

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

/X/ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For Fiscal Year Ended October 31, 1998.

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

For the transition period from _____ to _____

Commission File Number 1-8649

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

DELAWARE
(State of incorporation)

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

8111 LYNDAL AVENUE SOUTH
BLOOMINGTON, MINNESOTA 55420-1196
TELEPHONE NUMBER: (612) 888-8801

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

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

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

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

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

Yes / X / No / /

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing price of the Common Stock on January 7, 1999 as reported by the New York Stock Exchange, was approximately \$384,891,687.

The number of shares of Common Stock outstanding as of January 7, 1999 was 12,565,257.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended October 31, 1998 are incorporated by reference into Parts I, II, and IV.

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held March 24, 1999 are incorporated by reference into Part III.

THE TORO COMPANY
FORM 10-K
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ITEM 1. BUSINESS

INTRODUCTION

The company designs, manufactures, and markets professional turf maintenance equipment, irrigation systems, landscaping equipment, agricultural irrigation systems, and consumer products. The company produced its first lawn mower for golf course fairways in 1921 and its first lawn mower for home use in 1939 and has continued to enhance its product lines ever since.

Toro's web sites on the Internet are at www.toro.com, www.exmark.com, www.irritrolsystems.com, www.lawnboy.com, www.lawnjenie.com, www.nsn.com. You can learn about the company and its products by visiting these web sites.

The company emphasizes quality and innovation in its products, manufacturing, and marketing. The company strives to provide well built, dependable products supported by an extensive service network. The company's commitment and funding for engineering costs, as well as acquisition strategy and its licensing and related agreements, have all contributed to improvement of existing products and new product development efforts. Through these efforts, the company is responsive to trends, which may affect its target markets now and in the future. The company believes that a significant portion of its revenues in recent years have been attributable to its new and enhanced products.

The company has expanded its product lines and services in recent years by making acquisitions and strategic alliances. See "Acquisitions, Divestitures, and Strategic Alliances" below.

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

OUTDOOR MAINTENANCE EQUIPMENT

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

CONSUMER PRODUCTS

Toro markets its consumer products to homeowners through a variety of distribution channels, including distributors, dealers, home centers, and mass retailers. These products are sold mainly in North America, Europe, Asia, and Australia, with the exception of snow removal products which are only sold in North America and Europe.

WALK POWER MOWERS. The company has manufactured walk power mowers for residential use since 1939. Its walk power lawn mowers are gasoline, battery, and electric powered. The company manufactures numerous models of walk power mowers under its brand names Toro-Registered Trademark- and Lawn-Boy-Registered Trademark-, including both four-cycle and two-cycle gas engine models, and corded and battery electric models. Models differ as to cutting width, type of starter mechanism, type of bagging, controls, and power sources, and are either self-propelled or push mowers. Certain of the lawn mowers are backed by the company's "Guaranteed To Start" program and some Lawn-Boy-Registered Trademark- models are equipped with a two-cycle engine manufactured by the company. In fiscal 1998, the company introduced its new two-cycle low-emission Lawn-Boy-Registered Trademark-DuraForce-TM- walk power mower and a new line of shorter-width European Toro-Registered Trademark- walk power mowers.

RIDING MOWERS AND LAWN AND GARDEN TRACTORS. The company manufactures riding lawn mowers and lawn and garden tractors under its brand name Toro-Registered Trademark-Wheel Horse-Registered Trademark-, which range from an eight horsepower rear engine rider model with a 25 inch deck, to a 23 horsepower diesel engine garden tractor model with a 60 inch side-discharge deck. The front engine model's are available with a variety of decks and accessories. Recycler-Registered Trademark- technology is available in select models. Some models are equipped with hydrostatic transmissions and/or low-emission engines.

HOME SOLUTIONS PRODUCTS. The company designs and markets electrical and gas products under the Toro-Registered Trademark- brand name. These products, which include homeowner-installed, plastic and metal, low-voltage and solar lighting, gas and electric flexible line trimmers, and electric blowers, are intended to require little or no after sales service. In fiscal 1998, Toro introduced a more powerful and quieter version of its electric blower, the Toro-Registered Trademark- Quietech-TM-. Toro also sells do-it-yourself irrigation products under the Toro-Registered Trademark- and Lawn Genie-Registered Trademark- brand names to certain home centers and mass retailers.

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

PROFESSIONAL TURF PRODUCTS

Toro markets professional turf products worldwide through a network of distributors and dealers. The products are then sold to the end user professional who maintains golf courses, sports fields, municipality properties, and landscapes.

COMMERCIAL PRODUCTS. Professional turf maintenance equipment marketed under the Toro-Registered Trademark- brand name is the company's oldest product line, which began in 1921 with tractor-pulled reel mowers for golf courses. Today, the company's expanded product line includes products designed for large turf areas of schools, parks, cemeteries, sports fields, plant sites, apartment buildings, and townhouse complexes, as well as golf courses. Management believes that golf courses will continue to be a significant market for turf maintenance equipment as new golf course construction continues throughout the world, with the exception of Asia which is experiencing an economic recession, and existing courses continue to provide the greatest market for Toro products. Increasing emphasis is being placed on the golf and landscape contractor markets.

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

Products for the landscape contractor market include mid-size walk power mowers, zero-turning radius riding mowers, handheld trimmers, and compact utility vehicles. The company markets products for landscape contractors under both the Toro-Registered Trademark- and Exmark-Registered Trademark- brands. See "Recent Developments - Acquisitions, Divestitures, and Strategic Alliances" below for information on the company's recent acquisition of Exmark products.

The company acquired the manufacturing, sales, and distribution rights to Dingo-Registered Trademark- Digging Systems (Dingo) in fiscal 1997. The Dingo-Registered Trademark- utility vehicle is a cornerstone product for the newly established Toro-Registered Trademark- Sitework-TM- Systems product line, which improves efficiency in the construction and creation of landscapes. The company began manufacturing and selling the Toro-Registered Trademark- Sitework-TM- Systems in fiscal 1998 for the U.S. market.

Other products for all commercial markets include riding rotary units with out-front cutting decks ranging from 52 inches to 16 feet, turf sweepers, and multipurpose vehicles and attachments designed for flexibility of use.

IRRIGATION PRODUCTS. Turf irrigation products marketed under the Toro-Registered Trademark- and Irritrol-Registered Trademark- Systems brand names include sprinkler heads and electric and hydraulic control devices designed to be used in turf irrigation systems for residential, commercial, golf course, and agricultural use. These products are installed in new systems and can also be used to replace or retrofit existing systems. Most of the product line is designed for underground irrigation systems. Control valves activate the sprinkler heads and controllers typically activate electric or hydraulic lines to control the valves and sprinkler heads. The acquisition of Drip In in fiscal 1998 enhanced Toro's product line for the agricultural micro-irrigation market, including drip tape, hose, emitters, and other micro-irrigation products. The company's irrigation products are used in 74 of the golf courses rated among the top 100 courses in the United States by GOLF DIGEST, dated May 1997.

See the table entitled "Net Sales By Product Line" under the caption "Results of Operations" in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 12 of the company's Annual Report to Stockholders for the fiscal year ended October 31, 1998 for information regarding revenues in the consumer, commercial, and irrigation product lines, which information is incorporated herein by reference.

INTERNATIONAL OPERATIONS

The company currently distributes its products worldwide with sales and/or distribution offices in the United States, Canada, Belgium, the United Kingdom, Australia, Singapore, Japan, and Italy. New product development is pursued primarily in the United States.

Products marketed outside of North America are sold in compliance with local safety standards. All products shipped to Europe are designed to conform to European Community Certification standards. In addition to developing new market-specific products, the International business is adding customers in new regions. Emerging markets in Argentina, Russia, and the Czech Republic have recently been added to the distribution base.

RECENT DEVELOPMENTS

PROFIT IMPROVEMENT PLAN

In fiscal 1998, Toro implemented a profit improvement plan to reposition the consumer business and improve overall company profitability and competitiveness. This strategy included organizational changes in the consumer division, decentralizing manufacturing and inventory management, initiating a multi-year strategy for warehousing and transportation services with third party vendors, sale of the recycling equipment business, the restructuring of the professional fertilizer business, and plant closings.

ACQUISITIONS, DIVESTITURES, AND STRATEGIC ALLIANCES

In fiscal 1998, Toro announced the establishment of Logistics 2000, a multi-year supply chain management program to streamline the supply chain and provide greater inventory control and management. Toro entered into a contract with GATX Logistics, Inc. for logistics management and systems integration services. These services include transportation, storage, and distribution of selected Toro products. The first phase of the plan includes closing leased warehouses in Riverside and Laguna Niguel, California, and transferring their irrigation inventories to GATX's facility in Mira Loma, California. Also, GATX will assume management and warehousing responsibilities of the recently closed Sardis, Mississippi manufacturing facility. The company is currently evaluating expansion of Logistics 2000. Phase two of the program could include additional GATX-managed regional distribution centers for all Toro goods. The expected benefits after Logistics 2000 is fully implemented are greater efficiency along with better fill rates, improved time of delivery, and reduced overall system inventories.

In February 1998, the company acquired GR Driplines, Incorporated (Drip In), a manufacturer of agricultural micro-irrigation products with a reputation for quality and innovation. Drip In is headquartered in Madera, California and employs approximately 60 people in a 58,000 square foot facility.

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

In September 1997, the company acquired the manufacturing, sales, and distribution rights to Dingo-Registered Trademark- Digging Systems (Dingo). The Dingo-Registered Trademark- utility vehicle is the cornerstone product for the newly established Toro-Registered Trademark- Sitework-TM- Systems product line. The Dingo-Registered Trademark- is a rugged, compact, and powerful piece of equipment with more than 35 attachments that can dramatically increase landscape contractors' productivity. The company manufactures and sells Dingo-Registered Trademark- landscape products under the Toro-Registered Trademark- Sitework-TM- brand name for U.S markets.

In December 1996, the company acquired James Hardie Irrigation Group (Hardie) from James Hardie Industries Limited of Australia (JHI Limited). Hardie was a worldwide leader in the production of irrigation systems to the residential/commercial landscape market. Hardie manufactured products for all major segments of the irrigation market, except for the golf market, and sold to distributors and retailers worldwide. Hardie offered a broad range of irrigation products and had leading positions in valves and controllers worldwide. Hardie products are now marketed under the Irritrol-Registered Trademark- Systems brand through its existing global distribution network. The Lawn Genie-Registered Trademark- brand for the mass retailer market is expected to become a leading presence in do-it-yourself home irrigation.

In the fourth quarter of fiscal 1998, Toro completed the sale of its non-core recycling equipment business. The company also announced that it is restructuring its non-core professional fertilizer business, including the possibility of selling portions of the business.

SOFTWARE AND ISO 9000

In 1998, the company continued integrating its operations to an enterprise-wide software system, which is expected to be completed in fiscal 1999 with the exception of two domestic subsidiaries and the company's European subsidiaries. ISO 9000 continues to be a priority for the company's manufacturing facilities. The manufacturing facilities at Tomah, Wisconsin, Shakopee, Minnesota, Riverside, California, and the commercial business unit at Bloomington, Minnesota maintained their certification in fiscal 1998 and Windom, Minnesota and Oxford, Mississippi are working towards ISO 9000 certification in fiscal 1999.

MANUFACTURING AND PRODUCTION

In some areas of its business, the company is primarily an assembler while in others it is a fully integrated manufacturer. The company's consumer spring and summer products are generally manufactured in the winter and spring months and its consumer fall and winter products are generally manufactured in the summer and fall months. The company's irrigation and commercial products are manufactured throughout the year. A majority of the company's manufacturing facilities are located in the United States, with the exception of some irrigation production facilities that are located in Australia and Italy.

Sales to independent distributors and dealers closely correspond with Toro's production levels, which are based on its estimates of the demand for its products, taking into account the timing of shipments, distributor and dealer inventory levels, the need to shut down production to enable manufacturing facilities to be prepared for the manufacture of new or different models, the efficient use of manpower and facilities, labor disruptions, and other matters not within Toro's control.

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

SOURCES AND AVAILABILITY OF RAW MATERIALS

Most of the components for the company's products are commercially available from a number of sources and the company is generally not dependent on any one supplier. In fiscal 1998, Toro experienced no significant or unusual problems in the purchase of raw materials or commodities. The largest component costs are generally engines, transmissions, and electric motors. The company purchases most of its engines and motors for consumer and commercial products from several suppliers from around the world. In addition, the company manufactures two-cycle engines for some of its consumer products.

SERVICE AND WARRANTY

Toro products are warranted to the end-user to ensure end-user confidence in design, workmanship, and material quality. Warranty lengths vary depending on whether use is "residential" or "commercial" within individual product lines. Some products have an over-the-counter exchange option and some have a 30-day satisfaction guarantee. In general, warranties tend to be for six months to five years, and cover all parts and labor for non-maintenance repairs and wear items, provided the repair was not necessitated by operator abuse, improper use, or negligence. An authorized independent Toro distributor or dealer must perform warranty work. Distributors and dealers submit claims for warranty reimbursement to Toro and are credited for the cost of repairs and labor as long as the repairs meet Toro's prescribed standards. Warranty expense is accrued at the time of sale based upon historical claims by individual products. Special warranty reserves are also accrued for specific known product modifications. Service support outside of the warranty period is provided by independent Toro distributors and dealers at the customer's expense.

TRADEMARKS AND PATENTS

Products manufactured by the company are nationally advertised and sold at the retail level under the trademarks Toro-Registered Trademark-, Wheel Horse-Registered Trademark-, Lawn-Boy-Registered Trademark-, Irritrol-Registered Trademark- Systems, and Lawn Genie-Registered Trademark-, all of which are registered in the United States and in the principal foreign countries in which the company markets its products. With the recent acquisitions of Exmark and Drip In, the company acquired the Exmark-Registered Trademark- and Drip In-Registered Trademark- brand names. The company also manufactures and sells Dingo-Registered Trademark- landscape products under the Toro-Registered Trademark- Sitework-TM- Systems brand name for U.S. markets.

The company holds patents in the United States and foreign countries and applies for patents as applicable. Although management believes patents have value to the company, patent protection does not deter competitors from attempting to develop similar products. Although patent protection is considered to be very beneficial, the company is not materially dependent on any one or more of its patents.

SEASONALITY

Sales of the company's consumer products, which accounted for approximately 34 percent of total sales in fiscal 1998, are seasonal with greater sales of lawn and garden products occurring between February and July, and of snow removal equipment occurring between August and January. Opposite seasons in some global markets somewhat moderate this seasonality in consumer product sales. Seasonality in irrigation and commercial product sales also exists, but is tempered because the selling season in West Coast and Southern states continues for a longer portion of the year than in northern states. Overall, worldwide sales levels are highest in the second quarter. Historically, accounts receivable balances increase between January and April as a result of extended payment terms made available to the company's customers. Accounts receivable balances decrease between May and August when payments are made. The seasonal requirements of the business are financed from operations and with short-term bank lines of credit, where the peak borrowing usually occurs between February and May.

DISTRIBUTION AND MARKETING

The company markets the majority of its Toro branded products principally through 39 domestic and 107 foreign distributors, and a number of home centers and mass retailers in more than 70 countries worldwide. Toro-Registered Trademark- and certain Lawn-Boy-Registered Trademark- consumer products such as walk power mowers, riding mowers, and snowthrowers are sold to distributors for resale to retail dealers throughout the United States. Home solutions products and most Lawn-Boy-Registered Trademark- products are also sold directly to home centers and mass retailers. Beginning in the spring of fiscal 1999, the Toro-Registered Trademark- Recycler-Registered Trademark- walk power mower will be sold in certain home centers. Commercial and irrigation products are sold to distributors for resale to irrigation contractors, municipalities, and golf courses. Irrigation products are also sold through distributors to irrigation dealers and direct to irrigation dealers, mass retailers, and home centers for resale to contractors, golf courses, and end-users. Internationally, consumer products are sold to distributors for resale to retail dealers and mass merchandisers outside the United States, principally in Canada and Western Europe. Some irrigation and consumer products are sold directly to retail dealers in Canada, Australia, and Western Europe.

The company's current marketing strategy is to maintain distinct and separate brands and brand identification for Toro-Registered Trademark-, Toro-Registered Trademark- Wheel Horse-Registered Trademark-, Lawn-Boy-Registered Trademark-, and Irritrol-Registered Trademark- products, as well as the recently acquired Exmark-Registered Trademark- and Drip In-Registered Trademark- products. The Exmark-Registered Trademark- brand is distributed through approximately 25 distributors for resale to retail dealers throughout North America.

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

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

CUSTOMERS

No material part of the company's business is dependent upon a single customer. While the loss of any substantial customer could have a material short-term impact on the company's business, Toro believes that its diverse distribution channels should minimize the long-term impact on any such loss.

BACKLOG OF ORDERS

The approximate backlog of orders believed to be firm at October 31, 1998 was \$27,693,000.

Due to the company's implementation of its enterprise-wide software system that was in progress at the time, it was necessary to estimate the backlog of orders at October 31, 1997. That estimate at October 31, 1997 was \$68,525,000, which was an estimate based on sales for the first quarter of fiscal 1998. The backlog of orders for October 31, 1998 was based on an actual run from the company's now-installed operating system at October 31, 1998 and should not be compared to the October 31, 1997 number.

The company expects that all existing backlog can be filled in fiscal 1999.

COMPETITION

The company's products are sold in highly competitive markets throughout the world. The principal competitive factors in the company's markets are pricing, product innovation, quality, and service. Pricing has become more of a factor, especially for the consumer and commercial products. Management believes the company offers total solution, full service packages with high quality products that have the latest technology and design innovations. Also, by selling Toro-Registered Trademark-, Toro-Registered Trademark-Wheel Horse-Registered Trademark-, Lawn-Boy-Registered Trademark-, Exmark-Registered Trademark-, and Irritrol-Registered Trademark- Systems branded products through a network of distributors, dealers, hardware, home center, and mass retailers, the company offers comprehensive service support during and after the relevant warranty period. The company competes in all product lines with numerous manufacturers, many of which have substantially greater financial resources than the company. Management believes that its commitment to product innovation, its distribution systems, and its focus on target markets, position it well to compete in these various markets.

CONSUMER

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

COMMERCIAL

The company's commercial products compete with products from numerous manufacturers, but the principal competitors across most of the company's commercial product lines are Deere & Company, Lesco Inc., National Mower, Jacobsen/Textron, and Ransomes Sims & Jefferies PLC (recently acquired by Textron, Inc.)

IRRIGATION

The company's principal competitors in irrigation products are Hunter Industries, Rain Bird Sprinkler Manufacturing Corporation, Netafim, and T-Systems International.

INTERNATIONAL

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

GOVERNMENTAL REGULATION

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

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS

With the exception of irrigation production facilities in Australia and Italy, all of the company's production facilities are located in the United States. Substantially all financial transactions are in U.S. dollars, although sales of the company's foreign subsidiaries, which are insignificant when compared to total company sales, may be conducted in local currencies.

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

Export sales were \$153,500,000 for the year ended October 31, 1998, \$161,836,000 for the year ended October 31, 1997, and \$140,919,000 for the year ended October 31, 1996. The identifiable assets attributable to foreign operations were not significant as of October 31, 1998.

See Notes to the Consolidated Financial Statements of the company contained in the company's Annual Report to Stockholders for the fiscal year ended October 31, 1998 for additional information relating to currency risk management on page 18 and for information on international and export sales by geographic area on page 32, which information is incorporated herein by reference.

WHOLESALE FINANCING

Toro Credit Company, a wholly owned finance subsidiary of the company, provides financing of products manufactured by Toro for North American distributors and approximately 250 domestic dealers. Toro Credit Company purchases selected receivables from Toro and its independent consumer product distributors for extended periods, which enables the independent distributors and dealers to carry representative inventories of equipment. Down payments are not required, and for each product line, finance charges during the pre-season period are incurred primarily by Toro. During the in-season period, finance charges are accrued to the accounts of the distributor or dealers, and during the carry-over period, finance charges may be shared. A security interest is retained in the distributors' and dealers' inventories, and periodic physical checks are made of those inventories. Generally, terms to the distributors and dealers require payments as the equipment which secures the indebtedness is sold to customers. Rates are generally based on prime rate plus a fixed percentage that differs based on whether the financing is for a distributor or dealer. Rates may also vary based upon the product that is financed.

Independent Toro dealers that do not finance through the Toro Credit Company finance their inventories with a third party financing source. The finance charges represent interest for a pre-established length of time at a predefined rate from a contract with this third party financing source.

Dealer and distributor defaults in recent years have not been significant.

YEAR 2000

The discussion of year 2000 issues in the Management Discussion and Analysis section in the Annual Report, on page 17, is incorporated herein by reference.

EMPLOYEES

During fiscal 1998, the company employed an average of 4,695 employees. The total number of employees at October 31, 1998 was 4,381. Four collective bargaining agreements, one expiring in October 1999, one expiring in May 2000, one expiring in August 2000, and one expiring in September 2001 cover approximately 22 percent of these employees.

As a result of the acquisitions of Exmark and Drip In, the company added approximately 320 non-union employees.

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

ITEM 2. PROPERTIES

The company utilizes manufacturing and office facilities, which total approximately 3,751,000 square feet of space. Toro also utilizes 20.34 acres as a testing facility. Plant utilization varies during the year depending upon the production cycle. In fiscal 1998, the company announced the closing of its production facilities at Sardis, Mississippi and Olathe, Kansas. The company considers each of its current facilities in use to be in good operating condition and adequate for its present use. Management believes that it has sufficient capacity to meet its current production needs. The following schedule outlines the company's significant facilities by location, ownership and function:

Location	Ownership	Products Manufactured / Use
Plymouth, WI	Owned	Parts distribution center, office
Windom, MN	Owned/Leased	Consumer components and products and warehouse
Lakeville, MN	Leased	Finished Goods distribution center, office
Bloomington, MN	Owned/Leased	Corporate headquarters and test facility
Tomah, WI	Owned/Leased	Consumer and Commercial products and warehouse
Baraboo, WI	Leased	Finished Goods distribution center, office
Riverside, CA	Owned/Leased	Irrigation and Consumer products and warehouse, office
Evansville, IN	Leased	Consumer and Commercial products
Beatrice, NE	Owned	Commercial products, office
Shakopee, MN	Owned	Components for consumer and commercial products
El Paso, TX	Owned/Leased	Irrigation and Consumer products and warehouse
Beverley, Australia	Owned	Office and distribution center
Murray Bridge, Australia	Owned	Irrigation products and warehouse
El Cajon, California	Owned	Irrigation products and warehouse
Oxford, MS	Owned	Components for consumer products
Oevel, Belgium	Owned	Finished goods distribution center, office
Madera, CA	Owned	Agricultural irrigation products and warehouse, office
Laguna, CA	Leased	Irrigation products warehouse
Braeside, Australia	Leased	Irrigation products warehouse
Lincoln, NE	Leased	Commercial products warehouse
DFW Airport, TX	Leased	Distribution facility
Mountaintop, PA	Leased	Parts distribution center

Toro also owns and leases other facilities that are currently idle and available for sale or subleasing.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The list below identifies those persons deemed to be executive officers of the company, discloses their age and position with the company as of January 7, 1999 and positions held by them during the last five years. Officers are elected or appointed annually. A complete list of all officers of the company is found on page 36 of the company's Annual Report to Stockholders for the year ended October 31, 1998.

