

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, 1996.

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-8649

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

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

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

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

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

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

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

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

Yes /X/ No / /

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

The aggregate market value of the voting stock held by nonaffiliates of the
Registrant, based upon the closing price of the Common Stock on December 27,
1996 as reported by the New York Stock Exchange, was approximately \$423,922,000.

The number of shares of Common Stock outstanding as of December 27, 1996 was
12,116,732.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for the fiscal year
ended October 31, 1996, 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 13, 1997 are incorporated by reference into Part
III.

ITEM 1. BUSINESS

INTRODUCTION

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

The company emphasizes quality and innovation in its products, manufacturing and marketing. The company strives to provide well built, dependable products supported by an extensive service network. Innovation is emphasized through the introduction of new and enhanced products. The company's substantial funding of research and development, as well as its acquisition strategy and its licensing and related agreements, all contribute to its new product development efforts. Through these efforts the company also attempts to be responsive to trends which may affect its target markets, now and in the future. The company believes that a significant portion of its revenues in recent years have been attributable to its new and enhanced products. Examples of recently introduced products include the Recycler-Registered Trademark- lawn mower which reduces the need for disposal of grass clippings, a high pressure water jet turf aerator for maintenance of golf course putting greens and an enhanced electronic controller for residential irrigation systems which features programmable timing and zone control functions.

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

OUTDOOR MAINTENANCE EQUIPMENT

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

CONSUMER PRODUCTS

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

RIDING MOWERS AND LAWN AND GARDEN TRACTORS. The company manufactures riding lawn mowers and lawn and garden tractors under its brand name Toro-Registered Trademark-Wheel Horse-Registered Trademark- which range from an eight horsepower, 25 inch deck, rear engine model to a 20 horsepower, front engine model. The front engine model is available with a variety of decks and accessories (Recycler technology is available in select models). Some recently introduced 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 for mass merchandisers and "do-it-yourself" home improvement markets. These products, which include homeowner-installed low voltage lighting, flexible line trimmers and electric blowers, are intended to require little or no after sales service. Among recently introduced products are a complete line of handheld products which include a cordless trimmer, hedge trimmers, gas edgers, gas trimmers, and a gas blower.

SNOW REMOVAL PRODUCTS. The company manufactures and markets lightweight and larger self-propelled walk-behind snowthrowers and electric Power Shovel snowthrowers under the Toro-Registered Trademark- and Lawn-Boy-Registered Trademark- brand names. Single-stage snowthrowers, developed by the company and first introduced in 1965, are walk-behind units with a lightweight gasoline engine or electric motor and the Power Curve-Registered Trademark- snowthrower technology for general residential use. Two-stage snowthrowers are designed for relatively large areas with engines ranging from 5 to 12 horsepower. Units with 8 horsepower and above are equipped with the Power Shift-Registered Trademark- snowthrower technology.

PROFESSIONAL TURF PRODUCTS

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

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

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

IRRIGATION PRODUCTS. Turf irrigation products marketed under the Toro-Registered Trademark- brand name include sprinkler heads and electric and hydraulic control devices designed to be used in turf irrigation systems for residential, commercial and golf course use. These products are installed in new systems and can also be used to replace or retrofit existing systems. Most of the product line is designed for underground irrigation systems. Sprinkler heads are buried underground and pop up when in operation. Control valves activate the sprinkler heads and controllers typically activate electric or hydraulic lines to control the valves and sprinkler heads. Recently introduced products include more efficient sprinkler heads and automatic electronic controllers for residential, commercial and golf course irrigation systems. The acquisition of the James Hardie Irrigation Group enhances Toro's product line for residential and commercial irrigation systems and also provides products for the agricultural micro-irrigation segment, including drip tape, hose, emitters and other micro-irrigation products. See "Recent Developments" included within Part I. The company's irrigation products are used in 75 of the golf courses rated among the top 100 courses in the United States by GOLF DIGEST.

See the tables entitled "Sales By Product Line" under the captions "Results of Operations" in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 16 and 25 of the company's Annual Report to Stockholders for the fiscal year ended October 31, 1996 for information regarding revenues in the consumer, commercial and irrigation product lines, which information is incorporated herein by reference.

INTERNATIONAL OPERATIONS

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

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

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

RECENT DEVELOPMENTS

On December 3, 1996, the company announced the completion of the acquisition of James Hardie Irrigation Group (JHI) from James Hardie Limited of Australia. JHI is a worldwide leader in the production of irrigation systems to the commercial landscape market. JHI manufactures products for all major segments of the irrigation market, except for the golf market, and sells to distributors and retailers worldwide. JHI offers a broad range of irrigation products and has leading positions in valves and controllers worldwide. In Australia, JHI has a leading position in hose, hose-end and micro-irrigation products. Unless otherwise indicated, the historical financial and statistical data included herein does not reflect the completion of such acquisition.

The company also completed in fiscal 1996 the acquisition of Liquid Ag Systems of Florida, a leader in fertigation systems, whereby an eco-product feeds turf through existing irrigation systems resulting in less harmful runoff into ponds and streams. Also acquired was National Service Network of Abilene, TX., which provides technology and integrated services support to the company's customers. The company teamed with Walt Disney World Sports to provide the turf expertise to maintain the grounds for the new Wide World of Sports complex in Florida, scheduled to open in the spring of 1997. A partnership with GeoFlow provided the company with an important irrigation product for rootzone irrigation on media strips, recreation areas and residential properties that can reduce water consumption by up to 50%. The company also partnered with Ryobi Outdoor Products, and Maruyama Manufacturing, Inc., in alliances that provide enhanced visibility and expanded product lines in emerging markets such as the landscape contractor business. This line includes cultivators, battery trimmers, hedge trimmers and blower vacuums.

In 1996, the company continued to develop world class manufacturing processes leading to more efficient plant operations through robotics, cellular manufacturing, and just in time sourcing of products. Both the company's Shakopee component manufacturing plant and the Bloomington headquarters' commercial operations received ISO 9000 designations. Prior to 1996, both the Riverside and Tomah manufacturing facilities achieved such designations.

The company continues to provide 2-cycle and 4-cycle gasoline walk-behind power mowers that produce lower emissions. The company introduced electric mowers for both the Toro-Registered Trademark- and Lawn-Boy-Registered Trademark- brands in 1996, including the Toro Carefree-TM- line which integrates Toro-Registered Trademark- mulching technology in an electric mower. In addition, Lawn-Boy-Registered Trademark- introduced a new line of snowthrowers and the E-engine, a new low-emission 2-cycle engine for lawn mowers. Lawn-Boy-Registered Trademark- also offers emission-free battery powered mowers. Consistent with its long-term goal of expanding the professional turf maintenance market, the company introduced an extensive line of new handheld, walk-behind and riding products for the landscape contractor and has increased sales to this market.

The company improved truck fleet efficiency during the year using the QualComm satellite tracking system to monitor and guide shipping and weather patterns. The company also developed Consumer Gateway, an integrated hardware and software computer system for outdoor power equipment dealers.

MANUFACTURING

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

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

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

TRADEMARKS AND PATENTS

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

In connection with the recent acquisition of James Hardie Irrigation Group, the following brand names were acquired: Lawn Genie-Registered Trademark-, Irritrol-Registered Trademark-, Richdel-Registered Trademark-, Hardie Pope, Hardie, Blue Stripe, Hardie Tape and Aqua-Traxx. The company has agreed to discontinue use of the term "Hardie" or any similar name within one year of the acquisition. However, inventory manufactured prior to that one year may continue to carry the term "Hardie" or similar name.

SEASONALITY

Sales of the company's consumer products, which accounted for approximately 50% of total sales in fiscal 1996, are seasonal with greater sales of consumer products, excluding snow removal equipment, occurring between February and April and snow removal equipment between August and January. Opposite seasons in some global markets somewhat moderate this seasonality in consumer product sales. Seasonality in irrigation and commercial product sales also exists, but is tempered because the selling season in west coast and southern states continues for a longer portion of the year than in northern states. Overall, worldwide sales levels are highest in the second quarter. Historically, accounts receivable balances increase between January and March as a result of extended payment terms made available to the company's customers. Accounts receivable balances decrease between April and June when payments are made. The seasonal requirements of the business are financed from operations and with short-term bank lines of credit and off-balance sheet financing.

DISTRIBUTION AND MARKETING

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

The company's current marketing strategy is to maintain distinct and separate brands and brand identification for Toro-Registered Trademark-, Toro-Registered Trademark-Wheel Horse-Registered Trademark- and Lawn-Boy-Registered Trademark-products. The company is currently evaluating its marketing strategies with respect to the brand names acquired in connection with the acquisition of the James Hardie Irrigation Group.

The company's distribution systems for the sale of its products are intended to assure quality of sales and market presence as well as effective after-market service. The company considers its distribution network to be a significant competitive asset in marketing Toro-Registered Trademark-, Toro-Registered Trademark-Wheel Horse-Registered Trademark- and Lawn-Boy-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 directly paid by the company as well as through cooperative programs with distributors, dealers and mass merchants.

BACKLOG OF ORDERS

The order backlog at October 31, 1996 and 1995 was as follows:

	1996	1995
	-----	-----
Consumer	\$ 51,373,000	\$ 46,087,000
Commercial	55,138,000	49,624,000
Irrigation	4,333,000	4,417,000

The increase in consumer product backlog reflects the sell-out of gas snow products in fiscal 1996. This resulted in increased orders of gas snow products at the end of fiscal 1996 in anticipation of another hard winter season. The increase for commercial products reflects continued sales growth in most product lines. The existing backlog is expected to be filled in the succeeding fiscal year.

COMPETITION

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

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

CONSUMER

The company's principal competitors for mowing and snow equipment are American Yard 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 ACT), Ariens Company, Bolens Corporation (a division of Garden Way, Incorporated), Noma Outdoor Products, Simplicity Manufacturing Company and Yamaha Motor Corporation, USA. The principal competitors in home solutions products are The Black and Decker Corporation, K & S Industries, Inc., Malibu Lighting (a registered trademark of Intermatic, Inc.) and Poulan/Weed Eater (a division of Electrolux AB).

COMMERCIAL

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

IRRIGATION

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

INTERNATIONAL

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

RESEARCH AND DEVELOPMENT

The company conducts research and development activities in an effort to improve existing products and develop new products. Amounts expended on such activities, including engineering costs, aggregated approximately \$31.3 million, or 3.4% of net sales for the year ended October 31, 1996, \$6.9 million, or 3.6% of net sales for the 3 months ended October 31, 1995, \$26.5 million, or 2.8% of net sales for the year ended July 31, 1995, and \$24.6 million, or 3.1% of net sales for the year ended July 31, 1994. Management believes that the company's research and development efforts are important to the quality, mix and growth of its businesses and plans to continue its strong commitment to such activities.

GOVERNMENTAL REGULATION

The company's products are subject to various federal statutes designed to protect consumers and are subject to the administrative jurisdiction of the federal Consumer Product Safety Commission. The company is also subject to certain federal and state environmental, occupational safety and other regulations, none of which has had a material adverse affect on its operations or business. Management believes the company is in substantial compliance with all such regulations. The Environmental Protection Agency (EPA) released Phase I regulations for all gas engines under 25 horsepower in June of 1995. Toro's four-cycle engine suppliers are required to comply with the EPA regulations on or before September 1997. The company expects its own two-cycle walk-behind power mower engines to be able to comply with Phase I regulations beginning in September of 1997. This will allow the company to continue producing its two-cycle walk-behind power mower engines at its Oxford, Mississippi plant through the year 2002.

