to acquire Regnerbau Calw GmbH, a privately held manufacturer of professional irrigation equipment. The transaction is subject to customary closing conditions and currently is expected to close during the company's fiscal 2017 first quarter.

On November 29, 2016 the company entered into amended agreements for its Red Iron joint venture with TCFIF. The purpose of these amendments is, among other things, to: (i) revise the term of Red Iron from October 31, 2017 to October 31, 2024, subject to two-year extensions thereafter unless either party provides written notice to the other party of non-renewal at least one year prior to the end of the then-current term; (ii) provide for an additional exclusivity incentive payment by TCFIF to the company; (iii) extend the maturity date of the revolving credit facility used by Red Iron primarily to finance the acquisition of inventory of products from the company and its affiliates by its distributors and dealers in the United States from October 31, 2017 to October 31, 2024 and to increase the amount available under such revolving credit facility from \$450,000 to \$550,000; (iv) refine the calculations related to the estimated reserve provided for in the Fourth Amended and Restated Program and Repurchase Agreement with respect to the accounts of certain dealers and distributors; (v) adjust the percentages in the formula used to calculate the amount of the purchase option that Red Iron Holding Corporation has pursuant to the Limited Liability Company Agreement of Red Iron to acquire the equity interest of TCFIF Joint Venture I, LLC in Red Iron at the end of the applicable term or in certain termination events; (vi) expand the coverage of the Red Iron program to additional products of the company and its affiliates; and (vii) certain other non-material amendments.

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

18 QUARTERLY FINANCIAL DATA (Unaudited)

Summarized quarterly financial data for fiscal 2016 and 2015 are as follows:

Fiscal Year Ended				
October 31, 2016				
Quarter	First	Second	Third	Fourth
Net sales	\$ 486,398	\$ 836,441	\$ 600,980	\$ 468,356
Gross profit	182,654	303,187	216,617	172,137
Net earnings	39,261	105,681	55,822	30,230
Basic net earnings per share^{1,2}	0.36	0.96	0.51	0.28
Diluted net earnings per share^{1,2}	0.35	0.94	0.50	0.27
Fiscal Year Ended				
October 31, 2015				
Quarter	First	Second	Third	Fourth
Net sales	\$ 474,211	\$ 826,242	\$ 609,615	\$ 480,807
Gross profit	168,999	281,972	216,390	168,574
Net earnings	30,950	93,763	53,324	23,554
Basic net earnings per share ^{1,2}	0.28	0.84	0.48	0.21
Diluted net earnings per share ^{1,2}	0.27	0.82	0.47	0.21

1 Net earnings per share amounts do not equal the full year total due to changes in the number of shares outstanding during the periods and rounding.

2 Per share data has been adjusted for all periods presented to reflect a two-for-one stock split effective September 16, 2016.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The company maintains disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to provide reasonable assurance that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating its disclosure controls and procedures, the company recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply judgment in evaluating the cost-benefit relationship of possible internal controls. The company's management evaluated, with the participation of the company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the company's disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information relating to the company and its consolidated subsidiaries is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. The company's management report on internal control over financial reporting is included in this report in Part II, Item 8, "Financial Statements and Supplementary Data" under the caption "Management's Report on Internal Control over Financial Reporting." The report of KPMG LLP, the company's independent registered public accounting firm, regarding the effectiveness of the company's internal control over financial reporting is included in this report in Part II, Item 8, "Financial Statements and Supplementary Data" under the caption "Report of Independent Registered Public Accounting Firm." There was no change in the company's internal control over financial reporting that occurred during the company's fourth fiscal quarter ended October 31, 2016 that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information on executive officers required by this item is incorporated by reference from "Executive Officers of the Registrant" in Part I of this report. Additional information on certain executive officers and other information required by this item is incorporated by reference to information to be contained under the captions "Stock Ownership -Section 16(a) Beneficial Ownership Reporting Compliance," "Proposal One — Election of Directors — Information About Board Nominees and Continuing Directors," "Corporate Governance — Code of Conduct and Code of Ethics for our CEO and Senior Financial Officers," and "Corporate Governance — Board Committees," in the company's proxy statement for its 2017 Annual Meeting of Shareholders to be filed with the SEC.

During the fourth quarter of fiscal 2016, the company did not make any material changes to the procedures by which shareholders may recommend nominees to the Board of Directors, as described in the company's proxy statement for its 2016 Annual Meeting of Shareholders and disclosed in the company's quarterly report on Form 10-Q for the quarterly period ended July 29, 2016. The company has a Code of Ethics for its CEO and Senior Financial Officers, a copy of which is posted on the company's web site at www.thetorocompany.com (select the "Investor Information" link and then the "Corporate Governance" link). The company intends to satisfy the disclosure requirements of Item 5.05 of Form 8-K and applicable NYSE rules regarding amendments to or waivers from any provision of its code of ethics by posting such information on its web site at www.thetorocompany.com (select the "Investor Information" link and then the "Corporate Governance" link).

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to information to be contained under the captions "Executive Compensation" and "Corporate Governance – Director Compensation" in the company's proxy statement for its 2017 Annual Meeting of Shareholders to be filed with the SEC.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is incorporated by reference to information to be contained under the captions "Stock Ownership" and "Equity Compensation Plan Information" in the company's proxy statement for its 2017 Annual Meeting of Shareholders to be filed with the SEC.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference to information to be contained under the caption "Corporate Governance — Director Independence" and "Corporate Governance — Related Person Transactions and Policies and Procedures Regarding Related Person Transactions" in the company's proxy statement for its 2017 Annual Meeting of Shareholders to be filed with the SEC.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference to information to be contained under the captions "Proposal Two — Ratification of Selection of Independent Registered Public Accounting Firm — Audit, Audit-Related, Tax and Other Fees" and "Proposal Two — Ratification of Selection of Independent Registered Public Accounting Firm — Pre-Approval Policies and Procedures" in the company's proxy statement for its 2017 Annual Meeting of Shareholders to be filed with the SEC.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. List of Financial Statements

The following consolidated financial statements of The Toro Company and its consolidated subsidiaries are included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report:

- Management's Report on Internal Control over Financial Reporting.
- Report of Independent Registered Public Accounting Firm.
- Consolidated Statements of Earnings for the fiscal years ended October 31, 2016, 2015, and 2014.
- Consolidated Statements of Comprehensive Income for the fiscal years ended October 31, 2016, 2015, and 2014.
- Consolidated Balance Sheets as of October 31, 2016 and 2015.
- Consolidated Statements of Cash Flows for the fiscal years ended October 31, 2016, 2015, and 2014.
- Consolidated Statements of Stockholders' Equity for the fiscal years ended October 31, 2016, 2015, and 2014.
- Notes to Consolidated Financial Statements.

(a) 2. List of Financial Statement Schedules

The following financial statement schedule of The Toro Company and its subsidiaries is included herein:

- Schedule II — Valuation and Qualifying Accounts

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

(a) 3. List of Exhibits

The following exhibits are incorporated herein by reference or are filed or furnished with this report as indicated below:

Exhibit Number	Description
2.1 (1)	Agreement to Form Joint Venture dated August 12, 2009 by and between The Toro Company and TCF Inventory Finance, Inc. (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated August 12, 2009, Commission File No. 1-8649).**
2.2 (2)	First Amendment to Agreement to Form Joint Venture dated June 6, 2012 by and between The Toro Company and TCF Inventory Finance, Inc. (incorporated by reference to Exhibit 2.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 4, 2012, Commission File No. 1-8649).**
2.3 (3)	Second Amendment to Agreement to Form Joint Venture dated November 29, 2016 by and between The Toro Company and TCF Inventory Finance, Inc. (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated November 29, 2016, Commission File No. 1-8649).**

- 2.4 (1)** Limited Liability Company Agreement of Red Iron Acceptance, LLC dated August 12, 2009 by and between Red Iron Holding Corporation and TCFIF Joint Venture I, LLC (incorporated by reference to Exhibit 2.2 to Registrant's Current Report on Form 8-K dated August 12, 2009, Commission File No. 1-8649).**
- 2.5** Amendment No. 1 to Limited Liability Company Agreement of Red Iron Acceptance, LLC dated May 31, 2011 by and between Red Iron Holding Corporation and TCFIF Joint Venture I, LLC (incorporated by reference to Exhibit 2.4 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2012, Commission File No. 1-8649).**
- 2.6 (2)** Second Amendment to Limited Liability Company Agreement of Red Iron Acceptance, LLC dated June 6, 2012 by and between Red Iron Holding Corporation and TCFIF Joint Venture I, LLC (incorporated by reference to Exhibit 2.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 4, 2012, Commission File No. 1-8649).**
- 2.7 (3)** Third Amendment to Limited Liability Company Agreement of Red Iron Acceptance, LLC dated November 29, 2016 by and between Red Iron Holding Corporation and TCFIF Joint Venture I, LLC (incorporated by reference to Exhibit 2.2 to Registrant's Current Report on Form 8-K dated November 29, 2016, Commission File No. 1-8649).**
- 2.8** Receivable Purchase Agreement dated October 1, 2009 by and among Toro Credit Company, as Seller, The Toro Company, and Red Iron Acceptance, LLC, as Buyer (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated October 1, 2009, Commission File No. 1-8649).**
- 2.9 (3)** Fourth Amended and Restated Program and Repurchase Agreement dated as of November 29, 2016 by and between The Toro Company and Red Iron Acceptance, LLC (incorporated by reference to Exhibit 2.3 to Registrant's Current Report on Form 8-K dated November 29, 2016, Commission File No. 1-8649).
- 2.10** Asset Purchase Agreement dated as of October 27, 2014 among The Toro Company, Northern Star Industries, Inc. and its shareholders (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated October 27, 2014, Commission File No. 1-8649).**
- 3.1 and 4.1** Restated Certificate of Incorporation of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated June 17, 2008, Commission File No. 1-8649).
- 3.2 and 4.2** Certificate of Amendment to Restated Certificate of Incorporation of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated March 12, 2013, Commission File No. 1-8649).
- 3.3 and 4.3** Amended and Restated Bylaws of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated July 19, 2016, Commission File No. 1-8649).
- 4.4** Specimen Form of Common Stock Certificate (incorporated by reference to Exhibit 4(c) to Registrant's Quarterly Report on Form 10-Q for the quarter ended August 1, 2008, Commission File No. 1-8649).
- 4.5** Indenture dated as of January 31, 1997 between Registrant and First National Trust Association, as Trustee, relating to The Toro Company's 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K dated June 24, 1997, Commission File No. 1-8649).
- 4.6** Indenture dated as of April 20, 2007 between Registrant and The Bank of New York Trust Company, N.A., as Trustee, relating to The Toro Company's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.3 to Registrant's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on April 23, 2007, Registration No. 333-142282).

- 4.7** First Supplemental Indenture dated as of April 26, 2007 between Registrant and The Bank of New York Trust Company, N.A., as Trustee, relating to The Toro Company's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K dated April 23, 2007, Commission File No. 1-8649).
- 4.8** Form of The Toro Company 6.625% Note due May 1, 2037 (incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K dated April 23, 2007, Commission File No. 1-8649).
- 10.1** The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended and restated (filed herewith).*
- 10.2** The Toro Company Performance Share Plan (As Amended January 15, 2008) (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated January 15, 2008, Commission File No. 1-8649).*
- 10.3** The Toro Company 2000 Stock Option Plan (As Amended December 3, 2008) (incorporated by reference to Exhibit 10.5 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2008, Commission File No. 1-8649).*
- 10.4** The Toro Company Supplemental Benefit Plan, Amended and Restated Effective January 1, 2009 (incorporated by reference to Exhibit 10(d) to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended August 1, 2008, Commission File No. 1-8649).*
- 10.5** The Toro Company Deferred Compensation Plan, Amended and Restated Effective January 1, 2009 (incorporated by reference to Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended August 1, 2008, Commission File No. 1-8649).*
- 10.6** The Toro Company Deferred Compensation Plan for Officers, Amended and Restated Effective January 1, 2009 (incorporated by reference to Exhibit 10(b) to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended August 1, 2008, Commission File No. 1-8649).*
- 10.7** The Toro Company Deferred Compensation Plan for Non-Employee Directors, Amended and Restated Effective January 1, 2009 (incorporated by reference to Exhibit 10(c) to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended August 1, 2008, Commission File No. 1-8649).*
- 10.8** The Toro Company 2000 Directors Stock Plan (As Amended March 18, 2009) (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2009, Commission File No. 1-8649).*
- 10.9** Form of Nonqualified Stock Option Agreement between The Toro Company and its Non-Employee Directors under The Toro Company 2000 Directors Stock Plan (incorporated by reference to Exhibit 10.20 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2008, Commission File No. 1-8649).*
- 10.10** Form of Nonemployee Director Stock Option Agreement between The Toro Company and its Non-Employee Directors under The Toro Company 2010 Equity and Incentive Plan (incorporated by reference to 10.14 to Registrant's Annual Report on Form 10-K for fiscal year ended October 31, 2014, Commission File No. 1-8649).*
- 10.11** Form of Nonemployee Director Stock Option Agreement between The Toro Company and its Non-Employee Directors under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended and restated (filed herewith).*
- 10.12** Form of Nonqualified Stock Option Agreement between The Toro Company and its officers and other employees under The Toro Company 2000 Stock Option Plan (incorporated by reference to Exhibit 10.21 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2008, Commission File No. 1-8649).*
- 10.13** Form of Nonqualified Stock Option Agreement between The Toro Company and its officers and other employees under The Toro Company 2010 Equity and Incentive Plan (incorporated by reference to Exhibit 10.16 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2014, Commission File No. 1-8649).*

- 10.14** Form of Nonqualified Stock Option Agreement between The Toro Company and its officers and other employees under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended and restated (filed herewith).*
- 10.15** Form of Performance Share Award Agreement between The Toro Company and its officers and other employees under The Toro Company Performance Share Plan (incorporated by reference to Exhibit 10(t) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2007, Commission File No. 1-8649).*
- 10.16** Form of Performance Share Award Agreement between The Toro Company and its officers and other employees under The Toro Company 2010 Equity and Incentive Plan (incorporated by reference to Exhibit 10.18 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2014, Commission File No. 1-8649).*
- 10.17** Form of Performance Share Award Agreement between The Toro Company and its officers and other employees under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended and restated (filed herewith).*
- 10.18** Form of Annual Performance Award Agreement between The Toro Company and its officers and other employees under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended and restated (filed herewith).*
- 10.19** Form of Restricted Stock Award Agreement between The Toro Company and its officers and other employees under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended and restated (filed herewith).*
- 10.20** Form of Restricted Stock Unit Award Agreement between The Toro Company and its officers and other employees under The Toro Company 2010 Equity and Incentive Plan (incorporated by reference to Exhibit 10.21 to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2014, Commission File No. 1-8649).*
- 10.21** Form of Restricted Stock Unit Award Agreement between The Toro Company and its officers and other employees under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended and restated (filed herewith).*
- 10.22** Indemnification Agreement with the members of the Board of Directors (incorporated by reference to Exhibit 10(u) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2006, Commission File No. 1-8649).*
- 10.23** The Toro Company Change in Control Severance Compensation Policy and attached Form of Release (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated January 18, 2011, Commission File No. 1-8649).*
- 10.24** Offer Letter dated July 25, 2011 between The Toro Company and Renee J. Peterson (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 29, 2011, Commission File No. 1-8649).*
- 10.25** Offer Letter dated August 18, 2015 between The Toro Company and Richard M. Olson (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated August 19, 2015, Commission File No. 1-8649).*
- 10.26** Offer Letter dated July 19, 2016 between The Toro Company and Richard M. Olson (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 19, 2016, Commission File No. 1-8649).*
- 10.27** Offer Letter dated July 19, 2016 between The Toro Company and Michael J. Hoffman (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated July 19, 2016, Commission File No. 1-8649).*

10.28 Credit Agreement dated as of October 27, 2014 among The Toro Company, Toro Manufacturing LLC, Exmark Manufacturing Company Incorporated, Toro International Company and certain subsidiaries, as Borrowers, the lenders from time to time party thereto, Bank of America, N.A., as Administrative Agent, Swingline Lender and Letter of Credit Issuer and Wells Fargo Bank, National Association, as Syndication Agent (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated October 27, 2014, Commission File No. 1-8649).

10.29 (1) Credit and Security Agreement dated August 12, 2009 by and between Red Iron Acceptance, LLC and TCF Inventory Finance, Inc. (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated August 12, 2009, Commission File No. 1-8649).

10.30 (2) First Amendment to Credit and Security Agreement dated June 6, 2012 by and between Red Iron Acceptance, LLC and TCF Inventory Finance, Inc. (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 4, 2012, Commission File No. 1-8649).

10.31 Second Amendment to Credit and Security Agreement dated November 29, 2016 by and between Red Iron Acceptance, LLC and TCF Inventory Finance, Inc. (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated November 29, 2016, Commission File No. 1-8649).

12 Computation of Ratio of Earnings to Fixed Charges (filed herewith).

21 Subsidiaries of Registrant (filed herewith).

23 Consent of Independent Registered Public Accounting Firm (filed herewith).

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).

32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

101 The following financial information from The Toro Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2016, filed with the SEC on December 22, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Statements of Earnings for each of the fiscal years in the three-year period ended October 31, 2016, (ii) Consolidated Statements of Comprehensive Income for each of the fiscal years in the three-year period ended October 31, 2016, (iii) Consolidated Balance Sheets as of October 31, 2016 and 2015, (iv) Consolidated Statements of Cash Flows for each of the fiscal years in the three-year period ended October 31, 2016, (v) Consolidated Statements of Stockholders' Equity each of the fiscal years in the three-year period ended October 31, 2016, and (vi) Notes to Consolidated Financial Statements (filed herewith).

(1) Portions of this exhibit have been redacted and are subject to an order granting confidential treatment under the Securities Exchange Act of 1934, as amended (File No. 001-08649, CF #31557). The redacted material was filed separately with the Securities and Exchange Commission.

(2) Portions of this exhibit have been redacted and are subject to an order granting confidential treatment under the Securities Exchange Act of 1934, as amended (File No. 001-08649, CF # 28545). The redacted material was filed separately with the Securities and Exchange Commission.

(3) Portions of this exhibit have been redacted and are subject to an order granting confidential treatment under the Securities Exchange Act of 1934, as amended (File No. 001-08649, CF # 34521). The redacted material was filed separately with the Securities and Exchange Commission.

* Management contract or compensatory plan or arrangement.

** All exhibits and schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Toro will furnish the omitted exhibits and schedules to the Securities and Exchange Commission upon request by the Securities and Exchange Commission.

(b) Exhibits

See Item 15(a)(3) above.

(c) Financial Statement Schedules

See Item 15(a)(2) above.

SCHEDULE II

THE TORO COMPANY AND SUBSIDIARIES
Valuation and Qualifying Accounts

(Dollars in thousands)	Balance as of the beginning of the fiscal year	Charged to costs and expenses ¹	Deductions ²	Balance as of the end of the fiscal year
Fiscal year ended October 31, 2016				
Allowance for doubtful accounts and notes receivable reserves	\$ 1,378	\$ 424	\$ 193	\$ 1,609
Fiscal year ended October 31, 2015				
Allowance for doubtful accounts and notes receivable reserves	1,481	350	453	1,378
Fiscal year ended October 31, 2014				
Allowance for doubtful accounts and notes receivable reserves	3,425	(79)	1,865	1,481

1 Provision/(recovery).

2 Uncollectible accounts charged off.

(Dollars in thousands)	Balance as of the beginning of the fiscal year	Charged to costs and expenses ¹	Deductions ²	Balance as of the end of the fiscal year
Fiscal year ended October 31, 2016				
Accrued advertising and marketing programs	\$ 76,689	\$ 355,509	\$ 350,883	\$ 81,315
Fiscal year ended October 31, 2015				
Accrued advertising and marketing programs	66,169	318,211	307,691	76,689
Fiscal year ended October 31, 2014				
Accrued advertising and marketing programs	64,191	306,650	304,672	66,169

1 Provision consists of rebates, cooperative advertising, floor planning costs, commissions, and other promotional program expenses. The expense of each program is classified either as a reduction of net sales or as a component of selling, general, and administrative expense.

2 Claims paid.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, 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/ Renee J. Peterson

Dated: December 22, 2016

Renee J. Peterson
Vice President, Treasurer and
Chief Financial Officer

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

Signature	Title	Date
/s/ Richard M. Olson _____ Richard M. Olson	President and Chief Executive Officer and Director (principal executive officer)	December 22, 2016
/s/ Renee J. Peterson _____ Renee J. Peterson	Vice President, Treasurer and Chief Financial Officer (principal financial officer)	December 22, 2016
/s/ Thomas J. Larson _____ Thomas J. Larson	Vice President, Corporate Controller (principal accounting officer)	December 22, 2016
/s/ Michael J. Hoffman _____ Michael J. Hoffman	Chairman of the Board	December 22, 2016
/s/ Robert C. Buhmaster _____ Robert C. Buhmaster	Director	December 22, 2016
/s/ Janet K. Cooper _____ Janet K. Cooper	Director	December 22, 2016
/s/ Gary L. Ellis _____ Gary L. Ellis	Director	December 22, 2016
/s/ Jeffrey M. Ettinger _____ Jeffrey M. Ettinger	Director	December 22, 2016
/s/ Katherine J. Harless _____ Katherine J. Harless	Director	December 22, 2016
/s/ D. Christian Koch _____ D. Christian Koch	Director	December 22, 2016
/s/ James C. O'Rourke _____ James C. O'Rourke	Director	December 22, 2016
/s/ Gregg W. Steinhafel _____ Gregg W. Steinhafel	Director	December 22, 2016
/s/ Christopher A. Twomey _____ Christopher A. Twomey	Director	December 22, 2016

The Toro Company
Amended and Restated 2010
Equity and Incentive Plan
(Effective March 17, 2015;
Amended and Restated December 6, 2016)

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The Toro Company
Amended and Restated 2010 Equity and Incentive Plan

Article 1. Establishment, Purpose and Duration

1.1 Establishment. The Toro Company, a Delaware corporation (the “Company”), has established an incentive compensation plan known as The Toro Company 2010 Equity and Incentive Plan, as set forth in this document (as amended and restated, this “Plan”). This Plan provides for the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Annual Performance Awards, Nonemployee Director Awards, Other Cash-Based Awards and Other Stock-Based Awards, each as defined below in Article 2. The original version of this Plan initially became effective upon its approval by the shareholders of the Company on March 16, 2010 (the “Initial Effective Date”) and has been subsequently amended by the Committee, as defined below in Article 2, on September 20, 2011, September 17, 2013 and September 16, 2014 pursuant to Section 20.1. The amended and restated Plan was approved by the Committee and became effective upon approval by the shareholders of the Company at the Company’s 2015 Annual Meeting of Shareholders held on March 17, 2015 (the “Effective Date”) and has been subsequently amended by the Committee, as defined below in Article 2, on September 15, 2015 and September 20, 2016 and amended and restated on December 6, 2016 pursuant to Section 20.1 and shall remain in effect as provided in Section 1.3.

1.2 Purpose of This Plan. The purpose of this Plan is to provide a means whereby Employees, Directors and Third-Party Service Providers, each as defined below in Article 2, develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its shareholders. A further purpose of this Plan is to provide a means through which the Company may attract able individuals to become Employees or serve as Directors or Third-Party Service Providers and to provide a means whereby those individuals for whom the responsibilities of the successful administration and management of the Company are of importance can acquire and maintain stock ownership, thereby strengthening their concern for the welfare of the Company.

1.3 Duration of This Plan. Unless sooner terminated as provided herein, this Plan shall terminate ten (10) years from the Effective Date. After this Plan is terminated, no Awards (as defined below in Article 2) may be granted but Awards previously granted shall remain outstanding in accordance with their applicable terms and conditions and this Plan’s terms and conditions.

Article 2. Definitions

Whenever used in this Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

2.1 “Affiliate” shall mean a corporation or other entity (including a partnership or a limited liability company) that is controlled by, controlling, or under common control with, the Company, and is designated as an Affiliate for purposes of this Plan by the Committee.

2.2 “Annual Award Limit” or “Annual Award Limits” have the meaning set forth in Section 4.3.

2.3 “Adverse Action” means any Participant, during or within one year after the termination of employment or other service with the Company, an Affiliate or a Subsidiary, (a) being employed or retained by or rendering services to any organization that, directly or indirectly, competes with or becomes competitive with the Company or such Affiliate or Subsidiary, or rendering such services that

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are prejudicial or in conflict with the interests of the Company, an Affiliate or a Subsidiary, as reasonably determined by the Committee, or (b) violating any confidentiality agreement or agreement governing the ownership or assignment of intellectual property rights with the Company, as reasonably determined by the Committee, or (c) engaging in any other misconduct or significant act reasonably determined by the Committee to be injurious, detrimental or prejudicial to any interest of the Company, an Affiliate or a Subsidiary.

2.4 “Annual Performance Award” has the meaning set forth in Section 10.1.