Name, Age and Position with the Company	Business Experience During the Last Five Years
Kendrick B. Melrose 58, Chairman and Chief Executive Officer	Elected Chairman of the Board in December 1987 and Chief Executive Officer in December 1983.
J. David McIntosh 55, Executive Vice President, Professional Businesses and International	Elected Executive Vice President, Professional Businesses and International August 1998. From September 1996 to August 1998, he served as Group Vice President. From January 1992 to September 1996, he was appointed Vice President and General Manager, Consumer Division.
Stephen P. Wolfe 50, Vice President Finance, Treasurer and Chief Financial Officer	Elected Vice President Finance, Treasurer in June 1997 and Chief Financial Officer in May 1997. Appointed Vice President in August 1994. Elected President, Toro Credit Company in July 1990.
J. Lawrence McIntyre 56, Vice President, Secretary and General Counsel	Elected Vice President in July 1993. Elected Secretary and General Counsel in August 1993. Prior to July 1993, he was a shareholder with Doherty, Rumble & Butler Professional Association.
Karen M. Meyer 49, Vice President, Administration	Elected Vice President, Administration August 1998. From December 1991 to August 1998, she served as Vice President, Human Resources/Administrative Services.
Dennis P. Himan 54, Vice President and General Manager Landscape Contractor Businesses	Appointed Vice President and General Manager, Landscape Contractor Businesses August 1998. From June 1997 to August 1998, he served as Vice President, Distributor Development and Mergers/Acquisitions. From March 1996 to June 1997, he served as Vice President and Treasurer.
Michael J. Hoffman 43, Vice President and General Manager Commercial Business	Appointed Vice President and General Manager, Commercial Business November 1997. From November 1996 to November 1997, he served as General Manager of the Commercial Division. He served as Managing Director, Recycling Division from March 1994 to October 1996 and as Director of Marketing and Service, Commercial Division from September 1989 to March 1994.
William D. Hughes 48, Vice President and General Manager Consumer Business	Appointed Vice President and General Manager, Consumer Business August 1998. From September 1983 to August 1998, he was Chairman and Chief Operating Officer of Turf Equipment and Supply Company, Inc.
Randy B. James 55, Vice President and Controller	Appointed Vice President and Controller in December 1988.

Richard W. Parod
45, Vice President and General Manager
Irrigation Business

Appointed Vice President and General Manager, Irrigation Business March 1997.
From December 1993 to March 1997, he served as President of James Hardie
Irrigation, Inc. From September 1993 to December 1993, he served as Chief
Financial Officer of James Hardie Irrigation, Inc.

Richard R. Pollick
59, Vice President and General Manager
International Business

Appointed Vice President and General Manager, International Business in March
1990.

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

All information incorporated by reference in this Part II is from the Registrant's Annual Report to Stockholders for the fiscal year ended October 31, 1998 ("Annual Report").

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

Toro Common Stock (including related Preferred Share Purchase Rights) is listed for trading on the New York Stock Exchange. As of January 7, 1999 there were 6,393 holders of record of the company's common stock.

See "Quarterly Financial Data" on page 33 of the Annual Report for dividends paid and range of high and low sales prices for the company's common stock on the New York Stock Exchange on a quarterly basis for the period from November 1, 1996 to October 31, 1998, which information is incorporated herein by reference.

Although the company intends to declare cash dividends on a quarterly basis in the future, the determination as to the payment and the amount of any cash dividend will depend upon the company's then current financial condition, capital requirements, results of operations, and other factors deemed relevant by the company's board of directors.

ITEM 6. SELECTED FINANCIAL DATA

See "Selected Financial Data" on page 20 of the Annual Report for financial data for the years ended October 31, 1998, 1997, 1996, the 3 month period ended October 31, 1995, and the years ended July 31, 1995 and 1994, which information for these periods is incorporated herein by reference.

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

See the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report to Stockholders on pages 12 through 19, which section is incorporated herein by reference.

FORWARD-LOOKING INFORMATION

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: Part I of this Annual Report on Form 10-K and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the company's Annual Report to Stockholders for fiscal 1998 referred to above contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, forward-looking statements may be made orally or in press releases, conferences, reports or otherwise, in the future by or on behalf of the company.

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

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses operating in a global market, as well as matters specific to the company and the markets it serves. Particular risks and uncertainties facing the company at the present include political and economic uncertainty throughout the world; whether the announced profit improvement plan can be successfully implemented; increased competition in the company's businesses from competitors that have greater financial resources; the cost of closing certain plants and selling certain business units; the success of new marketing programs; continued deterioration in the company's markets in Asia and softening in other international markets; the strong dollar which increases the cost of the company's products in foreign markets resulting in cancellation of planned projects and limiting the company's ability to increase prices; competitive implications and price transparencies related to the euro conversion; changing buying patterns affecting the company's consumer business, including but not limited to a trend away from purchases at dealer outlets to price and value conscious purchases at hardware, home center, and mass retailers; changes in distributor ownership; the company's expansion into selected home center markets; the company's ability to integrate business acquisitions and to manage alliances successfully; the addition of outside providers for warehousing and transportation services; the company's ability to develop and manufacture new and existing products profitably; market acceptance of existing and new products; changes in distributors, dealers, home center, or mass retailers' purchasing practices; the company's ability to rationalize its product lines and plant configurations; the ability to eliminate cost overruns affecting selected consumer and irrigation products at the El Paso, Texas facility; the company's ability to maintain good relations with its union employees; and the ability to retain and hire quality employees.

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN CURRENCY

The company is exposed to foreign currency exchange risk arising from transactions that are entered into during the normal course of business. To mitigate the risk from foreign currency exchange rate fluctuations, the company will generally enter into forward currency exchange contracts for the purchase or sale of a currency. Decisions on whether to use forward currency exchange contracts to hedge transactions exposed to foreign exchange rate changes are made based on the amount of those exposures, by currency, and an assessment of the near-term market value for each currency. These instruments used as hedges are managed to reduce the risk associated with the exposure being hedged and are designated as a hedge at the inception of the contract. Accordingly, changes in market 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. Gains and losses on foreign currency contracts are recorded on the Consolidated Statements of Earnings.

The following forward exchange contracts held by the company have maturity dates in fiscal year 1999. All items are non-trading and stated in U.S. dollars. The average contracted rate, notional amount, and fair value impact at October 31, 1998 were as follows:

DOLLARS IN THOUSANDS (EXCEPT AVERAGE CONTRACTED RATE)	AVERAGE CONTRACTED RATE	NOTIONAL AMOUNT	FAIR VALUE IMPACT GAIN (LOSS)
Buy Australian dollar/Sell US dollar	.6368	\$ 1,022.8	\$ (18.2)
Buy US dollar/Sell Australian dollar	.6040	5,614.1	(206.9)
Buy US dollar/Sell Canadian dollar	1.5135	7,168.8	140.0
Buy German mark/Sell US dollar	1.7808	2,948.2	251.5

DEBT FINANCING

The company is exposed to interest rate risk arising from transactions that are entered into during the normal course of business. The company's short-term borrowing rates are dependent upon the LIBOR rate plus an additional percentage based on the company's current borrowing level.

At October 31, 1998, the estimated fair value of long-term debt with fixed interest rates was \$182,273,000 compared to its carrying value of \$197,424,000. The fair value is estimated by discounting the projected cash flows using the rate at which similar amounts of debt could currently be borrowed.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

See "Quarterly Financial Data" appearing on page 33 of the Annual Report to Stockholders which is incorporated herein by reference.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

Part IV

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

(a) 1. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Incorporated by reference into Part II, Item 8 of this report:	Pages in Fiscal 1998 Annual Report to Stockholders -----
Independent Auditors' Report . . . . .	.21
Consolidated Statements of Earnings for the years ended October 31, 1998, 1997, and 1996. . . . .	.22
Consolidated Balance Sheets as of October 31, 1998 and 1997 . . . . .	.23
Consolidated Statements of Cash Flows for the years ended October 31, 1998, 1997 and 1996. . . . .	.24
Notes to Consolidated Financial Statements. . . . .	.25-33

(a) 2. INDEX TO CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

Included in Part IV of this report.

Independent Auditors' Report . . . . .	.23
Schedule II - Valuation and Qualifying Accounts. . . . .	.24

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

(a) 3. EXHIBITS

3(i)(a) and 4(a)	Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form S-3, Registration No. 33-16125).
3(i)(b) and 4(b)	Certificate of Amendment to Certificate of Incorporation of Registrant dated December 9, 1986 (incorporated by reference to Exhibit 3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 30, 1987, Commission File No. 1-8649).
3(i)(c) and 4(c)	Certificate of Designation to Certificate of Incorporation of Registrant dated May 28, 1998 (incorporated by reference to Exhibit (1)(A) to Registrants' Current Report on Form 8-K dated May 27, 1998).
3(ii) and 4(d)	Bylaws of Registrant, as amended.
4(e)	Specimen form of Common Stock certificate (incorporated by reference to Exhibit 4(c) to Registrant's Registration Statement on Form S-8, Registration No. 2-94417).

- 4(f) Rights Agreement dated as of May 20, 1998, between Registrant and Norwest Bank Minnesota, National Association relating to rights to purchase Series B Junior Participating Voting Preferred Stock, as amended (incorporated by reference to Registrant's Current Report on Form 8-K dated May 27, 1998, Commission File No. 1-8649).
- 4(g) Indenture as dated as of January 31, 1997, between Registrant and First National Trust Association, as Trustee, relating to the Registrant's 7.125% Notes due June 15, 2007 and its 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K for June 24, 1997, Commission File No. 1-8649).
- 10(a) Form of Employment Agreement in effect for certain officers of Registrant (incorporated by reference Exhibit 10(iii)(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended May 1, 1998).*
- 10(b) Directors Stock Plan, as amended.*
- 10(c) Annual Management Incentive Plan II for officers of Registrant, as amended.*
- 10(d) 1985 Incentive Stock Option Plan (incorporated by reference to Exhibit 10(b) to Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1993).*
- 10(e) 1989 Stock Option Plan, as amended.*
- 10(f) 1993 Stock Option Plan, as amended.*
- 10(g) Continuous Performance Award Plan, as amended.*
- 10(h) The Toro Company Supplemental Management Retirement Plan (incorporated by reference to Exhibit 10(iii)(h) to Registrant's Annual Report on Form 10-K for the year ended October 31, 1996).*
- 10(i) Chief Executive Officer Succession Incentive Agreement dated as of July 31, 1995 (incorporated by reference to Exhibit 10(iii)(i) to Registrant's Annual Report on Form 10-K for the year ended October 31, 1997).*
- 10(j) The Toro Company Deferred Compensation Plan for Officers, (incorporated by reference Exhibit 10(iii)(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended May 1, 1998).*
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 13 Fiscal 1998 Annual Report to Stockholders for The Toro Company.
- 21 Subsidiaries of Registrant.
- 23 Independent Auditors' Consent.
- 27 Supplemental Data Schedule.

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

(b) REPORTS ON FORM 8-K

None.

The company's Annual Report on Form 10-K for the fiscal year ended October 31, 1998, at the time of its filing with the Securities and Exchange Commission, shall modify and supersede all prior documents filed pursuant to Sections 13, 14 and 15(d) of the 1934 Act for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement or Prospectus filed pursuant to the Securities Act of 1933 which incorporates by reference such Annual Report on Form 10-K.

SIGNATURES

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

THE TORO COMPANY

(Registrant)

Dated: January 29, 1999

/s/ Stephen P. Wolfe

Stephen P. Wolfe
Vice President - Finance
Treasurer and Chief Financial Officer

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

Signature	Title	Date
/s/ Kendrick B. Melrose Kendrick B. Melrose	Chairman, Chief Executive Officer, and Director (principal executive officer)	January 29, 1999
/s/ Stephen P. Wolfe Stephen P. Wolfe	Vice President - Finance, Treasurer and Chief Financial Officer (principal financial officer)	January 29, 1999
/s/ Randy B. James Randy B. James	Vice President, Controller (principal accounting officer)	January 29, 1999
/s/ Ronald O. Baukol Ronald O. Baukol	Director	January 29, 1999
/s/ Robert C. Buhrmaster Robert C. Buhrmaster	Director	January 29, 1999
/s/ Winslow H. Buxton Winslow H. Buxton	Director	January 29, 1999
/s/ Janet K. Cooper Janet K. Cooper	Director	January 29, 1999
/s/ Alex A. Meyer Alex A. Meyer	Director	January 29, 1999
/s/ Robert H. Nassau Robert H. Nassau	Director	January 29, 1999
/s/ Dale R. Olseth Dale R. Olseth	Director	January 29, 1999
/s/ Christopher A. Twomey Christopher A. Twomey	Director	January 29, 1999
/s/ Edwin H. Wingate Edwin H. Wingate	Director	January 29, 1999

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Toro Company:

Under the date of December 11, 1998, we reported on the consolidated balance sheets of The Toro Company and subsidiaries (the Company) as of October 31, 1998 and 1997, and the related consolidated statements of earnings and cash flows for each of the years in the three-year period ended October 31, 1998, as contained in the 1998 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the fiscal year 1998. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related consolidated financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

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

KPMG Peat Marwick LLP

Minneapolis, Minnesota
December 11, 1998

Schedule II

THE TORO COMPANY AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	OTHER (a)	DEDUCTIONS (b)	BALANCE AT END OF YEAR
YEAR ENDED OCTOBER 31, 1998					
Allowance for doubtful accounts	\$ 9,832,000	\$ 623,000	\$ 250,000	\$ 1,381,000	\$ 9,324,000
YEAR ENDED OCTOBER 31, 1997					
Allowance for doubtful accounts	\$ 10,005,000	\$ 812,000	\$ (425,000)	\$ 560,000	\$ 9,832,000
YEAR ENDED OCTOBER 31, 1996					
Allowance for doubtful accounts	\$ 7,542,000	\$ 3,358,000	\$ 330,000	\$ 1,225,000	\$ 10,005,000

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

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	OTHER (c)	DEDUCTIONS (d)	BALANCE AT END OF YEAR
YEAR ENDED OCTOBER 31, 1998					
Accrued warranties	\$ 40,792,000	\$ 39,877,000	\$ 951,000	\$ 35,276,000	\$ 46,344,000
YEAR ENDED OCTOBER 31, 1997					
Accrued warranties	\$ 34,722,000	\$ 35,045,000	\$ 5,940,000	\$ 34,915,000	\$ 40,792,000
YEAR ENDED OCTOBER 31, 1996					
Accrued warranties	\$ 35,065,000	\$ 28,567,000	\$ 0	\$ 28,910,000	\$ 34,722,000

- (c) Additions to accrued warranties due to acquisitions.
(d) Warranty claims processed.

BYLAWS
OF
THE TORO COMPANY
(A DELAWARE CORPORATION)

ARTICLE I
OFFICES, CORPORATE SEAL, AND RECORDS

SECTION 1.1 THE REGISTERED OFFICE OF THE CORPORATION SHALL BE ESTABLISHED AND MAINTAINED AT THE OFFICE OF THE PRENTICE-HALL CORPORATION SYSTEM, INC., IN THE CITY OF DOVER, IN THE COUNTY OF KENT, IN THE STATE OF DELAWARE, AND SAID CORPORATION SHALL BE THE REGISTERED AGENT OF THE CORPORATION IN CHARGE THEREOF, AND THE CORPORATION MAY HAVE OTHER OFFICES, EITHER WITHIN OR WITHOUT THE STATE OF DELAWARE, AT SUCH PLACE OR PLACES AS THE BOARD OF DIRECTORS MAY FROM TIME TO TIME DETERMINE. UNLESS OTHERWISE DETERMINED BY THE BOARD OF DIRECTORS, THE PRINCIPAL EXECUTIVE OFFICE OF THE CORPORATION SHALL BE AT 8111 LYNDAL AVENUE SOUTH, IN THE CITY OF BLOOMINGTON, COUNTY OF HENNEPIN, STATE OF MINNESOTA.

SECTION 1.2 THE CORPORATION MAY HAVE A CORPORATE SEAL IN SUCH FORM AS DETERMINED BY THE BOARD OF DIRECTORS, WHICH MAY BE ALTERED AT PLEASURE, AND THE SEAL MAY BE USED BY CAUSING IT OR A FACSIMILE THEREOF TO BE IMPRESSED OR AFFIXED OR IN ANY OTHER MANNER REPRODUCED.

SECTION 1.3 THE CORPORATION SHALL AT ALL TIMES KEEP AT ITS PRINCIPAL EXECUTIVE OFFICE, OR AT SUCH OTHER PLACE OR PLACES AS THE BOARD OF DIRECTORS MAY DETERMINE, A SHARE REGISTER GIVING THE NAMES AND ADDRESSES OF THE STOCKHOLDERS, THE NUMBER AND CLASSES OF SHARES HELD BY EACH, AND THE DATES ON WHICH THE CERTIFICATES THEREFOR WERE ISSUED.

SECTION 1.4 THE CORPORATION SHALL AT ALL TIMES KEEP AT ITS PRINCIPAL EXECUTIVE OFFICE THE FOLLOWING RECORDS:

- (a) THE ORIGINAL OR COPIES OF RECORDS OF ALL PROCEEDINGS OF STOCKHOLDERS AND DIRECTORS, OF ITS BYLAWS AND ALL AMENDMENTS THERETO, AND OF REPORTS MADE TO STOCKHOLDERS OR ANY OF THEM WITHIN THE NEXT PRECEDING THREE YEARS;
- (b) A STATEMENT OF NAMES AND USUAL BUSINESS ADDRESSES OF ITS DIRECTORS AND PRINCIPAL OFFICERS;
- (c) APPROPRIATE FINANCIAL STATEMENTS.

SECTION 1.5 SUBJECT TO LAW AND ANY ORDER OF THE COURT OF CHANCERY, ANY STOCKHOLDER OF RECORD SHALL HAVE THE RIGHT TO INSPECT AND MAKE COPIES OR EXTRACTS THEREFROM, UPON PROPER WRITTEN DEMAND UNDER OATH STATING THE PURPOSE THEREOF, IN PERSON OR BY ATTORNEY OR OTHER AGENT, AT ANY REASONABLE TIME OR TIMES, FOR ANY PROPER PURPOSE, AND AT THE PRINCIPAL EXECUTIVE OFFICES OF THE CORPORATION, THE STOCK LEDGER, A LIST OF STOCKHOLDERS, AND OTHER BOOKS AND RECORDS,

REQUIRED FINANCIAL STATEMENTS, AND THE RECORDS OF THE PROCEEDINGS OF THE STOCKHOLDERS AND DIRECTORS.

ARTICLE II
MEETING OF STOCKHOLDERS

SECTION 2.1 ALL MEETINGS OF THE STOCKHOLDERS SHALL BE HELD AT SUCH OTHER PLACE WITHIN OR WITHOUT THE STATE OF DELAWARE AS MAY BE DESIGNATED BY THE BOARD OF DIRECTORS IN THE NOTICE OF THE MEETING.

SECTION 2.2 THE REGULAR MEETINGS OF THE STOCKHOLDERS, IF ANY, SHALL BE HELD ON THE DAY OR DATE AND AT THE TIME AND PLACE AS THE BOARD OF DIRECTORS MAY FIX FROM TIME TO TIME IN ITS DISCRETION, FOR THE ELECTION OF DIRECTORS AND THE TRANSACTION OF SUCH OTHER BUSINESS AS MAY COME BEFORE THE MEETING; PROVIDED, HOWEVER, THAT ANY PREVIOUSLY SCHEDULED REGULAR MEETING OF THE STOCKHOLDERS MAY BE POSTPONED BY RESOLUTION OF THE BOARD OF DIRECTORS UPON PUBLIC NOTICE GIVEN PRIOR TO THE DATE PREVIOUSLY SCHEDULED FOR SUCH REGULAR MEETING OF THE STOCKHOLDERS; AND PROVIDED, FURTHER, THAT NO BUSINESS WITH RESPECT TO WHICH SPECIAL NOTICE IS REQUIRED BY LAW SHALL BE TRANSACTED AT A REGULAR MEETING UNLESS SUCH NOTICE SHALL HAVE BEEN GIVEN.

SECTION 2.3 SPECIAL MEETINGS OF THE STOCKHOLDERS FOR ANY PURPOSE OR PURPOSES MAY BE CALLED ONLY BY THE BOARD OF DIRECTORS, PURSUANT TO A RESOLUTION APPROVED BY A MAJORITY OF THE ENTIRE BOARD OF DIRECTORS; PROVIDED, HOWEVER, THAT ANY PREVIOUSLY SCHEDULED SPECIAL MEETING OF THE STOCKHOLDERS MAY BE POSTPONED BY RESOLUTION OF THE BOARD OF DIRECTORS UPON PUBLIC NOTICE GIVEN PRIOR TO THE DATE PREVIOUSLY SCHEDULED FOR SUCH SPECIAL MEETING OF THE STOCKHOLDERS. BUSINESS TRANSACTED AT A SPECIAL MEETING SHALL BE CONFINED TO THE PURPOSES STATED IN THE CALL AND NOTICE THEREOF.

SECTION 2.4 NOTICE OF EACH REGULAR AND SPECIAL MEETING OF STOCKHOLDERS STATING THE DATE, TIME AND PLACE THEREOF, AND THE GENERAL NATURE OF THE BUSINESS TO BE CONSIDERED THEREAT, SHALL BE GIVEN AT LEAST TEN (10) DAYS AND NOT MORE THAN SIXTY (60) DAYS BEFORE THE DATE OF THE MEETING TO EACH STOCKHOLDER ENTITLED TO VOTE THEREAT. SUCH NOTICE SHALL BE DEEMED DELIVERED WHEN DEPOSITED IN THE UNITED STATES MAIL WITH POSTAGE THEREON PREPAID, ADDRESSED TO THE STOCKHOLDER AT HIS ADDRESS AS IT APPEARS ON THE STOCK TRANSFER BOOKS OF THE CORPORATION.

SECTION 2.5 EACH STOCKHOLDER WHO IS ENTITLED TO VOTE PURSUANT TO THE TERMS OF THE CERTIFICATE OF INCORPORATION AND THESE BYLAWS, OR WHO IS ENTITLED TO VOTE PURSUANT TO THE LAWS OF THE STATE OF DELAWARE, SHALL BE ENTITLED TO VOTE IN PERSON OR BY PROXY, BUT NO PROXY SHALL BE VOTED AFTER THREE YEARS FROM ITS DATE UNLESS SUCH PROXY PROVIDES FOR A LONGER PERIOD. ALL ELECTIONS FOR DIRECTORS SHALL BE DETERMINED BY A PLURALITY OF THE VOTES OF THE SHARES PRESENT IN PERSON OR REPRESENTED BY PROXY AT THE MEETING AND ENTITLED TO VOTE ON THE ELECTION OF DIRECTORS. ALL OTHER QUESTIONS SHALL BE DECIDED BY THE AFFIRMATIVE VOTE OF A MAJORITY OF THE SHARES PRESENT IN PERSON OR REPRESENTED BY PROXY AT THE MEETING AND ENTITLED TO VOTE ON SUCH QUESTION.

A COMPLETE LIST OF THE STOCKHOLDERS ENTITLED TO VOTE AT ANY MEETING OF STOCKHOLDERS AT WHICH DIRECTORS ARE TO BE ELECTED, ARRANGED IN ALPHABETICAL ORDER, WITH THE ADDRESS OF EACH, AND THE NUMBER OF SHARES HELD BY EACH, SHALL BE OPEN TO THE EXAMINATION OF ANY STOCKHOLDER, FOR ANY PURPOSE GERMANE TO THE MEETING, DURING ORDINARY BUSINESS HOURS, FOR A PERIOD OF AT LEAST TEN DAYS PRIOR TO THE MEETING, EITHER AT A PLACE WITHIN THE CITY WHERE THE MEETING IS TO BE HELD, WHICH PLACE SHALL BE SPECIFIED IN THE NOTICE OF THE MEETING, OR IF NOT SO SPECIFIED, AT THE PLACE WHERE THE MEETING IS TO BE HELD. THE LIST SHALL ALSO BE PRODUCED AND KEPT AT THE TIME AND PLACE OF THE MEETING DURING THE WHOLE TIME THEREOF, AND MAY BE INSPECTED BY ANY STOCKHOLDER WHO IS PRESENT.

THE BOARD OF DIRECTORS BY RESOLUTION SHALL APPOINT ONE OR MORE INSPECTORS, WHICH INSPECTOR OR INSPECTORS MAY INCLUDE INDIVIDUALS WHO SERVE THE CORPORATION IN OTHER CAPACITIES, INCLUDING WITHOUT LIMITATION AS OFFICERS, EMPLOYEES, AGENTS OF REPRESENTATIVES OF THE CORPORATION, TO ACT AT THE MEETING AND MAKE A WRITTEN REPORT THEREOF. ONE OR MORE PERSONS MAY BE DESIGNATED AS ALTERNATE INSPECTORS TO REPLACE ANY INSPECTOR WHO FAILS TO ACT. IF NO INSPECTOR OR ALTERNATE INSPECTOR HAS BEEN APPOINTED TO ACT OR IS ABLE TO ACT AT A MEETING OF STOCKHOLDERS, THE CHAIRMAN OF THE MEETING SHALL APPOINT ONE OR MORE INSPECTORS TO ACT AT THE MEETING. EACH INSPECTOR, BEFORE DISCHARGING HIS OR HER DUTIES, SHALL TAKE AND SIGN AN OATH FAITHFULLY TO EXECUTE THE DUTIES OF INSPECTOR WITH STRICT IMPARTIALITY AND ACCORDING TO THE BEST OF HIS OR HER ABILITY. THE INSPECTORS SHALL HAVE THE DUTIES PRESCRIBED BY LAW.