EMPLOYEES

During fiscal 1996 the company employed an average of 3,509 employees. The total number of employees at October 31, 1996 was 3,280, reflecting the company's normal seasonal fluctuation in employment. Approximately 20 % of these employees are covered by four collective bargaining agreements, one expiring in May 1997, two expiring in September 1997, and one expiring in November 1999.

As a result of the acquisition of the James Hardie Irrigation Group, the company added approximately 1,070 employees. JHI's Australian employees have three local agreements with the National Union of Workers and the Australian Workers Union which cover approximately 15% of all JHI employees. These agreements will expire in June 1997. None of the JHI U.S. employees are represented by unions.

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

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS

With the exception of the newly added JHI production facilities in Australia, all of the company's production facilities are located within the United States. Except for the sales of the company's foreign subsidiaries, which are not significant when compared to total company sales, substantially all financial transactions have been made in U.S. dollars. Consequently, the company did not realize any significant impact to earnings due to fluctuations in foreign currencies during the fiscal year ended October 31, 1996.

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 forward exchange and range forward option contracts. These contracts are designed to hedge firm and anticipated foreign currency transactions. With the acquisition of the James Hardie Irrigation Group, the company expects an increase in transactions denominated in Australian dollars.

Export sales were \$154,716,000 for the year ended October 31, 1996, \$18,557,000 for the 3 months ended October 31, 1995, and \$126,560,000 and \$109,344,000 for the years ended July 31 1995 and 1994, respectively. The identifiable assets attributable to foreign operations were not significant as of October 31, 1996.

See Note 8 to the Consolidated Financial Statements of the company contained in the company's Annual Report to Stockholders for the fiscal year ended October 31, 1996 for additional information relating to international and export sales, which information is incorporated herein by reference.

ITEM 2. PROPERTIES

The company utilizes manufacturing and office facilities which total approximately 4,437,000 square feet of space. The manufacturing facilities, excluding JHI, operated at about 62% of total plant capacity in fiscal 1996. Actual plant utilization varies during the year depending upon the production cycle. Management believes that the current facilities are sufficient for current production needs. The following schedule outlines the company's facilities by location, plant size, ownership and function:

Location	Square Feet	Ownership	Products Manufactured / Use
Plymouth, WI	420,000	Owned	Parts distribution center, office
Windom, MN	305,000	Owned	Consumer components and products
Lakeville, MN	304,000	Leased	Finished Goods distribution center, office
Bloomington, MN	300,000	Owned	Corporate headquarters
Tomah, WI	274,000	Owned	Consumer and Commercial products
Sardis, MS	245,000	Owned	Consumer products
Baraboo, WI	228,000	Leased	Finished Goods distribution center, office
South Bend, IN	226,000	Owned	Facility closed in 1993 and is being held for resale
Riverside, CA	217,000	Owned	Irrigation products
Evansville, IN	178,000	Leased	Consumer and Commercial products
Olathe, KS	176,000	Leased	Commercial products
Mound, MN	162,000	Leased	Consumer products
Shakopee, MN	146,000	Owned	Components for consumer and commercial products
El Paso, TX	143,000	Owned	JHI irrigation products and warehouse
Springvale, Australia	109,000	Leased	JHI irrigation products and warehouse
Beverley, Australia	109,000	Owned	JHI Corporate office and distribution center
Murray Bridge, Australia	101,000	Owned	JHI irrigation products and warehouse
El Cajon, California	92,000	Owned	JHI irrigation products and warehouse
Oxford, MS	67,000	Owned	Components for consumer products
Oevel, Belgium	63,000	Owned	Finished goods distribution center, office
Total Square Feet	3,865,000		

Other leased office and warehouse space located in various cities in the United States, Australia, Canada, France, Singapore, Japan and the United Kingdom totaled approximately 572,000 square feet.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The list below identifies those persons deemed to be executive officers of the company, discloses their age and position with the company as of January 20, 1997, and positions held by them during the last five years. Officers are elected or appointed annually. A complete list of all officers of the company is found on the inside back cover of the Registrant's Annual Report for the year ended October 31, 1996.

Name, Age and Position with the Company	Business Experience During the Last Five Years
Randy B. James 53, Vice President and Controller	Appointed Vice President and Controller in December 1988.
Gerald T. Knight 49, Vice President-Finance and Chief Financial Officer	Elected Vice President-Finance and Chief Financial Officer in April 1992. From December 1990 to April 1992, was Executive Director - Finance and Corporate Controller of NeXT Computer, Inc.
Charles B. Lounsbury 53, Group Vice President Office of the President	Elected Group Vice President September 17, 1996. From November 1993 to September 16, 1996 was appointed Vice President, Distribution Parts and Debris Management. From May 1991 to November 1993 was President and Chief Operating Officer of Leaseway Transportation Corporation. While Mr. Lounsbury served as President and a director of Leaseway, it filed for protection under Chapter 11 and during that period it was discharged.
J. David McIntosh 53, Group Vice President Office of the President	Elected Group Vice President September 17, 1996. From February 1992 to September 16, 1996 was appointed Vice President, Consumer Division. Appointed Vice President and General Manager, Home Improvement Division in May 1986.
J. Lawrence McIntyre 54, Vice President, Secretary and General Counsel	Elected Vice President in July 1993. Elected Secretary and General Counsel in August 1993. Prior to July 1993, was a shareholder with Doherty, Rumble & Butler Professional Association.
Kendrick B. Melrose 56, Chairman and Chief Executive Officer Office of the President	Elected Chairman of the Board in December 1987. Elected Chief Executive Officer in December 1983.
Karen M. Meyer 46, Vice President, Human Resources/Administrative Services	Has served as Vice President, Human Resources/Administrative Services since December 1988.
Richard R. Pollick 57, Vice President and General Manager International Division	Appointed Vice President, International Division in March 1990.
Stephen P. Wolfe 48, Vice President, The Toro Company and President, Toro Credit Company	Appointed Vice President in August 1994. Elected President, Toro Credit Company in July 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.

Part II

All information incorporated by reference in this Part II is from the Registrant's Annual Report to Stockholders for the fiscal year ended October 31, 1996 ("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 October 31, 1996 there were 6,841 holders of record of the company's common stock.

See "Quarterly Financial Data" on page 44 of the Annual Report for dividends paid on and range of high and low quotations for the company's common stock on the New York Stock Exchange for the period from August 1, 1995 to October 31, 1996, which information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

See "Selected Financial Data" on page 24 of the Annual Report for financial data for the year ended October 31, 1996, for the 3 month period ended October 31, 1995 and for the years ended July 31, 1995, 1994, 1993 and 1992 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 sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report on pages 16 through 21 and pages 25 through 29 which sections are incorporated herein by reference.

FORWARD-LOOKING INFORMATION

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: This Annual Report on Form 10-K contains various forward-looking statements, included under the captions entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report which sections are incorporated herein by reference, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are not historical are forward-looking. When used in this document, the words "expect", "anticipate", "estimate", and similar expressions are intended to identify forward-looking statements. In addition, forward-looking statements are contained in Part I of this report and may be made orally in the future by or on behalf of the company.

Forward-looking statements involve risks and uncertainties, including, but not limited to, changes in business conditions and the economy in general in both foreign and domestic markets; weather conditions affecting demand; seasonal factors affecting the company's industry; lack of growth in the company's markets; litigation; financial market changes including interest rates and foreign exchange rates; trend factors including housing starts, new golf course starts and market demographics; government actions including budget levels, regulation, and legislation, primarily legislation relating to the environment, commerce and infrastructure, and health and safety; labor relations; availability of materials; actions of competitors; ability to integrate acquisitions; and the company's ability to profitably develop, manufacture and sell both new and existing products. Actual results could differ materially from those projected in the forward-looking statements as a result of these risk factors, and should not be relied upon as a prediction of actual future results. The company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

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 44 of the Annual Report which is incorporated herein by reference.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Part III

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 Toro Company and additional information regarding certain executive officers is incorporated by reference to the information to be contained in the Proxy Statement to be filed 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 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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
1996
Annual Report
To Stockholders

Independent Auditors' Report 30

Consolidated Statements of Earnings for the year ended
October 31, 1996, the 3 months ended October 31, 1995 and
the years ended July 31, 1995 and 1994. 30

Consolidated Balance Sheets
as of October 31, 1996 and 1995 31

Consolidated Statements of Cash Flows for the year ended
October 31, 1996, the 3 months ended October 31, 1995 and
the years ended July 31, 1995 and 1994. 32

Notes to Consolidated Financial Statements 33-44

(a) 2. INDEX TO CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

Included in Part IV of this report:

Independent Auditors' Report. 18

Schedule II - Valuation and Qualifying Accounts 19

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

(a) 3. EXHIBITS

2 and 10(iii)(j) Stock Purchase Agreement among The Toro Company, James Hardie (USA) Inc., James Hardie Industries Limited and RCI Pty. Ltd. (incorporated by reference to the Exhibit to Registrant's Current Report on Form 8-K dated September 18, 1996).

3(i)(a) and 4(a) Certificate of Incorporation of the Registrant as amended and corrected through May 18, 1987 (incorporated by reference to Exhibit 4.2 to the 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 the Registrant dated December 8, 1987 (incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 29, 1988, Commission File No. 1-8649).

3(ii) and 4(c) Bylaws of the Registrant (incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K for the year ended July 31, 1991, Commission File No. 1-8649)

- 4(d) Specimen form of Common Stock certificate (incorporated by reference to Exhibit 4(c) to the Registrant's Registration Statement on Form S-8, Registration No. 2-94417).
- 4(e) Rights Agreement dated as of June 14, 1988, between the Registrant and Norwest Bank Minnesota, National Association relating to rights to purchase Series B Junior Participating Voting Preferred Stock, as amended (incorporated by reference to Exhibit 1 to Registrant's Registration Statement on Form 8-A dated June 17, 1988, Commission File No. 1-8649, as amended).
- 4(f) Indenture dated as of July 15, 1987, between the Registrant and Manufacturers Hanover Trust Company, Trustee, relating to the Registrant's 11% Sinking Fund Debentures Due August 1, 2017 (incorporated by reference to Exhibit 4 to the Registrant's Registration Statement on Form S-3, Registration No. 33-15385).
- 10(iii)(a) * Form of Employment Agreement in effect for certain officers of Registrant (incorporated by reference to Exhibit 10(b) to Registrant's Annual Report on Form 10-K for the year ended July 31, 1995).
- 10(iii)(b) * 1992 Directors Stock Plan, as amended.
- 10(iii)(c) * Annual Management Incentive Plan for certain key employees and officers of Registrant (incorporated by reference to Exhibit A to Registrant's Proxy Statement dated February 5, 1996).
- 10(iii)(d) * 1985 Incentive Stock Option Plan, as amended (incorporated by reference Exhibit 10(b) to Registrant's Annual Report on Form 10-K for the year ended July 31, 1993).
- 10(iii)(e) * 1989 Stock Option Plan, as amended.
- 10(iii)(f) * 1993 Stock Option Plan, as amended.
- 10(iii)(g) * Continuous Performance Award Plan, as amended.
- 10(iii)(h) * The Toro Company Supplemental Management Retirement Plan.
- 10(iii)(i) * Chief Executive Officer Succession Incentive Agreement dated as of July 31, 1995.
- 11 Computation of Earnings per Share of Common Stock and Common Stock Equivalents (page 19 of this report).
- 13 Registrant's Fiscal 1996 Annual Report to Stockholders.
- 21 Subsidiaries of Registrant (page 20 of this report).
- 23 Independent Auditors' Consent (page 21 of this report).
- 27 Supplemental Data Schedule; electronic filing only.