2.5 “Award” means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Annual Performance Awards, Nonemployee Director Awards, Other Cash-Based Awards or Other Stock-Based Awards, in each case subject to the terms of this Plan.

2.6 “Award Agreement” means either: (a) a written or electronic agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted under this Plan, including any amendment or modification thereof, or (b) a written or electronic statement issued by the Company to a Participant describing the terms and provisions of such Award, including any amendment or modification thereof. The Committee may provide for the use of electronic, Internet, or other non-paper Award Agreements, and the use of electronic, Internet, or other non-paper means for the acceptance thereof and actions thereunder by a Participant.

2.7 “Beneficial Owner” or “Beneficial Ownership” shall have the meaning ascribed to such terms in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

2.8 “Board” or “Board of Directors” means the Board of Directors of the Company.

2.9 “Business Combination” has the meaning set forth in Section 2.10(c).

2.10 “Change of Control” means any of the following events:

- (a) The acquisition by any Person of Beneficial Ownership of twenty percent (20%) or more of either (i) the then-outstanding Shares of the Company (the “Outstanding Company Common Stock”) or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iv) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2.10; or
- (b) Individuals who, as of the Effective Date, constitute the Board of Directors (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a Director subsequent to the Effective Date whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the Directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

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- (c) Consummation of a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition by the Company of assets or stock of another entity (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of, respectively, the then-outstanding Shares and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, twenty percent (20%) or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or
- (d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

2.11 “**Code**” means the U.S. Internal Revenue Code of 1986, as amended from time to time. For purposes of this Plan, references to sections of the Code shall be deemed to include references to any applicable regulations thereunder and any successor or similar provision.

2.12 “**Committee**” means the Compensation and Human Resources Committee of the Board or a subcommittee thereof, or any other committee comprised solely of directors designated by the Board to administer this Plan who are (a) “non-employee directors” within the meaning of Rule 16b-3 under the Exchange Act, (b) “independent directors” (as defined in the rules of The New York Stock Exchange) and (c) “outside directors” within the meaning of Code Section 162(m). The members of the Committee shall be appointed from time to time by and shall serve at the discretion of the Board. If the Committee does not exist or cannot function for any reason, the Board may take any action under this Plan that would otherwise be the responsibility of the Committee.

2.13 “**Company**” means The Toro Company, a Delaware corporation, and any successor thereto as provided in Article 22 herein.

2.14 “**Covered Employee**” means any Employee who is or may become a “Covered Employee,” as defined in Code Section 162(m), and who is designated, either as an individual Employee or class of Employees, by the Committee within the shorter of: (a) ninety (90) days after the beginning of any Performance Period, or (b) twenty-five percent (25%) of any Performance Period has elapsed, as a “Covered Employee” under this Plan for such applicable Performance Period.

2.15 “**Director**” means any individual who is a member of the Board of Directors of the Company.

2.16 “**Disability**” means the disability of the Participant such as would entitle the Participant to receive disability income benefits pursuant to the long-term disability plan of the Company, Affiliate or

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Subsidiary then covering the Participant or, if no such plan exists or is applicable to the Participant, the permanent and total disability of the Participant within the meaning of Code Section 22(e)(3).

2.17 “**Dividend Equivalents**” has the meaning set forth in Section 3.2(i).

2.18 “**Effective Date**” has the meaning set forth in Section 1.1.

2.19 “**Employee**” means any individual performing services for the Company, an Affiliate, or a Subsidiary and designated as an employee of the Company, an Affiliate, or a Subsidiary on the payroll records thereof. An Employee shall not include any individual during any period he or she is classified or treated by the Company, Affiliate, or Subsidiary as an independent contractor, a consultant, or any employee of an employment, consulting, or temporary agency or any other entity other than the Company, Affiliate, or Subsidiary, without regard to whether such individual is subsequently determined to have been, or is subsequently retroactively reclassified as a common-law employee of the Company, Affiliate, or Subsidiary during such period. An individual shall not cease to be an Employee in the case of: (a) any leave of absence approved by the Company, or (b) transfers between locations of the Company or between the Company, any Affiliates, or any Subsidiaries. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company, an Affiliate or a Subsidiary, as applicable, is not so guaranteed, then three (3) months following the ninety-first (91st) day of such leave, any Incentive Stock Option held by a Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonqualified Stock Option. Neither service as a Director nor payment of a Director’s fee by the Company shall be sufficient to constitute “employment” by the Company.

2.20 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

2.21 “**Extraordinary Items**” means (a) extraordinary, unusual or nonrecurring items of gain or loss; (b) gains or losses on the disposition of a business; (c) changes in tax or accounting regulations or laws; or (d) the effect of a merger or acquisition, all of which must be identified in the audited financial statements, including footnotes, or Management Discussion and Analysis section of the Company’s Annual Report on Form 10-K.

2.22 “**Fair Market Value**” or “**FMV**” means, with respect to a Share, as of any date: (a) the closing sale price of a Share at the end of the regular trading session, as reported by The New York Stock Exchange, The NASDAQ Stock Market, The American Stock Exchange or any national exchange on which the Shares are then listed or quoted (or, if no Shares were traded on such date, as of the next preceding date on which there was such a trade); or (b) if the Shares are not so listed, admitted to unlisted trading privileges, or reported on any national exchange, the closing sale price as of such date at the end of the regular trading session, as reported by OTC Bulletin Board or the Pink Sheets LLC, or other comparable service (or, if no Shares were traded or quoted on such date, as of the next preceding date on which there was such a trade or quote); or (c) if Shares are not so listed or reported, such price as the Committee determines in good faith, and consistent with the definition of “fair market value” under Code Section 409A.

2.23 “**Full-Value Award**” means an Award other than in the form of an ISO, NQSO or SAR, and which is settled by the issuance of Shares.

2.24 “**Grant Date**” means the date an Award is granted to a Participant pursuant to this Plan.

2.25 “**Grant Price**” means the price established at the time of grant of an SAR pursuant to Article 7, used to determine whether there is any payment due upon exercise of the SAR.

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2.26 “**Incentive Stock Option**” or “**ISO**” means an Option to purchase Shares granted pursuant to Article 6 to an Employee and that is designated as an Incentive Stock Option that is intended to meet the requirements of Code Section 422 or any successor provision.

2.27 “**Incumbent Board**” has the meaning set forth in Section 2.10(b).

2.28 “**Initial Effective Date**” has the meaning set forth in Section 1.1.

- 2.29 “**Insider**” shall mean an individual who is, on the relevant date, an officer or Director of the Company, or a more than ten percent (10%) Beneficial Owner of any class of the Company’s equity securities that is registered pursuant to Section 12 of the Exchange Act, as determined by the Board in accordance with Section 16 of the Exchange Act.
- 2.30 “**Maximum Payout**” has the meaning set forth in Section 10.3.
- 2.31 “**Nonemployee Director**” means a Director who is not an Employee.
- 2.32 “**Nonemployee Director Award**” means any NQSO, SAR or Full-Value Award granted, whether singly, in combination, or in tandem, to a Participant who is a Nonemployee Director pursuant to such applicable terms, conditions and limitations as the Board or Committee may establish in accordance with this Plan, including any Nonemployee Director Option or Nonemployee Director Shares granted pursuant to Article 11.
- 2.33 “**Nonemployee Director Option**” has the meaning set forth in Section 11.2(a).
- 2.34 “**Nonemployee Director Shares**” has the meaning set forth in Section 11.1.
- 2.35 “**Nonqualified Stock Option**” or “**NQSO**” means an Option that is not intended to meet the requirements of Code Section 422, or that otherwise does not meet such requirements, including an NQSO granted pursuant to Article 6 and a Nonemployee Director Option granted pursuant to Article 11.
- 2.36 “**Officer Delegated Awards**” has the meaning set forth in Section 3.3.
- 2.37 “**Outstanding Company Common Stock**” has the meaning set forth in Section 2.10(a).
- 2.38 “**Option**” means (a) an Incentive Stock Option or a Nonqualified Stock Option, granted pursuant to Article 6 or (b) a Nonemployee Director Option, granted pursuant to Article 11.
- 2.39 “**Option Price**” means the price at which a Share may be purchased by a Participant pursuant to an Option.
- 2.40 “**Other Cash-Based Award**” means an Award, denominated and paid in cash, not otherwise described by the terms of this Plan, granted pursuant to Article 12.
- 2.41 “**Other Stock-Based Award**” means an equity-based or equity-related Award not otherwise described by the terms of this Plan, granted pursuant to Article 12.
- 2.42 “**Participant**” means any eligible individual as set forth in Article 5 to whom an Award is granted.
- 2.43 “**Participation Factor**” has the meaning set forth in Section 10.2.
- 2.44 “**Performance-Based Compensation**” means compensation under an Award that is intended to satisfy the requirements of Code Section 162(m) for certain performance-based compensation paid to Covered Employees. Notwithstanding the foregoing, nothing in this Plan shall be

construed to mean that an Award which does not satisfy the requirements for performance-based compensation under Code Section 162(m) does not constitute performance-based compensation for other purposes, including Code Section 409A.

- 2.45 “**Performance Goals**” mean with respect to any applicable Award, one or more targets, goals or levels of attainment required to be achieved in terms of the specified Performance Measures during the specified Performance Period, as set forth in the related Award Agreement.
- 2.46 “**Performance Measures**” mean: (a) with respect to any Award intended to qualify as Performance-Based Compensation, any one or more of the measures described in Article 15 on which the Performance Goals are based and which are approved by the Company’s shareholders pursuant to this Plan in order to qualify Awards as Performance-Based Compensation; and (b) with respect to any other Award, such performance measures as determined by the Committee in its sole discretion and set forth in the applicable Award Agreement for purposes of determining the applicable Performance Goal.
- 2.47 “**Performance Measure Element**” has the meaning set forth in Section 15.1.
- 2.48 “**Performance Period**” means the period of time, as determined by the Committee, during which the Performance Goals must be met in order to determine the degree of payout or vesting with respect to an Award.
- 2.49 “**Performance Share**” means an Award under Article 9 herein and subject to the terms of this Plan, denominated in Shares, the value of which at the time it is payable is determined as a function of the extent to which corresponding Performance Goals have been achieved.
- 2.50 “**Performance Unit**” means an Award under Article 9 herein and subject to the terms of this Plan, denominated in units, the value of which at the time it is payable is determined as a function of the extent to which corresponding Performance Goals have been achieved.
- 2.51 “**Period of Restriction**” means the period when Restricted Stock or Restricted Stock Units are subject to a substantial risk of forfeiture (based on the passage of time, the achievement of Performance Goals, or upon the occurrence of other events as determined by the Committee, in its discretion), as provided in Article 8.
- 2.52 “**Person**” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

2.53 “**Plan**” means The Toro Company 2010 Equity and Incentive Plan, as amended and restated from time to time in accordance with Article 20.

2.54 “**Plan Year**” means the Company’s fiscal year which begins November 1 and ends October 31.

2.55 “**Prior Plans**” mean The Toro Company 2000 Stock Option Plan, The Toro Company Performance Share Plan, The Toro Company 2000 Directors Stock Plan and The Toro Company Annual Management Incentive Plan II.

2.56 “**Restricted Stock**” means an Award granted to a Participant pursuant to Article 8.

2.57 “**Restricted Stock Unit**” means an Award granted to a Participant pursuant to Article 8, except no Shares are actually awarded to the Participant on the Grant Date.

2.58 “**Retirement**” shall have the meaning established by the Committee from time to time or, if no such meaning is established, shall mean termination of employment with the Company or any

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Affiliate or Subsidiary at or after age 55 and with a number of years of service that, when added together with the Participant’s age, equals at least 65.

2.59 “**Scale Back**” has the meaning set forth in Section 9.6.

2.60 “**Share**” means a share of common stock of the Company, par value \$1.00 per share.

2.61 “**Share Payment**” has the meaning set forth in Section 21.2.

2.62 “**Stock Appreciation Right**” or “**SAR**” means an Award, designated as an SAR, pursuant to the terms of Article 7 herein.

2.63 “**Stock-Based Award**” means any equity-based or equity-related Award made pursuant to the Plan, including Options, SARs, Restricted Stock, Restricted Stock Units, Performance Shares, Nonemployee Directors Awards and Other Stock-Based Awards.

2.64 “**Subsidiary**” means any corporation or other entity, whether domestic or foreign, in which the Company has or obtains, directly or indirectly, an interest of more than fifty percent (50%) by reason of stock ownership or otherwise.

2.65 “**Supplemental Division Performance Goals**” has the meaning set forth in Section 10.4.

2.66 “**Target Payout**” has the meaning set forth in Section 10.2.

2.67 “**Tax Laws**” has the meaning set forth in Section 23.18.

2.68 “**Third-Party Service Provider**” means any consultant, agent, advisor or independent contractor who renders services to the Company, a Subsidiary or an Affiliate that: (a) are not in connection with the offer and sale of the Company’s securities in a capital raising transaction, and (b) do not directly or indirectly promote or maintain a market for the Company’s securities.

Article 3. Administration

3.1 **General.** The Committee shall be responsible for administering this Plan, subject to this Article 3 and the other provisions of this Plan. The Committee may employ attorneys, consultants, accountants, agents and other individuals, any of whom may be an Employee, and the Committee, the Company and its officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such individuals. All actions taken, and all interpretations and determinations made, by the Committee shall be final and binding upon the Participants, the Company, any Affiliate or any Subsidiary and all other interested individuals.

3.2 **Authority of the Committee.** Subject to any express limitations set forth in this Plan, the Committee shall have full and exclusive discretionary power and authority to take such actions as it deems necessary and advisable with respect to the administration of this Plan including the following:

- (a) To determine from time to time which of the persons eligible under this Plan shall be granted Awards, when and how each Award shall be granted, what type or combination of types of Awards shall be granted, the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Shares pursuant to an Award, and the number of Shares subject to an Award;
- (b) To construe and interpret this Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Committee, in the exercise of this power, may correct any defect, omission or inconsistency in this Plan or in an Award

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Agreement, in a manner and to the extent it shall deem necessary or expedient to make this Plan fully effective;

(c) To approve forms of Award Agreements for use under this Plan;

(d) To determine Fair Market Value of a Share in accordance with Section 2.22 of this Plan;

- (e) To amend this Plan or any Award Agreement as provided in this Plan;
- (f) To adopt subplans or special provisions applicable to stock awards regulated by the laws of a jurisdiction other than, and outside of, the United States. Such subplans or special provisions may take precedence over other provisions of this Plan, but unless otherwise superseded by the terms of such subplans or special provisions, the provisions of this Plan shall govern;
- (g) To authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Committee;
- (h) To determine whether Awards will be settled in Shares, cash or in any combination thereof;
- (i) Subject to Article 16 and any other provision of this Plan, to determine whether Awards will be adjusted for dividend equivalents, with “Dividend Equivalents” meaning a credit, made at the discretion of the Committee, to the account of a Participant in an amount equal to the cash dividends paid on one Share for each Share represented by an Award held by such Participant, which Dividend Equivalents may be subject to the same conditions and restrictions as the Awards to which they attach and may be settled in the form of cash, Shares, or in any combination of both or;
- (j) To impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant or other subsequent transfers by the Participant of any Shares, including: (i) restrictions under an insider trading policy, and (ii) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

3.3 Delegation. The Committee may delegate to one or more of its members or to one or more officers of the Company or any Subsidiary or Affiliate or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the Committee or any individuals to whom it has delegated duties or powers as aforesaid may employ one or more individuals to render advice with respect to any responsibility the Committee or such individuals may have under this Plan. The Committee may, by resolution, authorize one or more Directors of the Company to do one or both of the following on the same basis as can the Committee: (a) designate Employees to be recipients of Awards pursuant to this Plan; and (b) determine the size of any such Awards; provided, however, that (x) the Committee shall not delegate such responsibilities to any such Director(s) for any Awards granted to an Employee who is considered an Insider or a Covered Employee; (y) the resolution providing such authorization shall set forth the type of Awards and total number of each type of Awards such Director(s) may grant; and (z) the Director(s) shall comply with any provisions of the Company’s bylaws applicable to committees of the Board. The Committee also may, by resolution, authorize one or more officers of the Company to do one or both of the following on the same basis as can the Committee: (A) designate Employees to be recipients of (i) Options pursuant to Article 6, (ii) SARs pursuant to Article 7, or (iii) any Award granted pursuant to this Plan denominated and paid in cash (collectively, “Officer Delegated Awards”); and (B) determine the size of any such Officer Delegated Awards; provided, however, that (x) the Committee shall not delegate such responsibilities to any such officer(s) for any Officer Delegated Awards granted to an Employee who is considered an Insider or a Covered Employee; and (y) the

resolution providing such authorization shall set forth the type of Awards and total number of each type of Awards such officer(s) may grant.

Article 4. Shares Subject to This Plan and Maximum Awards

4.1 Number of Shares Authorized and Available for Awards. Subject to adjustment as provided in Section 4.4 of this Plan, the number of Shares authorized and available for Awards under this Plan shall be determined in accordance with the following provisions:

- (a) The maximum number of Shares available for issuance under this Plan shall be 11,600,000 shares, plus the number of Shares subject to Awards outstanding under the Prior Plans as of the Initial Effective Date but only to the extent that such outstanding Awards are forfeited, expire or otherwise terminate without the issuance of such Shares.
- (b) No more than 3,900,000 of the Shares authorized for issuance under this Plan may be issued pursuant to Full-Value Awards.
- (c) The maximum number of Shares that may be issued pursuant to ISOs under this Plan shall be 11,600,000.

4.2 Share Usage. Shares covered by an Award shall be counted as used only to the extent they are actually issued; provided, however, the full number of Shares subject to an SAR granted that are settled by the issuance of Shares shall be counted against the Shares authorized for issuance under this Plan, regardless of the number of Shares actually issued upon settlement of such SAR. Furthermore, any Shares tendered or withheld to satisfy tax withholding obligations on Awards issued under this Plan, any Shares tendered or withheld to pay the Option Price or exercise price of Awards under this Plan and any Shares not issued or delivered as a result of the “net exercise” of an outstanding Option pursuant to Section 6.6 shall be counted against the Shares authorized for issuance under this Plan. Any Shares repurchased by the Company on the open market using the proceeds from the exercise of an Award shall not increase the number of Shares available for future grant of Awards. Any Shares related to Awards under this Plan or under Prior Plans that terminate by expiration, forfeiture, cancellation or otherwise without the issuance of the Shares or are settled in cash in lieu of Shares, or are exchanged with the Committee’s permission, prior to the issuance of Shares, shall be available again for grant under this Plan. The Shares available for issuance under this Plan may be authorized and unissued Shares or treasury Shares.

4.3 Annual Award Limits. The following limits (each an “Annual Award Limit” and, collectively, “Annual Award Limits”), as adjusted pursuant to Sections 4.4 and 20.2, shall apply to grants of Awards, unless in the case of the Annual Award Limits in (a) through (g) below, the Committee specifically determines at the time of grant that the Award to any Employee is not intended to qualify as Performance-Based Compensation under this Plan:

- (a) **Options and SARs:** The maximum aggregate number of Shares subject to Options and SARs granted to any one Participant in any one Plan Year shall be 500,000.
- (b) **Restricted Stock and Restricted Stock Units:** The maximum aggregate number of Shares subject to Restricted Stock and Restricted Stock Units granted to any one Participant in any one Plan Year shall be 500,000.
- (c) **Performance Units:** The maximum aggregate amount awarded or credited with respect to Performance Units to any one Participant in any one Plan Year may not exceed \$10,000,000, determined as of the date of payout.

- (d) **Performance Shares:** The maximum aggregate number of Performance Shares that a Participant may receive in any one Plan Year shall be 500,000 Shares, determined as of the date of payout.
- (e) **Annual Performance Awards:** The maximum aggregate amount awarded or credited with respect to Annual Performance Awards to any one Participant in any one Plan Year may not exceed \$5,000,000, determined as of the date of payout.
- (f) **Other Cash-Based Awards:** The maximum aggregate amount awarded or credited with respect to Other Cash-Based Awards to any one Participant in any one Plan Year may not exceed \$5,000,000, determined as of the date of payout.
- (g) **Other Stock-Based Awards:** The maximum aggregate amount awarded or credited with respect to Other Stock-Based Awards to any one Participant in any one Plan Year may not exceed 500,000 Shares, determined as of the date of payout.
- (h) **Nonemployee Director Awards:** The maximum aggregate number of Shares subject to Nonemployee Director Awards to any one Nonemployee Director in any one Plan Year may not exceed 40,000 Shares; provided, that such limit shall not apply to any election of a Nonemployee Director to receive Shares in lieu of all or a portion of any annual Board, chair and other retainers and any meeting fees otherwise payable in cash.

4.4 Adjustments in Authorized Shares. Adjustment in authorized Shares available for issuance under this Plan or under an outstanding Award and adjustments in Annual Award Limits shall be subject to the following provisions:

- (a) Except to the extent that Section 19.1 applies, in the event of any corporate event or transaction (including a change in the Shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, partial or complete liquidation, stock dividend, stock split, reverse stock split, split up, spin-off or other distribution of stock or property of the Company, combination of Shares, exchange of Shares, dividend in-kind or other like change in capital structure or distribution (other than normal cash dividends) to shareholders of the Company or any similar corporate event or transaction, the Committee, in order to prevent dilution or enlargement of Participants' rights under this Plan, will substitute or adjust, as applicable, the number and kind of Shares that may be issued under this Plan or under particular forms of Awards, the number and kind of Shares subject to outstanding Awards, the Option Price or Grant Price applicable to outstanding Awards, the Annual Award Limits and other value determinations applicable to outstanding Awards, provided that the Committee, in its sole discretion, shall determine the methodology or manner of making such substitution or adjustment.
- (b) The Committee, in its sole discretion, may also make appropriate adjustments in the terms of any Awards under this Plan to reflect such changes or distributions and to modify any other terms of outstanding Awards, including modifications of Performance Goals and changes in the length of Performance Periods.
- (c) The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under this Plan.
- (d) Subject to the provisions of Article 20 and notwithstanding anything else herein to the contrary, without affecting the number of Shares reserved or available hereunder, the Committee may authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock or reorganization upon such terms and conditions as it may deem appropriate, subject to

compliance with the rules under Code Sections 409A, 422 and 424, as and where applicable.

Article 5. Eligibility and Participation

5.1 Eligibility. Individuals eligible to participate in this Plan include all Employees, Directors and Third-Party Service Providers.

5.2 Actual Participation. Subject to the provisions of this Plan, the Committee may, from time to time, select from all eligible individuals, those individuals to whom Awards shall be granted and shall determine, in its sole discretion, the nature of any and all terms permissible by law and the amount of each Award.

Article 6. Stock Options

6.1 Grant of Options. Subject to the terms and provisions of this Plan (including Section 20.6), Options may be granted to Participants pursuant to this Article 6 in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee, in its sole discretion. Options may be granted to a Participant for services provided to an Affiliate only if, with respect to such Participant, the underlying Shares constitute "service recipient stock" within the meaning of Treas. Reg. Section 1.409A-1(b)(5)(iii). ISOs may be granted solely to eligible Employees of the Company or certain Subsidiaries (as permitted under Code Sections 422 and 424). To the extent that any ISO (or portion thereof) granted under this Plan ceases for any reason to qualify as an "incentive stock option" for purposes of Code Section 422, such ISO (or portion thereof) will continue to be outstanding for purposes of this Plan but will thereafter be deemed to be an NQSO.

6.2 Award Agreement. Each Option granted pursuant to this Article 6 shall be evidenced by an Award Agreement that shall specify the Option Price, the maximum duration of the Option, the number of Shares to which the Option pertains, the conditions upon which an Option shall become vested and exercisable, and such other provisions as the Committee shall determine which are not inconsistent with the terms of this Plan. The Award Agreement also shall specify whether the Option is intended to be an ISO or an NQSO.

6.3 Option Price. The Option Price for each grant of an Option pursuant to this Article 6 shall be determined by the Committee in its sole discretion and shall be specified in the Award Agreement; provided, however, the Option Price must be at least equal to one hundred percent (100%) of the FMV of a Share as of the Option's Grant Date.

6.4 Term of Options. Each Option granted to a Participant pursuant to this Article 6 shall expire at such time as the Committee shall determine at the time of grant; provided, however, no Option shall be exercisable later than the tenth (10th) anniversary of its Grant Date, subject to any extension permitted by the Committee in accordance with Section 23.8 for Nonqualified Stock Options granted to Participants outside the United States.

6.5 Exercise of Options. Options granted pursuant to this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve (subject, in each case, to Section 20.6), which terms and restrictions need not be the same for each grant or for each Participant. The Award Agreement for any Option granted pursuant to this Article 6 that becomes exercisable solely based on the continued service of the Participant shall provide that such Option shall become exercisable no more rapidly than ratably over a three-year period after the Grant Date of the Option, except (a) in connection with the death, Disability or Retirement of the Participant or a Change of Control; or (b) for any Option granted to a Participant who within six months of the Grant Date is first appointed or elected as an officer, hired as an Employee, elected as a Director or retained as a Third-Party Service Provider. Notwithstanding the foregoing, if the exercise of an Option that is exercisable in accordance with its terms is prevented by the provisions of Sections 23.4, 23.5, 23.6

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or 23.7 below, the Option will remain exercisable until thirty (30) days after the date such exercise first would no longer be prevented by such provisions, but in any event no later than the expiration date of such Option.