THE CHAIRMAN OF THE MEETING SHALL FIX AND ANNOUNCE AT THE MEETING THE DATE AND TIME OF THE OPENING AND THE CLOSING OF THE POLLS FOR EACH MATTER UPON WHICH THE STOCKHOLDERS WILL VOTE AT THE MEETING.

SECTION 2.6 EXCEPT AS OTHERWISE REQUIRED BY LAW, BY THE CERTIFICATE OF INCORPORATION OR BY THESE BYLAWS, THE PRESENCE, IN PERSON OR BY PROXY, OF STOCKHOLDERS HOLDING A MAJORITY OF THE VOTING POWER OF THE OUTSTANDING STOCK OF THE CORPORATION SHALL CONSTITUTE A QUORUM AT ALL MEETINGS OF THE STOCKHOLDERS. THE CHAIRMAN OF ANY REGULAR OR SPECIAL MEETING OF THE STOCKHOLDERS OR A MAJORITY IN INTEREST OF THE STOCKHOLDERS ENTITLED TO VOTE THEREAT SHALL HAVE THE POWER TO ADJOURN SUCH MEETING FROM TIME TO TIME, WITHOUT NOTICE OTHER THAN ANNOUNCEMENT AT THE MEETING, WHETHER OR NOT THERE IS SUCH A QUORUM. NO NOTICE OF THE TIME AND PLACE OF ADJOURNED MEETINGS NEED BE GIVEN EXCEPT AS REQUIRED BY LAW; PROVIDED, HOWEVER, THAT IF SUCH ADJOURNMENT IS FOR MORE THAN THIRTY (30) DAYS, OR IF AFTER SUCH ADJOURNMENT A NEW RECORD DATE IS FIXED FOR THE ADJOURNED MEETING, A NOTICE OF THE ADJOURNED MEETING SHALL BE GIVEN TO EACH STOCKHOLDER OF RECORD ENTITLED TO VOTE AT SUCH ADJOURNED MEETING. AT ANY SUCH ADJOURNED MEETING AT WHICH THE REQUISITE AMOUNT OF STOCK ENTITLED TO VOTE SHALL BE REPRESENTED, ANY BUSINESS MAY BE TRANSACTED WHICH MIGHT HAVE BEEN TRANSACTED AT THE MEETING AS ORIGINALLY NOTICED; BUT ONLY THOSE STOCKHOLDERS ENTITLED TO VOTE AT THE MEETING AS ORIGINALLY NOTICED SHALL BE ENTITLED TO VOTE AT ANY ADJOURNMENT OR ADJOURNMENTS THEREOF UNLESS THE BOARD OF DIRECTORS SHALL HAVE FIXED A NEW RECORD DATE FOR SUCH ADJOURNMENT OR ADJOURNMENTS PURSUANT TO SECTION 2.7 OF THESE BYLAWS.

THE STOCKHOLDERS PRESENT AT A DULY ORGANIZED MEETING MAY CONTINUE TO TRANACT BUSINESS UNTIL ADJOURNMENT, NOTWITHSTANDING THE WITHDRAWAL OF ENOUGH STOCKHOLDERS TO LEAVE LESS THAN A QUORUM.

SECTION 2.7 IN ORDER THAT THE CORPORATION MAY DETERMINE THE STOCKHOLDERS ENTITLED TO NOTICE OF OR TO VOTE AT ANY MEETING OF STOCKHOLDERS OR ANY ADJOURNMENT THEREOF, OR ENTITLED TO RECEIVE PAYMENT OF ANY DIVIDEND OR OTHER DISTRIBUTION OR ALLOTMENT OF ANY RIGHTS, OR ENTITLED TO EXERCISE ANY RIGHTS IN RESPECT TO ANY CHANGE, CONVERSION OR EXCHANGE OF STOCK OR FOR THE PURPOSE OF ANY OTHER LAWFUL ACTION, THE BOARD OF DIRECTORS MAY FIX, IN ADVANCE, A RECORD DATE, WHICH SHALL NOT BE LESS THAN TEN NOR MORE THAN SIXTY DAYS BEFORE THE DATE OF SUCH MEETING, NOR MORE THAN SIXTY DAYS PRIOR TO ANY OTHER ACTION. A DETERMINATION OF STOCKHOLDERS OF RECORD ENTITLED TO NOTICE OF OR TO VOTE AT A MEETING OF STOCKHOLDERS SHALL APPLY TO ANY ADJOURNMENT OR ADJOURNMENTS OF THE MEETING; PROVIDED, HOWEVER, THAT THE BOARD OF DIRECTORS MAY FIX A NEW RECORD DATE FOR THE ADJOURNED MEETING.

SECTION 2.8 SECTION 2.8 (A) (1) NOMINATIONS OF PERSONS FOR ELECTION TO THE BOARD OF DIRECTORS OF THE CORPORATION AND THE PROPOSAL OF BUSINESS TO BE CONSIDERED BY THE STOCKHOLDERS MAY BE MADE AT A REGULAR MEETING OF STOCKHOLDERS (a) PURSUANT TO THE CORPORATION'S NOTICE OF MEETING, (b) BY OR AT THE DIRECTION OF THE BOARD OF DIRECTORS OR (c) BY ANY STOCKHOLDER OF THE CORPORATION WHO WAS A STOCKHOLDER OF RECORD AT THE TIME OF GIVING OF NOTICE PROVIDED FOR IN THIS BYLAW, WHO IS ENTITLED TO VOTE AT THE MEETING AND WHO COMPLIED WITH THE NOTICE PROCEDURES SET FORTH IN THIS BYLAW.

(2) FOR NOMINATIONS OR OTHER BUSINESS TO BE PROPERLY BROUGHT BEFORE A REGULAR MEETING BY A STOCKHOLDER PURSUANT TO CLAUSE (c) OF PARAGRAPH (A) (1) OF THIS BYLAW, THE STOCKHOLDER MUST HAVE GIVEN TIMELY NOTICE THEREOF IN WRITING TO THE SECRETARY OF THE CORPORATION. TO BE TIMELY, A STOCKHOLDER'S NOTICE SHALL BE DELIVERED TO THE SECRETARY AT THE PRINCIPAL EXECUTIVE OFFICES OF THE CORPORATION NOT LESS THAN FORTY-FIVE (45) DAYS NOR MORE THAN NINETY (90) DAYS PRIOR TO THE FIRST ANNIVERSARY OF THE DATE ON WHICH THE CORPORATION FIRST MAILED ITS PROXY MATERIALS FOR THE PRECEDING YEAR'S REGULAR MEETING; PROVIDED, HOWEVER, THAT IN THE EVENT THAT THE DATE OF THE REGULAR MEETING IS ADVANCED BY MORE THAN THIRTY (30) DAYS OR DELAYED BY MORE THAN SIXTY (60) DAYS FROM THE ANNIVERSARY DATE OF THE PRECEDING YEAR'S REGULAR MEETING, NOTICE BY THE STOCKHOLDER TO BE TIMELY MUST BE SO DELIVERED NOT EARLIER THAN THE 90TH DAY PRIOR TO SUCH RESCHEDULED REGULAR MEETING AND NOT LATER THAN THE CLOSE OF BUSINESS ON THE LATER OF THE 60TH DAY PRIOR TO SUCH RESCHEDULED REGULAR MEETING OR THE 10TH DAY FOLLOWING THE DAY ON WHICH PUBLIC ANNOUNCEMENT OF THE DATE OF SUCH MEETING IS FIRST MADE. SUCH STOCKHOLDER'S NOTICE SHALL SET FORTH (a) AS TO EACH PERSON WHOM THE STOCKHOLDER PROPOSES TO NOMINATE FOR ELECTION OR REELECTION AS A DIRECTOR ALL INFORMATION RELATING TO SUCH PERSON THAT IS REQUIRED TO BE DISCLOSED IN SOLICITATIONS OF PROXIES FOR ELECTION OF DIRECTORS, OR IS OTHERWISE REQUIRED, IN EACH CASE PURSUANT TO REGULATION 14A UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "EXCHANGE ACT") (INCLUDING SUCH PERSON'S WRITTEN CONSENT TO BEING NAMED IN THE PROXY STATEMENT AS A NOMINEE AND TO SERVING AS A DIRECTOR IF ELECTED); (b) AS TO ANY OTHER BUSINESS THAT THE STOCKHOLDER PROPOSES TO BRING BEFORE THE MEETING, A BRIEF DESCRIPTION OF THE BUSINESS DESIRED TO BE BROUGHT BEFORE THE MEETING, THE REASONS FOR CONDUCTING SUCH BUSINESS AT THE MEETING AND ANY MATERIAL INTEREST IN SUCH BUSINESS OF SUCH STOCKHOLDER AND THE BENEFICIAL

OWNER, IF ANY, ON WHOSE BEHALF THE PROPOSAL IS MADE; AND (c) AS TO THE STOCKHOLDER GIVING THE NOTICE AND THE BENEFICIAL OWNER, IF ANY, ON WHOSE BEHALF THE NOMINATION OR PROPOSAL IS MADE (i) THE NAME AND ADDRESS OF SUCH STOCKHOLDER, AS THEY APPEAR ON THE CORPORATION'S BOOKS, AND OF SUCH BENEFICIAL OWNER AND (ii) THE CLASS AND NUMBER OF SHARES OF THE CORPORATION THAT ARE OWNED BENEFICIALLY AND OF RECORD BY SUCH STOCKHOLDER AND SUCH BENEFICIAL OWNER.

(3) NOTWITHSTANDING ANYTHING IN PARAGRAPH (A) (2) OF THIS BYLAW, IN THE EVENT THAT THE NUMBER OF DIRECTORS TO BE ELECTED TO THE BOARD OF DIRECTORS OF THE CORPORATION IS INCREASED AND THERE IS NO PUBLIC ANNOUNCEMENT NAMING ALL OF THE NOMINEES FOR DIRECTOR OR SPECIFYING THE SIZE OF THE INCREASED BOARD OF DIRECTORS MADE BY THE CORPORATION AT LEAST SEVENTY (70) DAYS PRIOR TO THE FIRST ANNIVERSARY OF THE PRECEDING YEAR'S REGULAR MEETING, A STOCKHOLDER'S NOTICE REQUIRED BY THIS BYLAW SHALL ALSO BE CONSIDERED TIMELY, BUT ONLY WITH RESPECT TO NOMINEES FOR ANY NEW POSITIONS CREATED BY SUCH INCREASE, IF IT SHALL BE DELIVERED TO THE SECRETARY AT THE PRINCIPAL EXECUTIVE OFFICES OF THE CORPORATION NOT LATER THAN THE CLOSE OF BUSINESS ON THE 10TH DAY FOLLOWING THE DAY ON WHICH SUCH PUBLIC ANNOUNCEMENT IS FIRST MADE BY THE CORPORATION.

(B) NOMINATIONS OF PERSONS FOR ELECTION TO THE BOARD OF DIRECTORS MAY BE MADE AT A SPECIAL MEETING OF STOCKHOLDERS AT WHICH DIRECTORS ARE TO BE ELECTED PURSUANT TO THE CORPORATION'S NOTICE OF MEETING (a) BY OR AT THE DIRECTION OF THE BOARD OF DIRECTORS OR (b) PROVIDED THAT THE BOARD OF DIRECTORS HAS DETERMINED THAT DIRECTORS SHALL BE ELECTED AT SUCH MEETING, BY ANY STOCKHOLDER OF THE CORPORATION WHO IS A STOCKHOLDER OF RECORD AT THE TIME OF GIVING OF NOTICE PROVIDED FOR IN THIS BYLAW, WHO SHALL BE ENTITLED TO VOTE AT THE MEETING AND WHO COMPLIES WITH THE NOTICE PROCEDURES SET FORTH IN THIS BYLAW. IN THE EVENT THE CORPORATION CALLS A SPECIAL MEETING OF STOCKHOLDERS FOR THE PURPOSE OF ELECTING ONE OR MORE DIRECTORS TO THE BOARD OF DIRECTORS, ANY SUCH STOCKHOLDER MAY NOMINATE A PERSON OR PERSONS (AS THE CASE MAY BE) FOR ELECTION TO SUCH POSITION(S) AS SPECIFIED IN THE CORPORATION'S NOTICE OF MEETING, IF THE STOCKHOLDER'S NOTICE REQUIRED BY PARAGRAPH (A) (2) AT THE PRINCIPAL EXECUTIVE OFFICES OF THE CORPORATION NOT EARLIER THAN THE 90TH DAY PRIOR TO SUCH SPECIAL MEETING AND NOT LATER THAN THE CLOSE OF BUSINESS ON THE LATER OF THE 60TH DAY PRIOR TO SUCH SPECIAL MEETING OR THE 10TH DAY FOLLOWING THE DAY ON WHICH PUBLIC ANNOUNCEMENT IS FIRST MADE OF THE DATE OF THE SPECIAL MEETING AND OF THE NOMINEES PROPOSED BY; THE BOARD OF DIRECTORS TO BE ELECTED AT SUCH MEETING.

(C) (1) ONLY SUCH PERSONS WHO ARE NOMINATED IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THIS BYLAW SHALL BE ELIGIBLE TO SERVE AS DIRECTORS AND ONLY SUCH BUSINESS SHALL BE CONDUCTED AT A REGULAR MEETING OF STOCKHOLDERS AS SHALL HAVE BEEN BROUGHT BEFORE THE MEETING IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THIS BYLAW AND, IF ANY PROPOSED NOMINATION OR BUSINESS IS NOT IN COMPLIANCE WITH THIS BYLAW, TO DECLARE THAT SUCH DEFECTIVE PROPOSAL SHALL BE DISREGARDED. THE CHAIRMAN OF THE MEETING SHALL HAVE THE POWER AND DUTY TO DETERMINE WHETHER A NOMINATION OR ANY BUSINESS PROPOSED TO BE BROUGHT BEFORE THE MEETING WAS MADE IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THIS BYLAW AND, IF ANY PROPOSED NOMINATION OR BUSINESS IS NOT IN COMPLIANCE WITH THIS BYLAW, TO DECLARE THAT SUCH DEFECTIVE PROPOSAL SHALL BE DISREGARDED.

(2) NOTWITHSTANDING THE FOREGOING PROVISIONS OF THIS BYLAW, A STOCKHOLDER SHALL ALSO COMPLY WITH ALL APPLICABLE REQUIREMENTS OF THE EXCHANGE ACT AND THE RULES AND REGULATIONS THEREUNDER WITH RESPECT TO THE MATTERS SET FORTH IN THIS BYLAW. NOTHING IN THIS BYLAW SHALL BE DEEMED TO AFFECT ANY RIGHTS OF STOCKHOLDERS TO REQUEST INCLUSION OF PROPOSALS IN THE CORPORATION'S PROXY STATEMENT PURSUANT TO RULE 14a-8 UNDER THE EXCHANGE ACT.

(3) FOR PURPOSES OF THIS BYLAW, "PUBLIC ANNOUNCEMENT" SHALL MEAN DISCLOSURE IN A PRESS RELEASE REPORTED BY THE DOW JONES NEWS SERVICE, ASSOCIATED PRESS OR COMPARABLE NATIONAL NEWS SERVICE OR IN A DOCUMENT PUBLICLY FILED BY THE CORPORATION WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO SECTIONS 13, 14 OR 15(d) OF THE EXCHANGE ACT.

ARTICLE III DIRECTORS

SECTION 3.1 THE BUSINESS AND AFFAIRS OF THE CORPORATION SHALL BE MANAGED UNDER THE DIRECTION OF A BOARD OF DIRECTORS WHICH, SUBJECT TO ANY RIGHT OF THE HOLDERS OF ANY SERIES OF PREFERRED STOCK THEN OUTSTANDING TO ELECT ADDITIONAL DIRECTORS UNDER SPECIFIED CIRCUMSTANCES, SHALL CONSIST OF NOT LESS THAN EIGHT (8) NOR MORE THAN ELEVEN (11) PERSONS. THE EXACT NUMBER OF DIRECTORS WITHIN THE MINIMUM AND MAXIMUM LIMITATIONS SPECIFIED IN THE PRECEDING SENTENCE SHALL BE FIXED FROM TIME TO TIME BY THE BOARD PURSUANT TO A RESOLUTION ADOPTED BY A MAJORITY OF ITS MEMBERS. THE DIRECTORS SHALL BE DIVIDED INTO THREE CLASSES, AS NEARLY EQUAL IN NUMBER AS POSSIBLE, WITH THE TERM OF OFFICE OF CLASS A TO EXPIRE AT THE 1984 ANNUAL MEETING OF STOCKHOLDERS, THE TERM OF OFFICE OF CLASS B TO EXPIRE AT THE 1985 ANNUAL MEETING OF STOCKHOLDERS AND THE TERM OF OFFICE OF CLASS C TO EXPIRE AT THE 1986 ANNUAL MEETING OF STOCKHOLDERS. AT EACH ANNUAL MEETING OF STOCKHOLDERS FOLLOWING SUCH INITIAL CLASSIFICATION AND ELECTION, DIRECTORS ELECTED TO SUCCEED THOSE DIRECTORS WHOSE TERMS EXPIRE SHALL BE ELECTED FOR A TERM OF OFFICE TO EXPIRE AT THE THIRD SUCCEEDING ANNUAL MEETING OF STOCKHOLDERS AFTER THEIR ELECTION.

SECTION 3.2 SUBJECT TO THE RIGHTS OF THE HOLDERS OF ANY SERIES OF PREFERRED STOCK THEN OUTSTANDING, NEWLY CREATED DIRECTORSHIPS RESULTING FROM ANY INCREASE IN THE AUTHORIZED NUMBER OF DIRECTORS OR ANY VACANCIES IN THE BOARD RESULTING FROM DEATH, RESIGNATION, RETIREMENT, DISQUALIFICATION, REMOVAL FROM OFFICE OR OTHER CAUSE SHALL BE FILLED ONLY BY MAJORITY VOTE OF THE DIRECTORS THEN IN OFFICE, AND DIRECTORS SO CHOSEN SHALL HOLD OFFICE FOR A TERM EXPIRING AT THE ANNUAL MEETING OF STOCKHOLDERS AT WHICH THE TERM OF THE CLASS TO WHICH THEY HAVE BEEN ELECTED EXPIRES. NO DECREASE IN THE NUMBER OF DIRECTORS CONSTITUTING THE BOARD SHALL SHORTEN THE TERM OF ANY INCUMBENT DIRECTOR. SUBJECT TO THE RIGHTS OF THE HOLDERS OF ANY SERIES OF PREFERRED STOCK THEN OUTSTANDING, ANY DIRECTOR, OR THE ENTIRE BOARD, MAY BE REMOVED FROM OFFICE AT ANY TIME, BUT ONLY FOR CAUSE AND ONLY BY THE AFFIRMATIVE VOTE OF THE HOLDERS OF AT LEAST 80% OF THE VOTING POWER OF THE THEN OUTSTANDING COMMON STOCK OF THE COMPANY.

SECTION 3.3 REGULAR MEETINGS OF THE BOARD SHALL BE HELD AT BI-MONTHLY INTERVALS DURING EACH FISCAL YEAR, OR ON SUCH ALTERNATE INTERVALS OR DATES AS THE BOARD MAY FIX FROM TIME TO TIME IN ITS DISCRETION, AND AT SUCH TIME AND PLACE AS THE CHAIRMAN OF THE BOARD OF DIRECTORS OR, IN HIS

ABSENCE, THE PRESIDENT SHALL DETERMINE, PREFERABLY AT THE PRINCIPAL EXECUTIVE OFFICE OF THE CORPORATION DURING THE THIRD WEEK OF THE MONTH. AT LEAST THREE (3) DAYS' NOTICE THEREOF SHALL BE GIVEN BY THE SECRETARY TO EACH DIRECTOR, EITHER PERSONALLY OR BY TELEPHONE, MAIL, TELEGRAM OR FACSIMILE TRANSMISSION.

SECTION 3.4 SPECIAL MEETINGS OF THE BOARD MAY BE CALLED BY THE CHIEF EXECUTIVE OFFICER OR BY ANY TWO DIRECTORS, AND NOT LESS THAN TWENTY-FOUR (24) HOURS' NOTICE THEREOF SHALL BE GIVEN BY THE SECRETARY TO ANY DIRECTOR, EITHER PERSONALLY OR BY TELEPHONE, MAIL, TELEGRAM OR FACSIMILE TRANSMISSION.

SECTION 3.5 ANY ACTION TAKEN BY THE BOARD OR ANY COMMITTEE THEREOF AT ANY MEETING WHERE ALL MEMBERS ARE PRESENT SHALL BE VALID WHETHER OR NOT NOTICE OF SUCH MEETING WAS IN FACT GIVEN, EXCEPT AS PROVIDED BY LAW. ANY ACTION WHICH MIGHT BE TAKEN AT A MEETING OF THE BOARD, OR AT A MEETING OF ANY COMMITTEE THEREOF AS THE CASE MAY BE, MAY BE TAKEN WITHOUT MEETING AS PROVIDED BY LAW.

SECTION 3.6 AT ALL MEETINGS OF THE BOARD A MAJORITY OF THE DIRECTORS SHALL BE NECESSARY AND SUFFICIENT TO CONSTITUTE A QUORUM FOR THE TRANSACTION OF BUSINESS, BUT IF LESS THAN A QUORUM ARE PRESENT, THOSE PRESENT MAY ADJOURN THE MEETING FROM TIME TO TIME UNTIL A QUORUM SHALL BE PRESENT.

SECTION 3.7 THE BOARD MAY UNANIMOUSLY ELECT FROM AMONG THE DIRECTORS AN EXECUTIVE COMMITTEE, A COMPENSATION COMMITTEE, AN AUDIT COMMITTEE, AND A NOMINATING COMMITTEE, AND SUCH OTHER COMMITTEES AS THE BOARD MAY FROM TIME TO TIME DETERMINE, TO SERVE AT THE PLEASURE OF THE BOARD. THE MEMBERS OF THE BOARD OF DIRECTORS AND OF SAID COMMITTEES SHALL HAVE THE ROLE OF MONITORING THE CONDUCT OF THE BUSINESS AND AFFAIRS OF THE CORPORATION ON BEHALF OF ALL OF THE CONSTITUENCIES OF THE CORPORATION, INCLUDING IN PARTICULAR, THOSE WHO INVEST IN THE STOCK OF THE CORPORATION, IN AN ENVIRONMENT OF LOYAL BUT INDEPENDENT OVERSIGHT. EACH COMMITTEE SHALL MAINTAIN INDEPENDENT MINUTES OF ACTION, AND WITH THE EXCEPTION OF THE AUDIT COMMITTEE, AND RESOLUTIONS OF THE COMPENSATION COMMITTEE RELATING TO MATTERS GOVERNED BY OR WITHIN THE SCOPE OF SECTION 16 OF THE SECURITIES AND EXCHANGE ACT OF 1934 OR SECTION 162(m) OF THE INTERNAL REVENUE CODE OF 1986, OR ITS SUCCESSOR PROVISION, SUCH MINUTES SHALL BE SUBJECT TO APPROVAL BY THE BOARD.

SECTION 3.8 THE EXECUTIVE COMMITTEE SHALL CONSIST OF TWO OR MORE OF THE DIRECTORS OF THE CORPORATION, INCLUDING THE CHAIRMAN OF THE BOARD OF DIRECTORS, AND ONE OF THE MEMBERS SHALL BE DESIGNATED BY THE BOARD OF DIRECTORS AS ITS CHAIRMAN. THE CHAIRMAN OF THE EXECUTIVE COMMITTEE SHALL PRESIDE AT ALL MEETINGS OF THE EXECUTIVE COMMITTEE AND SHALL PERFORM SUCH OTHER DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS. THE UNDERLYING PURPOSE OF THE EXECUTIVE COMMITTEE IS TO EXERCISE ALL OF THE POWERS AND AUTHORITY OF THE BOARD DURING INTERVALS BETWEEN MEETINGS OF THE BOARD, INCLUDING THE POWER TO DECLARE DIVIDENDS ON THE CORPORATION'S COMMON STOCK. THE COMMITTEE SHALL HAVE DISCRETIONARY AUTHORITY TO UNDERTAKE ADDITIONAL ACTIVITIES WITHIN THE SCOPE OF ITS PRIMARY FUNCTIONS.