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

(b) REPORTS ON FORM 8-K

Registrant filed its Current Report on Form 8-K dated October 17, 1996, reporting the September 18, 1996 agreement entered into with James Hardie Industries Limited of Australia and related companies, pursuant to which Registrant agreed to purchase the stock of James Hardie Irrigation, Inc. and certain related companies, all known as the James Hardie Irrigation Group, subject to certain terms and conditions.

Registrant filed its Current Report on Form 8-K dated December 16, 1996, reporting the completion of the acquisition of James Hardie Irrigation Group from James Hardie Industries Limited of Australia on December 2, 1996 through the acquisition of all of the outstanding stock of James Hardie Irrigation, Inc., a Nevada corporation, James Hardie Irrigation Pty. Limited, a corporation organized under the laws of South Australia, Australia, and James Hardie Irrigation Europe S.p.A., a corporation organized under the laws of Italy.

The company's Annual Report on Form 10-K for the fiscal year ended October 31, 1996, 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 caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE TORO COMPANY

(Registrant)

Dated: January 20, 1997

/s/ Gerald T. Knight

Gerald T. Knight
Vice President - Finance
Chief Financial Officer

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

Signature	Title	Date
/s/ Kendrick B. Melrose	Chairman, Chief Executive Officer, and Director (principal executive officer)	January 20, 1997
/s/ Gerald T. Knight	Vice President - Finance, Chief Financial Officer (principal financial officer)	January 20, 1997
/s/ Randy B. James	Vice President, Controller (principal accounting officer)	January 20, 1997
/s/ Ronald O. Baukol	Director	January 20, 1997
/s/ Robert C. Buhrmaster	Director	January 20, 1997
/s/ Janet K. Cooper	Director	January 20, 1997
/s/ Alex A. Meyer	Director	January 20, 1997
/s/ Robert H. Nassau	Director	January 20, 1997
/s/ Dale R. Olseth	Director	January 20, 1997
/s/ Edwin H. Wingate	Director	January 20, 1997

[Letterhead]

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Toro Company:

Under date of December 16, 1996, we reported on the consolidated balance sheets of The Toro Company and subsidiaries as of October 31, 1996 and 1995, and the related consolidated statements of earnings and cash flows for the year ended October 31, 1996, the three-month period ended October 31, 1995 and the years ended July 31, 1995 and 1994, as contained in the 1996 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 1996. 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 16, 1996

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, 1996					
Allowance for doubtful accounts	\$ 7,542,000	\$ 3,358,000	\$ 330,000	\$ 1,225,000	\$ 10,005,000
Three Months Ended October 31, 1995					
Allowance for doubtful accounts	\$ 7,343,000	\$ 720,000	\$ 0	\$ 521,000	\$ 7,542,000
Year Ended July 31, 1995					
Allowance for doubtful accounts	\$ 7,702,000	\$ 1,543,000	\$ 20,000	\$ 1,922,000	\$ 7,343,000
Year Ended July 31, 1994					
Allowance for doubtful accounts	\$ 5,589,000	\$ 3,032,000	\$ 765,000	\$ 1,684,000	\$ 7,702,000

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

THE TORO COMPANY
1992 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 independent 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 to comply with 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; provided, however, that the first award of Directors Shares made under the Plan shall be made on the date that the Plan is first approved by the Company's stockholders to Nonemployee Directors then serving. 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; provided, however, that the first award of Directors Options made under the Plan shall be contingent on approval by the Company's

stockholders of the grant of Directors Options. 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 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, except that the first Directors Options awarded contingent upon approval by the Company's stockholders of the grant of Directors Options shall expire on October 31, 2000.
- (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 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. **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 as Directors Shares or pursuant to Directors Options granted under 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.

5. 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 Directors Options shall fully vest, unless otherwise limited by the Committee at the time of grant, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the later of the threatened or actual Change of Control, but not later than ten years after the date of grant. A Change of Control means the earliest to occur of (i) a public announcement that a party shall have acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a party of 30% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or contested election or any combination thereof, that causes (or would cause) the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.
6. 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.
7. TERM OF PLAN. The Plan became effective on August 20, 1992 and shall terminate ten (10) years thereafter, unless sooner terminated by action of the Board of Directors.
8. AMENDMENT.
 - a. The effective date of any amendment to the Plan shall be the date of its adoption by the Board of Directors; provided, however, that no amendment shall be effective unless and until the same is approved by the stockholders of the Company where the failure to obtain such approval would adversely affect the compliance of the Plan with any law or rule, including the Exchange Act and the Internal Revenue Code of 1986, as amended. In the event the stockholders do not approve such an amendment, the amendment shall be of no effect and the Plan shall continue in effect as if such amendment had not been adopted by the Board of Directors, unless the Board otherwise determines. 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.

- b. The provisions of Section 3.a. and Section 3.b. shall not be amended more than once every six (6) months other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder.

THE TORO COMPANY
1989 STOCK OPTION PLAN

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

Subject to the express provisions of the Plan, the Committee shall have plenary authority, in its discretion, to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the exercise price of each option to purchase Common Stock, the individuals to whom and the time or times at which options shall be granted, the number of shares to be subject to each option, when an option may be exercisable and the other terms and provisions (and

amendments thereto) of the respective option agreements (which need not be identical); to determine whether a particular option is to be an Incentive Stock Option and the terms and provisions thereof that shall be required in the judgment of the Committee to provide therefor or to conform to any change in any law or regulation applicable thereto, or to any other law or regulation that may hereafter become effective to provide similar or related tax benefits to option holders; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

4. COMMON STOCK SUBJECT TO THE PLAN. Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock that is reserved and available for issuance pursuant to options granted under the Plan shall be 1,700,000 shares. If any option granted hereunder terminates, expires unexercised, is exchanged for other options without the issuance of shares of Common Stock or is exercised by the delivery or constructive delivery of shares of Common Stock already owned by the option holder, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent shares covered by an option are not issued or used, again be available for option grants under the Plan. Any shares issued by the Company in connection with the assumption or substitution of outstanding grants from any acquired corporation shall not reduce the shares available for option grants under the Plan. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares, or outstanding shares acquired in the market or from private sources, or a combination thereof. Appropriate adjustments in the number of shares of the Common Stock that may be available for option grants under the Plan and adjustments in the option price per share of outstanding options may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or other similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.
5. ELIGIBILITY. Options may be granted to any employee of the Company or any subsidiary thereof who is regularly employed in an executive, managerial, professional or technical position, and to any other individual who performs services for the Company or any subsidiary and who contributes significantly to the strategic and long-term performance objectives of the Company and its subsidiaries. Options may be granted to directors of the Company who are also employees of the Company. More than one option may be granted to the same individual. No option may be granted to an individual who owns, directly or indirectly, Common Stock or other capital stock of the Company possessing more than 5% of the total combined voting power or value of any class of capital stock of the Company or a subsidiary immediately after such option is granted. Except

for the foregoing limitations, there is no minimum or maximum number of shares of Common Stock with respect to which options may be granted to any individual under the Plan. Individuals to whom options are granted are at times referred to as "option holders".

6. DURATION OF THE PLAN. The Plan shall remain in effect until all shares reserved for issuance pursuant to the Plan shall have been purchased pursuant to options granted under the Plan, provided that options under the Plan must be granted within ten years from the effective date of the Plan.
7. GENERAL TERMS OF OPTIONS. Options shall be evidenced by stock option agreements in such form and not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions:
 - A. DATE OF GRANT. An option agreement shall specify the date of grant, which shall be the date on which the Committee grants an option or any later date which the Committee specifically designates.
 - B. NUMBER OF SHARES OF COMMON STOCK. An option agreement shall specify the number of shares of Common Stock to which it pertains. Notwithstanding any other provision of the Plan, the maximum number of shares that may be covered by any option grant during any calendar year shall be 100,000 shares.
 - C. EXERCISE PRICE. The exercise price of all stock options will be granted at fair market value, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan, where the exercise price is an average and on the date of grant could be higher or lower than fair market value. Fair market value is generally determined to be the closing price for the Common Stock on the New York Stock Exchange as reported by The Wall Street Journal or other readily available quotation of composite transactions.
 - D. TERM OF OPTIONS. The term of each option shall be fixed by the Committee.
 - E. EXERCISABILITY AND TRANSFERABILITY.
 - (i) The Committee shall have the authority to determine whether an option agreement shall specify periods after the date of grant of an option during which the option or any portion thereof may not yet be exercisable, including provisions applicable to persons subject to Section 16 of the Exchange Act.

- (ii) During the lifetime of an option holder, options held by such individual may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company or otherwise performing services for the Company or a parent or subsidiary and only if the option holder has been continuously so employed or engaged since the date such options were granted; provided, however, that (a) in the event of disability of an option holder, options may be exercised by such individual not later than the earlier of the date the option expires or one year after the date such employment or performance of services ceases by reason of disability, but only with respect to an option exercisable at the time such employment or performance of services ceases and (b) an option other than an Incentive Stock Option may be exercised (I) after such individual ceases to be an employee 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 (II) in the event a salary replacement option is granted by the Committee and the option holder is involuntarily terminated during the option term or becomes disabled or dies, the Committee shall have the right to grant to the option holder or his personal representative, as the case may be, the right to request either (1) that the option be cancelled and the option holder or his estate be paid an amount equal to the compensation the option holder has given up from the date of grant to the date of such termination, disability or death together with interest at the prime rate less the then market gain on that portion of the shares covered by the option which is then vested; or (2) that the stock option accelerates such that the option be deemed to have vested at an appropriate rate per month (as determined by the Committee) from the date of grant to the last date of the month in which the date of termination, disability or death occurs, such accelerated option to be then exercisable for a period of three years following such date but only with respect to an option exercisable at the time such individual ceases to be an employee.
- (iii) Notwithstanding any provision of this paragraph 7.E, if within one year after the termination of employment with or performance of services for the Company, an option holder is employed or retained by a company that competes with the business of the Company or such individual violates any confidentiality agreement with the Company, the Company may cancel and rescind all options held by such individual and demand return of the economic value of any

option which was realized or obtained (measured at the date of exercise) by such individual at any time during the period beginning on the date which is twelve months prior to the date of termination.

- (iv) Absence on leave or any other interruption in the performance of services by an option holder with the Company shall, if approved by the Committee, not be deemed a cessation or interruption of employment or services for the purposes of the Plan.
- (v) No option shall be assignable or transferable by the individual to whom it is granted except that it may be transferable by will or the laws of descent and distribution. An option so transferred may be exercised after the death of the individual to whom it is granted only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.
- (vi) In no event shall any option be exercisable at any time after its expiration date unless extended by the Committee. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated.

F. METHODS OF EXERCISE. Subject to the terms and conditions of the Plan and the terms and conditions of the option agreement, an option may be exercised in whole at any time or in part from time to time, by delivery to the Company at its principal office of a written notice of exercise specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the exercise price for shares to be purchased at that time. Payment may be made (i) in cash, (ii) in shares of Common Stock valued at the fair market value of the Common Stock on the date of exercise or (iii) in a combination of cash and Common Stock. The Committee may also, in its sole discretion, permit option holders to deliver a notice of exercise of options and to simultaneously sell the shares of Common Stock thereby acquired pursuant to a brokerage or similar arrangement approved in advance by proper officers of the Company, using the proceeds from such sale as payment of the exercise price, or may authorize such other methods as it deems appropriate and as comply with requirements of the Code and the Exchange Act.