6.6 Payment. Options granted under this Plan shall be exercised by the delivery of a notice of exercise to the Company or an agent designated by the Company in a form specified or accepted by the Committee or by complying with any alternative procedures which may be authorized by the Committee, setting forth the number of Shares with respect to which the Option is to be exercised, and accompanied by full payment of the aggregate Option Price for the Shares. A condition of the issuance of the Shares as to which an Option shall be exercised shall be the payment of the Option Price. The Option Price of any exercised Option shall be payable to the Company in accordance with one of the following methods:

- (a) In cash or its equivalent as determined by the Committee in its sole discretion;
- (b) By tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the Option Price;
- (c) By a cashless (broker-assisted) exercise;
- (d) By a "net exercise" of the Option (as further described below);
- (e) By any combination of (a), (b), (c) and (d); or
- (f) Any other method approved or accepted by the Committee in its sole discretion.

In the case of a "net exercise" of an Option, the Company will not require a payment of the Option Price of the Option from the Participant but will reduce the number of Shares issued upon the exercise by the largest number of whole Shares that has a Fair Market Value on the exercise date that does not exceed the aggregate Option Price for the Shares exercised under this method. Shares will no longer be outstanding under an Option (and will therefore not thereafter be exercisable) following the exercise of such Option to the extent of (i) Shares used to pay the Option Price of an Option under the "net exercise," (ii) Shares actually delivered to the Participant as a result of such exercise, and (iii) any Shares withheld for purposes of tax withholding pursuant to Article 21 of this Plan.

Subject to any governing rules or regulations, as soon as practicable after receipt of written notification of exercise and full payment (including satisfaction of any applicable tax withholding), the Company shall deliver to or for the benefit of the Participant that number of Shares purchased under the Option(s) by means of one or more of the following, each in the Company's sole discretion: (i) by delivering to the Participant evidence of book entry Shares credited to the account of the Participant; (ii) by depositing such Shares for the benefit of the Participant with any broker with which the Participant has an account relationship or the Company has engaged to provide such services for the Plan; or (iii) by delivering such Shares to the Participant in certificate form. Unless otherwise determined by the Committee, all payments under all of the methods indicated above shall be paid in United States dollars or Shares, as applicable.

Article 7. Stock Appreciation Rights

7.1 Grant of SARs. Subject to the terms and conditions of this Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Committee. Subject to the terms and conditions of this Plan (including Section 20.6), the Committee shall have complete discretion in determining the number of SARs granted to each Participant and, consistent with the provisions of this Plan, in determining the terms and conditions pertaining to such SARs. SARs may be granted to a Participant for services provided to an Affiliate only if, with respect to such Participant, the underlying Shares constitute "service recipient stock" within the meaning of Treas. Reg. Section 1.409A-1(b)(5)(iii).

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7.2 Award Agreement. Each SAR granted pursuant to this Article 7 shall be evidenced by an Award Agreement that shall specify the Grant Price, the term of the SAR, and such other provisions as the Committee shall determine.

7.3 Grant Price. The Grant Price for each grant of an SAR shall be determined by the Committee and shall be specified in the Award Agreement; provided, however, the Grant Price must be at least equal to one hundred percent (100%) of the FMV of a Share as of the Grant Date.

7.4 Term of SAR. The term of an SAR granted under this Plan shall be determined by the Committee, in its sole discretion, and except as determined otherwise by the Committee and specified in the Award Agreement, no SAR shall be exercisable later than the tenth (10th) anniversary of its Grant Date, subject to any extension permitted by the Committee in accordance with Section 23.8 for SARs granted to Participants outside the United States.

7.5 Exercise of SARs. SARs may be exercised by giving notice in the same manner as that used for Options, as set forth in Section 6.6 of this Plan, subject to any terms and conditions the Committee, in its sole discretion, imposes (subject, in each case, to Section 20.6). The Award Agreement for any SAR that becomes exercisable solely based on the continued service of the Participant shall provide that such SAR shall become exercisable no more rapidly than ratably over a three-year period after the Grant Date of the SAR, except (a) in connection with the death, Disability or Retirement of the Participant or a Change of Control; or (b) for any SAR granted to a Participant who within six months of the Grant Date is first appointed or elected as an officer, hired as an Employee, elected as a Director or retained as a Third-Party Service Provider. Notwithstanding the foregoing, if the exercise of an SAR that is exercisable in accordance with its terms is prevented by the provisions of Sections 23.4, 23.5, 23.6 or 23.7 below, the SAR will remain exercisable until thirty (30) days after the date such exercise first would no longer be prevented by such provisions, but in any event no later than the expiration date of such SAR.

7.6 Settlement of SARs. Upon the exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

- (a) The excess of the Fair Market Value of a Share on the date of exercise over the Grant Price; by
- (b) The number of Shares with respect to which the SAR is exercised.

7.7 Form of Payment. Payment, if any, with respect to an SAR settled in accordance with Section 7.6 of this Plan shall be made in accordance with the terms of the applicable Award Agreement, in cash, Shares or a combination thereof, as the Committee determines.

7.8 Other Restrictions. The Committee shall impose such other conditions or restrictions on any Shares received upon exercise of an SAR granted pursuant to this Plan as it may deem advisable or desirable. These restrictions may include a requirement that the Participant hold the Shares received upon exercise of an SAR for a specified period of time.

Article 8. Restricted Stock and Restricted Stock Units

8.1 Grant of Restricted Stock or Restricted Stock Units. Subject to the terms and provisions of this Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock or Restricted Stock Units to Participants in such amounts as the Committee shall determine. Restricted Stock Units shall be similar to Restricted Stock except that no Shares are actually awarded to the Participant on the Grant Date.

8.2 Award Agreement. Each Restricted Stock or Restricted Stock Unit grant shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of

Restricted Stock or the number of Restricted Stock Units granted, and such other provisions as the Committee shall determine (subject, in each case, to Section 20.6).

8.3 Conditions and Restrictions. The Committee shall impose such conditions or restrictions on any Shares of Restricted Stock or Restricted Stock Units granted pursuant to this Plan as it may deem advisable including a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific Performance Goals, time-based restrictions on vesting following the attainment of the Performance Goals, time-based restrictions, restrictions under applicable laws or under the requirements of any stock exchange or market upon which such Shares are listed or traded or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock or Restricted Stock Units. If an Award of Restricted Stock or Restricted Stock Units vests solely based on the continued service of the Participant, the Award Agreement shall provide that such Award shall vest no more rapidly than ratably over a three-year period after the Grant Date of the Award, except (a) in connection with the death, Disability or Retirement of the Participant or a Change of Control; or (b) for any such Award granted to a Participant who within six months of the Grant Date is first appointed or elected as an officer, hired as an Employee, elected as a Director or retained as a Third-Party Service Provider.

8.4 Restricted Stock Transfer Restrictions; Lapse of Restrictions on Restricted Stock and Restricted Stock Units.

- (a) Unless otherwise determined by the Committee, until such time as all conditions or restrictions applicable to Shares of Restricted Stock have been satisfied or lapse, (i) all certificates representing Shares of Restricted Stock, together with duly endorsed stock powers in blank, will be held in custody by the Company or its transfer agent, (ii) any uncertificated Shares of Restricted Stock will be held at the Company's transfer agent in book entry form in the name of the Participant or (iii) such Shares of Restricted Stock will be held for the benefit of the Participant in nominee name by the broker engaged by the Company to provide such services for the Plan, in each case with appropriate restrictions relating to the transfer of such Shares of Restricted Stock. Except as otherwise provided in this Article 8 and subject to Section 14.2, Shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and restrictions applicable to such Shares have been satisfied or lapse (including satisfaction of any applicable tax withholding obligations).
- (b) Restricted Stock Units shall be paid in cash, Shares or a combination of cash and Shares as the Committee, in its sole discretion, shall determine, and as provided in the Award Agreement, except that if a Participant has properly elected to defer income that may be attributable to a Restricted Stock Unit under a Company deferred compensation plan, common stock units will be credited to the Participant's account under such plan and paid out in accordance with the terms of such plan. Any Shares issued under such deferred compensation plan that relate to the deferral of Restricted Stock Units granted under this Plan (including without limitation any Dividend Equivalents paid in Shares) will be deemed to be issued under this Plan. Upon the satisfactions, lapse or waiver of all conditions or restrictions applicable to Restricted Stock Units evidencing the right to receive Shares, such Shares shall be issued and delivered to the Participant holder of the Restricted Stock Units or the broker engaged by the Company to provide services for the Plan for the benefit of the Participant holder of the Restricted Stock Units.

8.5 Certificate Legend. In addition to any legends placed on certificates or restrictions on uncertificated shares issued in book entry form pursuant to Section 8.3, each certificate representing Shares of Restricted Stock granted pursuant to this Plan may bear a legend such as the following (and any uncertificated Shares of Restricted Stock issued in book entry form in the name of the Participant or held for the benefit of the Participant in nominee name by the broker engaged by the Company to provide such services for the Plan will be subject to restrictions set forth in the following legend) or as otherwise determined by the Committee in its sole discretion:

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“The sale or transfer of shares of stock represented by this certificate, whether voluntary, involuntary or by operation of law, is subject to certain restrictions on transfer as set forth in The Toro Company 2010 Equity and Incentive Plan, as may be amended from time to time (the “Plan”), and in the associated award agreement. A copy of the Plan and such award agreement may be obtained from The Toro Company.”

8.6 Voting Rights. Unless otherwise determined by the Committee and set forth in a Participant’s Award Agreement, to the extent permitted or required by law, as determined by the Committee, Participants holding Shares of Restricted Stock granted hereunder shall be granted the right to exercise full voting rights with respect to those Shares during the Period of Restriction. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

8.7 Dividend Rights.

(a) Unless otherwise determined by the Committee and set forth in a Participant’s Award Agreement, to the extent permitted or required by law, as determined by the Committee, Participants holding Shares of Restricted Stock granted hereunder shall have the same dividend rights as the Company’s other shareholders; provided, however, that any dividends as to Shares of Restricted Stock that are subject to vesting requirements will be subject to forfeiture and termination to the same extent as the Shares of Restricted Stock to which such dividends relate and the Award Agreement may require that any cash dividends be reinvested in additional Shares of Restricted Stock subject to the same conditions and restrictions as the Shares of Restricted Stock with respect to which the dividends were paid. In no event shall dividends with respect to Shares of Restricted Stock that are subject to performance-based vesting be paid or distributed until the performance-based vesting provisions of such Restricted Stock lapse.

(b) Unless otherwise determined by the Committee and set forth in a Participant’s Award Agreement, to the extent permitted or required by law, as determined by the Committee, prior to settlement or forfeiture, any Restricted Stock Units awarded under the Plan may, at the Committee’s discretion, carry with it a right to Dividend Equivalents. Such right entitles the Participant to be credited with any amount equal to all cash dividends paid on one Share while the Restricted Stock Unit is outstanding. Dividend Equivalents may be converted into additional Restricted Stock Units and may (and will, to the extent required below) be made subject to the same conditions and restrictions as the Restricted Stock Units to which they attach. Settlement of Dividend Equivalents may be made in the form of cash, in the form of Shares, or in a combination of both. Dividend Equivalents as to Restricted Stock Units will be subject to forfeiture and termination to the same extent as the corresponding Restricted Stock Units as to which the Dividend Equivalents relate. In no event shall Participants holding performance-based Restricted Stock Units receive any Dividend Equivalents on such Restricted Stock Units until the performance-based vesting provisions of such Restricted Stock Units lapse.

8.8 Section 83(b) Election for Restricted Stock Award. If a Participant makes an election pursuant to Code Section 83(b) with respect to an Award of Restricted Stock, the Participant must file, within thirty (30) days following the Grant Date, a copy of such election with the Company and with the Internal Revenue Service, in accordance with the regulations under Code Section 83. The Committee may provide in the Award Agreement that the Award of Restricted Stock is conditioned upon the Participant’s making or refraining from making an election with respect to the Award under Code Section 83(b).

Article 9. Performance Units and Performance Shares

9.1 Grant of Performance Units and Performance Shares. Subject to the terms and provisions of this Plan (including Section 20.6), the Committee, at any time and from time to time, may

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grant Performance Units or Performance Shares to Participants in such amounts and upon such terms as the Committee shall determine.

9.2 Award Agreement. The terms and conditions of any grant of any Performance Units or Performance Shares shall be set forth in an Award Agreement.

9.3 Value of Performance Units and Performance Shares. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the Grant Date. The Committee shall set Performance Goals in its discretion which, depending on the extent to which they are met, will determine the value or number of Performance Units or Performance Shares that will be paid out to the Participant. The Performance Period set forth in any Award Agreement for any Performance Shares shall be at least one year, except in connection with the death or Disability of the Participant or a Change of Control.

9.4 Earning of Performance Units and Performance Shares. Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units or Performance Shares shall be entitled to receive payout on the value and number of Performance Units or Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding Performance Goals have been achieved.

9.5 Reassignment. If prior to the end of a Performance Period, but after the conclusion of one year of the Performance Period, a Participant holding Performance Units or Performance Shares is reassigned to a position with the Company or any Affiliate or Subsidiary, and that position is not eligible to participate in such an Award, but the Participant does not terminate employment or service with the Company or any Affiliate or Subsidiary, as the case may be, the Committee may, in its sole discretion: (a) cause Shares to be delivered or payment made with respect to the Participant’s Award in accordance

with Section 9.7, but only if otherwise earned for the entire Performance Period or (b) cause Shares to be delivered or payment made with respect to the Participant's Award in accordance with Section 9.7, but only if otherwise earned for the entire Performance Period and only with respect to the portion of the applicable Performance Period completed at the date of such reassignment, with proration based on the number of months or years such Participant served in the prior position during the Performance Period.

9.6 Committee Discretion to Scale Back Awards. At any time during a Performance Period of more than one fiscal year, the Committee may, in its discretion, cancel a portion of an Award of Performance Shares or Performance Units prior to the conclusion of the Performance Period (a "Scale Back"), provided that:

- (a) the Award has not yet vested;
- (b) based on financial information contained in the financial statements or similar internal reports of the Company or any Affiliate or Subsidiary, as the case may be, the Committee determines that the Performance Goals for the Performance Period cannot be achieved at the maximum levels established at the time of grant;
- (c) Awards shall be Scaled Back in proportion to the estimated short fall in achievement of Performance Goals from maximum levels;
- (d) all Awards for the same Performance Period are Scaled Back by the same percentage;
- (e) once an Award is Scaled Back, it may not again be increased to add or recover Performance Shares or Performance Units that were canceled; and
- (f) Performance Shares or Performance Units canceled in a Scale Back shall again be available to the Committee for grant of new Awards of Performance Shares or

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Performance Units for any future Performance Period. This provision shall not be used in any manner that could have the effect of repricing a previous Award of Performance Shares or Performance Units.

9.7 Form and Timing of Payment of Performance Units or Performance Shares. Payment of earned Performance Units or Performance Shares shall be as determined by the Committee and as evidenced in the Award Agreement. Subject to the terms of this Plan, the Committee, in its sole discretion, may pay earned Performance Units or Performance Shares in the form of cash or in Shares (or in a combination thereof) equal to the value of the earned Performance Units or Performance Shares at the close of the applicable Performance Period or as soon as practicable after the end of the Performance Period, except that if a Participant has properly elected to defer income that may be attributable to Performance Shares or Performance Units under a Company deferred compensation plan, common stock units will be credited to the Participant's account under such deferred compensation plan and paid in accordance with the terms of such plan. Any Shares issued under such deferred compensation plan that relate to the deferral of Performance Shares or Performance Units granted under this Plan (including without limitation any Dividend Equivalents paid in Shares) will be deemed to be issued under this Plan. Any Shares issued in payment of earned Performance Units or Performance Shares may be granted subject to any restrictions deemed appropriate by the Committee. The determination of the Committee with respect to the form of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award.

9.8 Dividend Rights. Participants holding Performance Units or Performance Shares granted hereunder shall not receive any cash dividends or Dividend Equivalents based on the dividends declared on Shares that are subject to such Performance Units or Performance Shares during the period between the date that such Performance Units or Performance Shares are granted and the date such Performance Units or Performance Shares are settled.

Article 10. Annual Performance Awards

10.1 Grant of Annual Performance Awards. Subject to the terms and conditions of this Plan, the Committee, at any time and from time to time, may grant to Participants Awards denominated in cash in such amounts and upon such terms as the Committee may determine, based on the achievement of specified Performance Goals for annual periods or other time periods as determined by the Committee ("Annual Performance Awards").

10.2 Target Payout. The target amount that may be paid with respect to an Annual Performance Award (the "Target Payout") shall be determined by the Committee pursuant to Section 15.2 and shall be based on a percentage of a Participant's actual fiscal year annual base earnings at the time of grant ("Participation Factor"), within the range established by the Committee for each Participant and subject to adjustment as provided in the next sentence of this Section 10.2. The Chief Executive Officer may approve modifications to the foregoing Participation Factors for any Participant who is not a Covered Employee, if such modification is based on level of responsibility. The Committee may establish curves, matrices or other measurements for prorating the amount of payouts for achievement of Performance Goals at less or greater than the Target Payout.

10.3 Maximum Payout. The Committee may also establish a maximum potential payout amount (the "Maximum Payout") with respect to an Annual Performance Award of up to 200% of the Target Payout in the event Performance Goals are exceeded by an amount established by the Committee at the time Performance Goals are established. The Committee may establish curves, matrices or other measurements for prorating the amount of payouts for achievement of Performance Goals at greater than the Target Payout but less than the Maximum Payout.

10.4 Division Payout. At the time an Annual Performance Award is made, the Committee may establish supplemental division-specific Performance Measures ("Supplemental Division Performance Goals") and may provide that achievement of a Supplemental Division Performance Goal at or above an established target level shall be required in order to earn a Target Payout or Maximum

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Payout. The Committee shall also have the discretion to reduce by an amount up to 20% the amount that would otherwise be paid under the division payout formula to a division officer or general manager based on the Committee's evaluation of the quality of division performance.

10.5 Strategic Performance Measure Payout. At the time an Annual Performance Award is made, the Committee may increase the Target Payout and the Maximum Payout (as either may be prorated in accordance with Sections 10.2 and 10.3) by up to 20% but to not more than 200% of the Target Payout, for selected Participants (“Strategic Performance Participants”), to reflect individual strategic performance measures (“SPM Performance Goals”) established at that time by the Committee. The Committee shall have the discretion to reduce by an amount up to 20% the amount that would otherwise be paid under the payout formula to a Strategic Performance Participant based on the Committee’s evaluation of the individual’s achievement of the SPM Performance Goal.

10.6 Payment. Payment of any earned Annual Performance Awards will be made as soon as possible after the Committee has determined the extent to which the applicable Performance Goals have been achieved and not later than the last day of the short term deferral period determined in accordance with Treas. Reg. Sec. 1.409A-1(b)(4), except to the extent that a Participant has properly elected to defer income that may be attributable to an Annual Performance Award under a Company deferred compensation plan or arrangement.

Article 11. Nonemployee Director Awards

11.1 Nonemployee Director Shares. On the first business day of each fiscal year, the Company shall issue to each person who is then a Nonemployee Director Shares in an amount equal to \$60,000 (or such other amount as may be determined by the Committee from time to time, which Committee shall consist solely of directors who are “independent directors” (as defined in the rules of the New York Stock Exchange)) divided by the three-month fair market value of one Share, rounded down to the greatest number of whole Shares (“Nonemployee Director Shares”), subject to adjustment as provided in Section 4.4(a). “Three-month fair market value” for the purpose of this Section 11.1 shall be the average of the closing sale prices of one Share at the end of the regular trading session for each of the trading days in the three calendar months immediately prior to the date of issue of the Nonemployee Director Shares, as reported by The New York Stock Exchange.

11.2 Nonemployee Director Options.

- (a) **Annual Grant.** Subject to the terms and conditions of this Section 11.2, on the first business day of each fiscal year, the Company shall grant to each person who is then a Nonemployee Director, a Nonqualified Stock Option to purchase Shares (a “Nonemployee Director Option”). Each Nonemployee Director Option shall have a grant date fair value of \$55,000 (or such other amount as may be determined by the Committee from time to time, which Committee shall consist solely of directors who are “independent directors” (as defined in the rules of the New York Stock Exchange)), determined using a standard Black-Scholes, binomial or monte carlo valuation formula, based on assumptions consistent with those used to value option grants disclosed under Schedule 14A under the Exchange Act or successor requirements, for the business day prior to the Grant Date.
- (b) **Option Price.** The Option Price for each grant of a Nonemployee Director Option shall be one hundred percent (100%) of the FMV of a Share as of the Option’s Grant Date.
- (c) **Vesting; Term.** Except as provided in Articles 13 and 19, Nonemployee Director Options shall vest and become exercisable in three equal installments on each of the first, second and third anniversaries following the Grant Date, and shall remain exercisable for a term of ten (10) years after the Grant Date.

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- (d) **Exercise and Payment of Exercise Price.** Nonemployee Director Options may be exercised by giving notice and paying the Option Price pursuant to Section 6.6 of this Plan.

11.3 Share Proration. If, on any date on which Nonemployee Director Shares are to be issued pursuant to Section 11.1 or Nonemployee Director Options are to be granted pursuant to Section 11.2, the number of Shares is insufficient for the issuance of the entire number of Nonemployee Director Shares to be issued or for the grant of the entire number of Nonemployee Director Options, as calculated in accordance with Section 11.1 or Section 11.2, respectively, then the number of Nonemployee Director Shares to be issued and Nonemployee Director Options to be granted to each Nonemployee Director entitled to receive Nonemployee Director Shares or Nonemployee Director Options on such date shall be such Nonemployee Director’s proportionate share of the available number of such Shares and Options (rounded down to the greatest number of whole Shares), provided that if a sufficient number of Shares is available to issue all of the Nonemployee Director Shares, then the entire number of Nonemployee Director Shares shall be issued first and the number of Shares to be subjected to Nonemployee Director Options shall be prorated in accordance with this section.

11.4 Shares in Lieu of Retainers and Other Director Fees. A Nonemployee Director shall have the right to elect to receive Shares in lieu of any annual Board, chair and other retainers and any meeting fees otherwise payable in cash. The election to receive Shares shall be made prior to the date retainers and fees are otherwise scheduled to be paid but not later than May 31 of the calendar year for which the retainers and fees are to be paid or such earlier date as set by the Committee. Retainers and fees that are earned after the date a Nonemployee Director makes an election shall be reserved through the rest of the calendar year and Shares shall be issued in December of that year. The number of Shares to be issued shall be determined by dividing the dollar amount of reserved retainers and fees by the Fair Market Value of one Share on the date that the Shares are issued.

11.5 Award Agreement. The terms and conditions of any grant of any Award to a Nonemployee Director shall be set forth in an Award Agreement.

11.6 Other Awards to Nonemployee Directors. The Committee (which shall consist solely of directors who are “independent directors” (as defined in the rules of the New York Stock Exchange)) may grant to Nonemployee Directors other types of Awards pursuant to such terms and conditions as the Board or Committee may prescribe and set forth in an applicable subplan or Award Agreement, subject to the Nonemployee Director Awards limit in Section 4.3(h) and the other terms and provisions of this Plan.

11.7 Deferral of Award Payment. The Committee (which shall consist solely of directors who are “independent directors” (as defined in the rules of the New York Stock Exchange)) may permit a Nonemployee Director the opportunity to defer the grant or payment of an Award pursuant to such terms and conditions as the Committee may prescribe and set forth in any applicable subplan or Award Agreement. If a Nonemployee Director has properly elected to defer income that may be attributable to any Awards granted to Nonemployee Directors under this Plan or Shares received by Nonemployee Directors under Section 11.4 of this Plan under a Company deferred compensation plan, common stock units will be credited to the Nonemployee Director’s

account under such deferred compensation plan and paid out in accordance with the terms of such deferred compensation plan. Any Shares issued under such deferred compensation plan that relate to the deferral of Awards granted to Nonemployee Directors under this Plan or Shares received by Nonemployee Directors under Section 11.4 of this Plan (including without limitation accumulated Dividend Equivalents paid in Shares) will be deemed to be issued under this Plan.

Article 12. Other Cash-Based Awards and Other Stock-Based Awards

12.1 Other Cash-Based Awards. Subject to the terms and provisions of this Plan, the Committee, at any time and from time to time, may grant Other Cash-Based Awards to Participants in such amounts and upon such terms as the Committee may determine.

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12.2 Other Stock-Based Awards. Subject to the terms and provisions of this Plan (including Section 20.6), the Committee, at any time and from time to time, may grant Other Stock-Based Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted Shares) in such amounts and subject to such terms and conditions as the Committee shall determine. Without limiting the generality of the foregoing, such Awards may (a) involve the transfer of actual Shares to Participants, either at the time of grant or thereafter, or payment in cash or otherwise of amounts based on the value of Shares; (b) include Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States; and (c) be in the form of deferred common stock units, including those accumulated as a result of Dividend Equivalents paid in Shares on common stock units credited to a Participant's account under a Company deferred compensation plan and paid out in accordance with the terms of such deferred compensation plan.