SECTION 3.9 THE AUDIT COMMITTEE SHALL CONSIST OF TWO OR MORE OF THE DIRECTORS OF THE CORPORATION, NONE OF WHOM SHALL BE OFFICERS OR EMPLOYEES OF THE CORPORATION, AND ONE OF THE MEMBERS SHALL BE DESIGNATED BY THE BOARD OF DIRECTORS AS ITS CHAIRMAN. THE CHAIRMAN OF THE AUDIT COMMITTEE SHALL PRESIDE AT ALL MEETINGS OF THE AUDIT COMMITTEE AND SHALL PERFORM SUCH OTHER DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS. THE PURPOSE OF THE AUDIT COMMITTEE IS TO ASSIST THE BOARD OF DIRECTORS IN FULFILLING THE BOARD'S RESPONSIBILITY TO OVERSEE THE CORPORATION'S ACCOUNTING CONTROLS AND POLICIES, AND REPORTING PRACTICES, INCLUDING MAKING RECOMMENDATIONS REGARDING THE SELECTION, RETENTION AND TERMINATION OF THE CORPORATION'S INDEPENDENT AUDITORS, REVIEW OF PROFESSIONAL SERVICES, PROPOSED FEES AND INDEPENDENCE OF SUCH AUDITORS, SCOPE OF THE AUDIT, AUTHORIZATION OF SPECIAL REVIEWS OR AUDITS, REVIEW OF INTERNAL AUDITING PROCEDURES AND THE ADEQUACY OF INTERNAL CONTROLS, AND REVIEW OF POLICIES AND PRACTICES RESPECTING CONFLICT OF INTEREST AND COMPLIANCE WITH APPLICABLE LAWS. THE MANAGER OF THE CORPORATION'S INTERNAL AUDITING FUNCTION, WHEN OPERATIVE, SHALL HAVE AN INDIRECT REPORTING RELATIONSHIP TO THE CHAIRMAN OF THE AUDIT COMMITTEE, AND SHALL PERFORM SUCH DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS OR BY THE CHAIRMAN OF THE AUDIT COMMITTEE. THE COMMITTEE SHALL HAVE DISCRETIONARY AUTHORITY TO UNDERTAKE ADDITIONAL ACTIVITIES WITHIN THE SCOPE OF ITS PRIMARY FUNCTIONS.

SECTION 3.10 THE COMPENSATION COMMITTEE SHALL CONSIST OF TWO OR MORE DIRECTORS OF THE CORPORATION, NONE OF WHOM SHALL BE OFFICERS OR EMPLOYEES OF THE CORPORATION, AND ONE OF THE MEMBERS SHALL BE DESIGNATED BY THE BOARD OF DIRECTORS AS ITS CHAIRMAN. THE CHAIRMAN OF THE COMPENSATION COMMITTEE SHALL PRESIDE AT ALL MEETINGS OF THE COMPENSATION COMMITTEE AND SHALL PERFORM SUCH OTHER DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS. THE PURPOSES OF THE COMPENSATION COMMITTEE INCLUDE: TO ADMINISTER ALL EMPLOYEE BENEFIT PLANS HERETOFORE OR HEREAFTER ESTABLISHED INCLUDING THE GRANTING OF STOCK OPTIONS AND INCENTIVE AWARDS AUTHORIZED UNDER EMPLOYEE BENEFIT PLANS GOVERNED BY OR WITHIN THE SCOPE OF SECTION 16 OF THE SECURITIES AND EXCHANGE ACT OF 1934 OR SECTION 162(m) OF THE INTERNAL REVENUE CODE OF 1986, OR ITS SUCCESSOR PROVISION; TO STUDY AND ANALYZE SPECIFIC AND GENERAL MATTERS OF MANAGEMENT COMPENSATION; TO PERIODICALLY REVIEW MANAGEMENT COMPENSATION POLICIES AND PRACTICES; TO MAKE RECOMMENDATIONS TO THE BOARD RESPECTING INCENTIVE COMPENSATION AWARDS; AND TO CONSIDER AND APPROVE OFFICER SALARY ADJUSTMENTS OF ELECTED OFFICERS OF THE CORPORATION AT THE LEVEL OF VICE PRESIDENT AND ABOVE.

SECTION 3.11 THE NOMINATING COMMITTEE SHALL CONSIST OF TWO OR MORE DIRECTORS OF THE CORPORATION WHO DO NOT HAVE ANY DIRECT OR INDIRECT ECONOMIC OR PERSONAL ASSOCIATION WITH THE CORPORATION, OR WITH ANY OF ITS AFFILIATES OR THE EMPLOYEES THEREOF. THE CHIEF EXECUTIVE OFFICER OF THE CORPORATION SHALL SERVE AS AN EX OFFICIO NON-VOTING MEMBER. ONE OF THE MEMBERS OF THE COMMITTEE SHALL BE DESIGNATED AS ITS CHAIRMAN BY THE BOARD OF DIRECTORS. THE CHAIRMAN OF THE NOMINATING COMMITTEE SHALL PRESIDE AT ALL MEETINGS OF THE NOMINATING COMMITTEE AND SHALL PERFORM SUCH OTHER DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS. THE PRIMARY FUNCTIONS OF THE NOMINATING COMMITTEE ARE TO REVIEW WITH THE CHIEF EXECUTIVE OFFICER OF THE CORPORATION AN APPROPRIATE SIZE AND MAKEUP FOR THE BOARD OF DIRECTORS, INCLUDING INDIVIDUALS HAVING SUCH BACKGROUND AND BUSINESS EXPERIENCE AS ARE CONSISTENT WITH AND COMPATIBLE TO THE LONG-RANGE INTERESTS AND FUTURE DIRECTION OF THE CORPORATION; TO CONSIDER THE QUALIFICATIONS OF PERSONS IDENTIFIED AS PROSPECTIVE DIRECTORS TO

EITHER FILL VACANCIES ON THE BOARD OR ENLARGE ITS MEMBERSHIP; TO CONDUCT RESEARCH TO IDENTIFY AND RECOMMEND NOMINATION OF SUITABLE CANDIDATES WHO ARE WILLING TO SERVE AS MEMBERS OF THE BOARD OF DIRECTORS AND WHO WILL MAKE A SUBSTANTIAL CONTRIBUTION TO THE CORPORATION BASED UPON A CAREFUL REVIEW OF THEIR EXPERIENCE, BACKGROUND, INTERESTS, ABILITY AND AVAILABILITY TO MEET TIME COMMITMENTS FOR BOARD AND COMMITTEE RESPONSIBILITIES; AND TO DETERMINE WHETHER ANY PROSPECTIVE OR SEATED MEMBER OF THE BOARD HAS ANY ECONOMIC OR FAMILIAL RELATIONSHIP WITH THE CORPORATION WHICH MAY NEGATE HIS/HER SUITABILITY FOR SUCH SERVICE. THE COMMITTEE SHALL ALSO MONITOR CURRENT MEMBERS OF THE BOARD IN LIGHT OF THE SAME GUIDELINES USED TO SELECT CANDIDATES, SHALL DIRECT THE ACTIVITIES OF THE BOARD AND MANAGEMENT IN MATTERS OF CORPORATE GOVERNANCE, AND SHALL HAVE GENERAL DISCRETIONARY AUTHORITY TO UNDERTAKE ADDITIONAL ACTIVITIES WITHIN THE SCOPE OF ITS PRIMARY FUNCTIONS.

SECTION 3.12 MEETINGS OF EACH COMMITTEE SHALL BE HELD FROM TIME TO TIME AS THE CHAIRMAN OF SUCH COMMITTEE, THE CHAIRMAN OF THE BOARD OF DIRECTORS, OR ANY TWO MEMBERS OF SUCH COMMITTEE SHALL DETERMINE, PREFERABLY AT THE PRINCIPAL EXECUTIVE OFFICE OF THE CORPORATION. ALL MEMBERS OF EACH COMMITTEE SHALL BE GIVEN WRITTEN NOTICE OF ANY MEETING BY THE SECRETARY, SUCH NOTICE TO BE MAILED TO EACH MEMBER AT LEAST THREE (3) DAYS PRIOR TO THE DATE THEREOF; PROVIDED, HOWEVER, SUCH WRITTEN NOTICE SHALL NOT BE REQUIRED AS TO ANY MEMBER WHO SHALL RECEIVE NOTICE IN PERSON AT LEAST TWENTY-FOUR (24) HOURS PRIOR TO THE TIME OF THE MEETING. ANY MEMBER MAY IN WRITING, BEFORE OR AFTER ANY MEETING, WAIVE NOTICE THEREOF, AND ANY MEMBER BY HIS ATTENDANCE AT, AND PARTICIPATION IN, THE ACTION TAKEN AT ANY MEETING SHALL BE DEEMED TO HAVE WAIVED NOTICE THEREOF. A MAJORITY OF THE MEMBERS OF A COMMITTEE SHALL CONSTITUTE A QUORUM. ANY ACTION WHICH MIGHT BE TAKEN AT A MEETING OF A COMMITTEE MAY BE TAKEN WITHOUT MEETING IF EVIDENCED BY A RESOLUTION SIGNED BY ALL MEMBERS. THE CHAIRMAN OF EACH BOARD COMMITTEE SHALL PRESIDE AT ALL MEETINGS OF SUCH COMMITTEE AND SHALL PERFORM SUCH OTHER DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS OR THE CHAIRMAN THEREOF.

SECTION 3.13 ALL ACTION TAKEN BY THE BOARD COMMITTEES SHALL BE REPORTED TO THE BOARD OF DIRECTORS AT ITS MEETING NEXT SUCCEEDING SUCH ACTION AND SHALL BE SUBJECT TO REVISION BY THE BOARD OF DIRECTORS PROVIDED THAT NO ACTS OR RIGHTS OF THIRD PARTIES SHALL BE PREJUDICED THEREBY. ALL SUCH ACTION SHALL ALSO BE RECORDED IN THE MINUTE BOOKS OF THE CORPORATION IN THE SAME MANNER IN WHICH ACTION TAKEN BY THE BOARD OF DIRECTORS IS RECORDED. THE AFFIRMATIVE VOTE OF THE MAJORITY OF ALL MEMBERS OF EACH COMMITTEE SHALL BE NECESSARY TO ITS ADOPTION OF ANY RESOLUTION.

ARTICLE IV OFFICERS

SECTION 4.1 THE OFFICERS OF THIS CORPORATION SHALL BE ELECTED BY THE BOARD FROM TIME TO TIME AS IT DEEMS APPROPRIATE, AND SHALL INCLUDE A CHAIRMAN OF THE BOARD OF DIRECTORS, WHO SHALL SERVE AS CHIEF EXECUTIVE OFFICER, TO BE ELECTED BY THE BOARD OF DIRECTORS FROM AMONG ITS MEMBERS, A PRESIDENT, AND ONE OR MORE VICE PRESIDENTS ONE OF WHOM SHALL PERFORM THE DUTIES OF THE CHIEF FINANCIAL OFFICER, A SECRETARY, A TREASURER, AND SUCH OTHER OFFICERS AND AGENTS AS

MAY FROM TIME TO TIME BE ELECTED BY THE BOARD OF DIRECTORS. ANY TWO OFFICES EXCEPT THOSE OF THE PRESIDENT AND VICE PRESIDENT MAY BE HELD BY THE SAME PERSON. ALL OFFICERS SHALL HOLD OFFICE AT THE PLEASURE OF THE BOARD OF DIRECTORS AND BE SUBJECT TO DISMISSAL BY IT, WITH OR WITHOUT CAUSE.

SECTION 4.2 THE SALARY AND OTHER COMPENSATION OF THE CHAIRMAN OF THE BOARD, THE PRESIDENT AND ALL ELECTED VICE PRESIDENTS SHALL BE FIXED BY THE BOARD OF DIRECTORS. IF ANY VACANCY SHALL OCCUR AMONG THE ELECTED OFFICERS, IT SHALL BE FILLED BY THE BOARD.

SECTION 4.3 THE CHAIRMAN OF THE BOARD OF DIRECTORS, OR IN HIS ABSENCE THE CHAIRMAN OF THE ORGANIZATION AND COMPENSATION COMMITTEE, SHALL PRESIDE AT ALL MEETINGS OF THE BOARD OF DIRECTORS. THE CHAIRMAN OF THE BOARD HAS AUTHORITY TO APPOINT CERTAIN OFFICERS OF THE COMPANY, INCLUDING VICE PRESIDENTS AND CERTAIN ASSISTANT OFFICERS WHOSE RESPONSIBILITIES DO NOT WARRANT ELECTION BY THE BOARD OF DIRECTORS, AND SHALL ALSO PERFORM SUCH OTHER DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS.

SECTION 4.4 THE PRESIDENT SHALL BE CHIEF OPERATING OFFICER OF THE CORPORATION AND, AS SUCH, SHALL CARRY OUT THE PLANS FOR THE CORPORATION AS APPROVED BY THE CHAIRMAN OF THE BOARD AND THE BOARD OF DIRECTORS. IN THE ABSENCE OF THE CHAIRMAN OF THE BOARD OF DIRECTORS, HE SHALL PRESIDE AT ALL MEETINGS OF THE STOCKHOLDERS AND OTHERWISE PERFORM THE CHIEF EXECUTIVE OFFICER'S DUTIES AS PRESCRIBED BY THE BOARD OF DIRECTORS.

SECTION 4.5 EACH VICE PRESIDENT SHALL PERFORM SUCH DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS. THE VICE PRESIDENT OF FINANCE SHALL BE THE CHIEF FINANCIAL OFFICER. IN THE ABSENCE OR DISABILITY OF THE CHAIRMAN OF THE BOARD, THE PRESIDENT SHALL SUCCEED TO HIS POWERS AND DUTIES, AND IN THE ABSENCE OF THE PRESIDENT, THE CHIEF FINANCIAL OFFICER SHALL SUCCEED TO HIS POWERS AND DUTIES, AND IN THE EVENT ALL ARE UNABLE TO SERVE FOR ANY REASON, THE VICE PRESIDENTS SHALL SUCCEED TO THEIR POWER AND DUTIES IN THE ORDER IN WHICH ELECTED.

SECTION 4.6 THE SECRETARY SHALL ATTEND ALL MEETINGS OF THE BOARD OF DIRECTORS, EXECUTIVE COMMITTEE, AND OF THE STOCKHOLDERS, AND RECORD ALL VOTES AND KEEP MINUTES OF ALL PROCEEDINGS. HE SHALL GIVE, OR CAUSE TO BE GIVEN, REQUIRED NOTICES OF MEETINGS OF THE BOARD OF DIRECTORS, EXECUTIVE COMMITTEE AND OF THE STOCKHOLDERS. HE SHALL KEEP IN SAFE CUSTODY THE SEAL OF THE CORPORATION AND, WHEN AUTHORIZED BY THE BOARD, AFFIX THE SAME TO ANY INSTRUMENT REQUIRING IT, AND SHALL PERFORM SUCH OTHER DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS.

SECTION 4.7 THE TREASURER SHALL MAINTAIN NECESSARY RELATIONSHIPS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS AND PROVIDE FOR ADEQUATE LINES OF CREDIT; SHALL PLAN FOR AND MAINTAIN ADEQUATE FUNDS IN APPROPRIATE WORKING AND DEPOSITORY ACCOUNTS TO MEETING OUTSTANDING AND PLANNED COMMITMENTS; AND SHALL BE RESPONSIBLE FOR SAFE CUSTODY AND CONTROL OF ALL FUNDS AND SECURITIES OF THE CORPORATION. HE SHALL ESTABLISH POLICIES AND PROCEDURES IN RELATION TO, AND SUPERVISE MANAGEMENT OF, THE EXTENSION OF CREDIT, AND THE COLLECTION OF RECEIVABLES. HE SHALL MAINTAIN APPROPRIATE BOND AND DIVIDEND RECORDS, PROVIDE FOR PROPER SIGNATURE OR ENDORSEMENT ON ALL FINANCIAL DOCUMENTS OF THE CORPORATION, AND SHALL PERFORM SUCH OTHER DUTIES AS MAY BE PRESCRIBED BY THE PRESIDENT.

SECTION 4.8 THE ASSISTANT TO ANY OFFICER SHALL, IN THE ABSENCE OR DISABILITY OF THAT OFFICER, PERFORM HIS DUTIES AND SHALL PERFORM SUCH OTHER DUTIES AS MAY BE PRESCRIBED BY THE BOARD OF DIRECTORS.

THE TORO COMPANY
DIRECTORS STOCK PLAN

1. PURPOSE OF THE PLAN. The purpose of The Toro Company 1992 Directors Stock Plan ("Plan") is to enable The Toro Company (the "Company") to attract and retain experienced and knowledgeable directors to serve on the Board of Directors of the Company or its subsidiaries, and to further align their interests with those of the stockholders of the Company by providing for or increasing their stock ownership interests in the Company. It is intended that the Plan be interpreted so that transactions under the Plan are exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to the extent applicable.
2. ELIGIBILITY. All members of the Company's Board of Directors who are not current employees of the Company or any of its subsidiaries ("Nonemployee Directors") are eligible to participate in the Plan.
3. PLAN AWARDS.
 - a. DIRECTORS SHARES. To carry out the purposes of the Plan, the Company shall issue shares ("Directors Shares") of the Company's Common Stock, \$1.00 par value and related preferred share purchase rights (subject to adjustment as provided in Section 4 hereof) (the "Common Stock"), to each person who is then a Nonemployee Director, on the first day of each fiscal year in an amount equal to \$5,000 divided by the fair market value of one share of Common Stock. The "fair market value of one share of Common Stock" shall be the average of the closing prices of the Common Stock on the New York Stock Exchange as reported in The Wall Street Journal for each of the trading days in the three calendar months immediately prior to the date of issue of the Directors Shares.
 - b. DIRECTORS OPTIONS.
 - i. ANNUAL GRANT. Subject to the terms and conditions of this Section 3.b., the Company shall grant a nonqualified option ("Directors Options") to purchase 1,000 shares of the Common Stock, to each person who is then a Nonemployee Director, on the first day of each fiscal year at an exercise price per share equal to the fair market value of one share of Common Stock on the date of grant. The "fair market value of one share of Common Stock" shall be the closing price of the Common Stock on the New York Stock Exchange on the first business day of the Company's fiscal year with respect to which the grant is made, as reported in The Wall Street Journal.
 - ii. OPTION TERMS.
 - (a) Directors Options shall be exercisable in whole or in part commencing six months following the date of grant and shall remain exercisable for a term of five years after the date of grant.
 - (b) No Directors Option shall be assigned or transferred, except by will or the laws of descent and distribution. An option so transferred may be

exercised after the death of the individual to whom it is granted only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.

- (c) During the lifetime of a Nonemployee Director, options held by such individual may be exercised only by the Nonemployee Director and only while serving as a member of the Board of Directors of the Company and only if the Nonemployee Director has been continuously so serving since the date such options were granted; provided, however, that in the event of disability of a Nonemployee Director, options may be exercised by such individual not later than the earlier of the date the option expires or one year after the date such service as a member of the Board of Directors ceases by reason of disability, but only with respect to an option exercisable at the time such service ceases.
- (d) Payment of the exercise price may be made in cash, in shares of Common Stock valued at fair market value on the date of exercise or in a combination of cash and Common Stock.

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

- 4. SHARES IN LIEU OF FEES. A Nonemployee Director shall have the right to elect to receive shares of Common Stock in lieu of annual retainer and meeting fees otherwise payable in cash. The election to receive Common Stock shall be made prior to the first day of the calendar year in which the fees are to be earned. Fees that are earned shall be reserved through the year and shares shall be issued in December of that year. The number of shares to be issued shall be determined by dividing the amount of the cash that otherwise would have been paid by the market value of one share of Common Stock on the date that the shares are issued.
- 5. STOCK SUBJECT TO PLAN. Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock that is reserved and

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

6. CHANGE OF CONTROL. In the event of a threatened or actual Change of Control of the Company as hereinafter defined, whether or not approved by the Board of Directors, all options shall fully vest, unless otherwise limited by the Committee at the time of the option grant, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the later of the threatened or actual Change of Control, but not later than ten years after the date of grant. A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act")), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

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

7. ADMINISTRATION OF THE PLAN. The Plan shall be administered by a committee composed of those members of the Board of Directors of the Company who are also employees of the Company (the "Committee"). The Committee shall have the authority to carry out all provisions of the Plan; provided, however, that it shall have no discretion to determine which Nonemployee Directors may

receive Directors Shares or Directors Options or to set the value of such Directors Shares or Directors Options, other than to make the calculations required by Section 3.a. and Section 3.b.

8. TERM OF PLAN. The Plan became effective on August 20, 1992 and shall be perpetual, unless sooner terminated by action of the Board of Directors.
9. AMENDMENT. The effective date of any amendment to the Plan shall be the date of its adoption by the Board of Directors. No amendment of the Plan shall adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.
10. GOVERNING LAW. The Plan, options and awards granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

THE TORO COMPANY
ANNUAL MANAGEMENT INCENTIVE PLAN II

1. **PLAN PURPOSE.** The purpose of The Toro Company Annual Management Incentive Plan II (the "Plan") is to enhance stockholder value of The Toro Company (the "Company") by providing an annual incentive to reinforce achievement of the Company's performance goals ("Performance Goals"); to link a significant portion of a participating officer's annual compensation to the achievement by the Company, and in certain cases, a division or individual, of Performance Goals; to attract, motivate and retain officers on a competitive basis by making awards based on annual achievement of Performance Goals ("Annual Performance Awards"); and to encourage selected officers to acquire and retain shares of the Common Stock, par value \$1.00 per share, and related Preferred Share Purchase Rights of the Company ("Common Stock").
2. **ELIGIBILITY AND PARTICIPATION.** Within the first 90 days of each fiscal year, or before the first 25% of a shorter performance period has elapsed, the Compensation Committee (the "Committee") shall select as recipients of Annual Performance Awards ("Plan Participants") those officers of the Company who, through their position or performance, can have a significant, positive impact on the Company's financial results. Plan Participants are designated to participate in the Plan for one fiscal year, but may be renominated and selected again. Newly-hired and newly-promoted officers may be selected as Plan Participants after the first 90 days of a fiscal year subject to the provisions of this paragraph and subparagraph 4.a. With respect to persons subject to Section 16 of the Securities Exchange Act of 1934 ("Exchange Act"), transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successor provisions under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.
3. **AWARD AMOUNTS.**
 - a. **TARGET PAYOUT.** The target amount that may be paid with respect to an Annual Performance Award (the "Target Payout") shall be determined by the Committee and shall be based on a percentage of a Plan Participant's actual annual base salary at the time of grant ("Participation Factor"), within the range established by this subparagraph and subject to adjustment as provided in the last sentence of this subparagraph. The Participation Factors, which are intended to reflect a Plan Participant's level of responsibility, are up to 60% for the Chairman and Chief Executive Officer, up to 55% for the President and Chief Operating Officer if one should be elected, up to 50% for other elected officers and up to 45% for other officers. The Chief Executive Officer may approve modifications to the foregoing Participation Factors for any participant who is not a person referred to in

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

- b. **MAXIMUM PAYOUT.** The Committee may also establish a maximum potential payout amount (the "Maximum Payout") with respect to an Annual Performance Award of up to 200% of the Target Payout in the event Performance Goal targets are exceeded by an amount established by the Committee at the time Performance Goals are established. The Committee may establish curves, 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.
- c. **DIVISION PAYOUT.** At the time an Annual Performance Award is made, the Committee may establish supplemental division-specific Performance Goals ("Supplemental Division Performance Goals") and may provide that achievement of a Supplemental Division Performance Goal at or above an established target level shall be required in order to earn a Target Payout or Maximum 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 vice president or general manager based on the Committee's evaluation of the quality of division performance.
- d. **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 subparagraphs 3.a. and 3.b.) by up to 20% but to not more than 200% of the Target Payout, for selected Plan 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.
- e. **SECTION 162(m) MAXIMUM.** With respect to any Plan Participant who is or may become a person referred to in Section 162(m), the maximum dollar amount that may be paid under an Annual Performance Award shall be set at the time the Committee grants the award and establishes Performance Goals under the award.