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

G. ACCELERATED OWNERSHIP FEATURE. An option may, in the discretion of the Committee, include the right to acquire an accelerated ownership

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

- H. CHANGE OF CONTROL. In the event of a threatened or actual Change of Control of the Company as hereinafter defined, whether or not approved by the Board of Directors, all options shall fully vest, unless otherwise limited by the Committee at the time of the option grant, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the later of the threatened or actual Change of Control, but not later than ten years after the date of grant. A Change of Control means the earliest to occur of (i) a public announcement that a party shall have acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a party of 30% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or contested election or any combination thereof, that causes (or would cause) the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.
- I. REORGANIZATION. The Committee may, in its sole discretion, make provisions in any option agreement for the protection of outstanding options in the event of a merger, consolidation, reorganization or liquidation of the Company or the acquisition of stock or assets of the Company by another entity.
- J. RIGHTS AS A STOCKHOLDER. An option holder shall have no rights as a stockholder with respect to any Common Stock covered by an option until exercise of such option and issuance of shares of Common Stock. Except as otherwise expressly provided in the Plan, no adjustments shall be made

for dividends or other rights for which the record date is prior to issuance of the Common Stock.

- K. GENERAL RESTRICTION. Each option shall be subject to the requirement that, if at any time the Board shall determine in its discretion that the listing, registration or qualification of the Common Stock subject to such option on any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issue or purchase of Common Stock thereunder, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.
 - L. FOREIGN NATIONALS. Without amending the Plan, awards may be granted to individuals who are foreign nationals or are employed or otherwise performing services for the Company or any subsidiary outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to further the purpose of the Plan.
8. INCENTIVE AND NONQUALIFIED OPTIONS. It is intended that certain options granted under the Plan shall be Incentive Stock Options and shall meet the applicable requirements of and contain or be deemed to contain all provisions required under Section 422 of the Code or corresponding provisions of subsequent revenue laws and regulations in effect at the time such options are granted; that other options shall not meet such requirements and shall be nonqualified stock options; and that any ambiguities in construction shall be interpreted in order to effectuate such intent. The Committee may grant one or more options of either type, or of both types, to any one or more individuals either at different times or concurrently. Such options shall be subject to the terms and conditions set forth elsewhere in the Plan and to the following:
- A. INCENTIVE STOCK OPTIONS. The term of any Incentive Stock Option shall meet the requirements of Section 422 of the Code. Any Incentive Stock Option shall be treated as "outstanding" until it is exercised in full or expires by reason of lapse of time. To the extent that the aggregate fair market value of Common Stock (determined at the time of grant of the Incentive Stock Option in accordance with paragraph 7.C of the Plan) with respect to which Incentive Stock Options are exercisable for the first time by an option holder during any calendar year (under all such plans of the Company and its parent and subsidiary corporations) exceeds \$100,000 or such other limit as may be imposed by the Code, such options to the extent they exceed such limit shall be treated as options which are not Incentive

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

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

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

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

11. MISCELLANEOUS.

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

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

THE TORO COMPANY
1993 STOCK OPTION PLAN

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

Subject to the express provisions of the Plan, the Committee shall have plenary authority, in its discretion, to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the exercise price of each option to purchase Common Stock, the individuals to whom and the time or times at which options shall be granted, the number of shares to be subject to each

option, when an option may be exercisable and the other terms and provisions (and amendments thereto) of the respective option agreements (which need not be identical); to determine whether a particular option is to be an Incentive Stock Option and the terms and provisions thereof that shall be required in the judgment of the Committee to provide therefor or to conform to any change in any law or regulation applicable thereto, or to any other law or regulation that may hereafter become effective to provide similar or related tax benefits to option holders; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

4. COMMON STOCK SUBJECT TO THE PLAN. Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock that is reserved and available for issuance pursuant to options granted under the Plan shall be 1,600,000 shares. If any option granted hereunder terminates, expires unexercised, is exchanged for other options without the issuance of shares of Common Stock or is exercised by the delivery or constructive delivery of shares of Common Stock already owned by the option holder, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent shares covered by an option are not issued or used, again be available for option grants under the Plan. Any shares issued by the Company in connection with the assumption or substitution of outstanding grants from any acquired corporation shall not reduce the shares available for option grants under the Plan. Shares of Common Stock that may be issued hereunder may be authorized but unissued shares, reacquired or treasury shares, or outstanding shares acquired in the market or from private sources, or a combination thereof. Appropriate adjustments in the number of shares of the Common Stock that may be available for option grants under the Plan and adjustments in the option price per share of outstanding options may be made by the Committee in its discretion to give effect to adjustments made in the number of shares of Common Stock of the Company through any merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or other similar change in the corporate structure of the Company affecting the Common Stock, or a sale by the Company of all or part of its assets or any distribution to stockholders other than a normal cash dividend.
5. ELIGIBILITY. Options may be granted to any employee of the Company or any subsidiary thereof who is regularly employed in an executive, managerial, professional or technical position, and to any other individual who performs services for the Company or any subsidiary and who contributes significantly to the strategic and long-term performance objectives of the Company and its subsidiaries. Options may be granted to directors of the Company who are also employees of the Company. More than one option may be granted to the same individual. No option may be granted to an individual who owns, directly or indirectly, Common Stock or other capital stock of the Company possessing more than 5% of the total combined voting power or value of any class of capital stock

of the Company or a subsidiary immediately after such option is granted. Except for the foregoing limitations, there is no minimum or maximum number of shares of Common Stock with respect to which options may be granted to any individual under the Plan. Individuals to whom options are granted are at times referred to as "option holders".

6. DURATION OF THE PLAN. The Plan shall remain in effect until all shares reserved for issuance pursuant to the Plan shall have been purchased pursuant to options granted under the Plan, provided that options under the Plan must be granted within ten years from the effective date of the Plan.
7. GENERAL TERMS OF OPTIONS. Options shall be evidenced by stock option agreements in such form and not inconsistent with the Plan as the Committee shall approve from time to time, which agreements shall contain in substance the following terms and conditions:
 - A. DATE OF GRANT. An option agreement shall specify the date of grant, which shall be the date on which the Committee grants an option or any later date which the Committee specifically designates.
 - B. NUMBER OF SHARES OF COMMON STOCK. An option agreement shall specify the number of shares of Common Stock to which it pertains. Notwithstanding any other provision of the Plan, the maximum number of shares that may be covered by any option grant during any calendar year shall be 100,000 shares.
 - C. EXERCISE PRICE. The exercise price of all stock options will be granted at fair market value, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan, where the exercise price is an average and on the date of grant could be higher or lower than fair market value. Fair market value is generally determined to be the closing price for the Common Stock on the New York Stock Exchange as reported by The Wall Street Journal or other readily available quotation of composite transactions.
 - D. TERM OF OPTIONS. The term of each option shall be fixed by the Committee.
 - E. EXERCISABILITY AND TRANSFERABILITY.
 - (i) The Committee shall have the authority to determine whether an option agreement shall specify periods after the date of grant of an option during which the option or any portion thereof may not yet be exercisable, including provisions applicable to persons subject to Section 16 of the Exchange Act.

- (ii) During the lifetime of an option holder, options held by such individual may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company or otherwise performing services for the Company or a parent or subsidiary and only if the option holder has been continuously so employed or engaged since the date such options were granted; provided, however, that (a) in the event of disability of an option holder, options may be exercised by such individual not later than the earlier of the date the option expires or one year after the date such employment or performance of services ceases by reason of disability, but only with respect to an option exercisable at the time such employment or performance of services ceases and (b) an option other than an Incentive Stock Option may be exercised (I) after such individual ceases to be an employee 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 (II) in the event a salary replacement option is granted by the Committee and the option holder is involuntarily terminated during the option term or becomes disabled or dies, the Committee shall have the right to grant to the option holder or his personal representative, as the case may be, the right to request either (1) that the option be cancelled and the option holder or his estate be paid an amount equal to the compensation the option holder has given up from the date of grant to the date of such termination, disability or death together with interest at the prime rate less the then market gain on that portion of the shares covered by the option which is then vested; or (2) that the stock option accelerates such that the option be deemed to have vested at an appropriate rate per month (as determined by the Committee) from the date of grant to the last date of the month in which the date of termination, disability or death occurs, such accelerated option to be then exercisable for a period of three years following such date but only with respect to an option exercisable at the time such individual ceases to be an employee.
- (iii) Notwithstanding any provision of this paragraph 7.E, if within one year after the termination of employment with or performance of services for the Company, an option holder is employed or retained by a company that competes with the business of the Company or such individual violates any confidentiality agreement with the Company, the Company may cancel and rescind all options held by

such individual and demand return of the economic value of any option which was realized or obtained (measured at the date of exercise) by such individual at any time during the period beginning on the date which is twelve months prior to the date of termination.

- (iv) Absence on leave or any other interruption in the performance of services by an option holder with the Company shall, if approved by the Committee, not be deemed a cessation or interruption of employment or services for the purposes of the Plan.
- (v) No option shall be assignable or transferable by the individual to whom it is granted except that it may be transferable by will or the laws of descent and distribution. An option so transferred may be exercised after the death of the individual to whom it is granted only by such individual's legal representatives, heirs or legatees, not later than the earlier of the date the option expires or one year after the date of death of such individual, and only with respect to an option exercisable at the time of death.
- (vi) In no event shall any option be exercisable at any time after its expiration date unless extended by the Committee. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated.

F. METHODS OF EXERCISE. Subject to the terms and conditions of the Plan and the terms and conditions of the option agreement, an option may be exercised in whole at any time or in part from time to time, by delivery to the Company at its principal office of a written notice of exercise specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the exercise price for shares to be purchased at that time. Payment may be made (i) in cash, (ii) in shares of Common Stock valued at the fair market value of the Common Stock on the date of exercise or (iii) in a combination of cash and Common Stock. The Committee may also, in its sole discretion, permit option holders to deliver a notice of exercise of options and to simultaneously sell the shares of Common Stock thereby acquired pursuant to a brokerage or similar arrangement approved in advance by proper officers of the Company, using the proceeds from such sale as payment of the exercise price, or may authorize such other methods as it deems appropriate and as comply with requirements of the Code and the Exchange Act.

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

- G. ACCELERATED OWNERSHIP FEATURE. An option may, in the discretion of the Committee, include the right to acquire an accelerated ownership nonqualified stock option ("AO Option"). An option which provides for the grant of an AO Option shall entitle the option holder, upon exercise of that option and payment of the appropriate exercise price in shares of Common Stock that have been owned by such option holder for not less than six months prior to the date of exercise, to receive an AO Option. An AO Option is an option to purchase, at fair market value at the date of grant of the AO Option, a number of shares of Common Stock equal to the sum of the number of whole shares delivered by the option holder in payment of the exercise price of the original option and the number of whole shares, if any, withheld by the Company as payment for withholding taxes. An AO Option shall expire on the same date that the original option would have expired had it not been exercised. All AO Options shall be nonqualified options.
- H. CHANGE OF CONTROL. In the event of a threatened or actual Change of Control of the Company as hereinafter defined, whether or not approved by the Board of Directors, all options shall fully vest, unless otherwise limited by the Committee at the time of the option grant, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the later of the threatened or actual Change of Control, but not later than ten years after the date of grant. A Change of Control means the earliest to occur of (i) a public announcement that a party shall have acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding shares of Common Stock of the Company, (ii) the commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a party of 30% or more of the outstanding shares of Common Stock of the Company or (iii) the occurrence of a tender offer, exchange offer, merger, consolidation, sale of assets or contested election or any combination thereof, that causes (or would cause) the persons who were directors of the Company immediately before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.
- I. REORGANIZATION. The Committee may, in its sole discretion, make provisions in any option agreement for the protection of outstanding options in the event of a merger, consolidation, reorganization or liquidation of the Company or the acquisition of stock or assets of the Company by another entity.
- J. RIGHTS AS A STOCKHOLDER. An option holder shall have no rights as a stockholder with respect to any Common Stock covered by an option until exercise of such option and issuance of shares of Common Stock. Except

as otherwise expressly provided in the Plan, no adjustments shall be made for dividends or other rights for which the record date is prior to issuance of the Common Stock.