12.3 Value of Other Cash-Based Awards and Other Stock-Based Awards. Each Other Cash-Based Award shall specify a payment amount or payment range as determined by the Committee. Each Other Stock-Based Award shall be expressed in terms of Shares or units based on Shares, as determined by the Committee. The Committee may establish Performance Goals in its discretion for any Other Cash-Based Award or any Other Stock-Based Award. If the Committee exercises its discretion to establish Performance Goals for any such Awards, the number or value of Other Cash-Based Awards or Other Stock-Based Awards that will be paid out to the Participant will depend on the extent to which the Performance Goals are met.

12.4 Payment of Other Cash-Based Awards and Other Stock-Based Awards. Payment, if any, with respect to an Other Cash-Based Award or an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash for any Other Cash-Based Award and in cash or Shares for any Other Stock-Based Award, as the Committee determines; except that if a Participant has properly elected to defer income that may be attributable to an Other Cash-Based Award or an Other Stock-Based Award under a Company deferred compensation plan, common stock units will be credited to the Participant's account under such plan and paid out in accordance with the terms of such plan.

Article 13. Termination of Service

The following provisions shall apply upon termination of a Participant's employment or other service with the Company or any Affiliate or Subsidiary, as the case may be, except to the extent that the Committee provides otherwise in an Award Agreement evidencing an Award at the time of grant or determines otherwise pursuant to Section 13.4 of this Plan (and such provisions and determinations need not be uniform among all Awards granted pursuant to this Plan) or the terms of another agreement between the Company and the Participant or a plan or policy of the Company applicable to the Participant specifically provides otherwise.

13.1 Effect of Termination Due to Death or Disability. Subject to Section 13.6 of this Plan, in the event a Participant's employment or other service with the Company or any Affiliate or Subsidiary, as the case may be, is terminated by reason of death or Disability:

- (a) All outstanding Options (including Nonemployee Director Options) and SARs held by the Participant as of the effective date of such termination shall become immediately exercisable in full and will remain exercisable for a period of one year after such termination (but in no event after the expiration date of any such Option or SAR);
- (b) All outstanding Shares of Restricted Stock held by the Participant as of the effective date of such termination that have not vested as of the date of such termination shall be terminated and forfeited;
- (c) All outstanding but unpaid Restricted Stock Units, Performance Shares, Performance Units, Other Cash-Based Awards and Other Stock-Based Awards held by the Participant as of the effective date of such termination shall be terminated and forfeited; provided, however, that with respect to any Performance Shares or Performance Units, if a

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Participant's employment or other service with the Company or any Affiliate or Subsidiary, as the case may be, is terminated by reason of death or Disability prior to the end of the Performance Period of such Award, but after the conclusion of not less than one year of the Performance Period, the Committee may, in its sole discretion, cause Shares to be delivered or payment made (except to the extent that a Participant has properly elected to defer income that may be attributable to Performance Shares or Performance Units under a Company deferred compensation plan or arrangement) with respect to the Participant's Award, but only if otherwise earned for the entire Performance Period and only with respect to the portion of the applicable Performance Period completed at the date of such event, with proration based on the number of months or years that the Participant was employed or performed services during the Performance Period. The Committee shall consider the provisions of Section 13.6 of this Plan and shall have the discretion to consider any other fact or circumstance in making its decision as to whether to deliver such Shares, including whether the Participant again becomes employed; and

- (d) If the effective date of such termination is before the date payment is made in settlement of an Annual Performance Award or would have been made had there not been a deferral election in place, the Annual Performance Award will be terminated and forfeited; provided, however, that the Committee may, in its sole discretion, cause payment to be made with respect to such Annual Performance Award and in accordance with Section 10.6 and the payment terms thereof, but only if otherwise earned for the entire Performance Period and only with respect to the portion of the Performance Period completed as of the date of such death or Disability.

13.2 Effect of Termination Due to Retirement. Subject to Section 13.6 of this Plan, in the event a Participant's employment or other service with the Company or any Affiliate or Subsidiary, as the case may be, is terminated by reason of Retirement (except with respect to Nonemployee Directors):

- (a) All outstanding Options (other than Nonemployee Director Options) and SARs held by the Participant as of the effective date of such Retirement shall remain outstanding and exercisable and shall continue to vest and become exercisable in accordance with their terms for a period of four years after the date of such Retirement (but in no event shall be exercisable after the expiration date of any such Option or SAR);
- (b) All outstanding Shares of Restricted Stock held by the Participant as of the effective date of such Retirement that have not vested as of the date of such Retirement shall be terminated and forfeited;
- (c) All outstanding but unpaid Restricted Stock Units, Performance Shares, Performance Units, Other Cash-Based Awards and Other Stock-Based Awards held by the Participant as of the effective date of such Retirement shall be terminated and forfeited; provided, however, that with respect to any Performance Shares or Performance Units, if a Participant's employment or other service with the Company or any Affiliate or Subsidiary, as the case may be, is terminated by reason of Retirement prior to the end of the Performance Period of such Award, but after the conclusion of not less than the one year of the Performance Period, the Committee may, in its sole discretion, cause Shares to be delivered or payment made (except to the extent that a Participant has properly elected to defer income that may be attributable to Performance Shares or Performance Units under a Company deferred compensation plan or arrangement) with respect to the Participant's Award, but only if otherwise earned for the entire Performance Period and only with respect to the portion of the applicable Performance Period completed at the date of such event, with proration based on the number of months or years that the Participant was employed or performed services during the Performance Period. The Committee shall consider the provisions of Section 13.6 of this Plan and shall have the

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discretion to consider any other fact or circumstance in making its decision as to whether to deliver such Shares, including whether the Participant again becomes employed; and

- (d) If the effective date of such Retirement is before the date payment is made in settlement of an Annual Performance Award or would have been made had there not been a deferral election in place, the Annual Performance Award will be terminated and forfeited; provided, however, that the Committee may, in its sole discretion, cause payment to be made with respect to such Annual Performance Award and in accordance with Section 10.6 and the payment terms thereof, but only if otherwise earned for the entire Performance Period and only with respect to the portion of the Performance Period completed as of the date of such Retirement.

13.3 Effect of Termination for Reasons Other than Death, Disability or Retirement. Subject to Section 13.6 of this Plan, in the event a Participant's employment or other service with the Company or any Affiliate or Subsidiary, as the case may be, is terminated for any reason other than death, Disability or Retirement (except with respect to Nonemployee Directors):

- (a) All outstanding Options (other than Nonemployee Director Options) and SARs held by the Participant as of the effective date of such termination shall, to the extent exercisable as of the date of such termination, remain exercisable in full for a period of three months after the date of such termination (but in no event after the expiration date of any such Option or SAR), and Options and SARs not exercisable as of the date of such termination shall be forfeited and terminate;
- (b) All outstanding Shares of Restricted Stock held by the Participant as of the effective date of such termination that have not vested as of the date of such termination shall be terminated and forfeited;
- (c) All outstanding but unpaid Restricted Stock Units, Performance Shares, Performance Units, Other Cash-Based Awards and Other Stock-Based Awards held by the Participant as of the effective date of such termination shall be terminated and forfeited;
- (d) If the effective date of such termination is before the date payment is made in settlement of an Annual Performance Award or would have been made had there not been a deferral election in place, then any such Annual Performance Award held by a Participant shall be terminated and forfeited; and
- (e) If a Nonemployee Director has served as a member of the Board for ten full fiscal years or longer and terminates service on the Board for any reason other than death or Disability, (i) outstanding unvested Nonemployee Director Options shall remain outstanding and continue to vest in accordance with their terms, and (ii) the Nonemployee Director may exercise all such vested outstanding Nonemployee Director Options for up to four years after the date of termination, but not later than the date the Nonemployee Director Option expires. If a Nonemployee Director has served as a member of the Board for less than ten years and terminates service on the Board for any reason other than death or Disability, (x) all unvested Nonemployee Director Options shall expire and be canceled and (y) the Nonemployee Director may exercise any vested outstanding Nonemployee Director Options for up to three months after the date of termination, but not later than the date the Nonemployee Director Option expires.

13.4 Modification of Rights Upon Termination. Notwithstanding the other provisions of this Article 13, upon a Participant's termination of employment or other service with the Company or any Affiliate or Subsidiary, as the case may be, the Committee may, in its sole discretion (which may be exercised at any time on or after the Grant Date, including following such termination) cause Options or SARs (or any part thereof) held by such Participant as of the effective date of such termination to terminate, become or continue to become exercisable or remain exercisable following such termination of

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employment or service, and Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Annual Performance Awards, Nonemployee Director Awards, Other Cash-Based Awards and Other Stock-Based Awards held by such Participant as of the effective date of such termination to terminate, vest or become free of restrictions and conditions to payment, as the case may be, following such termination of employment or service, in each case in the

manner determined by the Committee; provided, however, that (a) the Committee may not take any action not permitted pursuant to Section 15.3 or Section 20.5, (b) the Committee taking any such action relating to Nonemployee Director Awards shall consist solely of “independent directors” (as defined in the rules of the New York Stock Exchange), and (c) any such action by the Committee adversely affecting any outstanding Award will not be effective without the consent of the affected Participant (subject to the right of the Committee to take whatever action it deems appropriate under Sections 4.4 or 13.6 or Articles 19 and 20 of this Plan).

13.5 Determination of Termination of Employment or Other Service. Unless the Committee otherwise determines in its sole discretion, a Participant’s employment or other service will, for purposes of this Plan, be deemed to have terminated on the date recorded on the personnel or other records of the Company or the Affiliate or Subsidiary for which the Participant provides employment or other service, as determined by the Committee in its sole discretion based upon such records; provided, however, that if distribution of an Award subject to Code Section 409A is triggered by a termination of a Participant’s employment or other service, such termination must also constitute a “separation from service” within the meaning of Code Section 409A.

13.6 Additional Forfeiture Events.

- (a) **Actions Constituting Adverse Action.** Notwithstanding anything in this Plan to the contrary and in addition to the other rights of the Committee under this Plan, including this Section 13.6, if a Participant is determined by the Committee, acting in its sole reasonable discretion, to have taken any action that would constitute an Adverse Action, (i) all rights of the Participant under this Plan and any agreements evidencing an Award then held by the Participant shall terminate and be forfeited without notice of any kind, and (ii) the Committee in its sole discretion may require the Participant to surrender and return to the Company all or any Shares received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by the Participant, during the period beginning one year prior to the Participant’s termination of employment or other service with the Company, an Affiliate or a Subsidiary, in connection with any Awards or any Shares issued upon the exercise or vesting of any Awards. The Company may defer the exercise of any Option or SAR, the issuance of share certificates or removal of restrictions on uncertificated shares issued in book entry form upon the vesting of any Restricted Stock or the issuance of Shares or payment upon vesting of any Restricted Stock Unit, Performance Share, Performance Unit or Other Stock-Based Awards for a period of up to ninety (90) days in order for the Committee to make any determination as to the existence of an Adverse Action. Unless otherwise provided by the Committee in an applicable Award Agreement, this Section 13.6(a) shall not apply to any Participant following a Change of Control.
- (b) **Forfeiture or “Clawback” of Awards under Applicable Law or Company Policy.** If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, then any Participant who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 shall reimburse the Company for the amount of any Award received by such individual under this Plan during the 12-month period following the first public issuance or filing with the Securities and Exchange Commission, as the case may be, of the financial document embodying such financial reporting requirement. In addition, the Company shall seek to recover any Award made as required by the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act or any other clawback, forfeiture or recoupment provision required by applicable law or under the requirements of any stock exchange or

market upon which such Shares are then listed or traded. Awards under the Plan also shall be subject to any compensation “clawback,” forfeiture or recoupment policy that the Committee may adopt from time to time that is applicable by its terms to the Participant.

Article 14. Transferability of Awards and Shares

14.1 Transferability of Awards. Except as determined by the Committee in its sole discretion, and on and subject to such terms and conditions as it shall deem appropriate: (a) during a Participant’s lifetime, his or her Awards shall be exercisable only by the Participant; (b) Awards shall not be transferable other than by will or the laws of descent and distribution or, subject to the consent of the Committee, pursuant to a domestic relations order entered into by a court of competent jurisdiction; (c) no Awards shall be subject, in whole or in part, to attachment, execution or levy of any kind; and (d) any purported transfer in violation of this Section 14.1 shall be null and void. The Committee may establish such procedures as it deems appropriate for a Participant to designate a beneficiary to whom any amounts payable or Shares deliverable in the event of, or following, the Participant’s death may be provided.

14.2 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired by a Participant under this Plan as it may deem advisable, including minimum holding period requirements, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed or traded, or under any blue sky or state securities laws applicable to such Shares.

Article 15. Performance Measures

15.1 Performance Measures. The Performance Goals upon which the payment or vesting of an Award to a Covered Employee that is intended to qualify as Performance-Based Compensation shall be limited to one or more specified objective Performance Measures that are based on the following Performance Measure elements (each, a “Performance Measure Element”):

- (a) **Sales and Revenue Measure Elements:**
- (i) Gross Revenue
 - (ii) Sales Allowances
 - (iii) Net Revenue
 - (iv) Invoiced Revenue
 - (v) Collected Revenue
 - (vi) Revenues from New Products
 - (vii) Bad Debts
- (b) **Expense Measure Elements:**

- (i) Direct Material Costs
- (ii) Direct Labor Costs
- (iii) Indirect Labor Costs
- (iv) Direct Manufacturing Costs
- (v) Indirect Manufacturing Costs
- (vi) Cost of Goods Sold
- (vii) Sales, General and Administrative Expenses
- (viii) Operating Expenses
- (ix) Non-cash Expenses
- (x) Tax Expense
- (xi) Non-operating Expenses
- (xii) Total Expenses

(c) **Profitability and Productivity Measure Elements:**

- (i) Gross Margin
- (ii) Net Operating Income

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- (iii) EBITDA (earnings before interest, taxes, depreciation and amortization)
- (iv) EBIT (earnings before interest and taxes)
- (v) Net Operating Income After Taxes (NOPAT)
- (vi) Net Income
- (vii) Net Cash Flow
- (viii) Net Cash Flow from Operations

(d) **Asset Utilization and Effectiveness Measure Elements:**

- (i) Cash
- (ii) Excess Cash
- (iii) Accounts Receivable
- (iv) Inventory (WIP or Finished Goods)
- (v) Current Assets
- (vi) Working Capital
- (vii) Total Capital
- (viii) Fixed Assets
- (ix) Total Assets
- (x) Standard Hours
- (xi) Plant Utilization
- (xii) Purchase Price Variance
- (xiii) Manufacturing Overhead Variance

(e) **Debt and Equity Measures:**

- (i) Accounts Payable
- (ii) Current Accrued Liabilities
- (iii) Total Current Liabilities
- (iv) Total Debt
- (v) Debt Principal Payments
- (vi) Net Current Borrowings
- (vii) Total Long-term Debt
- (viii) Credit Rating
- (ix) Retained Earnings
- (x) Total Preferred Equity
- (xi) Total Common Equity
- (xii) Total Equity

(f) **Shareholder and Return Measure Elements:**

- (i) Earnings per Share (diluted and fully diluted)
- (ii) Stock Price
- (iii) Dividends
- (iv) Shares Repurchased
- (v) Total Return to Shareholders
- (vi) Debt Coverage Ratios
- (vii) Return on Assets
- (viii) Return on Equity
- (ix) Return on Invested Capital
- (x) Economic Profit (for example, economic value added)

(g) **Customer and Market Measure Elements:**

- (i) Dealer/Channel Size/Scope

- (ii) Dealer/Channel Performance/Effectiveness
- (iii) Order Fill Rate
- (iv) Customer Satisfaction
- (v) Customer Service/Care
- (vi) Brand Awareness and Perception
- (vii) Market Share

- (viii) Warranty Rates
- (ix) Channel Inventory

(h) **Organizational and Employee Measure Elements:**

- (i) Headcount
- (ii) Employee Performance
- (iii) Employee Productivity
- (iv) Standard Hours
- (v) Employee Engagement/Satisfaction
- (vi) Employee Turnover
- (vii) Employee Diversity

(i) **Safety Measures:**

- (i) Recordable Incident Rates (TRIR)
- (ii) Recordable Cases
- (iii) Recordable Lost Work Days Rate (LWD)
- (iv) Recordable Severity Rate
- (v) Workers Compensation Expense

(j) **Quality Measures:**

- (i) PPM (parts per million)
- (ii) DPMO (defects per million opportunities)
- (iii) Defects (weighted by category)
- (iv) Scrap Expense
- (v) Rework Expense
- (vi) Product Holds
- (vii) Product Hold Inventory Dollars
- (viii) Shipping Errors
- (ix) Engineering Change Orders

(k) **Other Manufacturing Measures:**

- (i) Total Purchases
- (ii) Total Manufacturing Output
- (iii) Total Labor Costs
- (iv) Total Labor Hours

Any Performance Measure Element can be a Performance Measure. In addition, any of the Performance Measure Element(s) can be used in an algebraic formula (e.g., averaged over a period, combined into a ratio, compared to a budget or standard, compared to previous periods and/or other formulaic combinations) based on the Performance Measure Elements to create a Performance Measure. Any Performance Measure(s) may be used to measure the performance of the Company, Subsidiary or Affiliate as a whole or any division or business unit of the Company, product or product group, region or territory, Subsidiary or Affiliate, or any combination thereof, as the Committee may deem appropriate. Any Performance Measure(s) can be compared to the performance of a group of comparator companies, or published or special index that the Committee, in its sole discretion, deems appropriate, or the Company may select any Performance Measure(s) above as compared to various stock market indices. Subject to the terms and conditions of this Plan (including Section 20.5), the Committee also has the authority to provide for accelerated vesting of any Award based on the achievement of Performance Goals pursuant to any Performance Measure(s) specified in this Article 15.

15.2 Establishment of Performance Goals. Any Award to a Covered Employee that is intended to qualify as Performance-Based Compensation shall be granted, and Performance Goals for such an Award shall be established, by the Committee in writing not later than ninety (90) days after the commencement of the Performance Period to which the Performance Goals relate, or such other period

required under Code Section 162(m); provided that the outcome is substantially uncertain at the time the Committee establishes the Performance Goal; and provided further that in no event will a Performance Goal be considered to be preestablished if it is established after 25% of the Performance Period (as scheduled in good faith at the time the Performance Goal is established) has elapsed.

15.3 Certification of Payment. Before any payment is made in connection with any Award to a Covered Employee that is intended to qualify as Performance-Based Compensation, the Committee must certify in writing, as reflected in the minutes, that the Performance Goals established with respect to such Award have been achieved.

15.4 Evaluation of Performance. The Committee may provide in any such Award including Performance Goals that any evaluation of performance may include or exclude any of the following events that occurs during a Performance Period: (a) items related to a change in accounting or measurement principles; (b) items relating to financing activities; (c) expenses for restructuring or productivity initiatives; (d) other non-operating items; (e) items related to acquisitions; (f) items attributable to the business operations of any entity acquired by the Company during the Performance Period; (g) items related to the disposal of a business or segment of a business; (h) items related to discontinued operations that do not qualify as a segment of a business under applicable accounting standards; (i) items attributable to any stock dividend, stock split, combination or exchange of stock occurring during the Performance Period; (j) any other items of significant income or expense which are determined to be appropriate adjustments; (k) items relating to unusual or extraordinary corporate transactions, events or developments, (l) items related to amortization of acquired intangible assets; (m) items that are outside the scope of the Company's core, on-going business activities; (n) items related to acquired in-process research and development; (o) items relating to changes in tax laws; (p) items relating to major licensing or partnership arrangements; (q) items relating to asset impairment charges; (r) items relating to gains or losses for litigation, arbitration and contractual settlements; (s) foreign exchange gains and losses; or (t) items relating to any other unusual or nonrecurring events or changes in applicable laws, accounting principles or business conditions. To the extent such inclusions or exclusions affect Awards to Covered Employees, they shall be prescribed in a form that meets the requirements of Code Section 162(m) for deductibility.

15.5 Adjustment of Performance-Based Compensation. Awards that are intended to qualify as Performance-Based Compensation may not be adjusted upward. The Committee shall retain the discretion to adjust such Awards downward, either on a formula or discretionary basis or any combination, as the Committee determines.

15.6 Committee Discretion. In the event that applicable tax or securities laws change to permit Committee discretion to alter the governing Performance Measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards that shall not qualify as Performance-Based Compensation, the Committee may make such grants without satisfying the requirements of Code Section 162(m) and base vesting on Performance Measures other than those set forth in Section 15.1.

Article 16. Dividend Equivalents

Subject to the provisions of this Plan and any Award Agreement, any Participant selected by the Committee may be granted Dividend Equivalents based on the dividends declared on Shares that are subject to any Award (including any deferred Award), to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests, settles, is paid or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional Shares by such formula and at such time and subject to such limitations as may be determined by the Committee and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested. Notwithstanding the foregoing, the Committee may not grant Dividend Equivalents based on the dividends declared on Shares

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that are subject to an Option or SAR Award and further, no dividend or Dividend Equivalents shall be paid out with respect to any unvested performance Awards.

Article 17. Beneficiary Designation

Each Participant under this Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under this Plan is to be paid in case of the Participant's death before the Participant receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such beneficiary designation, benefits remaining unpaid or rights remaining unexercised at the Participant's death shall be paid to or exercised by the Participant's executor, administrator or legal representative.

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Article 18. Rights of Participants

18.1 Employment. Nothing in this Plan or an Award Agreement shall: (a) interfere with or limit in any way the right of the Company, its Affiliates or its Subsidiaries to terminate any Participant's employment or service on the Board or to the Company or an Affiliate or Subsidiary at any time or for any reason not prohibited by law, or (b) confer upon any Participant any right to continue his employment or service as a Director or Third-Party Service Provider for any specified period of time. Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with the Company or any Affiliate or Subsidiary and, accordingly, subject to Articles 3 and 20, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Committee without giving rise to any liability on the part of the Company, its Affiliates or its Subsidiaries.

18.2 Participation. No individual shall have the right to be selected to receive an Award under this Plan or, having been so selected, to be selected to receive a future Award.

18.3 Rights as a Shareholder. Except as otherwise provided herein, a Participant shall have none of the rights of a shareholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

Article 19. Change of Control

19.1 Effect of Change of Control. Without limiting the authority of the Committee pursuant to Sections 3.2 and 4.4 of this Plan, if a Change of Control occurs then, unless otherwise determined by the Committee or the Board in writing at or after the making of an Award, but prior to the occurrence of such Change of Control: (a) all Options and SARs granted hereunder shall become immediately exercisable and shall remain exercisable throughout their entire term; (b) all restrictions and vesting requirements applicable to any Award based solely on the continued service of the Participant shall terminate; and (c) all Awards the vesting or payment of which are based on Performance Goals shall vest as though such Performance Goals were fully achieved and shall become immediately payable; provided, however, that no Award that provides for a deferral of compensation within the meaning of Code Section 409A shall

be cashed out upon the occurrence of a Change of Control unless the event or circumstances constituting the Change of Control also constitute a “change in the ownership” of the Company, a “change in the effective control” of the Company or a “change in the ownership of a substantial portion of the assets” of the Company, in each case as determined under Code Section 409A. The treatment of any other Awards in the event of a Change of Control shall be as determined by the Committee in connection with the grant thereof, as reflected in the applicable Award Agreement.

19.2 Alternative Treatment of Stock-Based Awards. In connection with a Change of Control, the Committee in its sole discretion, either in an Award Agreement at the time of grant of a Stock-Based Award or at any time after the grant of such an Award, may determine that any or all outstanding Stock-Based Awards granted under this Plan, whether or not exercisable or vested, as the case may be, will be canceled and terminated and that in connection with such cancellation and termination the holder of such Stock-Based Award will receive for each Share subject to such Award a cash payment (or the delivery of shares of stock, other securities or a combination of cash, stock and securities with a fair market value (as determined by the Committee in good faith) equivalent to such cash payment) equal to the difference, if any, between the consideration received by shareholders of the Company in respect of a Share in connection with such Change of Control and the purchase price per share, if any, under the Award, multiplied by the number of Shares subject to such Award (or in which such Award is denominated); provided that if such product is zero (\$0) or less or to the extent that the Award is not then exercisable, the Award may be canceled and terminated without payment therefor. If any portion of the consideration pursuant to a Change of Control may be received by holders of Shares on a contingent or delayed basis, the Committee may, in its sole discretion, determine the fair market value per share of such consideration as of the time of the Change of Control on the basis of the Committee’s good faith estimate of the present value of the probable future payment of such consideration. Notwithstanding the foregoing, any Shares issued pursuant to a Stock-Based Award that immediately prior to the effectiveness of the Change of Control are subject to no further restrictions pursuant to this Plan or an

Award Agreement (other than pursuant to the securities laws) shall be deemed to be outstanding Shares and receive the same consideration as other outstanding Shares in connection with the Change of Control.