4. PERFORMANCE GOALS.

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

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

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

7. PAYMENTS. Before any payment is made under the Plan, the Committee must certify in writing, as reflected in the minutes, that the Performance Goals established with respect to an Annual Performance Award have been achieved. To the extent necessary with respect to any fiscal year, in order to avoid any undue windfall or hardship due to external causes, the Committee may make the determination as to whether a Performance Goal has been achieved without regard to the effect on the Performance Goal measure, as it may otherwise be presented in the financial statements, of any change in accounting standards, any acquisition by the Company not planned for at the time the Performance Goals are established, or any Board-approved extraordinary or non-recurring event or item.

8. STOCK RETENTION PROVISIONS.

- a. ELIGIBILITY FOR STOCK RETENTION AWARD. Subject to the terms and conditions of this paragraph 8 (the "Stock Retention Provisions"), at the time the Committee selects Plan Participants, the Committee may grant to selected Plan Participants ("Stock Participants") a right (a "Stock Retention Award") to elect (i) to convert to shares of Common Stock or (ii) to defer, through The Toro Company Deferred Compensation Plan for Officers (the "Officer Deferred Plan"), into units having a value based on shares of Common Stock, up to 50% of the amount of an award payment under an Annual Performance Award ("Base Cash Award") and to receive additional incentive compensation in the form of one additional share or unit of Common Stock for every two shares or units acquired upon conversion up to the limit of 50% of the Base Cash Award (the "Matching Shares" or "Matching Units"). The shares or units acquired upon conversion of all or a portion of the Base Cash Award shall be retained by the Company (which shall be called the "Agent" for purposes of the Stock Retention Provisions) during the vesting periods for the Matching Shares or Units described in subparagraph 8.e. Shares of Common Stock issued under the Stock Retention Provisions shall be called "Retained Shares" and units of Common Stock deferred under the Officer Deferred Plan shall be called "Retained Units" under this paragraph 8.
- b. NUMBER OF SHARES OR UNITS. The number of Retained Shares or Retained Units to be issued or credited upon conversion of a Base Cash Award under a Stock Retention Award election shall be equal to the dollar amount of the portion of the Base Cash Award subject to the election, divided by the fair market value of the Common Stock on the date that the Committee makes the certification required under paragraph 7 of this Plan. Fair market value shall be the closing price of one share of Common Stock, as reported in THE WALL STREET JOURNAL. Retained Shares shall be issued in whole shares only and cash shall be paid for fractional shares.

c. ELECTION TO EXERCISE STOCK RETENTION AWARD.

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

ii. On or before the September 15 immediately prior to the last day of the fiscal year to which a Stock Retention Award relates, a Stock Participant who has not elected to convert the maximum permissible portion of the Base Cash Award into Retained Units and who wishes to convert up to the maximum permissible portion of the Base Cash Award into Retained Shares shall notify the Company in writing that he or she has elected to participate in the Stock Retention Provisions and shall specify the percentage of the Base Cash Award to be converted.

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

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

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

e. VESTING, DELIVERY AND DISTRIBUTION.

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

ii. Delivery.

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

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

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

f. VESTING AND CANCELLATION UNDER SPECIAL CONDITIONS.

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

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

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

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

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

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

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

For purposes of this subparagraph 8.f.vi., Person means any individual,

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

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

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

As amended by the Compensation Committee and Board of Directors on November 18, 1998, subject to stockholder approval on March 24, 1999.

THE TORO COMPANY
1989 STOCK OPTION PLAN

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

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

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

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

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

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

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

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

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

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

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

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

nonqualified stock options; and that any ambiguities in construction shall be interpreted in order to effectuate such intent. The Committee may grant one or more options of either type, or of both types, to any one or more individuals either at different times or concurrently. Such options shall be subject to the terms and conditions set forth elsewhere in the Plan and to the following:

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

- B. PARENT AND SUBSIDIARY. As used herein, the terms "parent" and "subsidiary" shall mean "parent corporation" and "subsidiary corporation", respectively, as defined in Section 424 of the Code.
- C. GOVERNING LAW. The Plan, options granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

THE TORO COMPANY
1993 STOCK OPTION PLAN

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

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

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

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

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

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

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

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

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

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

H. CHANGE OF CONTROL. In the event of a threatened or actual Change of Control of the Company as hereinafter defined, whether or not approved by the Board of Directors, all options shall fully vest, unless otherwise limited by the Committee at the time of the option grant, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the later of the threatened or actual Change of Control, but not later than ten years after the date of grant. A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act")), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

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

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

nonqualified stock options; and that any ambiguities in construction shall be interpreted in order to effectuate such intent. The Committee may grant one or more options of either type, or of both types, to any one or more individuals either at different times or concurrently. Such options shall be subject to the terms and conditions set forth elsewhere in the Plan and to the following:

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

- B. PARENT AND SUBSIDIARY. As used herein, the terms "parent" and "subsidiary" shall mean "parent corporation" and "subsidiary corporation", respectively, as defined in Section 424 of the Code.
- C. GOVERNING LAW. The Plan, options granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, without giving effect to principles of conflicts of laws.

THE TORO COMPANY
CONTINUOUS PERFORMANCE AWARD PLAN

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

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

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

b. DATE OF GRANT. Except as otherwise permitted under this Plan, Performance Awards, whether one year, two year or three year awards, shall be granted as of the date which marks the first day of any Award Term.

c. BASIS OF AWARD.

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

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

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

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

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

d. CALCULATION OF AWARD PAYMENT.

- i. STANDARD CALCULATION. The Company's ROBE for each fiscal year shall be converted to a percentile score (the "Percentile Score") by comparing the ROBE to comparable data for all companies in the Industrial and Farm Equipment Group of Fortune 500 (as reported for the calendar year ended during such fiscal year). The one year Percentile Score shall be used to determine the Award Payout with respect to a one year Award Term and the average of the Percentile Scores for a two or three year Award Term shall be used in determining the Award Payout for any multiple year Performance Award. If the Percentile Score (or average Percentile Score for a two or three year Award Term) is: (a) at or above the 75th percentile, each Participant shall be paid the Award Maximum; (b) between the 50th and 75th percentile, each Participant shall be paid an amount equal to two-thirds of the Award Maximum at the 50th percentile and ranging up on a straight line basis to 100% of the Award Maximum at the 75th percentile; (c) between the 25th and 50th percentile, each Participant shall be paid two-thirds of the Award Maximum at the 50th percentile and ranging down on a straight line basis to zero at the 25th percentile; and (d) at or below the 25th percentile, no Performance Award shall be paid. The Award Payout with respect to a Performance Award covering two or three fiscal years shall not be earned or paid until the completion of the final fiscal year of the Award Term. However, no Award Payout will be earned or paid to any participant during the first six months of any Award Term.
- ii. Notwithstanding the provisions of subparagraph i of this subparagraph 4.d., any individual who has participated in the Plan for less than a full fiscal year during a one year Award Term shall receive a payment only for that portion of the fiscal year during which the individual was a Participant (expressed as a percentage and based on a 360 day year).

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

- f. **PAYMENT.** Before any payment is made under the Plan, the Committee must certify in writing that the Performance Goal justifying the payment has been met. Subject to the provisions of subparagraph 4.g. hereof, any amount earned with respect to a Performance Award shall be paid in cash within a reasonable time after the last day of the Award Term and after the Committee has certified in writing that the applicable Performance Goal and any other material terms were satisfied. A Participant shall have no control over the date of payment.
- g. **CHANGE OF CONTROL.** Each Performance Award shall provide that in the event of a threatened or actual Change of Control of the Company after one full year of any multiple year Award Term, or during the final six months of a one year Award Term, any such Performance Award shall become immediately payable and the calculation of the amount payable shall be based on the ROBE of the Company for the fiscal period most recently ended and the most recent Fortune 500 publication then available. A Change of Control means the earliest to occur of (i) a public announcement that a Person shall have acquired or obtained the right to acquire Beneficial Ownership (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act")), of 15% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the Beneficial Ownership by a Person of 15% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or earning power, or contested election or any combination thereof, that causes or would cause the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

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

- h. **TRANSFERABILITY.** No Performance Award granted hereunder may be transferred by a Participant. A Participant may receive payment with respect to a Performance Award only while an employee of the Company or a parent or subsidiary of the Company and only if he or she has been continuously employed since the date the Performance Award was granted; provided, however, that:

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

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

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

such calculation. The Committee shall promptly notify the Participants of the results of the calculation.

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

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

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

	YEARS ENDED			3 MONTHS ENDED	YEARS ENDED	
	10/31/98	10/31/97	10/31/96	10/31/95	7/31/95	7/31/94
Earnings before income taxes	\$ 6,761,000	\$60,344,000	\$ 60,180,000	\$6,606,000	\$61,112,000	\$37,050,000
Plus: Fixed charges	29,375,000	23,186,000	16,728,000	3,266,000	14,892,000	15,989,000
Earnings available to cover fixed charges	\$36,136,000	\$83,530,000	\$76,908,000	\$9,872,000	\$76,004,000	\$53,039,000
Ratio of earnings to fixed charges	1.23	3.60	4.60	3.02	5.10	3.32
Interest Expense	\$25,428,000	\$19,900,000	\$13,590,000	\$2,532,000	\$11,902,000	\$13,562,000
Rentals (Interest factor)	3,987,000	3,286,000	3,138,000	734,000	2,990,000	2,427,000
Total fixed charges	\$29,375,000	\$23,186,000	\$16,728,000	\$3,266,000	\$14,892,000	\$15,989,000

(Dollars in thousands, except per share data and number of stockholders)

Years ended October 31	1998	1997	% Change
Net sales	\$ 1,110,434	\$ 1,051,204	5.6%
Net earnings, before extraordinary loss*	4,090	36,508	(88.8)
Percent of net sales	0.4%	3.5%	
Dilutive net earnings per share of common stock, before extraordinary loss*	\$ 0.31	\$ 2.93	(89.4)
Dividends paid per share of common stock outstanding	0.48	0.48	
Return on:			
Average stockholders' equity	1.6%	15.3%	
Average invested capital	2.9	12.1	
AT YEAR END			
Working capital	\$ 221,227	\$ 234,211	(5.5)
Total assets	723,991	661,634	9.4
Total debt	228,424	219,015	4.3
Stockholders' equity	263,399	241,163	9.2
Book value per common share	20.63	19.79	4.2
Number of common stockholders	6,364	6,560	(3.0)

See accompanying Notes to Consolidated Financial Statements.

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

[GRAPH]
NET SALES
(DOLLARS IN MILLIONS)

95	\$919.4
96	\$930.9
97	\$1,051.2
98	\$1,110.4

[GRAPH]
NET EARNINGS
(DOLLARS IN MILLIONS)

95	\$32.4
96	\$36.4
97	\$36.5*
98	\$4.1

[GRAPH]
RETURN ON AVERAGE EQUITY
(PERCENT)

95	17.5%
96	18.0%
97	15.3%
98	1.6%

[GRAPH]
BOOK VALUE
(IN DOLLARS PER COMMON SHARE)

95	\$15.69
96	\$17.75
97	\$19.79
98	\$20.63

RESULTS OF OPERATIONS

Results in fiscal 1998 were disappointing compared to fiscal 1997. Although Toro recorded strong performances from its professional businesses, which now make up 65.7 percent of total consolidated sales, several events had a negative effect on Toro's consumer business and the company as a whole. Toro had strong sales and earnings growth from the commercial and irrigation businesses, and had significant contributions from the acquisitions of Exmark Manufacturing Company Incorporated (Exmark) in the landscape contractor market and GR Driplines, Incorporated (Drip In) in the agricultural irrigation market. The growth of the golf course market continued to be strong around the world, with the exception of Asia, which contributed to the growth in the commercial and irrigation businesses. Toro's consumer business struggled during the year, which resulted in the adoption of a company-wide plan to improve profitability. The lack of snow during the winter of 1997-1998 significantly lowered sales of the profitable snowthrower line. Performance was also hampered by manufacturing problems related to poor execution of the production transfer from Mound, Minnesota to El Paso, Texas, which led to significant cost overruns for certain consumer handheld electric products and certain irrigation products.

SUMMARY

(Dollars in millions, except per share data)	Years Ended October 31				
	1998	% Change	1997	% Change	1996
Net sales	\$1,110.4	5.6%	\$1,051.2	12.9%	\$930.9
Cost of sales	726.1	9.5	663.2	12.6	589.2
Gross profit	384.3	(1.0)	388.0	13.6	341.7
Gross profit percentage	34.6%	(2.3)	36.9%	0.2	36.7%
Selling, general, and administrative expense	345.6	10.4	313.1	12.5	278.3
Restructuring and other unusual expense	15.0	478.5	2.6	-	-
Earnings from operations	23.7	(67.2)	72.3	14.0	63.4
Operating profit percentage	2.1%	(4.8)	6.9%	0.1	6.8%
Interest expense	(25.4)	27.8	(19.9)	(46.4)	(13.5)
Other income, net	8.5	7.3	7.9	23.6	10.3
Earnings before income taxes and extraordinary loss	6.8	(88.8)	60.3	0.3	60.2
Provision for income taxes	2.7	(88.8)	23.8	0.3	23.8
Net earnings before extraordinary loss	4.1	(88.8)	36.5	0.3	36.4
Extraordinary loss, net of income tax benefit of \$1.1	-	-	1.7	-	-
Net earnings	\$ 4.1	(88.3)%	\$ 34.8	(4.3)%	\$ 36.4
Basic net earnings per share of common stock before extraordinary loss	\$ 0.32	(89.4)%	\$ 3.02	0.7%	\$ 3.00
Extraordinary loss per share, net of income tax benefit	-	-	0.14	-	-
Basic net earnings per share of common stock	\$ 0.32	(88.9)%	\$ 2.88	(4.0)%	\$ 3.00
Dilutive net earnings per share of common stock before extraordinary loss	\$ 0.31	(89.4)%	\$ 2.93	1.0%	\$ 2.90
Extraordinary loss per share, net of income tax benefit	-	-	0.13	-	-
Dilutive net earnings per share of common stock	\$ 0.31	(88.9)%	\$ 2.80	(3.4)%	\$ 2.90

NET SALES BY PRODUCT LINE

(Dollars in millions)	1998	% Change	1997	% Change	1996
Consumer	\$ 380.9	(16.8)%	\$ 458.1	(0.6)%	\$461.0
Commercial	451.3	31.0	344.6	7.0	322.0
Irrigation	278.2	12.0	248.5	68.0	147.9
Total*	\$1,110.4	5.6%	\$1,051.2	12.9%	\$930.9

*Includes international sales of \$ 235.9 in 1998, 1.3% of total sales, and \$ 232.8 in 1997, 33.6% of total sales, and \$174.2 in 1996, 18.7% of total sales.

In fiscal 1998, Toro's sales increased 5.6 percent, due to the incremental revenue of Exmark and Drip In products. Net sales would have dropped slightly without Exmark and Drip In products due to significantly lower levels of shipments for consumer products, including snowthrowers, gas powered trimmers, and riding products. Lower consumer shipments were partially offset by strong sales of commercial equipment and irrigation products. Asia sales have also dropped from 3.1 percent of total consolidated sales in fiscal 1997 to 1.7 percent in fiscal 1998 due to the political and economic instabilities in that market.

In response to the challenges faced in fiscal 1998, Toro continues to evaluate its business units and reinvest in opportunities and initiatives that it believes will help sustain competitiveness and maintain a leadership position. Toro implemented a profit improvement plan to reposition the consumer business and improve overall company profitability and competitiveness. This strategy included organizational changes in the consumer division; decentralizing manufacturing and inventory management; initiating a multi-year strategy for warehousing and transportation services with third party vendors; the sale of the recycling equipment business; the restructuring of the professional fertilizer business; and plant closings. The company expects significant savings from the profit improvement plan by fiscal year 2000.

In conclusion, positive results in the professional sector were offset by the disappointing results in the consumer business. Toro has embarked on a company-wide profit improvement plan that it believes will reposition the consumer business and make the company as a whole more competitive. This plan, combined with a generally favorable outlook in professional markets, positions Toro for significant improvement in fiscal 1999, although earnings per share are not expected to reach fiscal 1997 levels.

NET SALES

FISCAL 1998 COMPARED WITH FISCAL 1997

Effective November 1997, the company acquired Exmark, a leading manufacturer of equipment for the professional landscape contractor industry. Effective February 1998, the company acquired Drip In, a manufacturer of agricultural micro-irrigation products. These two acquisitions resulted in all of the increase in fiscal 1998 sales.

Worldwide net sales in fiscal 1998 were \$1,110.4 million compared to \$1,051.2 million in fiscal 1997, an increase of 5.6 percent. The following is a discussion of sales by product lines:

CONSUMER - Net sales of worldwide consumer products in fiscal 1998 were \$380.9 million compared to \$458.1 million in fiscal 1997, a decrease of 16.8 percent. Domestic snowthrower sales, which accounted for a significant portion of this decrease, were down due to the lack of snow experienced during the winter of 1997-1998. Shipments of domestic riding products were also below fiscal 1997 levels as a result of lower than expected demand for a new repositioned higher-priced garden tractor, along with increased competition. Toro also discontinued selling gas powered trimmers to certain home centers due to low product profitability. In addition, wet spring weather experienced in key Sun Belt markets resulted in lower do-it-yourself irrigation product sales. The company also discontinued certain low profit margin Lawn Genie-Registered Trademark- irrigation products. Offsetting the negative points was an increase in sales for walk power mowers, due mainly to a favorable sales comparison to the previous spring, which was late and wet. In fiscal 1998, Toro reduced the price of certain Toro-Registered Trademark-brand walk power mowers. Management believes this strategy maintained market share but did not increase market share as planned. Lawn-Boy-Registered Trademark- also introduced its new DuraForce-TM- engine walk power mower, which had a strong first year in the marketplace. Startup delays with the DuraForce-TM- engine prevented Toro from fully capitalizing on the demand for this low-emissions product. As part of the company's profit improvement plan, the company introduced special marketing programs and reduced shipments of certain consumer products in order to reduce consumer field inventories to historically low levels.

International consumer sales were down slightly from fiscal 1997. The main factor contributing to this decrease was lower Australian sales due to the conversion of Australian denominated dollar sales into U.S. dollars at a substantially lower exchange rate as a result of the currency movements in fiscal 1998. Offsetting that factor were strong sales to the European market for new diesel riding products introduced in fiscal 1998.

The company also believes that sales were lower as a result of a continuing shift in consumer buying patterns throughout the industry from brand specific purchases at dealer outlets to price and value conscious purchases at hardware, home center, and mass retailers. Because the company expects this trend to continue, the company announced that the Toro-Registered Trademark- Recycler-Registered Trademark- walk power mower will be sold in select home centers beginning in the spring of 1999. In response to struggles of the consumer business in fiscal 1998, the company plans to continue to take steps to reposition the business for a more competitive and stronger performance in fiscal 1999 and beyond.

COMMERCIAL - Net sales of worldwide commercial products in fiscal 1998 were \$451.3 million compared to \$344.6 million in fiscal 1997, a significant increase of 31.0 percent. The increase was attributable to the addition of Exmark, new product introductions in the landscape contractor market, and growth in the golf course market. Despite strong competition, sales of equipment to golf courses did well. International sales were down slightly due to weak sales in Asia, which were partially offset by an increase in demand in the Canadian and European market for golf course equipment and landscape contractor products. The substantial sales increase of commercial products occurred despite aggressive competition and Asian market weakness, and Toro believes it has maintained its

market leadership.

IRRIGATION - Net sales of worldwide irrigation products in fiscal 1998 were \$278.2 million compared to \$248.5 million in fiscal 1997, an increase of 12.0 percent. The sales increase was driven by strong domestic golf irrigation revenues, sales growth of worldwide agricultural irrigation products, and the addition

of sales from Drip In-Registered Trademark- agricultural micro-irrigation products. Certain residential/commercial irrigation products rebounded well during fiscal 1998, which also contributed to the strong sales increase. International net sales increased from fiscal 1997 due to strong worldwide agricultural irrigation and golf irrigation sales, except for the Asian market.

FISCAL 1997 COMPARED WITH FISCAL 1996

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

Worldwide net sales were \$1,051.2 million in fiscal 1997 compared to \$930.9 million in fiscal 1996, an increase of 12.9 percent. The following is a discussion of sales by product lines:

CONSUMER - Net sales of worldwide consumer products were \$458.1 million in fiscal 1997 compared to \$461.0 million in fiscal 1996, a decrease of 0.6 percent. Although retail demand for Toro-Registered Trademark- and Lawn-Boy-Registered Trademark- walk power mowers increased slightly, sales to dealers and distributors declined as their levels of field inventories were managed down and they shifted their buying patterns to more closely reflect retail demand. Sales of leaf blowers, Lawn-Boy-Registered Trademark- walk power mowers, and electric trimmers to hardware, home center, and mass retailers were very strong, partially offsetting the reduction in dealer and distributor sales. This reflects a shift in consumer buying patterns from brand specific purchases at dealer outlets to price and value conscious purchases at hardware, home center, and mass retailers. Sales of do-it-yourself irrigation did well in fiscal 1997. Consumer international sales also increased primarily due to product penetration in newer markets such as Eastern Europe.

COMMERCIAL - Net sales of worldwide commercial products were \$344.6 million in fiscal 1997 compared to \$322.0 million in fiscal 1996, an increase of 7.0 percent. The increase in sales reflected the growth in the golf market as well as the landscape contractor market. This was partially offset by reduced sales for recycling equipment and commercial parts. Although competitors in the commercial market aggressively pursued market share, the company believes it is maintaining its leadership position. International sales were up 2.2 percent although the strong U.S. dollar dampened growth in foreign golf projects, especially in emerging markets.

IRRIGATION - Net sales of worldwide irrigation products in fiscal 1997 were \$248.5 million compared to \$147.9 million in fiscal 1996, an increase of 68.0 percent. This increase was almost entirely attributable to the acquisition of Hardie. Strong golf irrigation sales for the year were offset by sluggish sales of residential/commercial irrigation products. International irrigation sales were up 167.4 percent mainly due to the acquisition of Hardie. International sales, without the incremental revenue from Hardie, were flat due principally to the weakening of foreign currencies against the U.S. dollar. Many new golf projects were postponed or cancelled as a result of weakened foreign economies.

GROSS PROFIT

FISCAL 1998 COMPARED WITH FISCAL 1997

Gross profit was \$384.3 million in fiscal 1998 compared to \$388.0 million in fiscal 1997, a decrease of 1.0 percent. As a percentage of net sales, gross profit was 34.6 percent in fiscal 1998 compared to 36.9 percent in fiscal 1997. The decline was primarily due to manufacturing cost overruns related to the poor execution of the production transfer from Mound, Minnesota to El Paso, Texas, reduced sales of higher gross margin snowthrowers, and lower pricing of Toro-Registered Trademark- brand walk power mowers due to competitive pressures. For fiscal 1999, the company is focusing on cost containment and supply chain management to partially offset the effects of competitive pressures on gross profit margins.

FISCAL 1997 COMPARED WITH FISCAL 1996

Gross profit was \$388.0 million in fiscal 1997 compared to \$341.7 million in fiscal 1996, an increase of 13.6 percent. As a percentage of net sales, gross profit was 36.9 percent in fiscal 1997 compared to 36.7 percent in fiscal 1996. The increase was due primarily to improved production efficiencies, partially offset by the addition of Hardie products which carry somewhat lower gross margins.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE (SG&A)

FISCAL 1998 COMPARED WITH FISCAL 1997

SG&A expenses were \$345.6 million in fiscal 1998 compared to \$313.1 million in fiscal 1997, an increase of 10.4 percent. As a percentage of net sales, SG&A increased to 31.1 percent from 29.8 percent in fiscal 1997. The additions of Exmark and Drip In contributed \$17.8 million of incremental SG&A expense during fiscal 1998. Without Exmark and Drip In, SG&A increased 2.1 percent as a percentage of net sales due to higher costs of administrative expenses related to information services and higher warranty expense. The warranty expense increase was attributable to a change in the product mix. Sales of products with overall higher warranty occurrence rates increased as compared to the prior year. Special warranty reserves for product modifications also contributed to the increase in fiscal 1998.