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

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

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

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

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

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

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

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

11. MISCELLANEOUS.

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

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

THE TORO COMPANY
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. **EFFECTIVE DATE.** The Plan shall become effective as of August 1, 1991, subject to the approval of the stockholders of the Company at its Annual Meeting of Stockholders on December 10, 1991, and shall continue in effect unless and until terminated by the Board of Directors of the Company.
3. **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 6 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.
4. **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."
5. **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 shall 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 shall 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 paragraph 5.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 performance factor (such as .25, .50, 1.0, etc.) determined by the Committee, which is intended to reflect the Participant's ability to influence the financial results of the Company and the Participant's relative seniority within management. The maximum dollar amount of the Award Maximum of each Performance Award shall be set by the Committee at the time of grant of such award.

SPECIAL RULE FOR PERSONS REFERRED TO IN SECTION 162(M): The maximum amount that may be paid with respect to a Performance Award granted to a person referred to in Section 162(m) shall be determined based on an estimate of such base compensation to be paid during a one-year Award Term or the last fiscal year of a multiple year Award Term, and the maximum dollar amount of the Award Maximum shall be set by the Committee at the time of grant of such award. Performance factors applicable to such persons shall be as follows:

Chief Executive Officer	1.00
President and Chief Operating Officer	.75
Other Officers	.25

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) and net income growth as compared with other similarly classified Fortune 500 companies (the "Performance Goal"), and the amount that shall be paid (the "Award Payment") 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.

d. CALCULATION OF AWARD PAYMENT.

i. STANDARD CALCULATION. The Company's ROBE and net income growth for each fiscal year shall be converted to a percentile score (the Percentile Score) by comparing the ROBE and net income growth 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 Payment 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 Payment 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 Payment 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 payment 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 5.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.** Notwithstanding any other provision of this Plan, the Maximum Award Payment with respect to any Performance Award is \$1,100,000.
- 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 5.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; provided, however, that a Participant may elect to defer receipt of the cash payment for investment in a deferred compensation account in accordance with the Company's usual procedures, provided that such deferred compensation account shall be maintained in cash or cash equivalents and not in the equity securities of the Company. An election to defer shall be made by the Participant not later than 61 days prior to the last day of an applicable Award Term, and if deemed to be required by applicable securities laws or regulations, shall be made during a period that qualifies as a "window period" for purposes of rules and regulations under the Exchange Act.
- 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 and net income growth 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 (a) a public announcement that a party shall have acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding shares of Common Stock of the Company, (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 party of 30% 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 contested election or any combination thereof, that causes 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."

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 Payment shall be paid if otherwise earned in accordance with subparagraph 5.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 5.d. and 5.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 Payment shall be paid, if otherwise earned in accordance with subparagraph 5.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 5.g. 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.

6. 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, 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 (a) 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 (b) the performance factor described in subparagraph 5.c.i above; times (c) 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 (d) the Fair Market Value of one share of the Common Stock of the Company determined in accordance with subparagraph 6.d. hereof.

- c. Notwithstanding paragraph 6.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 5.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 5.d. above. Thus, if the Company does not achieve a performance 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 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 the Common Stock of the Company. The Fair Market Value of one share of the 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 6.c. above, shall become exercisable on the date the Committee notifies the Participants in accordance with subparagraph 6.c., and may be exercised until 90 days following the Company's public year-end earnings announcement. 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 paragraph 6.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 6.e. above.

THE TORO COMPANY
SUPPLEMENTAL MANAGEMENT RETIREMENT PLAN

The Toro Company hereby amends and restates its Supplemental Management Retirement Plan originally effective as of August 1, 1989, and amended and restated on November 6, 1991. This amendment and restatement is effective as of January 1, 1996. The Supplemental Management Retirement Plan is maintained by The Toro Company for the purpose of providing benefits for certain of its employees who participate in The Toro Company's Pension Plan or Profit Sharing Plan or in both such plans in excess of the limitations on benefits and contributions imposed by Section 401(a)(17) or Section 415 of the Internal Revenue Code on plans to which those sections apply.

ARTICLE I
DEFINITIONS

Section 1.1 When used in this Plan document, the following terms have the meanings indicated unless a different meaning is plainly required by the context.

"Affiliate or Associate", for purposes of the definition of Change of Control, shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (hereinafter referred to as the "Exchange Act").

"Beneficiary" means the person or persons selected by the Participant on a form provided by the Company to receive the benefits provided under this Plan in the event of the Participant's death.

"Beneficial Owner", for purposes of the definition of Change of Control, a Person shall be deemed the "Beneficial Owner" of and shall be deemed to "beneficially own" any securities:

(a) which such Person or any of such Person's Affiliates or Associates beneficially owns, directly or indirectly;

(b) which such Person or any of such Person's Affiliates or Associates has (i) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange; or (ii) the

right to vote pursuant to any agreement, arrangement or understanding, provided, however, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, any security if the agreement, arrangement or understanding to vote such security (A) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations of the Exchange Act and (B) is not also then reportable on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(c) which are beneficially owned, directly or indirectly, 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 (except to the extent contemplated by the proviso to subsection (b) herein) or disposing of any securities of the Company.

"Change of Control" shall mean the earliest to occur of (a) a public announcement that a Person and/or Affiliates and Associates of such Person have acquired or obtained the right to acquire Beneficial Ownership of 20% 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 30% 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 contested election or any combination thereof, that causes 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 of any parent of or successor to the Company.

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

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

"Company" means The Toro Company.

"Compensation" means compensation as defined in the Profit Sharing Plan plus any deferred compensation under The Toro Company Supplemental Retirement Plan.

"Eligibility Service" means eligibility service as defined in the Profit Sharing Plan.

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

"Participant" means any key employee described in Article II of this Plan.

"Pension Plan" means The Toro Company Retirement Plan for Office and Hourly Employees (the successor of The Toro Company Retirement Plan for Office Employees) or any successor or replacement plan.

"Person" means, for purposes of the definition of Change of Control, any individual, corporation, partnership, trust or other entity, and shall include any successor (by merger or otherwise) of such entity. "Person" does not include the Company, any Subsidiary of the Company or any employee benefit plan of the Company or of any Subsidiary, or any entity holding shares of common stock of the Company for or pursuant to the terms of any such plan.

"Plan" means The Toro Company Supplemental Management Retirement Plan, as of its original effective date, including any subsequent amendments thereto.

"Plan Year" means the calendar year.

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

"Subsidiary" shall mean, for purposes of the definition of Change of Control, any corporation which is a component member of the controlled group of corporations of which the Company is the common parent. Controlled group shall be determined by reference to Section 1563 of the Code but including any corporation described in Section 1563(b)(2) thereof.

"Surviving Spouse" means the person who is married to a Participant at the date of his or her death and for at least one year prior thereto.

"Trust" means the trust established or maintained by the Company which is used in connection with this Plan to assist the Company in meeting its obligations under the Plan and which is hereby incorporated into the Plan by this reference.

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

Section 1.2 The Company agrees to perform its obligations in accordance with the Plan.

Section 1.3 Any term used in this Plan which is defined in the Plan shall have the meaning set forth in the Plan for all purposes of this Plan. The singular form of any word shall include

the plural and the masculine gender shall include the feminine wherever necessary for the proper interpretation of this Plan.

ARTICLE II
ELIGIBILITY AND PARTICIPATION

Section 2.1 An employee who satisfies Section 2.2 and who is eligible to receive a benefit under the Company's Employee Stock Ownership Plan, the Pension Plan or the Profit Sharing Plan, the total amount of which is reduced by reason of the application of the limitations on contributions and benefits imposed by Section 401(a)(17) or Section 415 of the Code, as in effect on the date for either the allocation of contributions or the commencement of benefits, or as in effect at any time thereafter, shall be a Participant in the Plan.

Section 2.2 Prior to August 1, 1994, a Participant in the Plan must be an executive at the level of Vice President or above or receiving annual Compensation equal to or greater than \$200,000. On and after August 1, 1994, a Participant in the Plan must be an executive at the level of Vice President or above or receiving annual Compensation equal or greater than \$150,000.

ARTICLE III
SUPPLEMENTAL ACCOUNT

Section 3.1 The Company shall establish and maintain an account for each Participant, or designated Beneficiary of the Participant upon the death of the Participant, and shall credit such account each Plan Year with an amount equal to the amount described in Section 3.2.

Section 3.2 The amount credited to each Participant's account pursuant to Section 3.1 shall be an amount equal to the difference between:

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

(b) the aggregate amount of contributions and forfeitures actually allocated or reallocated with respect to the Participant under such qualified plans and any credits made under a nonqualified deferred compensation plan maintained by the Company to replace amounts that would have been credited under such qualified plans had the Participant

not deferred compensation under such a nonqualified deferred compensation plan.

Section 3.3 For purposes of determining the amount which would have been allocated with respect to a Participant under a qualified defined contribution plan that contains a contribution formula, that formula will be used for purposes of determining the amount to be credited to the Participant under Section 3.2 above. For purposes of determining the amount which would have been allocated with respect to a Participant under a qualified defined contribution plan, other than the Company's Employee Stock Ownership Plan, pursuant to a plan contribution and allocation feature which does not specify the amount to be contributed on behalf of the Participant and under which allocations are made in proportion to compensation, such amount shall be deemed to be proportionate to the ratio of the actual contribution made to such plan over the compensation taken into account under such plan, provided, however, if such plan is integrated with social security, separate calculations should be made with respect to compensation above and below the integration level. For purposes of determining the amount which is to be credited with respect to the Company's Employee Stock Ownership Plan (the "ESOP"), such amount, which shall be based on the value of the Company's common stock and shall not require an allocation of stock, shall be determined by multiplying the difference (which shall not be less than zero) between the Participant's Compensation for the Plan Year and the compensation limit under Section 401(a)(17) of the Code, indexed for cost of living increases, by the actual rate of ESOP allocations calculated each year for Participants.

Section 3.4 Amounts credited to a Participant's account for any Plan Year pursuant to the terms of the Plan shall be credited as of the end of such Plan Year to the account maintained under the Plan in the name of such Participant.

Section 3.5 Amounts credited under the terms of the Plan to an account maintained for a Participant shall be credited with interest at a rate and in the manner determined by the Company to be consistent with that credited under the Company's deferred compensation agreements with its executive personnel and as described in the Trust, and such interest shall be credited to the account of each Participant as of the end of each calendar year quarter or at any other time as determined by the Chief Financial Officer of the Company or other officer authorized to act on behalf of the Company. However, at any time on or after the date on which the sum of a Participant's age and the Participant's years of Eligibility Service with the Company equals sixty (60), the Participant may, by providing written instructions to the Company, request that the Trustee invest a certain percentage of his or her account in one of the investment vehicles made available by the Company under the Trust. The Participant may change his or her investment preference on the first day of a calendar year and on

the first day of the seventh month of a calendar year and more frequently as so permitted by the Company. The investment vehicles which shall be made available to the Participants shall be selected by the Chief Financial Officer or other officer authorized to act on behalf of the Company. A Participant's investment preference shall remain in effect until receipt by the Trust from the Company of a Participant's request changing or revoking the investment preference then in effect. Any expense incurred in connection with the investment option shall be charged against the Participant's account. The investment vehicles made available by the Company under the Trust shall be determined by the Company in its sole discretion, except that the one such investment vehicle shall provide a fixed rate of interest through investment in fixed income mutual funds or common trust funds, U.S. Bonds, certificates of deposit, annuity contracts, or such other similar investments.