19.3 Limitation on Change of Control Payments. Notwithstanding anything in Section 19.1 or 19.2 of this Plan to the contrary, if, with respect to a Participant, the acceleration of the vesting of a Award as provided in Section 19.1 of this Plan or the payment of cash in exchange for all or part of a Stock-Based Award as provided in Section 19.2 of this Plan (which acceleration or payment could be deemed a “payment” within the meaning of Code Section 280G(b)(2)), together with any other “payments” that such Participant has the right to receive from the Company or any corporation that is a member of an “affiliated group” (as defined in Code Section 1504(a) without regard to Code Section 1504(b)) of which the Company is a member, would constitute a “parachute payment” (as defined in Code Section 280G(b)(2)), then the “payments” to such Participant pursuant to Section 19.1 or 19.2 of this Plan will be reduced (or acceleration of vesting eliminated) to the largest amount as will result in no portion of such “payments” being subject to the excise tax imposed by Code Section 4999; provided, that such reduction shall be made only if the aggregate amount of the payments after such reduction exceeds the difference between (a) the amount of such payments absent such reduction minus (b) the aggregate amount of the excise tax imposed under Code Section 4999 attributable to any such excess parachute payments; and provided further that such payments will be reduced (or acceleration of vesting eliminated) in the following order: (i) options with an exercise price above fair market value that have a positive value for purposes of Code Section 280G, (ii) pro rata among Awards that constitute deferred compensation under Code Section 409A, and (iii) finally, among the Awards that are not subject to Code Section 409A. Notwithstanding the foregoing sentence, if a Participant is subject to a separate agreement with the Company or an Affiliate or Subsidiary that expressly addresses the potential application of Code Sections 280G or 4999 (including that “payments” under such agreement or otherwise will be reduced, that the Participant will have the discretion to determine which “payments” will be reduced, that such “payments” will not be reduced or that such “payments” will be “grossed up” for tax purposes), then this Section 19.3 shall not apply and any “payments” to a Participant pursuant to Section 19.1 or 19.2 of this Plan will be treated as “payments” arising under such separate agreement; provided such separate agreement may not modify the time or form of payments under any Award that constitutes deferred compensation under Code Section 409A if the modification would cause such Award to become subject to the adverse tax consequences specified in Code Section 409A.

Article 20. Amendment and Termination

20.1 Amendment and Termination of this Plan and Award Agreements.

- (a) Subject to subparagraphs (b) and (c) of this Section 20.1 and Sections 20.3, 20.5, 20.6 and 23.13 of this Plan, the Board may at any time terminate this Plan or an outstanding Award Agreement and the Committee may, at any time and from time to time, amend this Plan or an outstanding Award Agreement.
- (b) The terms of an outstanding Award may not be amended to reduce the exercise price of outstanding Options or to reduce the Grant Price of outstanding SARs or cancel outstanding Options or SARs in exchange for cash, other Awards or Options or SARs with an exercise price or Grant Price, as applicable, that is less than the exercise price of the cancelled Options or the Grant Price of the cancelled SARs without shareholder approval, except in connection with one of the events described in Section 4.4.
- (c) Notwithstanding the foregoing, no amendment of this Plan shall be made without shareholder approval (i) to increase the maximum number of Shares which may be issued pursuant to the Plan; (ii) to increase any limitation set forth in the Plan on the number of Shares which may be issued or the aggregate value of Awards which may be made, in respect of any type of Award to any single Participant during any specified period; (iii) to change the class of individuals eligible to participate in the Plan; (iv) to reduce the minimum Option Price or the minimum SAR Grant Price as set forth in

Sections 6.3 and 7.3; (v) to reduce the minimum vesting period, Period of Restriction or Performance Period requirements applicable to Awards under the Plan to Participants who are Employees; or (vi) if shareholder approval is otherwise required pursuant to rules promulgated by any stock exchange or quotation system on which Shares are listed or quoted or by applicable U.S. state corporate laws or regulations, applicable U.S. federal laws or regulations, and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under this Plan.

20.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. Subject to Section 15.5, the Committee may amend or modify the vesting criteria (including any Performance Goals, Performance Measures or Performance Periods) of any outstanding Awards based in whole or in part on the financial performance of the Company (or any Subsidiary or division, business unit or other sub-unit thereof) in recognition of unusual or nonrecurring events (including the events described in Sections 4.4 or 15.4) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under this Plan. By accepting an Award under this Plan, a Participant agrees to any adjustment to the Award made pursuant to this Section 20.2 without further consideration or action.

20.3 Awards Previously Granted. Notwithstanding any other provision of this Plan to the contrary, other than Sections 20.2, 20.4 or 23.13, no termination or amendment of this Plan or an Award Agreement shall adversely affect in any material way any Award previously granted under this Plan, without the written consent of the Participant holding such Award.

20.4 Amendment to Conform to Law. Notwithstanding any other provision of this Plan to the contrary, the Committee may amend this Plan or an Award Agreement, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming this Plan or an Award Agreement to any present or future law relating to plans of this or similar nature, and to the administrative regulations and rulings promulgated thereunder. By accepting an Award under this Plan, a Participant agrees to any amendment made pursuant to this Section 20.4 to any Award granted under this Plan without further consideration or action.

20.5 Waiver, Lapse or Acceleration of Exercisability or Vesting. Notwithstanding any other provision of this Plan to the contrary, the Committee shall not have the authority to waive, lapse or accelerate the exercisability or vesting of any Award held by any Participant who is an Employee, except (a) in connection with the death, Disability or Retirement of the Participant or a Change in Control or (b) to the extent that the number of Shares covered by such waived, lapsed or accelerated Award (together with the number of Shares covered by all other Awards, the exercisability or vesting of which previously have been waived, lapsed or accelerated by the Committee under this Plan) do not exceed five percent (5%) of the total number of Shares authorized for Awards under this Plan.

20.6 Nonemployee Director Awards. Notwithstanding any other provision of this Plan to the contrary, no action may be taken with respect to any Nonemployee Director Award other than by the Committee (which shall consist solely of “independent directors” (as defined in the rules of the New York Stock Exchange)).

Article 21. Withholding

21.1 Tax Withholding. Subject to Section 21.2 of this Plan, the Company or any plan administrator of the Plan, as applicable, shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the statutory amount reasonably determined by the Company or any plan administrator of the Plan, as applicable, to be required to satisfy federal, state and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable

event arising as a result of this Plan, including such amounts as may be calculated based on maximum applicable rates.

21.2 Share Withholding. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock and Restricted Stock Units, or upon the achievement of Performance Goals related to Performance Shares, or any other taxable event arising as a result of a Stock-Based Award granted hereunder (collectively and individually referred to as a “Share Payment”), Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company or any plan administrator, as applicable, withhold from the Share Payment a number of Shares having a Fair Market Value up to an amount of withholding based on the maximum statutory tax rates in the Participant’s applicable tax jurisdictions (unless a lesser amount of withholding is required to avoid the classification of an Award as a liability on the Company’s consolidated balance sheet or other adverse accounting treatment), calculated on the date the withholding is to be determined. All such elections shall be irrevocable, made in writing and signed by the Participant (including pursuant to electronic mail communications from the Participant to the email address established by the Company), and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

Article 22. Successors

All obligations of the Company under this Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business or assets of the Company.

Article 23. General Provisions

23.1 Legend. Any certificates for Shares may include any legend, and any uncertificated Shares issued in book entry form or Shares deposited with any broker with which the Company has engaged to provide services for the Plan on behalf of a Participant may be made subject to any restriction, that the Committee deems appropriate to reflect any restrictions on transfer of such Shares.

23.2 Usage. In this Plan, except where otherwise indicated by clear contrary intention, (a) any masculine term used herein also shall include the feminine, (b) the plural shall include the singular, and the singular shall include the plural, (c) “including” (and with correlative meaning “include”) means including without limiting the generality of any description preceding such term, and (d) “or” is used in the inclusive sense of “and/or”.

23.3 Severability. In the event any provision of this Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Plan, and this Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

23.4 Requirements of Law. The granting of Awards and the issuance of Shares under this Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

23.5 Delivery of Title. The Company shall have no obligation to issue or deliver evidence of title for Shares issued under this Plan prior to:

- (a) Obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and
- (b) Completion of any registration or other qualification of the Shares under any applicable federal, state, provincial, local, foreign or other law or ruling of any governmental body that the Company determines to be necessary or advisable.

23.6 Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

23.7 Investment Representations. The Committee may require any individual receiving Shares pursuant to an Award under this Plan to represent and warrant in writing that the individual is acquiring the Shares for investment and without any present intention to sell or distribute such Shares.

23.8 Employees Based Outside of the United States. Notwithstanding any provision of this Plan to the contrary, in order to comply with the laws in other countries in which the Company, its Affiliates or its Subsidiaries operate or have Employees, Directors or Third-Party Service Providers, the Committee, in its sole discretion, shall have the power and authority to:

- (a) Determine which Affiliates and Subsidiaries shall be covered by this Plan;
- (b) Determine which Employees, Directors or Third-Party Service Providers outside the United States are eligible to participate in this Plan;
- (c) Modify the terms and conditions of any Award granted to Employees, Directors or Third-Party Service Providers outside the United States to comply with applicable foreign laws;
- (d) Establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable. Any subplans and modifications to Plan terms and procedures established under this Section 23.8 by the Committee shall be attached to this Plan document as appendices;
- (e) Take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals; and
- (f) Provide for a longer term for Nonqualified Stock Options and SARs granted to Participants outside the United States to accommodate regulations in non-U.S. jurisdictions that require a minimum exercise or vesting period following a participant's death.

Notwithstanding the above, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate applicable law. The Committee will have no authority, however, to take action pursuant to this Section 23.8 of this Plan: (i) to reserve shares or grant Awards in excess of the limitations provided in Section 4.1 of this Plan; (ii) in violation of Section 20.1(b) of this Plan; (iii) to grant Options or Stock Appreciation Rights having an exercise price in violation of Section 6.3 or 7.3 of this Plan, as the case may be; or (iv) for which shareholder approval would then be required pursuant to Code Section 422 or the rules of the New York Stock Exchange (or other applicable exchange or market on which the Company's Shares may be traded or quoted).

23.9 Uncertificated Shares. To the extent that this Plan provides for the issuance of certificates to reflect the transfer of Shares, the transfer of such Shares may be effected on a noncertificated or book entry basis or in nominee name, to the extent not prohibited by applicable law or the rules of any stock exchange.

23.10 Unfunded Plan. Participants shall have no right, title or interest whatsoever in or to any investments that the Company, its Subsidiaries or its Affiliates may make to aid it in meeting its obligations under this Plan. Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company

and any Participant, beneficiary, legal representative, or any other individual. To the extent that any individual acquires a right to receive payments from the Company or any Affiliate or Subsidiary under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company or the Subsidiary or Affiliate, as the case may be. All payments to be made hereunder shall be paid from the general funds of the Company, or the Subsidiary or Affiliate, as the case may be and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in this Plan.

23.11 Fractional Shares. The Company may issue or deliver fractional Shares pursuant to this Plan or any Award. If the Committee in its discretion decides not to issue or deliver fractional shares, then the Committee shall determine whether cash, Awards or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

23.12 Retirement and Welfare Plans. Neither Awards made under this Plan nor Shares or cash paid pursuant to such Awards may be included as "compensation" for purposes of computing the benefits payable to any Participant under the Company's or any Subsidiary's or Affiliate's retirement plans (both qualified and nonqualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a Participant's benefit.

23.13 Deferred Compensation.

- (a) The Committee may grant Awards under this Plan that provide for the deferral of compensation within the meaning of Code Section 409A. If an Award is not by its terms exempt from the requirements of Code Section 409A, then the applicable Award Agreement shall contain

terms and conditions necessary to avoid the adverse tax consequences specified in Code Section 409A. It is intended that such Awards comply with the requirements of Code Section 409A so that amounts deferred thereunder are not includible in income and are not subject to an additional tax of twenty percent (20%) at the time the deferred amounts are no longer subject to a substantial risk of forfeiture.

- (b) Notwithstanding any provision of this Plan or Award Agreement to the contrary, if one or more of the payments or benefits to be received by a Participant pursuant to an Award would constitute deferred compensation subject to Code Section 409A and would cause the Participant to incur any penalty tax or interest under Code Section 409A or any regulations or Treasury guidance promulgated thereunder, the Committee may unilaterally reform this Plan and any Award Agreement to comply with the requirements of Code Section 409A and to the extent practicable maintain the original intent of this Plan and Award Agreement. By accepting an Award under this Plan, a Participant agrees to any amendments to the Award made pursuant to this Section 23.13(b) without further consideration or action.
- (c) With respect to an Award that constitutes a deferral of compensation subject to Code Section 409A: (i) if any amount is payable under such Award upon a termination of service, a termination of service will be treated as having occurred only at such time the Participant has experienced a "separation from service" as such term is defined for purposes of Code Section 409A; (ii) if any amount is payable under such Award upon a Disability, a Disability will be treated as having occurred only at such time the Participant has experienced a "disability" as such term is defined for purposes of Code Section 409A; (iii) if any amount is payable under such Award on account of the occurrence of a Change of Control, a Change of Control will be treated as having occurred only at such time a "change in the ownership or effective control of the corporation or in the ownership of a substantial portion of the assets of the corporation" as such terms are defined for purposes of Code Section 409A, and (iv) if any amount becomes payable under such Award on account of a Participant's separation from service at such time as the Participant is a "specified employee" within the meaning of Code Section 409A, then no

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payment shall be made, except as permitted under Code Section 409A, prior to the first business day after the earlier of (y) the date that is six months after the date of the Participant's separation from service or (z) the Participant's death.

23.14 Nonexclusivity of this Plan. The adoption of this Plan shall not be construed as creating any limitations on the power of the Board or Committee to adopt such other compensation arrangements as it may deem desirable for any Participant.

23.15 No Constraint on Corporate Action. Nothing in this Plan shall be construed to: (a) limit, impair or otherwise affect the Company's or a Subsidiary's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate or dissolve, liquidate, sell or transfer all or any part of its business or assets; or (b) limit the right or power of the Company or a Subsidiary or an Affiliate to take any action which such entity deems to be necessary or appropriate.

23.16 Governing Law. This Plan and each Award Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under this Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Delaware to resolve any and all issues that may arise out of or relate to this Plan or any related Award Agreement.

23.17 Delivery and Execution of Electronic Documents. To the extent permitted by applicable law, the Company may: (a) deliver by email or other electronic means (including posting on a Web site maintained by the Company or by a third party under contract with the Company) all documents relating to this Plan or any Award thereunder (including prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including annual reports and proxy statements), and (b) permit Participants to electronically execute applicable Plan documents (including Award Agreements and notices of Option exercises) in a manner prescribed by the Committee.

23.18 No Representations or Warranties Regarding Tax Effect. Notwithstanding any provision of this Plan to the contrary, the Company, its Affiliates and Subsidiaries, the Board and the Committee neither represent nor warrant the tax treatment under any federal, state, provincial, local, foreign or other laws and regulations thereunder (individually and collectively referred to as the "Tax Laws") of any Award granted or any amounts paid to any Participant under this Plan including when and to what extent such Awards or amounts may be subject to tax, penalties and interest under the Tax Laws.

23.19 Indemnification. Subject to any limitations and requirements of Delaware law, each individual who is or shall have been a member of the Board, or a Committee appointed by the Board, or an officer or Employee of the Company to whom authority was delegated in accordance with Article 3 and acting in good faith, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under this Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his/her own behalf, unless such loss, cost, liability or expense is a result of his/her own willful misconduct or except as expressly provided by statute. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such individuals may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

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NONEMPLOYEE DIRECTOR STOCK OPTION AGREEMENT

THE TORO COMPANY AMENDED AND RESTATED 2010 EQUITY AND INCENTIVE PLAN

This Agreement (this "Agreement") dated [] ("Grant Date"), between The Toro Company, a Delaware corporation ("Toro"), and [] ("you") sets forth the terms and conditions of the grant to you of a nonqualified option (this "Option") to purchase [] shares of common stock, par value \$1.00 per share, of Toro ("Shares") at an exercise price of \$[] per Share, under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as such plan may be amended from time to time (the "Plan"). This Option is subject to all of the terms and conditions set forth in the Plan, this Agreement and the Nonemployee Director Stock Option Acceptance Agreement should you decide to accept this Option. All of the terms in this Agreement and the Nonemployee Director Stock Option Acceptance Agreement that begin with a capital letter are either defined in this Agreement or in the Plan.

1. *Expiration Date.* This Option shall expire on [].
2. *Vesting.* Except as provided in Sections 3, 5 and 6 of this Agreement, this Option shall vest and become exercisable in three (3) as equal as possible installments on each of the first, second and third anniversaries after the Grant Date (rounding down to the nearest whole share on the first vesting date, if necessary, and on the second vesting date, if necessary).
3. *Effect of Termination of Service as a Director of Toro.*
 - (a) *Disability.* If your service as a nonemployee director of Toro is terminated by reason of your Disability, this Option will vest immediately, and you or your guardian or legal representative, as the case may be, may exercise this Option until the earlier of the date this Option expires or one (1) year after the date your service as a nonemployee director of Toro terminates by reason of your Disability.
 - (b) *Death.* If you die, this Option will vest immediately, and your legal representatives, heirs or legatees may exercise this Option until the earlier of the date this Option expires or one (1) year after the date of your death.
 - (c) *Other.* If your service as a director of Toro is terminated for any reason other than your death or Disability and you have served as a member of the Board for ten (10) full fiscal years or longer (i) this Option will continue to vest in accordance with its terms, and (ii) you may exercise the vested portion of this Option (including any portion of this Option that vests pursuant to (i)) for up to four (4) years after the date of termination, but not later than the date this Option expires. If your service as a nonemployee director of Toro is terminated for any reason other than your death or Disability and you have served as a member of the Board for less than ten (10) full fiscal years, you may exercise the then vested portion of this Option, if any, for a period of three (3) months after the date your service as a director of Toro terminates, but not

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later than the date this Option expires, and any unvested portion of this Option will be canceled on the date your service as a nonemployee director of Toro terminates.

4. *No Transfer.* You may not transfer this Option other than by will or applicable laws of descent and distribution or, if approved by the Committee, pursuant to a qualified domestic relations order entered into by a court of competent jurisdiction.
5. *Adverse Action.* In addition to the other rights of the Committee under the Plan, if you are determined by the Committee, acting in its sole reasonable discretion, to have taken any action that would constitute an Adverse Action, (a) all of your rights under the Plan and any agreements evidencing an Award granted under the Plan, including this Agreement evidencing this Option, then held by you shall terminate and be forfeited without notice of any kind, and (b) the Committee in its sole discretion may require you to surrender and return to Toro all or any Shares received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by you, during the period beginning one (1) year prior to your termination of service as a director of Toro, in connection with any Awards granted under the Plan, including this Option, or any Shares issued upon the exercise or vesting of any Awards, including this Option. Toro may defer the exercise of this Option for a period of up to ninety (90) days in order for the Committee to make any determination as to the existence of an Adverse Action. This Section 5 shall not apply following a Change of Control.
6. *Change of Control.* In the event of a Change of Control, the provisions of the Plan applicable to a Change of Control will apply to this Option.
7. *Methods of Exercise.* In order to exercise this Option, you must pre-clear such Option exercise with our Vice President, Secretary and General Counsel and Vice President, Treasurer and Chief Financial Officer using a pre-approval request form provided by Toro specifying the number of whole Shares with respect to which you wish to exercise this Option. Once pre-clearance has been received and a pre-clearance notice has been submitted to Fidelity, you may exercise this Option only by calling Fidelity Executive Services at 1-800-823-0217. The exercise of this Option must be accompanied by payment in full of the aggregate Option Price for the Shares to be purchased. Payment may be made (a) in cash or its equivalent; (b) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the exercise price; (c) by a cashless (broker-assisted) exercise; (d) by a "net exercise" of this Option (as further described below); (e) by any combination of (a), (b), (c) and (d); or (f) by any other method approved or accepted by the Committee in its sole discretion. In the case of a "net exercise" of this Option, Toro will reduce the number of Shares issued upon the exercise of this Option by the largest number of whole Shares that has a Fair Market Value on the exercise date that does not exceed the aggregate Option Price for the Shares exercised under this method and will require cash payment from you for any remaining Option Price. Shares will no longer be outstanding under this Option (and will therefore not thereafter be exercisable) following the exercise of this Option to the extent of (i) Shares used to pay the Option Price of this Option under the "net exercise," and (ii) Shares actually delivered to you as a result of such exercise. Any Shares issued to you upon exercise of this Option will be issued and delivered to you in book-entry or certificate form or issued and deposited for your benefit with any broker with which you have an account relationship or Toro has engaged to provide such services under the Plan.

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8. *General Restriction.* If at any time the Committee determines that the listing, registration or qualification of the Shares subject to this Option on any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the issue or purchase of Shares upon exercise of this Option, this Option may not be exercised unless such listing, registration, qualification, consent or approval has been obtained free of conditions not acceptable to the Committee. Under certain circumstances as set forth in the Plan, if the exercise of this Option is prevented by certain provisions of the Plan, this Option will remain exercisable until thirty (30) days after the date such exercise first would no longer be prevented by such provisions, but in any event no later than the expiration date of this Option.

9. *Shareholder Status.* You shall have no rights as a shareholder with respect to any Shares underlying this Option until such Shares have been duly issued and delivered to you in accordance with the terms of this Agreement and the Nonemployee Director Stock Option Acceptance Agreement, and no adjustment shall be made for dividends of any kind or description whatsoever or for distributions of rights of any kind or description whatsoever respecting such Shares except as expressly set forth in the Plan.

10. *Governing Law.* This Agreement and the Nonemployee Director Stock Option Acceptance Agreement shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation to the substantive law of another jurisdiction.

11. *Venue.* In accepting this Option, you are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of the State of Minnesota of the United States of America to resolve any and all issues that may arise out of or relate to this Option and this Agreement.

12. *Binding Effect.* This Agreement shall be binding upon Toro and you and its and your respective heirs, executors, administrators and successors.

13. *Electronic Delivery.* Toro, in its sole discretion, may decide to deliver any documents related to this Option granted to you under the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Toro or a third party designated by Toro.

14. *Conflict.* To the extent the terms of this Agreement or the Nonemployee Director Stock Option Acceptance Agreement are inconsistent with the Plan, the provisions of the Plan shall control and supersede any inconsistent provision of this Agreement.

15. *Non-Negotiable Terms.* The terms of this Agreement and the Nonemployee Director Stock Option Acceptance Agreement are not negotiable, but you may refuse to accept this Option by immediately notifying Toro's Vice President, Secretary and General Counsel in writing.

[Remainder of page intentionally left blank]

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IN WITNESS WHEREOF, this Agreement has been executed and delivered by The Toro Company and has been executed by you by execution of the attached Nonemployee Director Stock Option Acceptance Agreement.

[]

By: _____
President and CEO

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NONEMPLOYEE DIRECTOR STOCK OPTION ACCEPTANCE AGREEMENT

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I hereby agree to the terms and conditions governing the Option grant as set forth in the Nonemployee Director Stock Option Agreement, this Nonemployee Director Stock Option Acceptance Agreement and as supplemented by the terms and conditions set forth in the Plan.

In accepting the Option grant, I hereby acknowledge that:

(a) The Plan is established voluntarily by Toro, it is discretionary in nature and it may be modified, amended, suspended or terminated by Toro at any time, unless otherwise provided in the Plan, the Nonemployee Director Stock Option Agreement or this Nonemployee Director Stock Option Acceptance Agreement;

(b) The grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future Option grants, or benefits in lieu of Option grants, even if Option grants have been granted repeatedly in the past;

(c) All decisions with respect to future Option grants, if any, will be at the sole discretion of Toro;

(d) I am voluntarily participating in the Plan;

(e) The future value of the Shares underlying the Option is unknown and cannot be predicted with certainty and if the Option vests and I exercise the Option in accordance with the terms of the Nonemployee Director Option Agreement and this Nonemployee Director Stock Option Acceptance Agreement and am issued Shares, the value of those Shares may increase or decrease;

(f) In consideration of the grant of the Option, no claim or entitlement to compensation or damages shall arise from termination of the Option or diminution in value of the Option or Shares acquired upon exercise of the Option resulting from termination of my service as a nonemployee director of Toro and I hereby irrevocably release Toro and its Affiliates and Subsidiaries from any such claim that may arise; if, notwithstanding the foregoing, any such

claim is found by a court of competent jurisdiction to have arisen, then, by acceptance of the Option grant, I shall be deemed irrevocably to have waived my entitlement to pursue such claim;

(g) Toro is not providing any tax, legal or financial advice, nor is Toro making any recommendations regarding my participation in the Plan, or my purchase or sale of the Shares underlying the Option; and

(h) I have been advised to consult with my own personal tax, legal and financial advisors regarding my participation in the Plan before taking any action related to the Plan.