FISCAL 1997 COMPARED WITH FISCAL 1996

SG&A expenses were \$313.1 million in fiscal 1997 compared to \$278.3 million in fiscal 1996, an increase of 12.5 percent. As a percentage of net sales, SG&A

decreased slightly from fiscal 1996. Hardie accounted for \$34.8 million of the increase. Increases in sales and marketing, warranty, and research and development expenses were completely offset by lower administrative expense, after the impact of Hardie, due to cost containment efforts initiated in the second half of fiscal 1997. SG&A expense for distributor/dealer financing costs were slightly below fiscal 1996.

RESTRUCTURING AND OTHER UNUSUAL EXPENSE

FISCAL 1998 COMPARED WITH FISCAL 1997

Restructuring and other unusual expense was \$15.0 million in fiscal 1998 compared to \$2.6 million in fiscal 1997. The restructuring charge in fiscal 1998 consisted of \$4.3 million for severance and asset write-down related to the closure of two manufacturing facilities, and \$1.4 million for other severance costs. Other unusual expense consisted of \$5.3 million representing an impairment loss on the expected sale of the recycling equipment business and portions of the professional fertilizer business, and \$4.0 million for special consumer marketing programs. These programs consist of rebates and co-op advertising credits designed to reduce certain consumer field inventories to historically low levels by providing incentives to increase retail sales in preparation for potential changes in warehousing and transportation in fiscal 1999.

FISCAL 1997 COMPARED WITH FISCAL 1996

The \$2.6 million restructuring and other unusual expense in fiscal 1997 related to the closing of a manufacturing facility in Mound, Minnesota and relocation of those operations to other company facilities throughout the U.S. The closure of the manufacturing facilities is part of a long-term corporate strategy to reduce costs.

INTEREST EXPENSE

FISCAL 1998 COMPARED WITH FISCAL 1997

Interest expense was \$25.4 million in fiscal 1998 compared to \$19.9 million in fiscal 1997, an increase of \$5.5 million. Higher average working capital levels, as a result of higher inventory, and incremental cash and debt required for the acquisitions of Exmark and Drip In, contributed to the increase in interest expense.

FISCAL 1997 COMPARED WITH FISCAL 1996

Interest expense was \$19.9 million in fiscal 1997 compared to \$13.5 million in fiscal 1996, an increase of \$6.4 million. The Hardie acquisition debt accounted for approximately \$7.1 million of interest expense. This was offset by reductions in previously outstanding debt and related interest expense as cash generated by operations was used to pay off debt. In addition, the company redeemed higher rate debt by replacing 11% Debentures with lower rate debt ranging from 7.125 percent to 7.80 percent during fiscal 1997.

OTHER INCOME, NET

FISCAL 1998 COMPARED WITH FISCAL 1997

Other income, net, was \$8.5 million in fiscal 1998 compared to \$7.9 million in fiscal 1997. The increase was mainly attributed to a favorable settlement of a trade secret lawsuit.

FISCAL 1997 COMPARED WITH FISCAL 1996

Other income, net, totaled \$7.9 million in fiscal 1997 compared to \$10.3 million in fiscal 1996. The reduction was primarily attributable to a favorable patent infringement lawsuit settlement in fiscal 1996.

PROVISION FOR TAXES

FISCAL 1998 COMPARED WITH FISCAL 1997

The effective tax rate for fiscal 1998 and fiscal 1997 was 39.5 percent. The company has determined that it is not necessary to establish a valuation reserve for deferred income tax benefit because it believes that the net deferred income tax asset of \$42.8 million will be principally realized through carrybacks to taxable income in prior years, future reversals of existing taxable temporary differences and, to a lesser extent, future taxable income.

FISCAL 1997 COMPARED WITH FISCAL 1996

The effective tax rate for fiscal 1997 and fiscal 1996 was 39.5 percent.

NET EARNINGS

FISCAL 1998 COMPARED WITH FISCAL 1997

Net earnings were \$4.1 million compared to \$34.8 million in fiscal 1997 after the effect of an extraordinary loss of \$1.7 million on the early retirement of debt in fiscal 1997. Dilutive earnings per share were \$0.31 in fiscal 1998 compared to \$2.80 after the extraordinary loss of \$0.13 in fiscal 1997. Earnings were down sharply from fiscal 1997 due to the significant decrease in consumer sales, restructuring and other unusual expense of \$15.0 million, and lower operating margins due to manufacturing inefficiencies experienced in the transition to the El Paso, Texas, facility as described previously.

FISCAL 1997 COMPARED WITH FISCAL 1996

Net earnings were \$34.8 million after the effect of an extraordinary loss of \$1.7 million due to the early retirement of debt in fiscal 1997 compared to \$36.4 million in fiscal 1996. Net earnings before the extraordinary loss were \$36.5 million, a slight increase from fiscal 1996 net earnings. Dilutive earnings per share before the effect of the extraordinary loss in fiscal 1997 were \$2.93, up slightly from \$2.90 of dilutive earnings per share in fiscal 1996.

Although Hardie contributed most of the sales increase in fiscal 1997, Hardie resulted in a loss of \$0.08 per dilutive share. Beginning in fiscal 1998, Hardier operations were integrated into the company's irrigation business.

FINANCIAL POSITION

WORKING CAPITAL

Working capital at October 31, 1998 was \$221.2 million compared to \$234.2 million at October 31, 1997, a decrease of 5.5 percent. The current ratio for fiscal 1998 was 1.86 compared to 1.98 in fiscal 1997. Working capital as a percent of sales was 19.9 percent in fiscal 1998 and 22.3 percent in fiscal 1997.

The decrease in working capital was due primarily to lower levels of accounts receivable, and higher accounts payable and accrued liability balances, offset by higher levels of inventory. The decrease in accounts receivable was mainly attributable to the lower levels of consumer sales. The increase in inventory and accounts payable was due to the acquisitions of Exmark and

Drip In, along with increased inventory balances for new products introduced in fiscal 1998 in the landscape contractor business. The increase in accrued liabilities was due to increased accruals for warranty, and restructuring and other unusual expense.

LONG TERM ASSETS

Long-term assets at October 31, 1998 were \$244.6 million compared to \$189.6 million at October 31, 1997, an increase of \$55.0 million. Net property, plant, and equipment increased \$10.3 million due primarily to the acquisition of Exmark and Drip In assets. Goodwill and other assets increased \$42.1 million over fiscal 1997 mainly as a result of the goodwill representing the excess purchase price of Exmark and Drip In over the fair value of the net assets acquired.

CAPITAL STRUCTURE

Long-term debt at October 31, 1998 was \$197.4 million compared to \$178.0 million at October 31, 1997, an increase of \$19.4 million. The increase in long-term debt was a result of the issuance of additional debt and debt assumed in connection with the acquisitions of Exmark and Drip In. The total debt to capital ratio was 46.4 percent in fiscal 1998 compared to 47.6 percent in fiscal 1997. The decrease in debt to capital ratio was due to the reduction of working capital as compared to fiscal 1997 as well as the increase in equity due to stock issued for the Exmark acquisition.

Total capitalization at October 31, 1998 consisted of \$197.4 million of long-term debt, \$31.0 million of short-term borrowings, and \$263.4 million of stockholders' equity.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW - Cash provided by operating activities decreased by \$14.8 million from fiscal 1997 due primarily to the decrease in net earnings. The increase in inventory also contributed to the decline. However, lower levels of accounts receivable and increased levels of accounts payable and accrued expenses provided cash from operating activities.

Cash used in investing activities decreased significantly in fiscal 1998 from fiscal 1997 as the purchase price net of cash acquired for Hardie in fiscal 1997 of \$118.0 million exceeded the net cash purchase price for Exmark and Drip In, which was \$17.2 million. In addition, property, plant, and equipment expenditures were down comparatively because a majority of the corporate facility expansion expenditures were incurred in fiscal 1997.

Cash provided by financing activities decreased primarily due to lower borrowing needs in fiscal 1998 as compared to fiscal 1997 when debt was used to finance the Hardie acquisition in fiscal 1997.

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

CREDIT LINES AND OTHER CAPITAL RESOURCES - The company's seasonal U.S. working capital requirements are funded with \$237.0 million of committed and uncommitted unsecured bank credit lines. The company also has bankers' acceptance agreements under which an additional \$40.0 million of credit lines are available. Average borrowings under these lines were \$143.2 million in fiscal 1998 and \$149.6 million in fiscal 1997. The decrease in the average borrowings was mainly the result of higher levels of average short-term borrowings in fiscal 1997 due to the acquisition of Hardie in December 1996, which was financed with short-term debt until June 1997. In addition, in fiscal 1998, the company's non-U.S. operations maintained unsecured short-term lines of credit of \$6.9 million. At October 31, 1998, the company had \$252.9 million of unutilized availability under these credit lines.

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

ACQUISITION FINANCING - The acquisitions of Exmark and Drip In were financed through the issuance of shares of the company's common stock, issuance of long-term debt to sellers, and short-term borrowings under the company's current facilities. See Acquisitions and Strategic Alliances included in this MD&A, and Business Acquisitions and Divestitures Footnote 2 in the Notes to the Consolidated Financial Statements.

INFLATION

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

ACQUISITIONS AND STRATEGIC ALLIANCES

In February 1998, the company completed the acquisition of Drip In. Drip In is a manufacturer of agricultural micro-irrigation products headquartered in Madera,

California, which employs approximately 60 people.

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

In September 1997, the company announced that it had acquired the manufacturing, sales, and distribution rights to

Dingo-Registered Trademark- under which the company manufactures and sells
Dingo-Registered Trademark- landscape products under the Toro-Registered
Trademark- Sitework-TM- Systems brand name for the U.S. markets.

In December 1996, the company acquired Hardie from JHI Limited for \$118.0 million in cash. The price was subsequently reduced by approximately \$10 million based on estimated equity used as the closing date purchase price. In addition, the company entered into an arbitration process related to valuation and accounting issues used in determining the purchase price of Hardie. This process was completed on April 20, 1998 and resulted in an additional \$1.8 million reduction of the purchase price.

YEAR 2000 ISSUE

During fiscal 1998, Toro continued its company-wide program to prepare the company's computer systems for year 2000 compliance. The year 2000 issue relates to computer systems that use the last two digits rather than all four to define a year and whether such systems will properly and accurately process information when the year changes to 2000. Incomplete or untimely resolution of year 2000 issues by the company, by its important suppliers and customers, by public utility providers, or by governmental entities could have a material adverse impact on the company's business, operations, or financial condition.

STATE OF READINESS - The company is nearing completion of its project to replace core-business information systems with an Enterprise Resource Planning (ERP) software package, which the company has been informed is year 2000 compliant. The package includes software to support the company's facilities and business units with the exception of two domestic subsidiaries and the company's European facilities, which are believed to be year 2000 compliant. The ERP is expected to be in place by mid-1999.

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

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

Communications have been sent to Toro's customers (dealers and distributors) informing them of the company's efforts and asking them to ensure that their business operations will not be adversely impacted by year 2000 issues. Surveys have also been sent to the company's suppliers requesting information on their year 2000 efforts. The company has also been communicating with certain home centers and mass retailers about their readiness for the year 2000.

COSTS - Year 2000 costs through October 31, 1998 were approximately \$1.3 million and have been expensed as incurred. These costs include contractor support and ERP implementation for the company's recently-acquired businesses. Costs remaining that have been identified are estimated to be less than \$2.0 million, which include expenses for contract support, telephone system upgrades, software modifications for irrigation systems, and business unit system upgrades. The estimated cost of year 2000 modifications is less than 10 percent of the company's information system budget. No significant information system projects have been deferred to accommodate the year 2000 issues.

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

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

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

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

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

the company believes a simple software modification or a minor upgrade will make the units compliant.

CURRENCY RISK MANAGEMENT

The company is exposed to foreign currency exchange risk arising from transactions that are entered into during the normal course of business. To mitigate the risk from foreign currency exchange rate fluctuations, the company will generally enter into forward currency exchange contracts for the purchase or sale of a currency. Decisions on whether to use forward currency exchange contracts to hedge transactions exposed to foreign exchange rate changes are made based on the amount of those exposures, by currency, and an assessment of the near-term market value for each currency. These instruments used as hedges are managed to reduce the risk associated with the exposure being hedged and are designated as a hedge at the inception of the contract. Accordingly, changes in market 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. Gains and losses on foreign currency contracts are recorded to the Consolidated Statements of Earnings. See Financial Instruments Footnote 14 in the Notes to the Consolidated Financial Statements for more detail.

EURO CURRENCY

Beginning in January 1999, the European Monetary Union (EMU) will enter into a three-year transition phase during which a common currency called the euro will be introduced in participating countries. Initially, this new currency will be used for financial transactions, and progressively, it will replace the old national currencies that will be withdrawn by July 2002. The transition to the euro currency will involve changing budgetary, accounting, and fiscal systems in companies and public administrations, as well as simultaneous handling of parallel currencies and conversion of legacy data. Uncertainty exists as to the effects the conversion to euro currency will have on the marketplace. One of the largest unknowns for the company is the potential equalization of prices to customers among countries and the resulting competitive impact on our distributor partner sales and Toro sales, and market support given to its distribution partners in those countries. The euro will make price differences on goods in the various countries transparent to the consumer and make comparisons much easier. The company at this time cannot estimate the effects of the above items on its operations, cash flows, or financial conditions in future periods.

The company continued its program to evaluate whether the company's computer systems and programs will experience operational problems when the euro is fully implemented. The company's European subsidiaries' financial systems have completed initial testing and no problems were discovered for their ability to function using the euro. These subsidiaries began disclosing the euro value on each customer's invoice in January 1999. The company plans to continue testing its computer systems in fiscal 1999 for additional euro functionality. The risk is thought to be minimal as billing and banking functions are already being performed in multiple currencies within these entities. Further, the company is monitoring the rules and regulations as they become known in order to make any changes to its computer programs that are deemed necessary to comply. Although the company believes that it will be able to accommodate any required euro currency changes in its computer programs, there can be no assurance that once the final rules and regulations are completed that the company's computer programs will contain all of the necessary changes or meet all of the euro currency requirements. Based on its evaluation to date, management currently believes that, while the company will incur internal and external costs to adjust to the euro, such costs are not expected to have a material impact on operations, cash flows or the financial condition of the company and its subsidiaries, taken as a whole, in future periods.

MARKET CONDITIONS AND OUTLOOK

Toro expects overall demand for its products to be good in fiscal 1999. New products, new markets, and acquisitions over the past two years have helped Toro maintain its leadership across many professional markets. Management believes Toro is well positioned in the marketplace.

The professional markets in which Toro operates are generally healthy and are expected to grow. The golf course industry continues to expand with new course openings scheduled in the U.S. and abroad, except for Asia. Toro continues to be the provider of choice for premium golf venues, such as the 1999 U.S. Open at Pinehurst, North Carolina, the 1999 Ryder Cup at The Country Club in Brookline, Massachusetts, and the 2000 British Open at Old St. Andrews in Scotland. Toro has also been named an official equipment and irrigation provider for The First Tee, a project aimed at expanding opportunities for youth in the game of golf. The sports market is also growing, driven by gender equity at the collegiate and high school level, and a demand for better quality and safer turf fields. Toro is expanding its popular Workman-Registered Trademark- vehicle into the industrial sector, which is expected to become another market niche for this product.

The landscaping industry is one of the fastest growing professional markets, fueled by demographic and environmental trends. Professional and residential customers continue to desire beautiful and eco-balanced landscapes, and increasingly they demand contractor services to provide it. Toro is well positioned in this market with equipment and irrigation products. Toro's dual branding strategy of Exmark-Registered Trademark- and Toro-Registered Trademark-, widely believed to be the top two premium brands in this market based on size, number, quality of products, and distribution channels, provides a strong market share. Toro's multi-branded irrigation strategy of Toro-Registered Trademark-, Irritrol-Registered Trademark-, and Lawn Genie-Registered Trademark-, likewise gives Toro a preeminent position, with diversity in product lines and distribution, for a balanced approach to the

market.

The agricultural irrigation market has many opportunities for Toro as the need grows for more arable land to feed the world's expanding population. Although new to the company, Toro Agricultural Irrigation, and its recent acquisition, Drip In, have operated in this industry for many years and bring a growth business that is positioned to diversify Toro's overall professional irrigation business.

Toro's consumer business struggled in fiscal 1998, but the profit improvement plan has reduced costs and increased the likelihood for profitability for the consumer business in fiscal 1999. An expanded distribution strategy, providing certain Toro-Registered Trademark- brand lawn mowers to 1,600 select home centers in fiscal 1999, is expected to provide added sales momentum for the Toro-Registered Trademark- brand. Demand for Lawn-Boy's-Registered Trademark- new DuraForce-TM- low-emission engine lawn mowers, was strong in fiscal 1998, and is expected to continue into fiscal 1999. Expanded distribution of Toro-Registered Trademark- electric products is expected to add incremental sales to that product line. Another environmentally sensitive product, a quieter version of Toro's powerful electric leaf blower vacuum, was introduced in late fiscal 1998 and is expected to have a positive market impact in fiscal 1999. Manufacturing improvements at Toro's El Paso, Texas, plant are expected to provide better margins than experienced in fiscal 1998. Toro's snowthrower business is expected to be modest in fiscal 1999. Toro has planned conservatively for its snowthrower business and will be utilizing a promotional program that ties price discounts to snowfall levels. This promotional program is substantially insured with a third party.

The international sector remains unpredictable entering the new year. Sales to the Asian market will likely be down, but Asia accounted for less than 2 percent of overall revenues in fiscal 1998 and the expected decline is not expected to have a material impact on the company's operations. The Latin American market is also expected to be soft in fiscal 1999, but also accounts for a small part of overall sales. The European, Canadian, and Australian markets expect good performance in fiscal 1999, which should partially offset struggling Asian and Latin American markets.

Overall, Toro is expecting a good year in fiscal 1999, while keeping a cautionary eye on the weather, competition, and the world economic scene.

FORWARD-LOOKING STATEMENTS

This annual report contains not only historical information, but also forward-looking statements regarding expectations for future company performance. Statements that are not historical are forward-looking. When used by or on behalf of the company, the words "expect", "anticipate", "believe", "intend", and similar expressions generally identify forward-looking statements.

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses operating in a global market, as well as matters specific to the company and the markets it serves. Particular risks and uncertainties facing the company at the present include political and economic uncertainty throughout the world; whether the announced profit improvement plan will be successful; increased competition in the company's businesses from competitors that have greater financial resources; the cost of closing certain plants and selling certain business units; the success of new marketing programs; continued deterioration in the company's markets in Asia and softening in other international markets; the strong dollar which increases the cost of the company's products in foreign markets resulting in cancellation of planned projects and limiting the company's ability to increase prices; competitive implications and price transparencies related to the euro conversion; changing buying patterns affecting the company's consumer business, including but not limited to a trend away from purchases at dealer outlets to price and value conscious purchases at hardware, home center, and mass retailers; changes in distributor ownership; the company's expansion into selected home center markets; the company's ability to integrate business acquisitions and to manage alliances successfully; the addition of outside providers for warehousing and transportation services; the company's ability to develop and manufacture new and existing products profitably; market acceptance of existing and new products; changes in distributors, dealers, home center or mass retailers' purchasing practices; the company's ability to rationalize its product lines and plant configurations; the ability to eliminate cost overruns affecting selected consumer and irrigation products at the El Paso, Texas facility; the company's ability to maintain good relations with its union employees; and the ability to retain and hire quality employees.

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

The company wishes to caution readers not to place undue reliance on any forward-looking statement and to recognize that the statements are not predictions of actual future results. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others not now anticipated. The foregoing statements are not exclusive and further information concerning the company and its businesses, including factors that potentially could materially affect the company's financial results, is included

in the company's filings with the Securities and Exchange Commission.

(Dollars and shares in thousands, except per share data, number of employees and stockholders)	Years Ended			3 Months Ended	Years Ended	
	October 31 1998 (1)	October 31 1997 (2)	October 31 1996	October 31 1995	July 31 1995	July 31 1994
OPERATING RESULTS:						
Net sales	\$1,110,434	\$1,051,204	\$930,909	\$192,278	\$932,853	\$794,341
Net sales growth from prior year(5)	5.6%	12.9%	(0.2)%	-	17.4%	16.1%
Gross profit percentage	34.6%	36.9%	36.7%	37.3%	35.9%	36.2%
Earnings from operations(3)	\$ 23,716	\$ 72,347	\$ 63,439	\$ 6,655	\$ 64,821	\$ 42,582
Interest expense	25,428	19,900	13,590	2,532	11,902	13,562
Net earnings, before extraordinary loss	4,090	36,508	36,409	3,997	36,667	22,230
Percentage of net sales	0.4%	3.5%	3.9%	2.1%	3.9%	2.8%
Net earnings(4)	\$ 4,090	\$ 34,845	\$ 36,409	\$ 3,997	\$ 36,667	\$ 22,230
Basic earnings per share	0.32	2.88	3.00	0.33	2.92	1.78
Dilutive earnings per share(4)	0.31	2.80	2.90	0.32	2.81	1.71
Return on average common stockholders' equity	1.6%	15.3%	18.0%	2.1%	20.7%	14.2%
SUMMARY OF FINANCIAL POSITION:						
Current assets	\$ 479,437	\$ 472,044	\$405,001	\$386,259	\$381,610	\$364,495
Current liabilities	258,210	237,833	207,857	221,173	212,659	188,712
Working capital	221,227	234,211	197,144	165,086	168,951	175,783
Total assets	723,991	661,634	496,877	472,653	468,315	443,639
Long-term debt	197,424	178,015	53,365	68,699	81,025	101,325
Stockholders' equity	263,399	241,163	213,567	190,892	185,471	168,652
Debt to capitalization ratio	46.4%	47.6%	30.7%	36.6%	35.8%	37.5%
OTHER STATISTICAL DATA:						
Capital expenditures	\$ 33,893	\$ 37,023	\$ 21,389	\$ 3,302	\$ 28,162	\$ 18,173
Depreciation and amortization expense	38,240	30,878	18,170	3,590	17,240	18,839
Book value per common share	20.63	19.79	17.75	15.69	15.40	13.43
Dividends per common share	.48	.48	.48	.12	.48	.48
Number of common shares outstanding	12,770	12,189	12,032	12,168	12,040	12,561
Number of common stockholders	6,364	6,560	6,841	7,243	7,347	7,541
Market price range-						
High	\$ 46 5/16	\$ 43 3/4	\$ 36 1/4	\$ 32 1/4	\$ 30 3/8	\$ 30 1/2
Low	16 1/2	31 1/2	28 3/8	28 1/8	21 5/8	19 3/4
Average number of employees	4,695	4,309	3,610	3,638	3,626	3,434

- (1) The company's consolidated financial statements include results of operations of Exmark from November 1, 1997 and Drip In from February 1, 1998, the dates of acquisition.
- (2) The company's consolidated financial statements include results of operations of the James Hardie Irrigation Group from December 1, 1996, the date of acquisition.
- (3) 1998 and 1997 earnings from operations includes restructuring and other unusual expense of \$15.0 million and \$2.6 million, respectively.
- (4) 1997 net earnings and earnings per share data includes the extraordinary loss on early retirement of debt of \$1,663,000, or \$0.13 per dilutive share.
- (5) Sales growth from prior year for October 31, 1996 was compared to the year ended July 31, 1995.

The Stockholders and Board of Directors
The Toro Company:

Management is responsible for the integrity and objectivity of the financial information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles. Where necessary, the financial statements reflect estimates based on management judgement.

Established accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, transactions are appropriately authorized and included in the financial records in all material aspects, and that policies and procedures are implemented by qualified personnel. This system of financial controls and procedures is reviewed, modified, and improved as changes occur in business conditions and operations, and as a result of suggestions from independent auditors.