Section 3.6 If a Participant participates in the investment of amounts in his or her account under the Trust as permitted under the Plan and the Trust, that portion of the Participant's accounts will be credited with earnings or losses based entirely upon the earnings or losses attributable to such investments. The Company shall not be required to credit that portion of the account subject to such investment election with interest, as described in Section 3.5, and the Company shall not be required to credit that portion of the account subject to such investment election with an amount equal to the difference obtained from subtracting the earnings or losses on such investments from the interest rate described in Section 3.5. If a Participant does not participate in the investment of the entire amount in his or her account, the portion not subject to such Participant involvement shall be credited with interest at a rate and in the manner determined by the Company to be consistent with that credited under the Company's deferred compensation agreements as described in Section 3.5, or with earnings or losses of investments made pursuant to the terms of the Trust if the amounts credited to the Participant's account under the Plan are credited to an account or accounts under the Trust pursuant to Section 9.13.

ARTICLE IV SUPPLEMENTAL RETIREMENT BENEFIT

Section 4.1 A supplemental retirement benefit shall be payable to a Participant under this Article IV in the form of a straight life annuity over the lifetime of the Participant, commencing on the Participant's normal retirement date as defined under the Pension Plan. The monthly amount of that benefit, which shall not be less than zero, shall be equal to the difference between:

- (a) the monthly amount which the Participant would have been entitled to under the Pension Plan and any other qualified plants that are defined benefit plans (as defined

under Section 414(j) of the Code) maintained by the Company if such amount were determined without regard to the limitations on benefits imposed by Section 401(a)(17) or Section 415 of the Code on such plan or plans and taking into account the amounts credited under Article III as if such amounts were part of the Company's Employee Stock Ownership Plan and the Profit Sharing Plan and any credits made under any other nonqualified deferred compensation plan maintained by the Company to replace amounts that would have been credited under such qualified plans had the Participant not deferred compensation under such a nonqualified deferred compensation plan, and

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

Section 4.2 The amount described in Section 4.1 will be computed as of the date of retirement or termination of employment of the Participant with the Company in the form of a straight life annuity payable over the lifetime of the Participant commencing on the Participant's normal retirement date, as defined under the Pension Plan.

Section 4.3 If the Pension Plan is terminated by the Company, the benefit payable to a Participant under this Article IV, if any, shall be determined as of the termination date of the Pension Plan and no other benefit shall be provided under this Article IV.

ARTICLE V SUPPLEMENTAL SURVIVING SPOUSE BENEFIT

Section 5.1 If a Participant dies prior to commencement of payment of his or her benefit under the Pension Plan under circumstances in which a benefit payable to the Surviving Spouse of the Participant pursuant to the Pension Plan is payable to such Surviving Spouse, then a supplemental benefit is payable to the Surviving Spouse under this Plan. The monthly amount of such benefit payable to the Surviving Spouse shall be an amount, not less than zero, equal to the difference between:

(a) the monthly amount of the benefit payable to the Surviving Spouse under the Pension Plan and any other qualified defined benefit plans maintained by the Company to which the Surviving Spouse would have been entitled under such plan or plans if such benefit were computed without regard to the limitations on benefits imposed by Section 401(a)(17) or Section 415 of the Code on such plan or plans and taking into account the amounts credited under Article III as if such amounts were part of the Company's Employee Stock Ownership Plan and the Profit Sharing Plan and any credits made under any other nonqualified deferred compensation plan maintained

by the Company to replace amounts that would have been credited under such qualified plans had the Participant not deferred compensation under such a nonqualified deferred compensation plan, and

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

Section 5.2 Provided that a benefit is payable under this Article V to the Surviving Spouse of a Participant and subject to Section 9.7, a benefit payable under this Article V shall be payable over the lifetime of the Surviving Spouse in monthly installments commencing on the date for commencement of payment of the benefit payable to the Surviving Spouse under the Pension Plan and terminating on the date of the last payment of the benefit payable to the Surviving Spouse under the Pension Plan made before the Surviving Spouse's death. However, a Participant may elect on an election form described in Section 6.2 to have the actuarial equivalent of the benefit described herein distributed in a lump sum. In the event the lump sum option is selected in the election form, the benefit payable to the Surviving Spouse shall be made as of the first day of the first month immediately following the month in which the Participant's death occurred, or as soon thereafter as administratively feasible. A Participant may also change the form of payment in the manner described in Section 6.2. The actuarial equivalent of the benefit described in this Section 5.2 shall be determined by the same actuarial adjustments as those specified in the Pension Plan.

Section 5.3 If the Pension Plan is terminated by the Company, the benefit payable to a Surviving Spouse under this Article V, if any, shall be determined as of the termination date of the Pension Plan and no other benefit shall be provided under this Article V.

ARTICLE VI DISTRIBUTIONS

Section 6.1 All amounts credited to a Participant's account in accordance with Article III, including gains or losses credited in accordance with Article III, shall be distributed to or with respect to a Participant only upon termination of the Participant's employment with the Company for any reason including death. All such amounts shall be distributed in accordance with Section 6.2.

Section 6.2

(a) Anything herein to the contrary notwithstanding, in the event of a termination of employment described in Section 6.1, all amounts distributable under the Plan that have been credited to a Participant's account in accordance with Article III shall be distributed to the Participant in accordance with one of the options selected by the Participant and available under an election form used in connection with this Plan, which form shall be provided to the Participant by the Company (hereinafter referred to as the "Election Form"). Each Participant in the Plan can make his or her initial elections during the calendar year in which this provision becomes effective and thereafter a Participant can make his or her initial elections at the time the Participant first becomes eligible to participate in the Plan. However, a Participant may change the form of payment by electing another option available in said Election Form, but such change in the form of payment will not be effective until the calendar year following the calendar year in which the change was elected. Further, in no event will any such change in the form of payment be effective if such change is elected after the Participant's employment with the Company is terminated for any reason. Such distribution election shall apply to all amounts credited to a Participant's account in accordance with Article III, except that any payment required to be made in the year prior to the year any change in the form of payment becomes effective must be made in accordance with the election in effect for that year. In addition, the Committee may, in its sole discretion, reduce the payment period over which payments would have been made pursuant to the distribution option selected. Absent an effective distribution election, the Company shall pay the amounts credited to a Participant's account pursuant to Article III in accordance with the distribution provision contained in the Participant's prior effective Election Form or, if no such election has been made, then in accordance with the selections made under The Toro Company Supplemental Retirement Plan or The Toro Company Supplemental Retirement Plan II, whichever is applicable with respect to the Participant, or if such elections have not been made or are not in effect, then in a lump sum payment. In addition, the Committee may, in its sole discretion, determine the method of distribution of the amounts credited under Article III.

(b) Notwithstanding any provision in the Plan to the contrary, if an amount credited to a Participant's account under Article III is payable to the Participant, except in the event of the Participant's death or disability, such benefit shall be distributed in accordance with the provisions of this Section 6.2 beginning as of the first day of the first month of the calendar year immediately following the calendar year

in which the Participant's distributable event occurs. In the event of a Participant's death or disability, such benefit shall be distributed in accordance with the provisions of this Section 6.2 beginning as of the first day of the first month immediately following the month in which the Participant's death occurred or the determination of such disability is made.

Section 6.3 If a Participant should die before distribution of the full amount of the account described in Article III has been made to him or her, any remaining amounts shall be distributed to the Participant's Beneficiary and by a method designated by the Participant in his or her Election Form. If a Participant has not designated a Beneficiary, or method of distribution, or if no designated Beneficiary is living on the date of distribution, such amounts shall be distributed to the Participant's beneficiary as described under the Profit Sharing Plan in a lump sum distribution as soon as administratively feasible following the Participant's death.

Section 6.4

(a) Anything herein to the contrary notwithstanding and subject to Section 9.7, in the event the Participant incurs a termination of employment with the Company as described in Section 6.5, the benefit described in Article IV shall be distributed to the Participant in accordance with one of the options available under the Participant's Election Form as selected by the Participant in the manner described in Section 6.2. However, a Participant may change the form of payment by electing another option available under the Election Form, but such change in the form of payment will not be effective until the calendar year in which the change was elected. Further, in no event will any such change in the form of payment be effective if such change is elected after the Participant's employment with the Company is terminated for any reason. Such distribution election shall apply to the benefit described in Article IV, except that any payment required to be made in the year prior to the year a change in the form of payment becomes effective must be made in accordance with the election in effect for that year. In addition, the Committee may, in its sole discretion, reduce the payment period over which payments would have been made pursuant to the distribution option selected. Absent an effective distribution election, the Company shall pay the benefit described in Article IV in accordance with the distribution provision contained in the Participant's prior effective Election Form or, if no such distribution provision exists, in a life annuity on the life of the Participant.

(b) Notwithstanding any provision in the Plan to the contrary, if a benefit described in Article IV is payable to

a Participant, except in the event of the Participant's death or disability, such benefit shall be distributed in accordance with the provisions of this Section 6.4 beginning as of the first day of the first month of the calendar year immediately following the calendar year in which the Participant's distributable event occurs. In the event of a Participant's disability, such benefit shall be distributed in accordance with the provisions of this Section 6.4 beginning as of the first day of the first month immediately following the month in which the determination of such disability is made. If a Participant dies before a benefit is payable to the Participant, then no benefit is payable under Article IV, but a benefit may be payable under Article V.

Section 6.5 The benefit described in Article IV shall be distributed, unless otherwise stated in the Plan, to or with respect to a Participant only upon termination of the Participant's employment with the Company for any reason other than death; if a Participant dies before such benefit is payable to the Participant, no benefit is payable under Article IV (but a benefit may be payable under Article V).

Section 6.6 A benefit under Article IV of this Plan which is payable in any form other than a straight life annuity over the lifetime of the Participant, or which commences at any time other than the Participant's normal retirement date, as defined in the Pension Plan, shall be the actuarial equivalent of the benefit described under Sections 4.1 and 4.2 as determined by the same actuarial adjustments as those specified in the Pension Plan with respect to the determination of the amount of the benefit payable under the Pension Plan on the date for commencement of payment under this Plan.

Section 6.7 Anything herein to the contrary notwithstanding, if, at any time, a court or the Internal Revenue Service determines that an amount in a Participant's account under the Trust is includable in the gross income of the Participant and subject to tax, the Committee may, in its sole discretion, permit a lump sum distribution of an amount equal to the amount determined to be includable in the Participant's gross income.

ARTICLE VII ADMINISTRATION OF THE PLAN

Section 7.1 The Plan shall be administered by the Company, which shall have the authority, duty and power to interpret and construe the provisions of the Plan as it deems appropriate. The Company shall have the duty and responsibility of maintaining records, making the requisite calculations and disbursing the payment hereunder. The Company's interpretations, determinations, regulations and calculations shall be final and binding on all persons and parties concerned.

Section 7.2 All provisions set forth in the Profit Sharing Plan with respect to the administrative powers and duties of the Company, and expenses of administration shall be applicable with respect to the Plan; unless such administrative powers and duties apply specifically with respect to the benefits described in Article IV or Article V, then all provisions set forth in the Pension Plan shall apply. The Company shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the Plan.