I hereby acknowledge that I have received electronically a copy of the Plan, the U.S. Prospectus relating to the Plan and Toro's most recent Annual Report on Form 10-K. I hereby agree to accept electronic delivery of copies of any future amendments or supplements to the U.S Prospectus or any future Prospectuses relating the Plan and copies of all reports, proxy statements and other communications distributed to Toro's security holders generally by email directed to my Toro email address.

Note: If you do not wish to accept the Option on the terms stated in the Nonemployee Director Option Agreement or this Nonemployee Director Stock Option Acceptance Agreement, please immediately contact Toro's Vice President, Secretary and General Counsel to decline the grant.

Signature: _____
Print Name: _____
Date: _____

NONQUALIFIED STOCK OPTION AGREEMENT

THE TORO COMPANY AMENDED AND RESTATED 2010 EQUITY AND INCENTIVE PLAN

This Agreement (this "Agreement") dated [] (the "Grant Date"), between The Toro Company, a Delaware corporation ("Toro"), and [] ("you") sets forth the terms and conditions of the grant to you of a nonqualified option (this "Option") to purchase [] shares of common stock, par value \$1.00 per share, of Toro ("Shares"), at an exercise price of \$[] per Share, under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as such plan may be amended from time to time (the "Plan"). This Option is subject to all of the terms and conditions set forth in the Plan, this Agreement and the Nonqualified Stock Option Acceptance Agreement should you decide to accept this Option. All of the terms in this Agreement and the Nonqualified Stock Option Acceptance Agreement that begin with a capital letter are either defined in this Agreement or in the Plan. Except as otherwise indicated, for purposes of this Agreement and the Nonqualified Stock Option Acceptance Agreement, any reference to "Employer" shall mean the entity (Toro or any Affiliate or Subsidiary) that employs you.

1. *Expiration Date.* This Option shall expire on [].
 2. *Vesting.* Except as provided in Sections 3, 5, 6 and 7 of this Agreement, this Option shall vest and become exercisable [in full on the anniversary after the Grant Date/in as equal as possible installments on each of the anniversaries after the Grant Date (rounding down to the nearest whole Share on the vesting date(s), if necessary)].
 3. *Effect of Termination of Employment or Service.*
 - (a) *Disability.* If your employment or other service with the Employer is terminated by reason of your Disability, this Option will vest immediately, and you or your guardian or legal representative, as the case may be, may exercise this Option until the earlier of the date this Option expires or one (1) year after the date your employment or other service with the Employer terminates by reason of your Disability.
 - (b) *Death.* If you die, this Option will vest immediately, and your legal representatives, heirs or legatees may exercise this Option until the earlier of the date this Option expires or one (1) year after the date of your death.
 - (c) *Retirement.* If your employment or other service with the Employer is terminated by reason of your Retirement after the last day of the fiscal year in which your grant was made, this Option will remain outstanding for a period of four (4) years after the date of your Retirement, but not later than the date this Option expires, and will continue to vest under Section 2 of this Agreement; provided, however, that if you become employed or retained to render services or assume responsibilities similar to those of the position at the Employer from which you retire, this Option shall automatically be canceled, expire and be forfeited.
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- (d) *Other.* If your employment or other service with the Employer is terminated for any reason other than your death, Disability or Retirement, you may exercise the then vested portion of this Option, if any, for a period of three (3) months after the date your employment or other service with the Employer terminates, but not later than the date this Option expires, and any unvested portion of this Option will be canceled on the date your employment or other service with the Employer terminates.
 - (e) *Effective Date of Termination.* Notwithstanding anything to the contrary in the Plan, and unless otherwise determined by the Committee in its sole discretion, your termination date shall be the date on which your active employment or other service ceases and shall not be extended by any notice of termination of employment or severance period provided to you by contract or practice of Toro or the Employer or mandated under local law, unless otherwise required by applicable law.
4. *No Transfer.* You may not transfer this Option other than by will or applicable laws of descent and distribution or, if approved by the Committee, pursuant to a qualified domestic relations order entered into by a court of competent jurisdiction.
 5. *Adverse Action.* In addition to the other rights of the Committee under the Plan, if you are determined by the Committee, acting in its sole reasonable discretion, to have taken any action that would constitute an Adverse Action, (a) all of your rights under the Plan and any agreements evidencing an Award granted under the Plan, including this Agreement evidencing this Option, then held by you shall terminate and be forfeited without notice of any kind, and (b) the Committee in its sole discretion may require you to surrender and return to Toro all or any Shares received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by you, during the period beginning one (1) year prior to your termination of employment or other service with the Employer in connection with any Awards granted under the Plan, including this Option, or any Shares issued upon the exercise or vesting of any Awards, including this Option. Toro may defer the exercise of this Option for a period of up to ninety (90) days in order for the Committee to make any determination as to the existence of an Adverse Action. This Section 5 shall not apply following a Change of Control.
 6. *Clawback, Forfeiture or Recoupment.* Any Shares issued to you upon exercise of this Option will be subject to the forfeiture provision contained in Section 13.6(b) of the Plan as well as any other or additional "clawback," forfeiture or recoupment policy adopted by Toro either prior to or after the date of this Agreement
 7. *Change of Control.* In the event of a Change of Control, the provisions of the Plan applicable to a Change of Control will apply to this Option.
 8. *Methods of Exercise.* If you are not a Section 16 executive officer, in order to exercise this Option, log in to your account at netbenefits.fidelity.com or 401k.com, or any other stock plan administrator that Toro may engage in the future to provide stock plan administration services for the Plan, and follow the instructions included on the online platform or call Fidelity at 1-800-544-9354. If you are a Section 16 executive officer, you must pre-clear the exercise of this Option with our Vice President, Secretary and General Counsel and Vice President,

Treasurer and Chief Financial Officer using a pre-approval request form provided by Toro specifying the number of whole Shares with respect to which you wish to exercise this Option. If you are a Section 16 executive officer, once pre-clearance has been received and a pre-clearance notice has been submitted to Fidelity, you may exercise this Option only by calling Fidelity Executive Services at 1-800-823-0217. All Option exercises must be accompanied by payment in full of the aggregate Option Price for the Shares to be purchased. Payment may be made (a) in cash or its equivalent; (b) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the exercise price; (c) by a cashless (broker-assisted) exercise; (d) by a "net exercise" of this Option (as further described below); (e) by any combination of (a), (b), (c) and (d); or (f) by any other method approved or accepted by the Committee in its sole discretion. In the case of a "net exercise" of this Option, Toro will reduce the number of Shares issued upon the exercise of this Option by the largest number of whole Shares that has a Fair Market Value on the exercise date that does not exceed the aggregate Option Price for the Shares exercised under this method (and, if applicable, any required tax withholding obligations) and will require cash payment from you for any remaining Option Price (and/or tax withholding obligations). Shares will no longer be outstanding under this Option (and will therefore not thereafter be exercisable) following the exercise of this Option to the extent of (i) Shares used to pay the Option Price of this Option under the "net exercise," (ii) Shares actually delivered to you as a result of such exercise, and (iii) any Shares withheld for purposes of tax withholding pursuant to the Plan. Any Shares issued to you upon exercise of this Option will be issued and delivered to you in book-entry or certificate form or issued and deposited for your benefit with any broker with which you have an account relationship or Toro has engaged to provide such services under the Plan.

9. *General Restriction.* If at any time the Committee determines that the listing, registration or qualification of the Shares subject to this Option on any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the issue or purchase of Shares upon exercise of this Option, this Option may not be exercised unless such listing, registration, qualification, consent or approval has been obtained free of conditions not acceptable to the Committee. Under certain circumstances as set forth in the Plan, if the exercise of this Option is prevented by certain provisions of the Plan, this Option will remain exercisable until thirty (30) days after the date such exercise first would no longer be prevented by such provisions, but in any event no later than the expiration date of this Option.

10. *Tax Withholding.* Toro has the right to deduct from any settlement made upon exercise of this Option or the sale of Shares acquired upon exercise of this Option, any federal, state or local taxes of any kind, domestic or foreign, that Toro or any plan administrator of the Plan, as applicable, reasonably determines is required by law to be withheld with respect to income recognized or to require you to pay the amount of any such taxes or to take such other action as may be necessary in the opinion of Toro to satisfy all obligations for payment of such taxes. If you elect to pay any tax withholding obligations in the form of withheld Shares or the surrender of Shares, such Shares will be valued at their Fair Market Value on the date the withholding is to be determined, but such withholding shall not exceed an amount of withholding based on the maximum statutory tax rates in your applicable tax jurisdictions (unless a lesser amount of withholding is required to avoid the classification of the Option as a liability on Toro's

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consolidated balance sheet or other adverse accounting treatment). Toro also may deduct from any such settlement any amounts you may owe Toro.

11. *No Right to Continue Employment or Service.* Neither the Plan, this Option, nor any related material shall give you the right to continue in employment by or perform services to the Employer or shall adversely affect the right of the Employer to terminate your employment or service relationship with or without cause at any time.

12. *Shareholder Status.* You shall have no rights as a shareholder with respect to any Shares underlying this Option until such Shares have been duly issued and delivered to you in accordance with the terms of this Agreement and the Nonqualified Stock Option Acceptance Agreement, and no adjustment shall be made for dividends of any kind or description whatsoever or for distributions of rights of any kind or description whatsoever respecting such Shares except as expressly set forth in the Plan.

13. *Governing Law.* This Agreement and the Nonqualified Stock Option Acceptance Agreement shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation to the substantive law of another jurisdiction.

14. *Venue.* In accepting this Option, you are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of the State of Minnesota of the United States of America to resolve any and all issues that may arise out of or relate to this Option and this Agreement.

15. *Binding Effect.* This Agreement shall be binding upon Toro and you and its and your respective heirs, executors, administrators and successors.

16. *Electronic Delivery.* Toro, in its sole discretion, may decide to deliver any documents related to this Option granted to you under the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Toro or a third party designated by Toro.

17. *Conflict.* To the extent the terms of this Agreement or the Nonqualified Stock Option Acceptance Agreement are inconsistent with the Plan, the provisions of the Plan shall control and supersede any inconsistent provision of this Agreement or the Nonqualified Stock Option Acceptance Agreement.

18. *Non-Negotiable Terms.* The terms of this Agreement and the Nonqualified Stock Option Acceptance Agreement are not negotiable, but you may refuse to accept this Option by notifying Toro's Vice President, Secretary and General Counsel, or Managing Director, HR & Total Rewards, as applicable, in writing.

[Remainder of page intentionally left blank]

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IN WITNESS WHEREOF, this Agreement has been executed and delivered by The Toro Company and has been executed by you by execution or electronic acceptance of the attached Nonqualified Stock Option Acceptance Agreement.

NONQUALIFIED STOCK OPTION ACCEPTANCE AGREEMENT

I hereby agree to the terms and conditions governing the Option grant as set forth in the Nonqualified Stock Option Agreement, this Nonqualified Stock Option Acceptance Agreement and as supplemented by the terms and conditions set forth in the Plan.

In accepting the Option grant, I hereby acknowledge that:

- (a) The Plan is established voluntarily by Toro, it is discretionary in nature and it may be modified, amended, suspended or terminated by Toro at any time, unless otherwise provided in the Plan, the Nonqualified Stock Option Agreement or this Nonqualified Stock Option Acceptance Agreement;
- (b) The grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future Option grants, or benefits in lieu of Option grants, even if Option grants have been granted repeatedly in the past;
- (c) All decisions with respect to future Option grants, if any, will be at the sole discretion of Toro;
- (d) I am voluntarily participating in the Plan;
- (e) The Option grant is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for Toro or the Employer;
- (f) In the event I am not an employee of Toro, this Option will not be interpreted to form an employment contract or relationship with Toro;
- (g) The future value of the Shares underlying the Option is unknown and cannot be predicted with certainty and if the Option vests and I exercise the Option in accordance with the terms of the Nonqualified Stock Option Agreement and this Nonqualified Stock Option Acceptance Agreement and am issued Shares, the value of those Shares may increase or decrease;
- (h) In consideration of the grant of the Option, no claim or entitlement to compensation or damages shall arise from termination of the Option or diminution in value of the Option or Shares acquired upon exercise of the Option resulting from termination of my employment or service by Toro or the Employer (for any reason whatsoever and whether or not in breach of applicable labor laws) and I hereby irrevocably release Toro and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by acceptance of the Option grant, I shall be deemed irrevocably to have waived my entitlement to pursue such claim;

-
- (i) Except as otherwise provided herein, the Plan or the Nonqualified Stock Option Agreement, in the event of termination of my employment or other service (whether or not in breach of local labor laws), my right to exercise the Option will terminate effective as of the date of termination of my active employment or other service as determined in the sole discretion of the Committee and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; furthermore, in the event of termination of my employment or other service (regardless of any contractual or local law requirements), my right to exercise the Option after such termination, if any, will be measured by the date of termination of my active employment or other service and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; the Committee shall have the sole discretion to determine the date of termination of my active employment or other service for purposes of the Option;
 - (j) Neither Toro nor the Employer is providing any tax, legal or financial advice, nor is Toro or the Employer making any recommendations regarding my participation in the Plan, or my purchase or sale of the Shares underlying the Option; and
 - (k) I have been advised to consult with my own personal tax, legal and financial advisors regarding my participation in the Plan before taking any action related to the Plan.

I hereby acknowledge that I have received electronically a copy of the Plan, the U.S. Prospectus relating to the Plan and Toro's most recent Annual Report on Form 10-K. I hereby agree to accept electronic delivery of copies of any future amendments or supplements to the U.S. Prospectus or any future Prospectuses relating the Plan and copies of all reports, proxy statements and other communications distributed to Toro's security holders generally by email directed to my Toro email address.

Note: If you do not wish to accept the Option on the terms stated in the Nonqualified Stock Option Agreement and this Nonqualified Stock Option Acceptance Agreement, please immediately contact Toro's Vice President, Secretary and General Counsel, or Managing Director, HR & Total Rewards, as applicable, to decline the grant.

PERFORMANCE SHARE AWARD AGREEMENT

THE TORO COMPANY AMENDED AND RESTATED 2010 EQUITY AND INCENTIVE PLAN

This Agreement (this “Agreement”) dated [] (“Grant Date”) between The Toro Company, a Delaware corporation (“Toro”), and [] (“you”) sets forth the terms and conditions of a grant to you of a performance share award (this “Performance Share Award”) under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as such plan may be amended from time to time (the “Plan”). This Performance Share Award is subject to all of the terms and conditions set forth in the Plan, this Agreement and the Performance Share Award Acceptance Agreement should you decide to accept this Performance Share Award. All of the terms in this Agreement and the Performance Share Award Acceptance Agreement that begin with a capital letter are either defined in this Agreement or in the Plan. Except as otherwise indicated, for purposes of this Agreement and the Performance Share Award Acceptance Agreement, any reference to “Employer” shall mean the entity (Toro or any Affiliate or Subsidiary) that employs you.

1. *Performance Share Award.* Subject to the terms and conditions of this Agreement and the Plan and your consent to those terms and conditions, Toro hereby grants you this Performance Share Award representing the right to receive up to a maximum (your “Maximum Potential Payout”) of 200% of your “Target Potential Payout” based on the achievement of the Performance Goals set forth on Exhibit A to this Agreement during the Performance Period (as defined below). For purposes of this Performance Share Award, your “Target Potential Payout” is equal to [] shares (“Shares”) of common stock, par value \$1.00 per share, of The Toro Company (“Common Stock”). The number and type of Shares issuable under this Performance Share Award are subject to adjustment pursuant to Section 4.4 of the Plan.

2. *Performance Period.* The period of time during which the Performance Goals described in Exhibit A to this Agreement must be met in order to determine the degree of payout or the number of Shares that may be issued under this Performance Share Award pursuant to Section 4 of this Agreement is the three (3) fiscal years ending October 31, [] to [] (the “Performance Period”). Except as otherwise provided in Section 8 of this Agreement, Toro intends to issue Shares to you only at the end of the Performance Period and only upon the achievement of the Performance Goals described in Exhibit A to this Agreement, and except as otherwise provided in Section 8 of this Agreement, no Shares shall be issued to you in settlement of this Performance Share Award prior to the end of the Performance Period or if none of the Performance Goals for the Performance Measures meet the Threshold for payment as described in the table(s) set forth in Exhibit A to this Agreement.

3. *Performance Measures; Performance Goals and Determination of Amount of Payment.*

a. Except as otherwise provided in this Section 3 and Exhibit A to this Agreement, the number of Shares payable in settlement of this Performance Share Award shall be determined by reference to the Performance Measures and Performance Goals achieved during the Performance Period in accordance with the table(s) set forth in Exhibit A to this Agreement and may range from 0% to 200% of your Target Potential Payout. The Performance Measures and the Performance Goals to be achieved on a cumulative basis over the Performance Period and

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their respective weightings and their respective Threshold, Target and Maximum levels of performance, are described in the table(s) set forth in Exhibit A to this Agreement.

Payouts will be interpolated between Threshold and Target if the level of the performance attained for the Performance Goals for the Performance Measure for the Performance Period falls between the Threshold and Target levels specified in the table(s) set forth in Exhibit A to this Agreement, and the payout will be rounded down to the nearest whole number of Shares. Payouts will be interpolated between Target and Maximum if the level of the performance attained for the Performance Goals for the Performance Measure for the Performance Period falls between the Target and Maximum levels specified in the table(s) set forth in Exhibit A to this Agreement, and the payout will be rounded down to the nearest whole number of Shares.

b. Absent the occurrence of a Change of Control prior to the end of the Performance Period, and to the extent not previously forfeited or terminated pursuant to Section 5, 6 or 7 of this Agreement, this Performance Share Award shall be immediately forfeited and terminated as of the end of the Performance Period if none of the Performance Goals for the Performance Measures meet the Threshold for payment as described in the table(s) set forth in Exhibit A to this Agreement and the Committee determines that Section 3(c) of this Agreement does not apply.

c. In determining whether and to what extent each Performance Goal has been achieved, the Committee shall exclude from the calculation of the Performance Goal, applying generally accepted accounting principles, each of the events identified on Exhibit B that occurs during the Performance Period.

d. The actual number of Shares that becomes vested and issuable based on achieving the Performance Goals during the Performance Period may be adjusted downward by the Committee in its sole and absolute discretion based on such extraordinary factors (e.g. a significant one-time gain) as the Committee determines to be appropriate and/or advisable.

4. *Settlement; Issuance and Delivery of Shares.*

a. In the event and only upon the achievement of at least the “Threshold” level of performance with respect to at least one (1) of the Performance Goals described in the table(s) set forth in Exhibit A to this Agreement during the Performance Period, which achievement must be certified in writing by the Committee following the expiration of the Performance Period, you will receive such number of Shares up to your Maximum Potential Payout under this Performance Share Award as determined pursuant to Section 3 and Exhibit A to this Agreement and subject to applicable withholding. If none of the Performance Goals are achieved at the “Threshold” level of performance or above, then this Performance Share Award will be forfeited and canceled and you will receive no Shares in settlement thereof. You may not receive a greater number of Shares than your Maximum Potential Payout.

b. In the event this Performance Share Award is forfeited or cancelled for any reason pursuant to Section 3, 5, 6 or 7 of this Agreement or otherwise, no Shares will be issued or payment made in settlement of this Performance Share Award.

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c. Any Shares issued to you upon settlement of this Performance Share Award will be issued and delivered to you in book-entry or certificate form or issued and deposited for your benefit with any broker with which you have an account relationship or Toro has engaged to provide such services under the Plan. Except as provided in paragraph (d) below, in no event will Toro deliver Shares to you later than March 15 of the calendar year following the calendar year in which the Performance Period ends.

d. Notwithstanding any of the foregoing or any other provision of this Agreement, in the event you have properly elected to defer your receipt of any Shares issuable pursuant to this Performance Share Award under The Toro Company Deferred Compensation Plan for Officers, as such plan may be amended from time to time, or any similar successor plan, you will receive such Shares in accordance with your deferral election.

e. The issuance and delivery of Shares pursuant to this Performance Share Award shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

5. *Effect of Death, Disability, Retirement or Other Termination of Employment or Other Service.*

a. In the event your employment or other service with the Employer is terminated by reason of death, Disability or Retirement prior to the end of the Performance Period, this Performance Share Award will be terminated and forfeited; *provided, however*, that if in the event your employment or other service with the Employer is terminated by reason of death, Disability or Retirement prior to the end of the Performance Period, but after the conclusion of not less than one year of the Performance Period, the Committee may, in its sole discretion, cause Shares to be delivered or payment made with respect to this Performance Share Award pursuant to Section 4 of this Agreement (except to the extent you have properly elected to defer receipt of any Shares under The Toro Company Deferred Compensation Plan for Officers), but only if otherwise earned for the entire Performance Period and only with respect to the portion of the applicable Performance Period completed at the date of such event, with proration based on the number of months or years you were employed during the Performance Period.

b. In the event your employment or other service with the Employer is terminated for any reason other than death, Disability or Retirement prior to the end of the Performance Period, this Performance Share Award will be terminated and forfeited.

c. Notwithstanding anything to the contrary in the Plan, and unless otherwise determined by the Committee in its sole discretion, your termination date shall be the date on which your active employment or other service ceases and shall not be extended by any notice of termination of employment or severance period provided to you by contract or practice of Toro or the Employer or mandated under local law, unless otherwise required by applicable law.

6. *Adverse Action.* In addition to the other rights of the Committee under the Plan, if you are determined by the Committee, acting in its sole reasonable discretion, to have taken any

action that would constitute an Adverse Action, (a) all of your rights under the Plan and any agreements evidencing an Award granted under the Plan, including this Agreement evidencing this Performance Share Award, then held by you shall terminate and be forfeited without notice of any kind, and (b) the Committee in its sole discretion may require you to surrender and return to Toro all or any Shares received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by you, during the period beginning one year prior to your termination of employment or other service with the Employer in connection with any Awards granted under the Plan, including this Performance Share Award, or any Shares issued upon the exercise, vesting or settlement of any Awards, including this Performance Share Award. This Section 6 shall not apply following the occurrence of a Change of Control.

7. *Clawback, Forfeiture or Recoupment.* Any Shares issued to you under this Performance Share Award will be subject to the forfeiture provision contained in Section 13.6(b) of the Plan as well as any other or additional "clawback," forfeiture or recoupment policy adopted by Toro either prior to or after the date of this Agreement.

8. *Change of Control.* Notwithstanding any provision of this Agreement to the contrary and subject to the terms of any separate Change of Control or similar agreement to which you are bound, this Performance Share Award shall become immediately vested upon the occurrence of a Change of Control prior to the end of the Performance Period and unless deferred as provided under Section 4(d) of this Agreement, shall be settled by payment of your Maximum Potential Payout as soon as practicable after the occurrence of such Change of Control but in no event later than March 15 of the calendar year following the calendar year in which the Change of Control occurred. Notwithstanding any provision of this Agreement to the contrary, any amounts paid in settlement of this Performance Share Award pursuant to this Section 8 shall be paid in Shares representing your Maximum Potential Payout or such other form having a value equivalent to your Maximum Potential Payout, as may be authorized by the Committee in its sole discretion.

9. *Shareholder Status.* You will have no rights as a shareholder of Toro with respect to this Performance Share Award unless and until Shares are issued in settlement of this Performance Share Award pursuant to Section 4 of this Agreement. Except as expressly provided in the Plan, no adjustments will be made for dividends or other rights for which the record date is prior to issuance of Shares.

10. *No Transfer.* You may not transfer this Performance Share Award or any rights granted under this Performance Share Award other than by will or applicable laws of descent and distribution or, if approved by the Committee, pursuant to a qualified domestic relations order entered into by a court of competent jurisdiction.

11. *Tax Withholding.* In the event you do not make prior arrangements with Toro to pay any tax withholding obligations that may arise in connection with this Performance Share Award, Toro will deduct or withhold from the Shares issued under this Agreement any federal, state, local or other taxes of any kind, domestic or foreign, that Toro or any plan administrator of the Plan, as applicable, reasonably determines is required by law to be withheld with respect to income recognized or will take such other action as may be necessary in the opinion of Toro to satisfy all obligations for the payment of such taxes. If the payment of tax withholding

obligations is satisfied in the form of withheld or surrendered Shares, such Shares will be valued at their Fair Market Value on the date the withholding is to be determined, but such withholding shall not exceed an amount of withholding based on the maximum statutory tax rates in your applicable tax jurisdictions (unless a lesser amount of withholding is required to avoid the classification of the Performance Share Award as a liability on Toro's consolidated balance sheet or other adverse accounting treatment).

12. *Performance-Based Compensation.* If you are a Covered Employee, it is intended that all payments under this Performance Share Award constitute "qualified performance-based compensation" within the meaning Section 162(m) of the Code and the Plan. This Performance Share Award is to be construed and administered in a manner consistent with such intent.

13. *Successors.* All obligations of Toro under the Plan with respect to this Performance Share Award shall be binding on any successor to Toro, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business or assets of Toro.

14. *No Right to Continue Employment or Service.* Neither the Plan, this Performance Share Award, the Performance Share Award Acceptance Agreement nor any related material shall give you the right to continue in employment by or perform services to the Employer or shall adversely affect the right of the Employer to terminate your employment or service relationship with or without cause at any time.