Our independent auditors, KPMG Peat Marwick LLP, in their audit of The Toro Company's consolidated financial statements, considered the internal control structure of the company to gain a basic understanding of the accounting system in order to design an effective and efficient audit approach, not for the purpose of providing assurance on the system of internal control.

The Audit Committee, comprised of members of the Board of Directors who are not employees of the company, meets periodically with the independent auditors and management of the company to monitor the functioning of the accounting control systems and discuss auditing and financial reporting matters. The Audit Committee recommends the selection of the independent auditors, who are then appointed by the board of directors, subject to ratification by the shareholders.

The independent auditors conduct an independent audit of the consolidated financial statements.

/s/ Kendrick B. Melrose

Kendrick B. Melrose
Chairman of the Board and Chief Executive Officer

/s/ Stephen P. Wolfe

Stephen P. Wolfe
Vice President Finance, Treasurer and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
The Toro Company:

We have audited the accompanying consolidated balance sheets of The Toro Company and subsidiaries as of October 31, 1998 and 1997, and the related consolidated statements of earnings and cash flows for each of the three years in the period ended October 31, 1998. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Toro Company and subsidiaries as of October 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1998 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Minneapolis, Minnesota
December 11, 1998

(Dollars and shares in thousands, except per share data) Years ended October 31	1998	1997	1996
Net sales	\$1,110,434	\$1,051,204	\$930,909
Cost of sales	726,118	663,167	589,186
Gross profit	384,316	388,037	341,723
Selling, general, and administrative expense	345,558	313,090	278,284
Restructuring and other unusual expense	15,042	2,600	-
Earnings from operations	23,716	72,347	63,439
Interest expense	(25,428)	(19,900)	(13,590)
Other income, net	8,473	7,897	10,331
Earnings before income taxes and extraordinary loss	6,761	60,344	60,180
Provision for income taxes	2,671	23,836	23,771
Net earnings before extraordinary loss	4,090	36,508	36,409
Extraordinary loss, net of income tax benefit of \$1,087	-	1,663	-
Net earnings	\$ 4,090	\$ 34,845	\$ 36,409
Basic net earnings per share of common stock before extraordinary loss	\$ 0.32	\$ 3.02	\$ 3.00
Extraordinary loss per share, net of income tax benefit	-	0.14	-
Basic net earnings per share of common stock	\$ 0.32	\$ 2.88	\$ 3.00
Weighted average number of common shares outstanding	12,794	12,095	12,141
Dilutive net earnings per share of common stock before extraordinary loss	\$ 0.31	\$ 2.93	\$ 2.90
Extraordinary loss per share, net of income tax benefit	-	0.13	-
Dilutive net earnings per share of common stock	\$ 0.31	\$ 2.80	\$ 2.90
Weighted average number of common and assumed conversion shares outstanding	13,198	12,466	12,555

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

(Dollars in thousands, except share amounts)	October 31 1998	1997
ASSETS		
Cash and cash equivalents	\$ 90	\$ 8
Receivables:		
Customers	246,504	255,318
Other	4,246	13,648
Subtotal	250,750	268,966
Less allowance for doubtful accounts	9,324	9,832
Total receivables	241,426	259,134
Inventories, net	184,306	160,122
Prepaid expenses and other current assets	14,618	10,454
Deferred income taxes	38,997	42,326
Total current assets	479,437	472,044
Property, plant, and equipment:		
Land and land improvements	12,130	9,334
Buildings and leasehold improvements	85,392	67,627
Equipment	233,017	220,880
Subtotal	330,539	297,841
Less accumulated depreciation	203,402	180,989
Total property, plant and equipment	127,137	116,852
Deferred income taxes	3,763	1,182
Goodwill and other assets	113,654	71,556
Total assets	\$723,991	\$661,634
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	\$ 580	\$ 365
Short-term borrowings	31,000	41,000
Accounts payable	65,273	58,397
Accrued warranties	46,344	40,792
Accrued marketing programs	28,946	22,691
Accrued compensation and benefit costs	36,344	32,552
Other accrued liabilities	49,723	42,036
Total current liabilities	258,210	237,833
Long-term debt, less current portion	196,844	177,650
Other long-term liabilities	5,538	4,988
Stockholders' equity:		
Stock, par value \$1.00, authorized 35,000,000 shares; issued and outstanding 12,769,560 shares in 1998 (net of 738,495 treasury shares) and 12,189,244 shares in 1997 (net of 720,760 treasury shares)	12,770	12,189
Additional paid-in capital	56,546	31,371
Retained earnings	200,609	202,681
Foreign currency translation adjustment	(6,526)	(5,078)
Total stockholders' equity	263,399	241,163
Total liabilities and stockholders' equity	\$723,991	\$661,634

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

(Dollars in thousands) Years ended October 31	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 4,090	\$ 34,845	\$ 36,409
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Extraordinary loss on early extinguishment of debt	-	1,663	-
Provision for depreciation and amortization	38,240	30,878	18,170
Loss (gain) on disposal of property, plant, and equipment	789	573	(260)
Change in deferred income taxes	1,229	2,053	784
Tax benefits related to employee stock option transactions	491	2,611	1,490
Changes in operating assets and liabilities:			
Net receivables	26,391	15,067	(40,821)
Inventories	(12,755)	1,353	15,574
Prepaid expenses and other current assets	(3,629)	(6,595)	(1,131)
Accounts payable and accrued expenses	14,248	1,425	2,218
Net cash provided by operating activities	69,094	83,873	32,433
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(33,893)	(37,023)	(21,389)
Proceeds from disposal of property, plant, and equipment	3,956	1,163	543
Increase in other assets	(929)	(12,784)	(857)
Acquisition of James Hardie Irrigation, net of cash acquired	-	(118,030)	-
Other acquisitions, net of cash acquired	(17,173)	-	-
Net cash used in investing activities	(48,039)	(166,674)	(21,703)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of short-term borrowing	(10,000)	(2,627)	(550)
Proceeds from issuance of long-term debt	-	175,000	-
Repayments of long-term debt	(3,808)	(50,350)	(15,334)
Payments of debt issue costs and prepayment penalty	-	(5,770)	-
Decrease in other long-term liabilities	(50)	-	-
Net payments for termination of interest rate swap agreements	-	(23,650)	-
Proceeds from interest rate swap agreement	-	-	12,742
Proceeds from exercise of stock options	2,219	8,407	4,627
Purchases of common stock	(1,724)	(7,952)	(13,339)
Dividends on common stock	(6,162)	(5,794)	(5,834)
Net cash (used in) provided by financing activities	(19,525)	87,264	(17,688)
Foreign currency translation adjustment	(1,448)	(4,521)	(678)
Net increase (decrease) in cash and cash equivalents	82	(58)	(7,636)
Cash and cash equivalents at beginning of the fiscal year	8	66	7,702
Cash and cash equivalents at end of the fiscal year	\$ 90	\$ 8	\$ 66
Supplemental disclosures of cash flow information:			
Cash paid during the fiscal year for:			
Interest	\$ 24,363	\$ 16,829	\$ 15,335
Income taxes	3,345	25,459	20,447
Stock issued in connection with an acquisition	24,770	-	-
Debt issued in connection with an acquisition	15,761	-	-

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED DATA

BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of The Toro Company and all wholly owned and majority-owned domestic and foreign subsidiaries (the company). The company records its investment in each unconsolidated affiliated company (20 to 50 percent ownership) at its related equity in the net assets of such affiliate and other investments (less than 20 percent ownership) are recorded at cost. All material intercompany accounts and transactions have been eliminated from the consolidated financial statements.

CASH AND CASH EQUIVALENTS

The company considers all highly liquid investments purchased with a maturity of 3 months or less to be cash equivalents. At October 31, 1998 and 1997, the company had \$12,951,000 and \$4,598,000, respectively, included in trade payables that represented the reclassification of outstanding checks in excess of related bank balances.

INVENTORIES

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

Inventories at October 31 were as follows:

(Dollars in thousands)	1998	1997
Raw materials and work in process	\$ 97,248	\$ 85,020
Finished goods	128,747	117,699
	225,995	202,719
Less LIFO and other reserves	41,689	42,597
Total	\$184,306	\$160,122

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 45 years, and equipment over 3 to 7 years. Tooling costs are generally amortized over 3 to 5 years using the units of production method. Expenditures for major renewals and betterments, which substantially increase the useful lives of existing assets, are capitalized, and maintenance and repairs are charged to operating expenses as incurred. Software is expensed at the time of purchase. Interest is capitalized during the construction period for significant capital projects. During the years ended October 31, 1998 and 1997, the company capitalized \$447,000 and \$500,000 of interest, respectively.

GOODWILL AND OTHER ASSETS

Goodwill is amortized on a straight-line basis over periods ranging from 3 to 20 years. Goodwill totaled \$91,433,000 and \$53,667,000 at October 31, 1998 and 1997, respectively, net of accumulated amortization of \$19,368,000 at October 31, 1998 and \$13,744,000 at October 31, 1997.

IMPAIRMENT OF LONG-LIVED ASSETS

The company reviews long-lived assets, including identifiable intangibles and associated goodwill, for impairment when events or changes in circumstances warrant such a review. An asset is deemed impaired and written down to its fair value if expected associated undiscounted future cash flows are less than its carrying value.

ACCRUED WARRANTIES

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

DERIVATIVES

Derivative financial instruments are used by the company to manage foreign exchange risks. These financial exposures are managed in accordance with the company's policies and procedures. The company does not hold or issue derivative financial instruments for trading purposes.

Foreign exchange contracts are accounted for as hedges to the extent they are designated as, and are effective as, hedges of firm foreign currency commitments. Foreign currency exchange contract gains and losses are included in other income, net on the Consolidated Statements of Earnings.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The functional currency of the company's foreign operations is the applicable local currency. The functional currency is translated into U.S. dollars for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The translation adjustments are deferred as a separate component of stockholders' equity. Gains or losses resulting from transactions denominated in foreign currencies are included in other income, net.

STOCK-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation," requires companies to measure employee stock compensation plans based on the fair value method of accounting or to continue to apply APB No. 25, "Accounting for Stock Issued to Employees," and provide pro forma footnote disclosures under the fair value method in SFAS No. 123. The company continues to apply the principals of APB No. 25 and has provided pro forma fair value disclosures in Note 9.

ACCOUNTING FOR REVENUES

Revenue is recognized at the time products are shipped to customers.

ADVERTISING

General advertising expenditures and the related production are expensed in the period in which costs are incurred or the first time advertising takes place. Cooperative advertising represents expenditures for advertising costs that the company reimburses customers for some or all of their advertising costs. These obligations are accrued and expensed when the related revenues are recognized in accordance with the program established for the various product lines. Advertising costs were \$36,055,000, \$35,220,000, and \$32,247,000 for the fiscal years ended 1998, 1997, and 1996, respectively.

COST OF FINANCING DISTRIBUTOR/DEALER INVENTORY

As part of dealer agreements, the company enters into certain inventory repurchase agreements with third party financing companies. The company records sales when product is shipped to distributors, and the distributors then sell product to dealers. The company has only repurchased immaterial amounts of inventory from third party financing companies over the last three years. Any expected inventory that would need to be repurchased has been provided for in the allowance for doubtful accounts. The company was contingently liable to repurchase \$20,272,000 at October 31, 1998 and \$9,438,000 at October 31, 1997 of inventory relating to receivables under dealer financing arrangements.

Included in selling, general, and administrative expense are costs associated with programs in which the company shares the expense of financing distributor and dealer inventories. This charge represents interest for a pre-established length of time at a predefined rate from a contract with a third party financing source to finance dealer inventory purchases. These financing arrangements are used by the company as a marketing tool to enable customers to buy inventory. The financing costs for distributor and dealer inventories were \$10,499,000, \$10,192,000, and \$10,252,000 for the fiscal years ended 1998, 1997, and 1996, respectively.

DISTRIBUTION

Included in selling, general, and administrative expense are costs associated with changes in the company's independent distribution channels. These costs were \$510,000, \$898,000, and \$2,533,000 for the fiscal years ended 1998, 1997, and 1996, respectively. Those costs associated with business changes are accrued on the basis of historical experience, while costs related to specific changes to the company's independent distribution system are recorded when authorized.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The company has reflected the necessary deferred tax asset/liability in the accompanying balance sheets. Management believes the future tax deductions will be realized principally through carryback to taxable income in prior years, future reversals of existing taxable temporary differences, and to a lesser extent, future taxable income.

NET EARNINGS PER SHARE

In 1998, the company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and dilutive earnings per share. Basic 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. Dilutive earnings per share is similar to basic earnings per share except that the weighted average number of shares of common stock outstanding is increased to include the number of additional shares of common stock that would have been outstanding, such as stock to be issued upon exercise of options. The treasury stock method is used to calculate the number of dilutive shares, which reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the options assumed to be exercised. All prior year earnings per share have been restated in accordance with the provisions of SFAS 128. Adoption of SFAS 128 did not have a material effect on the company's historical disclosure of earnings per share.

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

Years ended October 31	1998	1997	1996
Weighted average number of common shares outstanding	12,794,128	12,095,475	12,140,689
Assumed conversion of stock options and contingently issuable shares	403,548	371,007	414,026
Weighted average number of common shares and assumed conversion shares outstanding	13,197,676	12,466,482	12,554,715

ACCOUNTING ESTIMATES

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

BASIS OF PRESENTATION

Certain amounts from prior years financial statements have been reclassified to conform with the current year presentation.

NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

2 BUSINESS ACQUISITIONS AND DIVESTITURES

On February 19, 1998, the company completed the acquisition of Drip In, which is a manufacturer of agricultural micro-irrigation products headquartered in Madera, California.

On November 25, 1997 the company completed the acquisition of Exmark, a leading manufacturer of equipment for the professional landscape contractor industry. In exchange for all of the capital stock of Exmark, the company issued 598,051 shares of its common stock and paid approximately \$5.5 million in cash. In addition, under the terms of the purchase agreement, the company will be required to make contingent payments to Exmark shareholders if Exmark's post-acquisition earnings and sales growth from November 1, 1997 through October 31, 1999 exceed minimum levels established in the purchase agreement. The maximum amount of these contingent payments is \$28.0 million. Contingent payments will be paid with a combination of cash and the company's common stock. The company expects to issue approximately 512,000 shares of stock and pay approximately \$1,800,000 of cash in January 1999 related to the fiscal 1998 contingent payment.

Effective December 1, 1996 the company acquired Hardie from JHI Limited for an adjusted price of \$106.9 million.

The acquisitions described above were accounted for using the purchase accounting method and, accordingly, the purchase price was allocated based on the estimated fair values of assets acquired and liabilities assumed on the date of acquisition. The excess purchase price over the estimated fair value of net tangible assets acquired was recorded as goodwill, and is being amortized on a straight-line basis over a 20 year period.

During the fourth quarter of fiscal 1998, Toro recognized a \$1.8 million impairment loss related to the restructuring of its professional fertilizer business, including the expected sale of portions of this business.

During the third quarter of fiscal 1998, Toro recognized a \$3.5 million impairment loss related to the expected sale of its recycling equipment business. On September 23, 1998, Toro entered into an agreement to sell this business, which resulted in no additional loss.

3 SPECIAL CHARGES

During fiscal 1998, the company committed itself to a profit improvement plan to make the company as a whole more competitive. The elements of this strategy include broad organizational initiatives for profit improvement, organizational changes in the consumer division, initiating a multi-year strategy for warehousing and transportation services with third party vendors, product line and business rationalizations, and reducing the number of manufacturing facilities. The company recorded a charge of \$15,042,000 for restructuring and other unusual expenses. The restructuring charges of \$5,770,000 consisted of \$4,359,000 for the severance and asset write-down related to the closure of two manufacturing facilities and \$1,411,000 for other severance costs. Other unusual expenses consisted of \$5,321,000 for the impairment loss related to the expected sale of the recycling equipment business and portions of the professional fertilizer business, and \$3,951,000 for special marketing programs. These programs consist of rebates and co-op advertising credits designed to reduce certain consumer field inventories to historically low levels by providing incentives to increase retail sales in preparation for potential changes in warehousing and transportation in fiscal 1999. Restructuring and other unusual expenses included approximately \$8,600,000 of cash charges primarily related to severance and marketing programs, and approximately \$6,400,000 of non-cash charges related to the write-down of assets.

During fiscal 1997, the company recorded a restructuring charge of \$2,600,000 for the severance and costs related to the closure of a manufacturing facility.

At October 31, 1998, the company had \$10,716,000 of restructuring and other unusual expense remaining in other accrued liabilities. The company expects the majority of these reserves to be utilized by the end of fiscal 1999.

4 OTHER INCOME, NET

Other income (expense) is as follows:

(Dollars in thousands)	1998	1997	1996
Interest income	\$ 853	\$1,129	\$ 985
Gross finance charge revenue	4,503	4,519	4,201
Royalties	1,815	1,870	2,582
Exchange rate losses	(602)	(328)	(10)
Miscellaneous	1,904	707	2,573
Total	\$8,473	\$7,897	\$10,331

5 SHORT-TERM CAPITAL RESOURCES

At October 31, 1998, the company had available committed and uncommitted unsecured lines of credit with domestic banks in the aggregate of \$237,000,000. Most of these agreements require the company to pay a fee of 0.175 percent per year on the available lines of credit, which is included in interest expense. The company also has bankers' acceptance agreements under which an additional \$40.0 million of credit lines are available. The company's non-U.S. operations maintain unsecured short-term lines of credit of \$6,946,000. These facilities bear interest at various rates depending on the rates in their respective countries of operations.

The company had \$31,000,000 outstanding at October 31, 1998 and \$41,000,000 outstanding at October 31, 1997 under these lines of credit. The weighted average interest rate on short-term borrowings outstanding at October 31, 1998 and 1997 was 5.64 percent and 5.95 percent, respectively.

Under the terms of the short-term debt agreements, the company is subject to certain covenants. As of October 31, 1998, the company amended its U.S. unsecured credit lines with its banks. The debt interest coverage covenant was modified and the company is in compliance with all of its covenants at October 31, 1998.

A summary of long-term debt is as follows:

(Dollars in thousands) October 31	1998	1997
Industrial Revenue Bond due June 1999-2004 with various interest rates	\$ 2,650	\$ 3,015
7.000% Notes, due February 17, 2003	15,761	-
7.125% Notes, due June 15, 2007	75,000	75,000
Industrial Revenue Bond due November 1, 2017 at 4.500%	3,600	-
7.800% Debentures, due June 15, 2027	100,000	100,000
Other	413	-
	197,424	178,015
Less current portion	580	365
Long-term debt, less current portion	\$196,844	\$177,650

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

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

Principal payments required on long-term debt in each of the next five years ending October 31 are as follows: 1999, \$580,000; 2000, \$540,000; 2001, \$461,000; 2002, \$473,000; 2003, \$16,265,000; and after 2003, \$179,105,000.

7 INCOME TAXES

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

Years ended October 31	1998	1997	1996
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (reduction) in income taxes resulting from:			
Benefits from foreign sales corporation	(17.6)	(1.4)	(0.8)
State and local income taxes, net of federal income tax benefit	1.7	2.9	2.5
Effect of foreign source income	(10.0)	0.9	-
Goodwill amortization	26.0	2.3	0.4
Other, net	4.4	(0.2)	2.4
Effective tax rate	39.5%	39.5%	39.5%

Components of the provision for income taxes are as follows:

(Dollars in thousands) Years ended October 31	1998	1997	1996
--	------	------	------

Current:

Federal	\$4,558	\$15,985	\$22,479
State	345	1,445	2,754

Current provision	4,903	17,430	25,233

Deferred:			
Federal	(2,060)	4,182	(1,051)
State	(172)	1,137	(411)

Deferred provision	(2,232)	5,319	(1,462)

Total provision for income taxes	\$2,671	\$22,749	\$23,771

The tax effects of temporary differences that give rise to the net deferred income tax assets at October 31, 1998 and 1997 are presented below:

(Dollars in thousands)	1998	1997
Allowance for doubtful accounts	\$ 4,357	\$ 5,070
Inventory items	3,435	4,228
Depreciation	3,763	2,201
Warranty reserves	16,944	15,028
Employee benefits	6,491	6,048
Other nondeductible accruals	7,770	10,933

Deferred income tax assets	\$42,760	\$43,508

During the years ended October 31, 1998 and 1997, respectively, \$491,000 and \$2,611,000 was added to additional paid-in capital in accordance with Accounting Principal Board Opinion 25 reflecting the permanent book to tax difference in accounting for tax benefits related to employee stock option transactions.

8 STOCKHOLDERS' EQUITY

Changes in the components of stockholders' equity during the fiscal years ended 1998, 1997, and 1996 were as follows:

(Dollars in thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Foreign Currency Translation Adjustment	Total
Balance at October 31, 1995	\$12,168	\$ 35,712	\$142,891	\$ 121	\$190,892
Dividends paid on common stock (\$0.48 per share)	-	-	(5,834)	-	(5,834)
Issuance of 294,324 shares under stock option plans	294	4,333	-	-	4,627
Purchase of 429,692 shares of common stock	(430)	(13,073)	-	-	(13,503)
Foreign currency translation adjustment	-	-	-	(678)	(678)
Tax benefits related to employee stock option transactions	-	1,490	-	-	1,490
Other	-	-	164	-	164
Net earnings	-	-	36,409	-	36,409
Balance at October 31, 1996	\$12,032	\$28,462	\$173,630	\$ (557)	\$213,567
Dividends paid on common stock (\$0.48 per share)	-	-	(5,794)	-	(5,794)
Issuance of 389,101 shares under stock option plans	389	8,018	-	-	8,407
Purchase of 232,000 shares of common stock	(232)	(7,720)	-	-	(7,952)
Foreign currency translation adjustment	-	-	-	(4,521)	(4,521)
Tax benefits related to employee stock option transactions	-	2,611	-	-	2,611
Net earnings	-	-	34,845	-	34,845
Balance at October 31, 1997	\$12,189	\$ 31,371	\$202,681	\$(5,078)	\$241,163
Dividends paid on common stock (\$0.48 per share)	-	-	(6,162)	-	(6,162)
Issuance of 82,386 shares under stock option plans	83	2,136	-	-	2,219
Issuance of 598,051 shares of common stock for acquisition of Exmark	598	24,172	-	-	24,770
Purchase of 100,000 shares of common stock	(100)	(1,624)	-	-	(1,724)
Foreign currency translation adjustment	-	-	-	(1,448)	(1,448)
Tax benefits related to employee stock option transactions	-	491	-	-	491
Net earnings	-	-	4,090	-	4,090
Balance at October 31, 1998	\$12,770	\$56,546	\$200,609	\$(6,526)	\$263,399

Under the terms of a Rights Agreement effective May 20, 1998, each share of the company's common stock entitles its holder to one preferred share purchase right. Each right entitles the registered holder to purchase from the company one one-hundredth of a share of Series B Junior Participating Voting Preferred Stock, \$1.00 par value at a price of \$180 per one one-hundredth of a Preferred Share. The rights become exercisable and tradable 10 days after a person or a group acquires 15 percent or more, or makes an offer to acquire 15 percent or more, of the company's outstanding common stock. At no time do the rights have any voting power. The rights may be redeemed by the company for \$0.01 per right at any time prior to the time that a person or group has acquired beneficial ownership of 15 percent or more of the common shares.

During November and December, 1998, Toro repurchased 152,600 shares of stock in anticipation of shares to be issued in connection with a prior acquisition as discussed in Footnote 2, Business Acquisitions and Divestitures.

9 STOCK OPTION PLANS

Under the company's stock option plans, certain employees and non-employee directors have been granted options to purchase shares of common stock at prices equal to the fair market value on the date the option was granted, except for performance-based stock options discussed below. The stock options are generally exercisable immediately, and expire five to ten years after the date of grant.

In connection with the acquisition of Drip In, the company granted Drip In's former owner an option to purchase 80,000 shares of common stock at a price based on the fair market value prior to the closing of the acquisition. The option will vest on the seventh anniversary of grant, except that vesting will be accelerated if certain performance goals are achieved. The option will expire seven years after grant.

Performance-based stock options have been granted under the Continuous Performance Award Plan (CPAP). The exercise price is an average of the closing stock prices for the three months preceding the grant date. These options generally vest upon the public release of fiscal year-end earnings for the last year of the three year award term, and expire 90 days thereafter. Options granted under this plan totaled 53,871, 40,474, and 36,768 in the fiscal years ended 1998, 1997, and 1996, respectively. CPAP options cancelled were 26,607, 33,812, and 0 during the fiscal years ended 1998, 1997, and 1996, respectively.