Section 7.3 The Company shall furnish individual annual statements of accrued benefits to each Participant, or current Beneficiary or Surviving Spouse, in such form as determined by the Company or as required by law.

Section 7.4 The employee benefit plan procedures in this section are intended to comply with Section 503 of ERISA and Section 2560.503-1 of the Department of Labor Regulations and pertain to claims by the Participants and Beneficiaries ("claimants") for Plan benefits, consideration of such claims, and review of claim denials. For purposes of these procedures, a "claim" is a request for a benefit by a Participant or Beneficiary under the Plan or an Agreement. A claim is filed when the requirements of these procedures have been met.

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

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

(i) the specific reason or reasons for the denial;

(ii) specific reference to pertinent provisions of the Plan or Agreement on which the denial is based;

(iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(iv) appropriate information as to the steps to be taken if the Participant or Beneficiary wishes to submit his or her claim for review.

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

(i) request a review upon written application to the Company;

(ii) review pertinent documents; and

(iii) submit issues and comments in writing.

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

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

review is not furnished within such time, the claim shall be deemed denied on review.

ARTICLE VIII
AMENDMENT OR TERMINATION

Section 8.1 The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan at any time. Any such amendment or termination shall be made in accordance with the amendment or termination provision contained in the Profit Sharing Plan.

Section 8.2 No amendment or termination of the Plan shall directly or indirectly reduce the balance of any account described in Article III as of the effective date of such amendment or termination. Upon termination of the Plan, distribution of amounts credited to such account shall be made to the Participant or his or her Beneficiary in accordance with Article VI. No additional credits or contributions will be made to any account under the Plan after termination of the Plan, but gains or losses will continue to be credited to the Participant's account under the Plan until all benefits are distributed to the Participants or to their Beneficiaries. No amendment or termination of the Plan shall directly or indirectly deprive any current or former Participant or Surviving Spouse of all or any portion of any benefit under Article IV or Article V of the Plan payment of which has commenced prior to the effective date of such amendment or termination or which would be payable if the Participant terminated employment for any reason, including death, on such effective date.

ARTICLE IX
GENERAL PROVISIONS

Section 9.1 The Company has established a Trust which may be used to pay benefits arising under this Plan and all costs, charges and expenses relating thereto; except that, to the extent that the funds held in the Trust are insufficient to pay such benefits, costs, charges and expenses, the Company shall pay such benefits, costs, charges and expenses.

Section 9.2 The benefits payable hereunder or the right to receive future benefits under the Plan may not be anticipated, alienated, sold, transferred, assigned, pledged, encumbered, or subjected to any charge or legal process; no interest or right to receive a benefit may be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

Section 9.3 The Plan at all times shall be considered entirely unfunded both for tax purposes and for purposes of Title

I of ERISA. Funds invested hereunder shall continue for all purposes to be part of the general assets of the Company and available to the general creditors of the Company in the event of the Company's bankruptcy (when the Company is involved in a pending proceeding under the Federal Bankruptcy Code) or insolvency (when the Company is unable to pay its debts as they mature). In the event of the Company's bankruptcy or insolvency, the Company's Board of Directors and chief executive officer are required to notify the Trustee and each Participant in writing of such an occurrence within one (1) day of the Company's knowledge of such occurrence. No Participant, Surviving Spouse or any other person shall have any interest in any particular assets of the Company by reason of the right to receive a benefit under the Plan and to the extent the Participant, Surviving Spouse or any other person acquires a right to receive benefits under this Plan, such right shall be no greater than the right of any general unsecured creditor of the Company. The Plan constitutes a mere promise by the Company to make payments to the Participants, Surviving Spouses, or Beneficiaries in the future.

Section 9.4 Except as otherwise provided herein, the terms and conditions of the Profit Sharing Plan shall apply to the contributions described in Article III and the terms and conditions of the Pension Plan shall apply to the benefits described in Articles IV and V. Any benefit payable under the Company's Employee Stock Ownership Plan, the Pension Plan or the Profit Sharing Plan shall be paid in accordance with the terms and conditions of such plan and nothing in this Plan shall operate or be construed in any way to modify, amend or affect the terms and provisions of the Company's Employee Stock Ownership Plan, the Pension Plan or the Profit Sharing Plan.

Section 9.5 Nothing contained in the Plan shall constitute a guaranty by the Company or any other person or entity that any funds in the Trust or the assets of the Company will be sufficient to pay any benefit hereunder.

Section 9.6 No Participant or Surviving Spouse shall have any right to a benefit under this Plan except in accordance with the terms of the Plan. Establishment of the Plan shall not be construed to give any Participant the right to be retained in the service of the Company.

Section 9.7 Notwithstanding anything in this Plan or a Participant's Election Form to the contrary, if the value or actuarial value of any benefit payable to or on behalf of the Participant under the Plan is \$25,000 or less, the Company shall pay such value or actuarial value of such benefit to the Participant, Beneficiary, or Surviving Spouse in a single lump sum in lieu of any further benefit payments under the Plan.

Section 9.8 If any person entitled to a benefit payment under the Plan is declared incompetent and a conservator or other person legally charged with the care of his or her person or his or her estate is appointed, any benefits under the Plan to which such person is entitled shall be paid to such conservator or other person legally charged with the care of his or her person or his or her estate. Except as provided above, when the Company determines that such person is unable to manage his or her financial affairs, the Company may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Company and the Plan therefor.

Section 9.9 The Plan shall not be automatically terminated by a transfer or sale of assets of the Company or by the merger or consolidation of the Company into or with any other corporation or other entity, but the Plan shall be continued after such sale, merger or consolidation only if and to the extent that the transferee, purchaser or successor entity agrees to continue the Plan. In the event that the Plan is not continued by the transferee, purchaser or successor entity, then the Plan shall terminate subject to the provisions of Article VIII.

Section 9.10 Each Participant shall keep the Company informed of his or her current address and the current address of his or her spouse or designated Beneficiary. The Company shall not be obligated to search for any person. If the location of a Participant is not made known to the Company within three (3) years after the date on which payment of the Participant's benefits payable under this Plan may first be made, payment may be made as through the Participant had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed, or, within three (3) years after the actual death of a Participant, the Company is unable to locate any Surviving Spouse or designated Beneficiary of the Participant, then the Company shall have no further obligation to pay any benefit hereunder to such Participant, Surviving Spouse or designated Beneficiary and such benefits shall be irrevocably forfeited.

Section 9.11 Notwithstanding any of the preceding provisions of the Plan, neither the Company nor any individual acting as an employee or agent of the Company shall be liable to any Participant, former Participant, Surviving Spouse, or any other person for any claim, loss, liability or expense incurred in connection with the Plan, unless attributable to fraud or willful misconduct on the part of the Company or any such employee or agent of the Company.

Section 9.12 In the event a Participant incurs an unforeseeable emergency, the Participant may make a written request

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

Section 9.13 If there is a threat of a Change of Control or if a Participant elects to direct the investment of amounts credited to his or her account pursuant to Section 3.5, then, upon the occurrence of such threat of a Change of Control or at the time the Participant makes such an investment election or at any other time as determined by the Company, the Company shall transfer cash or property to the Trust in an amount equal to the present value of all accumulated or accrued benefits then payable to or on behalf of such Participant or Participants under this Plan, plus any applicable fees. The Company may also transfer cash or property to the Trust in an amount equal to the present value of all accumulated or accrued benefits then payable to or on behalf of any Participant under this Plan on any date designated in the sole discretion of the Company. If a transfer of cash or property occurs, the amounts transferred with respect to the benefits payable under Articles IV and V shall be, for each Participant or Surviving Spouse, the actuarial equivalent, as determined by using the actuarial assumptions described in the Pension Plan, of the benefits payable to or on behalf of each such individual under said Articles IV and V. Thereafter, the Company shall, for each Plan Year, transfer cash or property no later than thirty (30) days after the end of the Plan Year in which the initial transfer occurs, and thereafter on each anniversary thereof, to the Trust for the benefit of each affected individual in an amount equal to the additional benefit accrued under the terms of this Plan during and in relation to the most recent Plan Year then ended. In the event of a transfer, the accounts of the Participants, established pursuant to Article III, shall be credited with interest, or earnings and losses in accordance with the provisions under Sections 3.5 and 3.6. A Change of Control shall be deemed "threatened" at such time as the Company becomes aware that any individual(s) or entity(s) or combinations thereof intend(s) to or has commenced a course of conduct which, if successful, would or could result in a Change of Control.

Section 9.14 Each Participant shall receive a copy of the Plan and the Company will make available for inspection by any Participant or designated Beneficiary a copy of the rules and regulations used by the Company in administering the Plan.

Section 9.15 All questions pertaining to the construction, validity and effect of the Plan shall be determined in accordance with the laws of the United States and to the extent not preempted by such laws, by the laws of the State of Minnesota.

Dated this 18th day of September, 1996.

THE TORO COMPANY

By: /s/ K. B. Melrose

Title: Chairman, CEO and President

THE TORO COMPANY
CHIEF EXECUTIVE OFFICER INCENTIVE AWARD AGREEMENT

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

1. PURPOSE. The purpose of this Agreement is to implement The Toro Company Chief Executive Officer Succession Plan (the "Plan") pursuant to which the Company will grant to Mr. Melrose a Restricted Stock and Performance Unit award and enter into a post-retirement and noncompetition agreement with Mr. Melrose, subject to the terms and conditions of the Plan and to Mr. Melrose's acceptance of the terms and conditions thereof.

2. GRANT OF AWARD.

a. GRANT OF RESTRICTED STOCK. The Company hereby grants to Mr. Melrose the number of whole shares of Common Stock having an aggregate fair market value of \$500,000 on July 31, 1995 (the "Restricted Stock"), subject to forfeiture or reduction of the number of shares in the event performance goals set forth in Section 2 (the "Performance Goals") are not achieved and to the other terms and conditions of the Plan; provided however that in the event the fair market value of the Common Stock on the date of vesting of the Restricted Stock is less than the fair market value on July 31, 1995, the Company shall make an aggregate payment to Mr. Melrose of the difference between the fair market value on the date of vesting of the Restricted Stock and the fair market value on July 31, 1995. Fair market value shall mean the closing price of the Common Stock on the New York Stock Exchange as reported in THE WALL STREET JOURNAL.

b. GRANT OF PERFORMANCE UNITS AND ANNUITY PURCHASE. Subject to the terms and conditions of the Plan and this Agreement, the Company hereby grants to Mr. Melrose performance units equal to the number of whole shares of Common Stock having an aggregate fair market value of \$500,000 on July 31, 1995 (the "Performance Units"), which Performance Units shall be subject to forfeiture or reduction in the event the Performance Goals set forth in the Plan and in Section 2 hereof are not achieved and to the other terms and conditions of the Plan and this Agreement. Each Performance Unit shall have a value equal to the fair market value of one share of Common Stock, from time to time, provided however that the value shall not be less than the fair market value of one share of Common Stock on July 31, 1995. Performance Units shall be evidenced by this Agreement. An amount equal to the aggregate value of the Performance Units remaining at the date of Mr. Melrose's retirement, after forfeiture, if any, shall be utilized by the Company to purchase a retirement annuity payable to Mr. Melrose until his 75th birthday, or to his estate or beneficiaries, and for no other purpose, subject to the condition that Mr. Melrose enter into and comply with the terms and conditions of a noncompetition agreement, in accordance with Section 1.c. and 2.b. hereof.