15. *Electronic Delivery.* Toro, in its sole discretion, may decide to deliver any documents related to this Performance Share Award granted to you under the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Toro or a third party designated by Toro.

16. *Governing Law.* This Agreement and the Performance Share Award Acceptance Agreement shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation to the substantive law of another jurisdiction.

17. *Venue.* In accepting this Performance Share Award, you are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of the State of Minnesota of the United States of America to resolve any and all issues that may arise out of or relate to this Performance Share Award and this Agreement.

18. *Binding Effect.* This Agreement shall be binding upon Toro and you and its and your respective heirs, executors, administrators and successors.

19. *Conflict.* To the extent the terms of this Agreement or the Performance Share Award Acceptance Agreement are inconsistent with the Plan, the provisions of the Plan shall control and supersede any inconsistent provision of this Agreement or the Performance Share Award Acceptance Agreement.

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20. *Non-Negotiable Terms.* The terms of this Performance Share Award and the Performance Share Award Acceptance Agreement are not negotiable, but you may refuse to accept this Performance Share Award by notifying Toro's Vice President, Secretary and General Counsel, or Managing Director, HR & Total Rewards, as applicable, in writing.

[Remainder of page intentionally left blank]

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IN WITNESS WHEREOF, this Agreement has been executed and delivered by The Toro Company and has been executed by you by execution or electronic acceptance of the attached Performance Share Award Acceptance Agreement.

December [], 20[]

By: _____
President and CEO

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PERFORMANCE SHARE AWARD ACCEPTANCE AGREEMENT

DECEMBER [], 20[]

I hereby agree to the terms and conditions governing the Performance Share Award as set forth in the Performance Share Award Agreement, this Agreement and as supplemented by the terms and conditions set forth in the Plan.

In accepting the Performance Share Award, I hereby acknowledge that:

(a) The Plan is established voluntarily by Toro, it is discretionary in nature and it may be modified, amended, suspended or terminated by Toro at any time, unless otherwise provided in the Plan, the Performance Share Award Agreement or this Performance Share Award Acceptance Agreement;

(b) The grant of the Performance Share Award is voluntary and occasional and does not create any contractual or other right to receive future Performance Share Awards, or benefits in lieu of Performance Share Awards, even if Performance Share Awards have been granted repeatedly in the past;

- (c) All decisions with respect to future Performance Share Award grants, if any, will be at the sole discretion of Toro;
- (d) I am voluntarily participating in the Plan;
- (e) The Performance Share Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Employer;
- (f) In the event I am not an employee of Toro or any Affiliate or Subsidiary, this Performance Share Award will not be interpreted to form an employment contract or relationship with Toro or any Affiliate or Subsidiary;
- (g) The future value of the Shares that may issued in settlement of the Performance Share Award is unknown and cannot be predicted with certainty and if the Performance Share Award vests and the Shares become issuable in settlement hereof in accordance with the terms of the Performance Share Award Agreement and this Agreement, the value of those Shares may increase or decrease;
- (h) In consideration of the grant of the Performance Share Award, no claim or entitlement to compensation or damages shall arise from termination of the Performance Share Award or diminution in value of the Performance Share Award or the Shares issuable in settlement hereof resulting from termination of my employment or service by Toro or the Employer (for any reason whatsoever and whether or not in breach of applicable labor laws) and

I hereby irrevocably release Toro and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by acceptance of the Performance Share Award, I shall be deemed irrevocably to have waived my entitlement to pursue such claim;

(i) In the event of termination of my employment or other service (whether or not in breach of local labor laws), my right to be issued the Shares under the Plan in settlement of the Performance Share Award, if any, will terminate effective as of the date of termination of my active employment or other service as determined in the sole discretion of the Committee and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; furthermore, in the event of termination of my employment or other service (regardless of any contractual or local law requirements), my right to receive Shares in settlement of the Performance Share Award after such termination, if any, will be measured by the date of termination of my active employment or other service and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; the Committee shall have the sole discretion to determine the date of termination of my active employment or other service for purposes of this Performance Share Award;

(j) Neither Toro nor the Employer is providing any tax, legal or financial advice, nor is Toro or the Employer making any recommendations regarding my participation in the Plan or my acceptance of the Performance Share Award, my acquisition of any Shares upon settlement of the Performance Share Award or any sale of the Shares; and

(k) I have been advised to consult with my own personal tax, legal and financial advisors regarding my participation in the Plan before taking any action related to the Plan.

I hereby acknowledge that I have received electronically a copy of the Plan, the U.S. Prospectus relating to the Plan and Toro's most recent Annual Report on Form 10-K. I hereby agree to accept electronic delivery of copies of any future amendments or supplements to the U.S. Prospectus or any future Prospectuses relating the Plan and copies of all reports, proxy statements and other communications distributed to Toro's security holders generally by email directed to my Toro email address.

Note: If you do not wish to accept the Performance Share Award on the terms stated in the Performance Share Award Agreement or this Performance Share Award Acceptance Agreement, please immediately contact Toro's Vice President, Secretary and General Counsel or Managing Director, HR & Total Rewards, as applicable, to decline the grant.

Signature: _____
 Print Name: _____
 Date: _____

EXHIBIT A

PERFORMANCE SHARE AWARD AGREEMENT

Corporate Performance Measures

Weighting	Performance Measure	Performance Goal		
		Threshold (40% payout)	Target (100% payout)	Maximum (200% payout)

Divisional Performance Measures

Weighting	Performance Measure	Performance Goal		
		Threshold	Target	Maximum

EXHIBIT B

PERFORMANCE SHARE AWARD AGREEMENT

In determining whether and to what extent each Performance Goal has been achieved, the Committee shall exclude from the calculation of the Performance Goal, applying generally accepted accounting principles, each of the following events that occurs during the Performance Period:

[]

ANNUAL PERFORMANCE AWARD AGREEMENT
FISCAL []
THE TORO COMPANY AMENDED AND RESTATED 2010 EQUITY AND INCENTIVE PLAN

This Agreement (this "Agreement") dated [] ("Grant Date") between The Toro Company, a Delaware corporation ("Toro"), and [] ("you") sets forth the terms and conditions of a grant to you of an annual performance award (this "Annual Performance Award") under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as such plan may be amended from time to time (the "Plan"). This Annual Performance Award is subject to all of the terms and conditions set forth in the Plan, this Agreement and the Annual Performance Award Acceptance Agreement should you decide to accept this Annual Performance Award. All of the terms in this Agreement and the Annual Performance Award Acceptance Agreement that begin with a capital letter are either defined in this Agreement or in the Plan. Except as otherwise indicated, for purposes of this Agreement and the Annual Performance Award Acceptance Agreement, any reference to "Employer" shall mean the entity (Toro or any Affiliate or Subsidiary) that employs you.

1. *Annual Performance Award.* Subject to the terms and conditions of this Agreement and the Plan and your consent to those terms and conditions, Toro hereby grants you this Annual Performance Award denominated and to be paid if earned entirely in cash, the amount of which will be based on the achievement of the Performance Goals set forth on Exhibit A to this Agreement during the Performance Period (as defined below). For purposes of this Annual Performance Award, your "Target Potential Payout" is equal to [] of your actual base salary earnings for the fiscal year ending October 31, [], and your "Maximum Potential Payout" is equal to 200% of your Target Potential Payout; *provided, however*, that if you are a Covered Employee your actual base salary earnings taken into account may not exceed your annual base salary in effect on the Grant Date.

2. *Performance Period.* The period of time during which the Performance Goals described in Exhibit A to this Agreement must be met in order to determine the amount of cash payout under this Annual Performance Award pursuant to Section 4 of this Agreement is the fiscal year ending October 31, [] (the "Performance Period"). Except as otherwise provided in Section 8 of this Agreement, Toro intends to make payment to you only at the end of the Performance Period and only upon the achievement of the Performance Goals described in Exhibit A to this Agreement, and except as otherwise provided in Section 8 of this Agreement, no payment shall be made to you in settlement of this Annual Performance Award prior to the end of the Performance Period or if none of the Performance Goals for the Performance Measures meet the Threshold for payment as described in the table(s) set forth in Exhibit A to this Agreement.

3. *Performance Measures; Performance Goals and Determination of Amount of Payment.*

a. Except as otherwise provided in this Section 3 and Exhibit A to this Agreement, the amount of cash payable in settlement of this Annual Performance Award shall be determined

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by reference to the Performance Measures and Performance Goals achieved during the Performance Period in accordance with the table(s) set forth in Exhibit A to this Agreement, and may range from 0% to 200% of your Target Potential Payout. The Performance Measures and the Performance Goals to be achieved on a cumulative basis over the Performance Period and their respective weightings and their respective Threshold, Target and Maximum levels of performance, are described in the table(s) set forth in Exhibit A to this Agreement.

Payouts will be interpolated between Threshold and Target if the level of the performance attained for the Performance Goals for the Performance Measure for the Performance Period falls between the Threshold and Target levels specified in the table(s) set forth in Exhibit A to this Agreement, and the payout will be rounded down to the nearest dollar. Payouts will be interpolated between Target and Maximum if the level of the performance attained for the Performance Goals for the Performance Measure for the Performance Period falls between the Target and Maximum levels specified in the table(s) set forth in Exhibit A to this Agreement, and the payout will be rounded down to the nearest dollar.

b. Absent the occurrence of a Change of Control prior to the end of the Performance Period, and to the extent not previously forfeited or terminated pursuant to Section 5, 6 or 7 of this Agreement, this Annual Performance Award shall be immediately forfeited and terminated as of the end of the Performance Period if either: (i) none of the Performance Goals for the Performance Measures meet the Threshold for payment as described in the table(s) set forth in Exhibit A to this Agreement and the Committee determines that Section 3(c) of this Agreement does not apply, or (ii) the Committee determines that Section 3(c) of this Agreement applies but exercises its discretion pursuant to Section 3(d) of this Agreement not to make any payment.

c. In determining whether and to what extent each Performance Goal has been achieved, the Committee shall exclude from the calculation of the Performance Goal, applying generally accepted accounting principles, each of the events identified in Exhibit B that occurs during the Performance Period.

d. The actual amount that becomes payable under this Annual Performance Award based upon achieving the Performance Goals during the Performance Period may be adjusted downward by the Committee in its sole and absolute discretion based on such factors as the Committee determines to be appropriate and/or advisable.

4. *Settlement; Payment.*

a. In the event and only upon the achievement of the "Threshold" level of performance with respect to the Performance Goals as described in the table(s) set forth in Exhibit A to this Agreement during the Performance Period, which achievement must be certified in writing by the Committee following the expiration of the Performance Period, you will receive such amount in cash up to your Maximum Potential Payout under this Annual Performance Award as determined pursuant to Section 3 and Exhibit A to this Agreement and subject to applicable withholding. If none of the Performance Goals are achieved at the "Threshold" level of performance or above, then this Annual Performance Award will be forfeited and canceled and you will receive no payment in settlement thereof. You may not receive a greater amount in cash than your Maximum Potential Payout.

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b. In the event this Annual Performance Award is forfeited or cancelled for any reason pursuant to Sections 3, 5, 6 or 7 of this Agreement or otherwise, no payment shall be made in settlement of this Annual Performance Award.

c. Except as provided in paragraph (d) below, in no event will Toro make payment to you later than March 15 of the calendar year following the calendar year in which the Performance Period ends.

d. Notwithstanding any of the foregoing or any other provision of this Agreement, in the event you have properly elected to defer your receipt of any payment pursuant to this Annual Performance Award under The Toro Company Deferred Compensation Plan, as such plan may be amended from time to time, or any similar successor plan, you will receive such payment in accordance with your deferral election.

e. The payment pursuant to this Annual Performance Award shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

5. *Effect of Death, Disability, Retirement or Other Termination of Employment or Other Service.*

a. In the event your employment or other service with the Employer is terminated for any reason other than death, Disability or Retirement and the effective date of such termination is prior to the date payment is made in settlement of this Annual Performance Award pursuant to Section 4 of this Agreement or would have been made had there not been a deferral election in place, this Annual Performance Award will be terminated and forfeited.

b. In the event your employment or other service with the Employer is terminated by reason of death, Disability or Retirement and the effective date of such termination is prior to the date payment is made in settlement of this Annual Performance Award pursuant to Section 4 of this Agreement or would have been made had there not been a deferral election in place, this Annual Performance Award will be terminated and forfeited; *provided, however*, that the Committee may, in its sole discretion, cause payment to be made with respect to this Annual Performance Award and in accordance with the payment terms hereof, but only if otherwise earned for the entire Performance Period and only with respect to the portion of the Performance Period completed as of the date of such death, Disability or Retirement.

c. Notwithstanding anything to the contrary in the Plan, and unless otherwise determined by the Committee in its sole discretion, your termination date shall be the date on which your active employment or other service ceases and shall not be extended by any notice of termination of employment or severance period provided to you by contract or practice of Toro or the Employer or mandated under local law, unless otherwise required by applicable law.

6. *Adverse Action.* In addition to the other rights of the Committee under the Plan, if you are determined by the Committee, acting in its sole reasonable discretion, to have taken any action that would constitute an Adverse Action, (a) all of your rights under the Plan and any agreements evidencing an Award granted under the Plan, including this Agreement evidencing this Annual Performance Award, then held by you shall terminate and be forfeited without notice

of any kind, and (b) the Committee in its sole discretion may require you to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by you, during the period beginning one (1) year prior to your termination of employment or other service with the Employer in connection with any Awards granted under the Plan, including this Annual Performance Award. This Section 6 shall not apply following the occurrence of a Change of Control.

7. *Clawback, Forfeiture or Recoupment.* Any amounts paid to you under this Annual Performance Award will be subject to the forfeiture provision contained in Section 13.6(b) of the Plan as well as any other or additional "clawback," forfeiture or recoupment policy adopted by Toro either prior to or after the date of this Agreement.

8. *Change of Control.* Notwithstanding any provision of this Agreement to the contrary and subject to the terms of any separate Change of Control or similar agreement to which you are bound or Change of Control or similar policy or plan under which you are covered, upon the occurrence of a Change of Control prior to the end of the Performance Period, this Annual Performance Award shall be settled by payment of your Target Potential Payout within 60 days after the Change of Control, unless you have properly elected to defer your receipt of any payment pursuant to this Annual Performance Award under The Toro Company Deferred Compensation Plan, as such plan may be amended from time to time, or any similar successor plan, in which case, you will receive such payment in accordance with your deferral election.

9. *No Transfer.* You may not transfer this Annual Performance Award or any rights granted under this Annual Performance Award other than by will or applicable laws of descent and distribution or, if approved by the Committee, pursuant to a qualified domestic relations order entered into by a court of competent jurisdiction.

10. *Tax Withholding.* Toro or the Employer will deduct or withhold from the payment issued under this Agreement any federal, state, local or other taxes of any kind that Toro or the Employer reasonably determines are required by law to be withheld with respect to income recognized or will take such other action as may be necessary in the opinion of Toro or the Employer to satisfy all obligations for the payment of such taxes.

11. *Performance-Based Compensation.* If you are a Covered Employee, it is intended that all payments under this Annual Performance Award constitute "qualified performance-based compensation" within the meaning Section 162(m) of the Code and the Plan. This Annual Performance Award is to be construed and administered in a manner consistent with such intent.

12. *Successors.* All obligations of Toro under the Plan with respect to this Annual Performance Award shall be binding on any successor to Toro, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business or assets of Toro.

13. *No Right to Continue Employment or Service.* Neither the Plan, this Annual Performance Award, the Annual Performance Award Acceptance Agreement nor any related material shall give you the right to continue in employment by or perform services to the Employer or shall adversely affect the

with or without cause at any time.

14. *Electronic Delivery.* Toro, in its sole discretion, may decide to deliver any documents related to this Annual Performance Award granted to you under the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Toro or a third party designated by Toro.

15. *Governing Law.* This Agreement and the Annual Performance Award Acceptance Agreement shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation to the substantive law of another jurisdiction.

16. *Venue.* In accepting this Annual Performance Award, you are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of the State of Minnesota of the United States of America to resolve any and all issues that may arise out of or relate to this Annual Performance Award, this Agreement and the Annual Performance Award Acceptance Agreement.

17. *Binding Effect.* This Agreement shall be binding upon Toro and you and its and your respective heirs, executors, administrators and successors.

18. *Conflict.* To the extent the terms of this Agreement or the Annual Performance Award Acceptance Agreement are inconsistent with the Plan, the provisions of the Plan shall control and supersede any inconsistent provision of this Agreement or the Annual Performance Award Acceptance Agreement.

19. *Non-Negotiable Terms.* The terms of this Annual Performance Award and the Annual Performance Award Acceptance Agreement are not negotiable, but you may refuse to accept this Annual Performance Award by notifying Toro’s Vice President, Secretary and General Counsel, or Managing Director, HR & Total Rewards, as applicable, in writing.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Agreement has been executed and delivered by The Toro Company and has been executed by you by execution of the attached Annual Performance Award Acceptance Agreement.

[] By: _____
President and CEO

ANNUAL PERFORMANCE AWARD ACCEPTANCE AGREEMENT

[]

I hereby agree to the terms and conditions governing the Annual Performance Award as set forth in the Annual Performance Award Agreement, this Annual Performance Award Acceptance Agreement and as supplemented by the terms and conditions set forth in the Plan.

In accepting the Annual Performance Award, I hereby acknowledge that:

(a) The Plan is established voluntarily by Toro, it is discretionary in nature and it may be modified, amended, suspended or terminated by Toro at any time, unless otherwise provided in the Plan, the Annual Performance Award Agreement or this Annual Performance Award Acceptance Agreement;

(b) The grant of the Annual Performance Award is voluntary and occasional and does not create any contractual or other right to receive future Annual Performance Awards, or benefits in lieu of Annual Performance Awards, even if Annual Performance Awards have been granted repeatedly in the past;

(c) All decisions with respect to future Annual Performance Award grants, if any, will be at the sole discretion of Toro;

(d) I am voluntarily participating in the Plan;

(e) The Annual Performance Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Employer;

(f) In the event I am not an employee of Toro or any Affiliate or Subsidiary, this Annual Performance Award will not be interpreted to form an employment contract or relationship with Toro or any Affiliate or Subsidiary;

(g) In consideration of the grant of the Annual Performance Award, no claim or entitlement to compensation or damages shall arise from termination of the Annual Performance Award or diminution in value of the Annual Performance Award resulting from termination of my employment or service by Toro or the Employer (for any reason whatsoever and whether or not in breach of applicable labor laws) and I hereby irrevocably release Toro and

the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by acceptance of the Annual Performance Award, I shall be deemed irrevocably to have waived my entitlement to pursue such claim;

(h) In the event of termination of my employment or other service (whether or not in breach of local labor laws), my right to receive a cash payment under the Plan in settlement of

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the Annual Performance Award, if any, will terminate effective as of the date of termination of my active employment or other service as determined in the sole discretion of the Committee and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; furthermore, in the event of termination of my employment or other service (regardless of any contractual or local law requirements), my right to receive a cash payment in settlement of the Annual Performance Award after such termination, if any, will be measured by the date of termination of my active employment or other service and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; the Committee shall have the sole discretion to determine the date of termination of my active employment or other service for purposes of this Annual Performance Award;

(i) Neither Toro nor the Employer is providing any tax, legal or financial advice, nor is Toro or the Employer making any recommendations regarding my participation in the Plan or my acceptance of the Annual Performance Award; and

(j) I have been advised to consult with my own personal tax, legal and financial advisors regarding my participation in the Plan before taking any action related to the Plan.

I hereby acknowledge that I have received electronically a copy of the Plan, the U.S. Prospectus relating to the Plan and Toro's most recent Annual Report on Form 10-K. I hereby agree to accept electronic delivery of copies of any future amendments or supplements to the U.S. Prospectus or any future Prospectuses relating the Plan and copies of all reports, proxy statements and other communications distributed to Toro's security holders generally by email directed to my Toro email address.

Note: If you do not wish to accept the Annual Performance Award on the terms stated in the Annual Performance Award Agreement or this Annual Performance Award Acceptance Agreement, please immediately contact Toro's Vice President, Secretary and General Counsel or Managing Director, HR & Total Rewards, as applicable, to decline the grant.

Signature: _____

Print Name: _____

Date: _____

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EXHIBIT A
ANNUAL PERFORMANCE AWARD AGREEMENT

Corporate Performance Measures

Weighting	Performance Measure	Performance Goal		
		Threshold (40% payout)	Target (100% payout)	Maximum (200% payout)

Divisional Performance Measures

Weighting	Performance Measure	Performance Goal		
		Threshold (40% payout)	Target (100% payout)	Maximum (200% payout)

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EXHIBIT B
ANNUAL PERFORMANCE AWARD AGREEMENT

In determining whether and to what extent each Performance Goal has been achieved, the Committee shall exclude from the calculation of the Performance Goal, applying generally accepted accounting principles, each of the following events that occurs during the Performance Period:

[_____]

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RESTRICTED STOCK AWARD AGREEMENT
THE TORO COMPANY AMENDED AND RESTATED 2010 EQUITY AND INCENTIVE PLAN

This Agreement (this “Agreement”) dated [] (“Grant Date”), between The Toro Company, a Delaware corporation (“Toro”), and [] (“you”) sets forth the terms and conditions of the grant to you of a restricted stock award (this “Restricted Stock Award”) of [] shares of common stock, par value \$1.00 per share, of Toro (“Award Shares”) under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as such plan may be amended from time to time (the “Plan”). This Restricted Stock Award is subject to all of the terms and conditions set forth in the Plan, this Agreement and the Restricted Stock Award Acceptance Agreement should you decide to accept this Restricted Stock Award. All of the terms in this Agreement and the Restricted Stock Award Acceptance Agreement that begin with a capital letter are either defined in this Agreement or in the Plan. Except as otherwise indicated, for purposes of this Agreement and the Restricted Stock Award Acceptance Agreement, any reference to “Employer” shall mean the entity (Toro or any Affiliate or Subsidiary) that employs you.

1. *Vesting and Forfeiture.*

(a) Except as provided in Sections 1(b), 1(c), 5, 6 and 7 of this Agreement, your interest in the Award Shares will vest and become nonforfeitable [on /in () as equal as possible installments on each of the anniversaries after the Grant Date].

(b) If your employment or other service with the Employer is terminated by reason of your death or Disability before your interest in all of the Award Shares subject to this Award has vested and become nonforfeitable under Section 1(a), then you will forfeit all of the Award Shares subject to this Restricted Stock Award except those Award Shares in which you have pursuant to Section 1(a) a nonforfeitable interest on the date your employment or other service with the Employer so terminates.

(c) If your employment or other service with the Employer is terminated for any reason other than your death or Disability, before your interest in all of the Award Shares subject to this Award has vested and become nonforfeitable under Section 1(a), then you will forfeit all of the Award Shares subject to this Restricted Stock Award except those Award Shares in which you have pursuant to Section 1(a) a nonforfeitable interest on the date your employment or other service with the Employer so terminates.

(d) Notwithstanding anything to the contrary in the Plan, and unless otherwise determined by the Committee in its sole discretion, your termination date shall be the date on which your active employment or other service ceases and shall not be extended by any notice of termination of employment or severance period provided to you by contract or practice of Toro or the Employer or mandated under local law, unless otherwise required by applicable law.

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2. *Shareholder Status.* Unless and until your Award Shares are forfeited, you will have the right to vote the Award Shares. If you forfeit the Award Shares, at the same time you will forfeit your right to vote the Award Shares. Any stock or cash dividends (including without limitation regular cash dividends) or other distributions of property made with respect Award Shares that remain subject to forfeiture under Section 1(a) shall, in Toro’s complete discretion, be held by Toro or reinvested in additional shares of Restricted Stock that are subject to the same conditions or restrictions as the Award Shares, and your right to receive such dividends, additional shares of Restricted Stock or other property shall be forfeited or shall vest and become nonforfeitable at the same time the Award Shares with respect to which the dividends, additional shares of Restricted Stock or other property are attributable are forfeited or vest and become nonforfeitable. Except for the rights set forth in this Section 2, you shall have no rights as a shareholder of Toro with respect to the Award Shares until your interest in the Award Shares vests and becomes non-forfeitable. For purposes of this Agreement and the Restricted Stock Award Acceptance Agreement, the term “Award Shares” includes all dividends or other distributions made with respect to the Award Shares that have been held by Toro or are reinvested in additional shares of Restricted Stock.

3. *Issuance of Shares.* Toro will issue the Award Shares to you in book-entry or certificate form or issue and deposit the Award Shares for your benefit with any broker with which you have an account relationship or Toro has engaged to provide such services under the Plan. Toro’s Vice President, Secretary and General Counsel will direct Toro’s transfer agent or broker not to honor any requests by you to transfer the Award Shares or to issue a physical stock certificate representing such Award Shares until such time that your interest in the Award Shares vests and becomes non-forfeitable. As soon as practicable after each date as of which your interest in any Award Shares vests and becomes nonforfeitable under Section 1(a) or 6 of this Agreement, Toro will direct its transfer agent or broker to honor any requests thereafter by you to transfer such Award Shares or to issue a physical stock certificate representing such Award Shares. If the Award Shares are forfeited under Section 1 of this Agreement or if this Restricted Stock Award is terminated and forfeited under Section 5 or 6 of this Agreement, the Award Shares will automatically revert back to Toro.