The company applies APB Opinion No. 25 and related interpretations in accounting for its stock options. Accordingly, no compensation expense has been recognized for stock option grants, except with respect to performance-based options. The company recognized compensation expense of \$267,000, \$545,000, and \$483,000 for the fiscal years ended 1998, 1997, and 1996, respectively. If the company elected to recognize compensation expense consistent with the methodology prescribed in SFAS 123, "Accounting for Stock-Based Compensation," the company's net income and dilutive earnings per share would have been as follows:

(Dollars in thousands, except per share amounts)

Years ended October 31	1998	1997
Net income, as reported	\$4,090	\$34,845
Pro forma net income	2,626	34,289
Dilutive earnings per share, as reported	\$ 0.31	\$ 2.80
Pro forma dilutive earnings per share	0.20	2.75

The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

Years ended October 31	1998	1997
Risk-free interest rate	5.71%	5.75%
Expected life of option in years	3.9	3.1
Expected dividend yield	0.8%	1.5%
Expected stock volatility	21%	20%

The weighted average fair market value of options was estimated to be \$10.01 and \$6.14 per share for the years ended October 31, 1998 and 1997, respectively.

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

	Options available for grant	Options outstanding	Weighted average exercise price
October 31, 1995	455,669	1,253,311	\$20.56
Granted	(48,768)	48,768	29.77
Exercised	-	(193,221)	18.85
Cancelled	1,000	(1,000)	29.13
Increase in options available for grant	600,000	-	-
October 31, 1996	1,007,901	1,107,858	21.25
Granted	(251,620)	251,620	32.74
Exercised	-	(443,516)	21.93
Cancelled	33,812	(33,812)	24.49
October 31, 1997	790,093	882,150	24.06
Granted	(397,882)	397,882	41.97
Increase in options			

available for grant	80,000	-	-
Exercised	-	(103,792)	25.37
Cancelled	62,869	(64,514)	31.55
-----	-----	-----	-----
October 31, 1998	535,080	1,111,726	\$29.92
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The table below presents the number, weighted average remaining contractual life, and weighted average exercise price for options outstanding at October 31, 1998:

Exercise price range	Number of options	Weighted average exercise price	Weighted average remaining contractual life
-----	-----	-----	-----
Options exercisable at October 31, 1998:			
\$14.75	300,000	\$14.75	7.1 years
\$23.625 - \$29.125	223,032	27.01	1.4 years
\$31.75 - \$36.375	156,108	33.84	3.0 years
\$43.376 - \$43.50	246,039	43.50	4.1 years
-----	-----	-----	-----
Total	925,179	\$28.57	4.2 years
-----	-----	-----	-----
Options not exercisable at October 31, 1998:			
\$29.796 - \$39.316	186,547	\$36.58	3.5 years
-----	-----	-----	-----
Grand total	1,111,726	\$29.92	4.1 years
-----	-----	-----	-----

On July 31, 1995, the company issued 17,467 shares of restricted stock and 17,467 performance units to the CEO under the terms of the Chief Executive Officer Succession Plan. The value of each performance unit is equal to the fair market value of a share of common stock. The restricted stock and performance units vest based upon achievement of specified succession planning goals. Dividends are paid with respect to the restricted stock and those shares may be voted. Portions of the

restricted stock and performance unit awards will be forfeited if specified goals are not achieved at various dates, ending on October 31, 2003 or termination of employment. Compensation expense related to this plan was \$89,000, \$350,000, and \$254,000 for the fiscal years ended 1998, 1997, and 1996, respectively.

10 EMPLOYEE BENEFIT PROGRAMS

The company maintains the following significant plans for eligible employees:

- The Toro Company Investment and Savings Plan
- The Toro Company Employee Stock Ownership Plan

The company's expenses under these plans were \$11,245,000, \$10,797,000, and \$9,476,000 for fiscal years ended 1998, 1997, and 1996, respectively.

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

11 SEGMENT DATA

The company classifies its operations into one industry segment, outdoor maintenance equipment. International sales were \$235,940,000, \$232,808,000, and \$174,249,000 for the fiscal years ended 1998, 1997, and 1996, respectively. Of these amounts, export sales were \$153,500,000, \$161,836,000, and \$140,919,000 for the years ended 1998, 1997, and 1996, respectively. Export sales by geographic area were as follows:

(Dollars in thousands)

Years ended October 31	1998	1997	1996
Europe	\$ 86,953	\$ 79,515	\$ 71,325
Canada	35,123	33,349	29,578
Pacific Rim	16,693	34,417	34,975
Other	14,731	14,555	5,041
Total export sales	\$153,500	\$161,836	\$140,919

12 LEASE COMMITMENTS

As of October 31, 1998, future minimum lease payments under capital leases totaled \$949,000. Total rental expense for operating leases was \$11,962,000, \$12,467,000, and \$11,048,000 for the fiscal years ended 1998, 1997, and 1996, respectively. At October 31, 1998, future minimum lease payments under noncancelable operating leases amounted to \$15,703,000 as follows: 1999, \$7,270,000; 2000, \$4,031,000; 2001, \$2,647,000; 2002, \$1,000,000; 2003, \$424,000; and beyond, \$331,000.

13 COMMITMENTS AND CONTINGENT LIABILITIES

Debts incurred by certain distributors, aggregating \$4,172,000 at October 31, 1998 and \$5,600,000 at October 31, 1997, have been guaranteed by the company.

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

14 FINANCIAL INSTRUMENTS

OFF-BALANCE SHEET RISK

Letters of credit are issued by the company during the ordinary course of business, as required by certain vendor contracts, through major domestic banks. As of October 31, 1998 and 1997, the company had \$28,007,000 and \$25,985,000, respectively, in outstanding letters of credit.

CONCENTRATIONS OF CREDIT RISK

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

FOREIGN CURRENCY INVESTMENTS

The company has entered into various foreign currency exchange contracts designed to manage its exposure to exchange rate fluctuations on foreign currency transactions. These instruments used as hedges are managed to reduce the risk associated with the exposure being hedged and are designated as a hedge at the inception of the contract. Accordingly, changes in market values of hedge instruments must be 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. Gains and losses on foreign currency contracts are recorded to

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

The following forward exchange contracts held by the company have maturity dates in fiscal year 1999. All items are non-trading and stated in U.S. dollars. The average contracted rate, notional amount, and fair value impact at October 31, 1998 were as follows:

Dollars in thousands (except average contracted rate)	Average Contracted Rate	Notional Amount	Fair Value Impact Gain (Loss)
Buy Australian dollar/Sell U \$	.6368	\$1,022.8	\$(18.2)
Buy US \$/Sell Australian dollar	.6040	5,614.1	(206.9)
Buy US \$/Sell Canadian dollar	1.5135	7,168.8	140.0
Buy German mark/Sell US \$	1.7808	2,948.2	251.5

FAIR VALUE

Estimated fair value amounts have been determined using available information and appropriate valuation methodologies. Because considerable judgment is required in developing the estimates of fair value, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

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

At October 31, 1998, the estimated fair value of long-term debt with fixed interest rates was \$182,273,000 compared to its carrying value of \$197,424,000. The fair value is estimated by discounting the projected cash flows using the rate at which similar amounts of debt could currently be borrowed.

15 QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for fiscal 1998 and fiscal 1997 is as follows:

Quarter (Dollars in thousands, except per share data)	FISCAL YEAR ENDED OCTOBER 31, 1998			
	FIRST	SECOND	THIRD	FOURTH
Net sales	\$210,059	\$379,686	\$290,993	\$229,696
Gross profit	73,052	132,949	101,280	77,035
Restructuring and other unusual expense	-	-	10,452	4,590
Net earnings (loss)	(1,061)	20,053	(2,553)	(12,349)
Basic net earnings (loss) per share	(0.08)	1.56	(0.20)	(0.96)
Dilutive net earnings (loss) per share	(0.08)	1.53	(0.20)	(0.96)
Dividends per share of common stock	0.12	0.12	0.12	0.12
Market price of common stock				
High sales price	46 5/16	40 15/16	37 10/16	27 9/16
Low sales price	38 1/2	36 3/16	26 3/4	16 1/2

Quarter (Dollars in thousands, except per share data)	Fiscal Year Ended October 31, 1997			
	First	Second	Third	Fourth
Net sales	\$208,957	\$352,203	\$249,274	\$240,770
Gross profit	75,227	125,117	92,395	95,298
Restructuring and other unusual expense	-	-	-	2,600
Net earnings, before extraordinary loss	2,491	19,040	9,949	5,028
Net earnings	2,491	19,040	8,286	5,028
Basic net earnings per share, before extraordinary loss	0.21	1.58	0.82	0.41
Basic net earnings per share	0.21	1.58	0.69	0.41
Dilutive net earnings per share, before extraordinary loss	0.20	1.53	0.80	0.40
Dilutive net earnings per share	0.20	1.53	0.67	0.40
Dividends per share of common stock	0.12	0.12	0.12	0.12
Market price of common stock				
High sales price	36 5/8	36 7/8	38 7/8	43 3/4
Low sales price	31 1/2	33	35 1/8	35 7/16

As of January 7, 1999, the company had 6,393 stockholders of record.

(Dollars and shares in thousands, except per share data, number of employees and stockholders)
 Years ended October 31(8)

	1998 (1)(2)	1997 (4)(5)	1996
OPERATING RESULTS:			
Net sales	\$1,110,400	\$1,051,200	\$930,900
Net sales growth from prior year	5.6%	12.9%	1.3%
Net earnings (loss), before extraordinary loss(3)	\$ 4,090	\$ 36,500	\$ 36,400
Percentage of net sales	0.4%	3.5%	3.9%
Net earnings (loss)	\$ 4,090	\$ 34,845	\$ 36,400
Dilutive earnings (loss) per share, before extraordinary loss(3)	0.31	2.93	2.90
Return on average stockholders' equity	1.6%	15.3%	18.0%
SUMMARY OF FINANCIAL POSITION:			
Current assets	\$ 479,400	\$ 472,000	\$405,000
Current liabilities	258,200	237,800	207,900
Working capital	221,200	234,200	197,100
Long-term debt, less current portion	196,800	177,700	53,000
Stockholders' equity	263,400	241,200	213,600
Debt to capitalization ratio	46.4%	47.6%	30.7%
OTHER STATISTICAL DATA:			
Book value per share of common stock	\$ 20.63	\$ 19.79	\$ 17.75
Dividends per share of common stock	0.48	0.48	0.48
Number of shares of common stock outstanding	12,770	12,189	12,032
Number of common stockholders(9)	6,364	6,560	6,841
Market price range -			
High price	\$ 46 5/16	\$ 43 3/4	\$ 36 1/4
Low price	16 1/2	31 1/2	28 3/8
Average number of employees	4,695	4,309	3,610

- (1) Includes restructuring and other unusual expenses of \$15.0 million in fiscal 1998.
- (2) The company's consolidated financial statements include results of operations of Exmark from November 1, 1997 and Drip In from February 1, 1998, dates of acquisitions.
- (3) 1997 net earnings and earnings per dilutive share after the extraordinary loss on early retirement of debt of \$1,663,000, or \$0.13 per dilutive share, were \$34,845,000 and \$2.80, respectively.
- (4) The company's consolidated financial statements include results of operations of the James Hardie Irrigation Group from December 1, 1996, the date of acquisition.
- (5) Includes restructuring and other unusual expense of \$2.6 million in fiscal 1997.
- (6) Includes restructuring costs of \$24.9 million in fiscal 1992.
- (7) The company's consolidated financial statements include results of operations of LawnBoy Inc. from November 7, 1989, the date of acquisition.
- (8) In 1995, the company changed its fiscal year end from July 31 to October 31. Therefore, actual date of the yearend for years prior to 1995 are unaudited and were restated to include twelve months of data through the Friday closest to October 31 for comparative purposes.
- (9) Represents the number of stockholders at July 31 for the years starting in 1988 and ending in 1994.

(Dollars and shares in thousands, except per share data, number of employees and stockholders)				
Years ended October 31(8)	1995	1994	1993	1992 (6)
OPERATING RESULTS:				
Net sales	\$919,400	\$864,300	\$706,600	\$638,700
Net sales growth from prior year	6.4%	22.3%	10.6%	(9.6)%
Net earnings (loss), before extraordinary loss(3)	\$ 32,400	\$ 32,400	\$ 15,300	\$(21,700)
Percentage of net sales	3.5%	3.8%	2.2%	(3.4)%
Net earnings (loss)	\$ 32,400	\$ 32,400	\$ 15,300	\$(21,700)
Dilutive earnings (loss) per share, before extraordinary loss(3)	2.50	2.49	1.22	(1.81)
Return on average stockholders' equity	17.5%	20.2%	11.4%	(15.5)%
SUMMARY OF FINANCIAL POSITION:				
Current assets	\$386,300	\$373,400	\$326,100	\$324,200
Current liabilities	221,200	197,200	169,200	132,500
Working capital	165,100	176,200	156,900	191,700
Long-term debt, less current portion	53,400	70,400	87,300	147,900
Stockholders' equity	190,900	178,700	141,900	126,400
Debt to capitalization ratio	36.6%	33.8%	46.5%	56.5%
OTHER STATISTICAL DATA:				
Book value per share of common stock	\$ 15.69	\$ 14.05	\$ 11.47	\$ 10.50
Dividends per share of common stock	0.48	0.48	0.48	0.48
Number of shares of common stock outstanding	12,168	12,720	12,370	12,041
Number of common stockholders(9)	7,243	7,541	7,968	8,386
Market price range -				
High price	\$ 32 1/4	\$ 30 1/2	\$ 26 3/4	\$ 17 1/2
Low price	25 5/8	20 7/8	14 1/8	11 3/8
Average number of employees	3,638	3,434	3,117	3,084

(Dollars and shares in thousands, except per share data, number of employees and stockholders)				
Years ended October 31(8)	1991	1990 (7)	1989	1988
OPERATING RESULTS:				
Net sales	\$706,200	\$747,300	\$639,200	\$626,200
Net sales growth from prior year	(5.5)%	16.9%	2.1%	13.5%
Net earnings (loss), before extraordinary loss(3)	\$ 9,100	\$ 8,400	\$ 20,000	\$ 20,500
Percentage of net sales	1.3%	1.1%	3.1%	3.3%
Net earnings (loss)	\$ 9,100	\$ 8,400	\$ 20,000	\$ 20,500
Dilutive earnings (loss) per share, before extraordinary loss(3)	0.77	0.84	1.90	1.90
Return on average stockholders' equity	6.1%	6.8%	21.7%	26.1%
SUMMARY OF FINANCIAL POSITION:				
Current assets	\$322,000	\$306,800	\$271,200	\$296,400
Current liabilities	103,800	133,000	125,000	144,200
Working capital	218,200	173,800	146,200	152,200
Long-term debt, less current portion	154,100	125,300	95,600	112,200
Stockholders' equity	153,400	146,300	99,300	85,100
Debt to capitalization ratio	51.9%	54.3%	54.7%	65.0%
OTHER STATISTICAL DATA:				
Book value per share of common stock	\$ 12.84	\$ 12.34	\$ 9.98	\$ 8.46
Dividends per share of common stock	0.48	0.48	0.48	0.45
Number of shares of common stock outstanding	11,950	11,859	9,946	10,059
Number of common stockholders(9)	8,503	7,706	7,527	6,802
Market price range -				
High price	\$ 20 1/2	\$ 30	\$ 24 3/8	\$ 24 7/8
Low price	11	12	17 7/8	11 1/8
Average number of employees	3,580	3,771	3,068	3,105

(1) Includes restructuring and other unusual expenses of \$15.0 million in fiscal 1998.

(2) The company's consolidated financial statements include results of operations of Exmark from November 1, 1997 and Drip In from February 1, 1998, dates of acquisitions.

(3) 1997 net earnings and earnings per dilutive share after the extraordinary loss on early retirement of debt of \$1,663,000, or \$0.13 per dilutive share, were \$34,845,000 and \$2.80, respectively.

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

(5) Includes restructuring and other unusual expense of \$2.6 million in fiscal 1997.

(6) Includes restructuring costs of \$24.9 million in fiscal 1992.

(7) The company's consolidated financial statements include results of operations of LawnBoy Inc. from November 7, 1989, the date of acquisition.

(8) In 1995, the company changed its fiscal year end from July 31 to October 31. Therefore, actual date of the yearend for years prior to 1995 are unaudited and were restated to include twelve months of data through the Friday closest to October 31 for comparative purposes.

(9) Represents the number of stockholders at July 31 for the years starting in

BOARD OF DIRECTORS

Ronald O. Baukol (C/E/N)
Executive Vice President
International Operations
3M
St. Paul, Minnesota

Robert C. Buhrmaster (A/E/N)
President and Chief Executive Officer
Jostens, Inc.
Minneapolis, Minnesota

Winslow H. Buxton (A/E/N)
Chairman, President and
Chief Executive Officer
Pentair, Inc.
St. Paul, Minnesota

Janet K. Cooper (A*/C)
Vice President, Treasurer
U.S. West
Denver, Colorado

Kendrick B. Melrose (E*/N**)
Chairman and Chief Executive Officer
The Toro Company

Alex A. Meyer (A/C)
Retired
Amana Refrigeration, Inc.
Amana, Iowa

Robert H. Nassau (C/N)
President and Chief Executive Officer
St. Raymond Wood Products Holding Limited
Boston, Massachusetts

Dale R. Olseth (A/C*/E)
Chairman and Chief Executive Officer
SurModics, Inc.
Minneapolis, Minnesota

Christopher A. Twomey (C/N)
President and Chief Executive Officer
Arctic Cat, Inc.
Thief River Falls, Minnesota

Edwin H. Wingate (A/E/N*)
Retired
Dayton Hudson Corporation
Minneapolis, Minnesota

- (A) Audit Committee Member
- (C) Compensation Committee Member
- (E) Executive Committee Member
- (N) Nominating Committee Member
- * Committee Chairman
- ** Ex-officio Non-voting Member

OFFICERS

Kendrick B. Melrose
Chairman and Chief Executive Officer+

J. David McIntosh
Executive Vice President
Professional Businesses and International+

William D. Hughes
Vice President and General Manager
Consumer Business+

Steven P. Hansen
Vice President
Corporate Information Services

Dennis P. Himan
Vice President and General Manager
Landscape Contractor Businesses+

Michael J. Hoffman
Vice President and General Manager
Commercial Business+

Randy B. James
Vice President and Controller+

Stephen D. Keating
Assistant Treasurer, Investor Relations

Ram N. Kumar
Vice President, Distributor Development
and New Businesses

J. Lawrence McIntyre

Vice President, Secretary and General Counsel+

Karen M. Meyer
Vice President, Administration+

Richard W. Parod
Vice President and General Manager
Irrigation Business+

Richard R. Pollick
Vice President and General Manager
International Business+

N. Jeanne Ryan
Assistant Secretary

Stephen P. Wolfe
Vice President Finance, Treasurer and
Chief Financial Officer+

+Executive officers subject to Section 16

STOCKHOLDERS' INFORMATION

DIVIDENDS

Communications concerning transfer requirements, address changes, dividends and lost certificates should be addressed to:

Shareholder Assistance
Norwest Bank Minnesota, N.A.
P.O. Box 64854
St. Paul, Minnesota 55164-0854
651-450-4064
1-800-468-9716

DIVIDEND REINVESTMENT

The company sponsors an Automatic Dividend Reinvestment Plan. For enrollment information contact:

Investor Relations
The Toro Company
8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196

Inquiries about existing dividend reinvestment accounts should be addressed to:

Dividend Reinvestment Plan
The Toro Company
Norwest Bank Minnesota, N.A.
P.O. Box 64854
St. Paul, Minnesota 55164-0854
651-450-4064
1-800-468-9716

QUARTERLY INFORMATION

Quarterly earnings results are expected to be announced on the following dates:

First Quarter: February 23, 1999
Second Quarter: May 26, 1999
Third Quarter: August 25, 1999
Fourth Quarter: December 14, 1999

To obtain a copy of the quarterly financial results, contact:

Investor Relations
The Toro Company
8111 Lyndale Avenue South
Bloomington, Minnesota 55420
E-mail: invest@toro.com
Phone: 612-887-7141

FORM 10-K

THE ANNUAL REPORT ON FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS AVAILABLE WITHOUT CHARGE UPON WRITTEN REQUEST BY A STOCKHOLDER TO:

Investor Relations
The Toro Company
8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196
E-mail: invest@toro.com

STOCK LISTING

New York Stock Exchange (TTC)

ANNUAL MEETING

March 24, 1999, 3:00 p.m. (CST)
The Toro Company Corporate Offices
8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196

INTERNET ADDRESSES

www.toro.com
www.lawnboy.com
www.irritrolsystems.com
www.lawngenie.com
www.exmark.com
www.nsn.com

WORLDWIDE LOCATIONS

UNITED STATES

Abilene, Texas
Baraboo, Wisconsin
Beatrice, Nebraska
Bloomington, Minnesota
Dallas, Texas
El Cajon, California
El Paso, Texas
Evansville, Indiana
Laguna, California
Lakeville, Minnesota
Lincoln, Nebraska
Madera, California
Mountaintop, Pennsylvania
Oxford, Mississippi
Plymouth, Wisconsin
Riverside, California
Sanford, Florida
Shakopee, Minnesota
Tomah, Wisconsin
Windom, Minnesota

AROUND THE WORLD

Balcatta, Australia
Beverly, Australia

Braeside, Australia
Eagle Farm, Australia
Murray Bridge, Australia
Oevel, Belgium
Parramatta, Australia
Rome, Italy

THE TORO COMPANY
SUBSIDIARIES OF REGISTRANT

All of the following are subsidiaries of The Toro Company as of December 31, 1998.

NAME	STATE OR OTHER JURISDICTION OF INCORPORATION	PERCENTAGE OF VOTING SECURITIES OWNED BY IMMEDIATE PARENT
Toro Australia Pty. Limited	Australia	100%
Toro Credit Company	Minnesota	100%
Toro Europe	Belgium	100%
Toro Foreign Sales Corporation	Barbados	100%
Lawn-Boy Inc.	Delaware	100%
Toro Probiotic Products, Inc.	Minnesota	100%
Toro Sales Company	Minnesota	100%
Toro Southwest, Inc.	California	100%
Toro International Company	Minnesota	100%
Hahn Equipment Co.	Minnesota	100%
Professional Turf Products of Texas, Inc.	Texas	100%
Turf Management Systems, Inc.	Minnesota	100%
ACN 007 664 315 Pty. Limited (formerly James Hardie Irrigation Pty. Limited)	Australia	100%
Irritrol Systems Europe, S.p.A.	Italy	100%
Exmark Manufacturing Company Incorporated	Nebraska	100%

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
The Toro Company:

We consent to incorporation by reference in the Registration Statements (Nos. 33-26268, 33-31586, 33-38308, 33-44668, 33-51563, 33-55550, 33-59563, 333-44879, and 333-20901) on Forms S-3 and S-8 of The Toro Company of our reports dated December 11, 1998, relating to the consolidated balance sheets of The Toro Company and subsidiaries as of October 31, 1998 and 1997, and the related consolidated statements of earnings and cash flows and related financial statement schedule for each of the years in the three-year period ended October 31, 1998, which reports are included in or incorporated by reference in the annual report on Form 10-K of The Toro Company.

KPMG Peat Marwick LLP

Minneapolis, Minnesota
January 28, 1999

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

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12-MOS		
	OCT-31-1998	
	NOV-01-1997	
	OCT-31-1998	90
		0
	246,504	
	9,324	
	184,306	
	479,437	
		330,539
	203,402	
	723,991	
258,210		197,424
	0	
		0
		12,770
		250,629
723,991		
		1,110,434
	1,110,434	
		726,118
	360,600	
	(8,473)	
	623	
	25,428	
	6,761	
		2,671
	4,090	
		0
		0
		0
		4,090
		0.32
		0.31

TOTAL LONG-TERM DEBT
DOES NOT INCLUDE ADDITIONAL PAID-IN-CAPITAL
OTHER INCOME, NET