4. *No Transfer.* You may not transfer this Restricted Stock Award, the Award Shares or any rights granted under this Restricted Stock Award other than by will or applicable laws of descent and distribution or, if approved by the Committee, pursuant to a qualified domestic relations order entered into by a court of competent jurisdiction.

5. *Adverse Action.* In addition to the other rights of the Committee under the Plan, if you are determined by the Committee, acting in its sole reasonable discretion, to have taken any action that would constitute an Adverse Action, (a) all of your rights under the Plan and any agreements evidencing an Award granted under the Plan, including this Agreement evidencing this Restricted Stock Award, then held by you shall terminate and be forfeited without notice of any kind, and (b) the Committee in its sole discretion may require you to surrender and return to Toro all or any Award Shares received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by you, during the period beginning one (1) year prior to your termination of employment or other service with the Employer in connection with any Awards granted under the Plan, including this Restricted Stock Award, or

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any Award Shares issued upon the exercise or vesting of any Awards, including this Restricted Stock Award. This Section 5 shall not apply following a Change of Control.

6. *Clawback, Forfeiture or Recoupment.* Any Award Shares issued to you under this Restricted Stock Award will be subject to the forfeiture provision contained in Section 13.6(b) of the Plan as well as any other or additional "clawback," forfeiture or recoupment policy adopted by Toro either prior to or after the date of this Agreement

7. *Change of Control.* In the event of a Change of Control, the provisions of the Plan applicable to a Change of Control will apply to this Restricted Stock Award.

8. *Section 83(b) Election.* You hereby acknowledge that you have been informed that, with respect to the grant of this Restricted Stock Award and within thirty (30) days of the Grant Date, you may file an election with the Internal Revenue Service electing pursuant to Section 83(b) of the Code to be taxed currently on the fair market value of this Restricted Stock Award on the Grant Date. You further acknowledge that it is your sole responsibility to timely file the election under Section 83(b) of the Code if you choose to make such an election. You should consult your personal tax or financial advisor with any questions regarding whether to make a Section 83(b) election. If you make such an election, you are required under the terms of the Plan to promptly provide Toro with a copy of the election form.

9. *Tax Withholding.* Toro will deduct or withhold from the Award Shares any federal, state, local or other taxes of any kind, domestic or foreign, that Toro or any plan administrator of the Plan, as applicable, reasonably determines is required by law to be withheld with respect to income recognized in connection with this Restricted Stock Award or will take such other action as may be necessary in the opinion of Toro to satisfy all obligations for the payment of such taxes. Any Award Shares withheld to pay such tax withholding obligations will be valued at their Fair Market Value on the date the withholding is to be determined, but such withholding shall not exceed an amount of withholding based on the maximum statutory tax rates in your applicable tax jurisdictions (unless a lesser amount of withholding is required to avoid the classification of the Restricted Stock Award as a liability on Toro's consolidated balance sheet or other adverse accounting treatment).

10. *No Right to Continue Employment or Service.* Neither the Plan, this Restricted Stock Award, nor any related material shall give you the right to continue in employment by or perform services to the Employer or shall adversely affect the right of the Employer to terminate your employment or service relationship with or without cause at any time.

11. *Governing Law.* This Agreement and the Restricted Stock Award Acceptance Agreement shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation to the substantive law of another jurisdiction.

12. *Electronic Delivery.* Toro, in its sole discretion, may decide to deliver any documents related to this Restricted Stock Award granted to you under the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the

Plan through an on-line or electronic system established and maintained by Toro or a third party designated by Toro.

13. *Venue.* In accepting this Restricted Stock Award, you are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of the State of Minnesota of the United States of America to resolve any and all issues that may arise out of or relate to this Restricted Stock Award and this Agreement.

14. *Binding Effect.* This Agreement shall be binding upon Toro and you and its and your respective heirs, executors, administrators and successors.

15. *Conflict.* To the extent the terms of this Agreement or the Restricted Stock Award Acceptance Agreement are inconsistent with the Plan, the provisions of the Plan shall control and supersede any inconsistent provision of this Agreement or the Restricted Stock Award Acceptance Agreement.

16. *Non-Negotiable Terms.* The terms of this Agreement and the Restricted Stock Award Acceptance Agreement are not negotiable, but you may refuse to accept this Restricted Stock Award by notifying Toro's Vice President, Secretary and General Counsel, or Managing Director, HR & Total Rewards, as applicable, in writing.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Agreement has been executed and delivered by The Toro Company and has been executed by you by execution or electronic acceptance of the attached Restricted Stock Award Acceptance Agreement.

[] By: _____
President and CEO

I hereby agree to the terms and conditions governing the Restricted Stock Award as set forth in the Restricted Stock Award Agreement, this Restricted Stock Award Acceptance Agreement and as supplemented by the terms and conditions set forth in the Plan.

In accepting the Restricted Stock Award, I hereby acknowledge that:

- (a) The Plan is established voluntarily by Toro, it is discretionary in nature and it may be modified, amended, suspended or terminated by Toro at any time, unless otherwise provided in the Plan, the Restricted Stock Award Agreement or this Restricted Stock Award Acceptance Agreement;
- (b) The grant of the Restricted Stock Award is voluntary and occasional and does not create any contractual or other right to receive future Restricted Stock Awards, or benefits in lieu of Restricted Stock Awards, even if Restricted Stock Awards have been granted repeatedly in the past;
- (c) All decisions with respect to future Restricted Stock Award grants, if any, will be at the sole discretion of Toro;
- (d) I am voluntarily participating in the Plan;
- (e) The Restricted Stock Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for Toro or the Employer;
- (f) In the event I am not an employee of Toro, this Restricted Stock Award will not be interpreted to form an employment contract or relationship with Toro;
- (g) The future value of the Award Shares subject to the Restricted Stock Award is unknown and cannot be predicted with certainty and if the Restricted Stock Award vests and the Award Shares become non-forfeitable in accordance with the terms of the Restricted Stock Award Agreement or this Restricted Stock Award Acceptance Agreement, the value of those Award Shares may increase or decrease;
- (h) In consideration of the grant of the Restricted Stock Award, no claim or entitlement to compensation or damages shall arise from termination of the Restricted Stock Award or diminution in value of the Restricted Stock Award or Award Shares resulting from termination of my employment or service by Toro the Employer (for any reason whatsoever and whether or not in breach of applicable labor laws) and I hereby irrevocably release Toro and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim

is found by a court of competent jurisdiction to have arisen, then, by acceptance of the Restricted Stock Award, I shall be deemed irrevocably to have waived my entitlement to pursue such claim;

- (i) In the event of termination of my employment or other service (whether or not in breach of local labor laws), my right to receive the Restricted Stock Award and vest in the Restricted Stock Award under the Plan, if any, will terminate effective as of the date of termination of my active employment or other service as determined in the sole discretion of the Committee and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; furthermore, in the event of termination of my employment or other service (regardless of any contractual or local law requirements), my right to vest in the Restricted Stock Award after such termination, if any, will be measured by the date of termination of my active employment or other service and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; the Committee shall have the sole discretion to determine the date of termination of my active employment or service for purposes of the Restricted Stock Award;
- (j) Neither Toro nor the Employer is providing any tax, legal or financial advice, nor is Toro or the Employer making any recommendations regarding my participation in the Plan or my acceptance of the Restricted Stock Award; and
- (k) I have been advised to consult with my own personal tax, legal and financial advisors regarding my participation in the Plan before taking any action related to the Plan.

I hereby acknowledge that I have received electronically a copy of the Plan, the U.S. Prospectus relating to the Plan and Toro's most recent Annual Report on Form 10-K. I hereby agree to accept electronic delivery of copies of any future amendments or supplements to the U.S. Prospectus or any future Prospectuses relating the Plan and copies of all reports, proxy statements and other communications distributed to Toro's security holders generally by email directed to my Toro email address.

Note: If you do not wish to accept the Restricted Stock Award on the terms stated in the Restricted Stock Award Agreement or this Restricted Stock Award Acceptance Agreement, please immediately contact Toro's Vice President, Secretary and General Counsel, or Managing Director, HR & Total Rewards, as applicable, to decline the grant.

Signature: _____
Print Name: _____
Date: _____

RESTRICTED STOCK UNIT AWARD AGREEMENT
THE TORO COMPANY AMENDED AND RESTATED 2010 EQUITY AND INCENTIVE PLAN

This Agreement (this “Agreement”) dated [] (“Grant Date”), between The Toro Company, a Delaware corporation (“Toro”), and [] (“you”) sets forth the terms and conditions of the grant to you of a restricted stock unit (“RSU”) award (this “RSU Award”) of [] shares of common stock, par value \$1.00 per share, of Toro (“Award Shares”) under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as such plan may be amended from time to time (the “Plan”). This RSU Award is subject to all of the terms and conditions set forth in the Plan, this Agreement and the RSU Award Acceptance Agreement should you decide to accept this RSU Award. All of the terms in this Agreement and the RSU Award Acceptance Agreement that begin with a capital letter are either defined in this Agreement or in the Plan. For purposes of this Agreement and the RSU Award Acceptance Agreement, any reference to “Employer” shall mean the entity (Toro or any Affiliate or Subsidiary) that employs you.

1. *Vesting and Forfeiture.*

(a) Except as provided in Sections 1(b), 1(c), 5, 6 and 7 of this Agreement, your interest in the Award Shares will vest and the Award Shares will become issuable [on the anniversary after the Grant Date/in as equal as possible installments on each of the anniversaries after the Grant Date].

(b) If your employment or other service with the Employer is terminated by reason of your death or Disability before your interest in all of the Award Shares subject to this RSU Award has vested and become issuable under Section 1(a), then you will forfeit all of the Award Shares subject to this RSU Award except those Award Shares that had been previously issued pursuant to Section 1(a) as of the date your employment or service with the Employer terminates.

(c) If your employment or other service with the Employer is terminated for any reason, other than your death or Disability, before your interest in all of the Award Shares subject to this RSU Award has vested and become issuable under Section 1(a), then you will forfeit all of the Award Shares subject to this RSU Award except those Award Shares that had been previously issued pursuant to Section 1(a) as of the date your employment or service with the Employer terminates.

(d) Notwithstanding anything to the contrary in the Plan, and unless otherwise determined by the Committee in its sole discretion, your termination date shall be the date on which your active employment or other service ceases and shall not be extended by any notice of termination of employment or severance period provided to you by contract or practice of Toro or the Employer or mandated under local law, unless otherwise required by applicable law.

2. *Shareholder Status.* You will have no rights as a shareholder of Toro with respect to the Award Shares subject to this RSU Award until such Award Shares have been issued pursuant to Section 1 of this Agreement. Notwithstanding the generality of the foregoing, you shall not be entitled to vote any of the Award Shares subject to this RSU Award until such Award Shares

have been issued pursuant to Section 1 of this Agreement or receive any dividends declared prior to the issuance of such Award Shares or otherwise exercise any incidents of ownership with respect to such Award Shares until such Award Shares have been issued pursuant to Section 1 of this Agreement.

3. *Dividend Equivalent Rights.* This RSU Award shall include a right to corresponding Dividend Equivalents. Such Dividend Equivalents shall be subject to the same vesting requirements and forfeiture provisions as this RSU Award, and shall be settled in the form of Shares at the same time that the vested RSU Award is settled as provided in Section 1 above. For purposes of this Agreement and the RSU Award Acceptance Agreement, the term “Award Shares” includes all Dividend Equivalents accrued for the RSU Award.

4. *Issuance of Award Shares.* As soon as practicable after each date as of which Award Shares subject to this RSU Award become vested pursuant to Section 1 of this Agreement, Toro shall issue and deliver to you in book-entry or certificate form such number of Award Shares or issue and deposit such number of Award Shares for your benefit with any broker with which you have an account relationship or Toro has engaged to provide such services under the Plan.

5. *Adverse Action.* In addition to the other rights of the Committee under the Plan, if you are determined by the Committee, acting in its sole reasonable discretion, to have taken any action that would constitute an Adverse Action, (a) all of your rights under the Plan and any agreements evidencing an Award granted under the Plan, including this Agreement evidencing this RSU Award, then held by you shall terminate and be forfeited without notice of any kind, and (b) the Committee in its sole discretion may require you to surrender and return to Toro all or any Award Shares received, or to disgorge all or any profits or any other economic value (however defined by the Committee) made or realized by you, during the period beginning one (1) year prior to your termination of employment or service with the Employer, in connection with any Awards granted under the Plan, including this RSU Award, or any Award Shares issued upon the exercise or vesting of any Awards, including this RSU Award. This Section 5 shall not apply following a Change of Control.

6. *Clawback, Forfeiture or Recoupment.* Any Award Shares issued to you under this RSU Award will be subject to the forfeiture provision contained in Section 13.6(b) of the Plan as well as any other or additional “clawback,” forfeiture or recoupment policy adopted by Toro either prior to or after the date of this Agreement

7. *Change of Control.* In the event of a Change of Control, the provisions of the Plan applicable to a Change of Control will apply to this RSU Award.

8. *Other Laws.* Toro shall have the right to refuse to issue to you or transfer Award Shares subject to this RSU Award if Toro acting in its absolute discretion determines that the issuance or transfer of such Award Shares might violate any applicable law or regulation.

9. *Tax Withholding.* Toro will deduct or withhold from the Award Shares any federal, state, local or other taxes of any kind, domestic or foreign, that Toro or any plan administrator of the Plan, as applicable, reasonably determines is required by law to be withheld with respect to income recognized in connection with this RSU Award or will take such other action as may be

necessary in the opinion of Toro to satisfy all obligations for the payment of such taxes. Any Award Shares withheld to pay such tax withholding obligations will be valued at their Fair Market Value on the date the withholding is to be determined, but such withholding shall not exceed an amount of withholding based on the maximum statutory tax rates in your applicable tax jurisdictions (unless a lesser amount of withholding is required to avoid the classification of the RSU Award as a liability on Toro's consolidated balance sheet or other adverse accounting treatment).

10. *No Transfer.* You may not transfer this RSU Award, the Award Shares or any rights granted under this RSU Award other than by will or applicable laws of descent and distribution or, if approved by the Committee, pursuant to a qualified domestic relations order entered into by a court of competent jurisdiction.
11. *No Right to Continue Employment or Service.* Neither the Plan, this RSU Award, nor any related material shall give you the right to continue in employment by or perform services to the Employer or shall adversely affect the right of the Employer to terminate your employment or service relationship with or without cause at any time.
12. *Electronic Delivery.* Toro, in its sole discretion, may decide to deliver any documents related to this RSU Award granted to you under the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through an on-line or electronic system established and maintained by Toro or a third party designated by Toro.
13. *Governing Law.* This Agreement and the RSU Award Acceptance Agreement shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation to the substantive law of another jurisdiction.
14. *Venue.* In accepting this RSU Award, you are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of the State of Minnesota of the United States of America to resolve any and all issues that may arise out of or relate to this RSU Award and this Agreement.
15. *Binding Effect.* This Agreement shall be binding upon Toro and you and its and your respective heirs, executors, administrators and successors.
16. *Conflict.* To the extent the terms of this Agreement or the RSU Award Acceptance Agreement are inconsistent with the Plan, the provisions of the Plan shall control and supersede any inconsistent provision of this Agreement or the RSU Award Acceptance Agreement.
17. *Non-Negotiable Terms.* The terms of this Agreement and the RSU Award Acceptance Agreement are not negotiable, but you may refuse to accept this RSU Award by notifying Toro's Vice President, Secretary and General Counsel or Managing Director, HR & Total Rewards, as applicable, in writing.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Agreement has been executed and delivered by The Toro Company and has been executed by you by execution or electronic acceptance of the attached RSU Award Acceptance Agreement.

[], 20[]

By: _____
President and CEO

RSU AWARD ACCEPTANCE AGREEMENT

I hereby agree to the terms and conditions governing the RSU Award as set forth in the RSU Award Agreement, this RSU Award Acceptance Agreement and as supplemented by the terms and conditions set forth in the Plan.

In accepting the RSU Award, I hereby acknowledge that:

- (a) The Plan is established voluntarily by Toro, it is discretionary in nature and it may be modified, amended, suspended or terminated by Toro at any time, unless otherwise provided in the Plan, the RSU Award Agreement or this RSU Award Acceptance Agreement;
- (b) The grant of the RSU Award is voluntary and occasional and does not create any contractual or other right to receive future RSU Awards, or benefits in lieu of RSU Awards, even if RSU Awards have been granted repeatedly in the past;
- (c) All decisions with respect to future RSU Award grants, if any, will be at the sole discretion of Toro;
- (d) I am voluntarily participating in the Plan;
- (e) The RSU Award is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to Toro or the Employer, and which is outside the scope of my employment contract, if any;
- (f) The RSU Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments

and in no event should be considered as compensation for, or relating in any way to, past services for Toro or the Employer;

(g) In the event I am not an employee of Toro, the RSU Award will not be interpreted to form an employment contract or relationship with Toro; and furthermore, the RSU Award will not be interpreted to form an employment contract with Toro;

(h) The future value of the Award Shares subject to the RSU Award is unknown and cannot be predicted with certainty and if the RSU Award vests and the Award Shares become issuable in accordance with the terms of the RSU Award Agreement and this RSU Award Acceptance Agreement, the value of those Award Shares may increase or decrease;

(i) In consideration of the grant of the RSU Award, no claim or entitlement to compensation or damages shall arise from termination of the RSU Award or diminution in value of the RSU Award or Award Shares acquired upon vesting of the RSU Award resulting from termination of my employment or service by Toro or the Employer (for any reason whatsoever and whether or not in breach of applicable labor laws) and I hereby irrevocably release Toro and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by acceptance of the RSU Award, I shall be deemed irrevocably to have waived my entitlement to pursue such claim;

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(j) In the event of termination of my employment or other service (whether or not in breach of local labor laws), my right to receive the RSU Grant and vest in the RSU Grant under the Plan, if any, will terminate effective as of the date of termination of my active employment or other service as determined in the sole discretion of the Committee and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; furthermore, in the event of termination of my employment or other service (regardless of any contractual or local law requirements), my right to vest in the RSU Award after such termination, if any, will be measured by the date of termination of my active employment or other service and will not be extended by any notice of termination of employment or severance period provided to me by contract or practice of Toro or the Employer or mandated under local law; the Committee shall have the sole discretion to determine the date of termination of my active employment or other service for purposes of the RSU Award;

(k) Neither Toro nor the Employer is providing any tax, legal or financial advice, nor is Toro or the Employer making any recommendations regarding my participation in the Plan, my acceptance of the RSU Award, my acquisition of the Award Shares upon vesting of the RSU Award or any sale of the Award Shares; and

(l) I have been advised to consult with my own personal tax, legal and financial advisors regarding my participation in the Plan before taking any action related to the Plan.

I hereby acknowledge that I have received electronically a copy of the Plan, the U.S. Prospectus relating to the Plan and Toro's most recent Annual Report on Form 10-K. I hereby agree to accept electronic delivery of copies of any future amendments or supplements to the U.S. Prospectus or any future Prospectuses relating the Plan and copies of all reports, proxy statements and other communications distributed to Toro's security holders generally by email directed to my Toro email address.

Note: If you do not wish to accept the RSU Award on the terms stated in the RSU Award Agreement or this RSU Award Acceptance Agreement, please immediately contact Toro's Vice President, Secretary and General Counsel or Managing Director, HR & Total Rewards, as applicable, to decline the grant.

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THE TORO COMPANY AND SUBSIDIARIES
Computation of Ratio of Earnings to Fixed Charges
(Not Covered by Report of Independent Registered Public Accounting Firm)

	<u>10/31/2016</u>	<u>10/31/2015</u>	<u>10/31/2014</u>	<u>10/31/2013</u>	<u>10/31/2012</u>
Earnings before income taxes	\$ 330,460,000	\$ 291,031,000	\$ 256,445,000	\$ 226,713,000	\$ 196,262,000
Plus: Fixed charges	28,122,788	27,085,508	23,535,622	24,343,024	24,294,555
Earnings available to cover fixed charges	<u>\$ 358,582,788</u>	<u>\$ 318,116,508</u>	<u>\$ 279,980,622</u>	<u>\$ 251,056,024</u>	<u>\$ 220,556,555</u>
Ratio of earnings to fixed charges	<u>12.75</u>	<u>11.74</u>	<u>11.90</u>	<u>10.31</u>	<u>9.08</u>
Interest Expense	\$ 19,336,000	\$ 18,757,000	\$ 15,426,000	\$ 16,210,000	\$ 16,906,000
Rentals (Interest factor)	8,786,788	8,328,508	8,109,622	8,133,024	7,388,555
Total fixed charges	<u>\$ 28,122,788</u>	<u>\$ 27,085,508</u>	<u>\$ 23,535,622</u>	<u>\$ 24,343,024</u>	<u>\$ 24,294,555</u>

THE TORO COMPANY AND SUBSIDIARIES
Subsidiaries of Registrant

The following are significant subsidiaries of The Toro Company as of December 16, 2016.

Name	State or Other Jurisdiction of Incorporation	Percentage of Voting Securities Owned
Exmark Manufacturing Company Incorporated	Nebraska	100%
Hayter Holdings Limited	United Kingdom	100%
Hayter Limited	United Kingdom	100%
The Holiman Co. Inc.	Pennsylvania	100%
Irritrol Systems Europe S.r.l.	Italy	100%
Irritrol Systems Europe Productions S.r.l.	Italy	100%
MTI Distributing, Inc.	Minnesota	100%
Rain Master Irrigation Systems, Inc.	California	100%
Red Iron Acceptance, LLC	Delaware	45%
Red Iron Holding Corporation	Delaware	100%
Red Iron Insurance, Limited	Bermuda	100%
The ShopToro Company	Minnesota	100%
The Toro Company (Asia) Pte. Ltd.	Singapore	100%
Toro Australia Pty. Limited	Australia	100%
Toro Australia Group Sales Pty. Ltd	Australia	100%
Toro (China) Irrigation Equipment Co., Ltd.	People's Republic of China	100%
Toro Credit Company	Minnesota	100%
Toro Company de Mexico, S. de R.L. de C.V.	Mexico	100%
Toro Europe N.V.	Belgium	100%
Toro Factoring Company Limited	Guernsey	100%
Toro Finance Co. GmbH	Switzerland	100%
Toro (Gibraltar) Limited	Gibraltar	100%
Toro Global Services Company	Minnesota	100%
Toro Luxembourg S.à.r.l.	Luxembourg	100%
Toro LLC	Delaware	100%
Toro Manufacturing and Sales, S.R.L.	Romania	100%
Toro Mexico Holdings, LLC	Minnesota	100%
Toro International Company	Minnesota	100%
Toro Manufacturing LLC	Delaware	100%
Toro Principal Manufacturing Limited	England	100%
Toro Purchasing Company	Minnesota	100%
Toro R&D Company	Minnesota	100%
Toro Sales Company	Minnesota	100%
Toro Warranty Company	Minnesota	100%
Tover International C.V.	Netherlands	100%
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Tover Overseas, B.V	Netherlands	100%
Tover Overseas I C.V.	Netherlands	100%
The Toro Company (Canada), Inc.	New Brunswick, Canada	100%

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Toro Company:

We consent to the incorporation by reference in the registration statements (Nos. 333-47260, 333-57198, 333-89260, 333-89262, 333-135033, 333-119504, 333-119506, 333-151086, 333-159767, 333-39052, 033-59563, 333-11860, 333-100004, 333-87461, 333-165582, and 333-204336) on Form S-8 of The Toro Company of our report dated December 22, 2016, with respect to the consolidated balance sheets of The Toro Company and subsidiaries as of October 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows, and related financial statement schedule for each of the fiscal years in the three-year period ended October 31, 2016, and the effectiveness of internal control over financial reporting as of October 31, 2016, which report is included in the annual report on Form 10-K of The Toro Company.

/s/ KPMG LLP

Minneapolis, Minnesota
December 22, 2016

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

I, Richard M. Olson, certify that:

1. I have reviewed this annual report on Form 10-K of The Toro Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 22, 2016

/s/ Richard M. Olson

Richard M. Olson

President and

Chief Executive Officer

(Principal Executive Officer)

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

I, Renee J. Peterson, certify that:

1. I have reviewed this annual report on Form 10-K of The Toro Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 22, 2016

/s/ Renee J. Peterson

Renee J. Peterson
Vice President, Treasurer
and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of The Toro Company (the "Company") on Form 10-K for the fiscal year ended October 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Richard M. Olson, President and Chief Executive Officer of the Company, and Renee J. Peterson, Vice President, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard M. Olson

Richard M. Olson

President and Chief Executive Officer

December 22, 2016

/s/ Renee J. Peterson

Renee J. Peterson

Vice President, Treasurer and Chief Financial Officer

December 22, 2016

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