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

2. TERMS, CONDITIONS AND RESTRICTIONS.

a. RESTRICTED STOCK AND PERFORMANCE UNIT PERFORMANCE GOAL RESTRICTIONS. The obligation of the Company to deliver certificates representing the Restricted Stock granted hereunder and to utilize the aggregate value of the Performance Units to purchase a retirement annuity shall be subject to the terms, conditions and restrictions set forth in this Section 2.a.

i. VESTING OF RESTRICTED STOCK AND PERFORMANCE UNITS. Mr. Melrose's right to receive the Restricted Stock and the value of the Performance Units shall be subject to the vesting requirements set forth in this Section 2.a.i. and to the achievement by Mr. Melrose of the Performance Goals set forth in Section 2.a.i. hereof not later than the last day of the period specified to achieve such performance (the "Restricted Period"). Upon achievement of a Performance Goal within an applicable Restricted Period, the restrictions shall lapse with respect to the specified portion of Restricted Stock, which specified portion shall vest and become nonforfeitable. Upon achievement of a Performance Goal within an applicable Restricted Period, the restrictions shall lapse with respect to the specified portion of Performance Units, which specified portion shall vest and become nonforfeitable, subject to the further condition that Mr. Melrose enter into and comply with the terms and conditions of a noncompetition agreement in accordance with Section 2.b. If Mr. Melrose does not enter into a noncompetition agreement or does not comply with the terms and conditions of such a noncompetition agreement, then Mr. Melrose shall forfeit the value of the Performance Units or, if a retirement annuity has been acquired by the Company, the retirement annuity.

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

Performance Goal to be Achieved	Restricted Period (July 31, 1995 through earlier of date shown or Goal Achievement)	Portion of Shares of Restricted Stock to Vest Upon Achievement	Portion of Performance Units to Vest Upon Achievement
Goal 1: CEO and senior management succession plan developed and progress towards fulfillment of the plan, approved by Board of Directors	July 31, 1998	15%	15%
Goal 2: Potential CEO successor identified with approval of Board of Directors and continued development of senior management team	July 31, 1999	15%	15%
Goal 3: CEO successor who was identified and developed by Mr. Melrose is elected as CEO by Board of Directors	July 31, 2000	70%	70%

(B) Early Selection of Successor. Notwithstanding any other provision of the Plan, in the event that the Board of Directors elects as Mr. Melrose's successor the individual identified and developed by Mr. Melrose, and such successor is in place as chief executive officer of the Company and Mr. Melrose elects to retire prior to the last day of the final Restricted Period, but no earlier than July 31, 1997, all Restricted Stock and Performance Units shall vest in full and become nonforfeitable, subject to the condition with respect to the Performance Units that Mr. Melrose enter into and comply with the terms and conditions of a noncompetition agreement in accordance with Section 2.b.

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

ii. Limits on Transfer of Restricted Stock and Performance Units. Shares of the Restricted Stock which have not vested in accordance with the provisions of Section 2.a.i. hereof may not be sold, transferred, pledged, assigned or otherwise encumbered. Performance Units may not be sold, transferred, pledged, assigned or otherwise encumbered at any time and the value of Performance Units may be utilized only for the purpose of purchasing the retirement annuity referred to the Section 1.b. hereof.

iii. Termination, Death or Disability. In the event that the Board of Directors terminates Mr. Melrose's employment other than for cause (as defined in Section 2.c. hereof) and elects as Mr. Melrose's successor a chief executive officer who was identified and developed by Mr. Melrose, or in the event of the termination of Mr. Melrose's employment due to his death or disability, then all shares of Restricted Stock and Performance Units shall automatically vest in full, notwithstanding that Mr. Melrose does not enter into a noncompetition agreement in accordance with Section 2.b., and shall become nonforfeitable in the fiscal year following the year of the date of such event, and on the first day that such vesting would not cause the compensation to be deemed compensation with respect to the prior fiscal year.

b. POST-RETIREMENT CONSULTING AND NONCOMPETITION AGREEMENT. The Company's agreement to pay any amount in connection with post-retirement consulting services to be provided by Mr. Melrose and its payment of the value of Performance Units for the purchase of a retirement annuity payable to Mr. Melrose pursuant to Section 1.b. shall be subject to and in consideration of Mr. Melrose's execution of an agreement not to compete with the Company by serving as an employee or member of the board of directors of or consultant to Rainbird, Jacobson or John Deere, or any successor thereof or similar competitor of the Company for a period of five years following the date of Mr. Melrose's retirement as Chief Executive Officer. The Company's agreement to pay any amount in connection with post-retirement consulting services to be provided by Mr. Melrose shall be subject to his agreement to provide consulting services to the Company for a period of five years following the date of his retirement; provided however that Mr. Melrose may elect to terminate the consulting agreement, but not the agreement not to compete, in which event any balance of the \$500,000 amount referred to in Section 1.c. not then expended for Mr. Melrose's benefit shall be paid to Mr. Melrose over the remainder of the five year period. Mr. Melrose shall not have any right to receive payments pursuant to Section 1.c. or this Section 2.b. until and unless he shall have executed an agreement not to compete with the Company and delivered a fully executed copy thereof to the Company, and otherwise complied with the then applicable terms and conditions of the Plan, except as provided in Section 2.a.iii.

c. TERMINATION OF EMPLOYMENT. Except as otherwise provided by Section 2.a. hereof, if Mr. Melrose resigns his employment with the Company or if his employment is terminated by the Board of Directors for cause during any Restricted Period, all shares of Restricted Stock and all Performance Units then subject to restrictions and all other rights under this Plan shall be forfeited by Mr. Melrose and the Restricted Stock shall be reacquired by the Company. For purposes of this Agreement, "Cause" shall mean:

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

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

For purposes of this provision, no act or failure to act, on the part of Mr. Melrose, shall be considered "willful" unless it is done, or omitted to be done, by Mr. Melrose in bad faith or without reasonable belief that Mr. Melrose's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board of Directors or upon the instructions of a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Mr. Melrose in good faith and in the best interests of the Company. The cessation of employment of Mr. Melrose shall not be deemed to be for Cause unless and until there shall have been delivered to Mr. Melrose a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board at a meeting of the Board of Directors called and held for such purpose (after reasonable notice is provided to Mr. Melrose and Mr. Melrose is given an opportunity, together with counsel, to be heard before the Board of Directors), finding that, in the good faith opinion of the Board of Directors, Mr. Melrose is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

d. STOCK CERTIFICATES.

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

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

ii. ESCROW. Certificates representing the Restricted Stock shall be physically held by the Company or its nominee during any Restricted Period, and the Company may require, as a condition of the grant, that Mr. Melrose shall have delivered a stock power, endorsed in blank, with respect to any shares of the Restricted Stock. Upon the

achievement of the Performance Goals with respect to any shares of Restricted Stock, as certified to by the Committee, the Company shall cause the certificate representing such shares of Restricted Stock to be removed from escrow and delivered to the Company for reissuance and delivery of Common Stock in the name of Mr. Melrose. If any shares of Restricted Stock are to be forfeited, certificates representing such shares shall be delivered to the Company for reissuance in its name or cancellation and Mr. Melrose shall have no further interest in such stock.

iii. LAPSE OF RESTRICTIONS. When the Performance Goals set forth in Section 2.a. have been achieved with respect to any portion of the shares of the Restricted Stock, the Company shall deliver to Mr. Melrose or his legal representative, beneficiary or heir not later than 60 days thereafter a certificate or certificates representing the Common Stock without the legend referred to in Section 2.d.i. hereof. The number of shares of Common Stock to be released shall be the same number as to which the Performance Goals have been achieved in accordance with Section 2.a.

e. RIGHTS AS STOCKHOLDER.

i. RIGHT TO VOTE AND DIVIDENDS. Except as provided in Section 1 and this Section 2, Mr. Melrose shall have, with respect to the shares of Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the shares and the right to receive cash dividends with respect to the shares.

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

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

before such Change of Control to cease to constitute a majority of the Board of Directors of the Company or any parent of or successor to the Company.

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

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

5. COMPLIANCE WITH RULE 16b-3 AND SECTION 162(m). The grants of Restricted Stock and Performance Units made under this Agreement and the remuneration to be paid to Mr. Melrose as a consequence of the grants are intended to comply with all applicable conditions of Rule 16b-3 under the Securities Exchange Act of 1934 and to avoid the loss of the deduction referred to in paragraph (1) of Section 162(m) of the Internal Revenue Code of 1986, as amended. Anything in the Plan or this Agreement to the contrary notwithstanding, to the extent any provision of the Plan or this Agreement or action by the Committee fails to so comply or to avoid the loss of such deduction, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Committee.

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

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

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

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

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

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

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

THE TORO COMPANY

By /s/ J. Lawrence McIntyre

Title Vice President & Secretary

I hereby agree to the terms and conditions of this Restricted Stock and Performance Unit Award grant made to me as of July 31, 1995.

KENDRICK B. MELROSE

/s/ Kendrick B. Melrose

Exhibit 11

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

	YEAR ENDED 10/31/96	3 MONTHS ENDED 10/31/95	YEARS ENDED 7/31/95 7/31/94	
Net earnings	\$36,409,000	\$ 3,997,000	\$36,667,000	\$22,230,000
Primary:				
Shares of common stock and common stock equivalents:				
Weighted average number of common shares outstanding	12,140,689	12,117,815	12,556,039	12,472,828
Dilutive effect of outstanding stock options (1)	414,026	424,225	476,374	509,538
	12,554,715	12,542,040	13,032,413	12,982,366
Net earnings per share of common stock and common stock equivalents	\$ 2.90	\$ 0.32	\$ 2.81	\$ 1.71
Fully Diluted:				
Shares of common stock and common stock equivalents:				
Weighted average number of common shares outstanding	12,140,689	12,117,815	12,556,039	12,472,828
Dilutive effect of outstanding stock options (2)	414,026	424,225	511,133	509,538
	12,554,715	12,542,040	13,067,172	12,982,366
Net earnings per share of common stock and common stock equivalents	\$ 2.90	\$ 0.32	\$ 2.81	\$ 1.71

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

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

AT A GLANCE

- - - - TORO CONTINUED TO DEMONSTRATE LEVERAGED OPERATING PERFORMANCE POSTING A 16 PERCENT INCREASE IN EARNINGS PER SHARE ON A SLIGHT SALES INCREASE.
- - - - EXCELLENT SNOWTHROWER SALES COMBINED WITH STRONG GROWTH IN INTERNATIONAL PROFESSIONAL TURN MAINTENANCE PRODUCTS HIGHLIGHTED TORO'S SALES PERFORMANCE.
- - - - PROFESSIONAL TURN MAINTENANCE SALES CONTINUED TO GROW FASTER THAN RESIDENTIAL SALES AND HELPED OFFSET THE SLUGGISH LAWN AND GARDEN BUSINESS.
- - - - THE COMPANY CONTINUED TO BUILD FOR THE FUTURE BY INVESTING IN RESEARCH AND DEVELOPMENT, NEW BUSINESSES AND STRATEGIC INITIATIVES.
- - - - SEVERAL ACQUISITIONS AND ALLIANCES TOOK PLACE IN FISCAL 1996 THAT PROVIDE GROWTH MOMENTUM FOR THE FUTURE.

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

Years ended October 31	1996	1995	% Change
Net sales	\$930,909	\$919,427	1.2%
Net earnings	36,409	32,362	12.5
Percent of net sales	3.9%	3.5%	
Net earnings per share of common stock and common stock equivalent	\$ 2.90	\$ 2.50	16.0
Dividends paid per share of common stock outstanding	0.48	0.48	
Return on:			
Beginning common stockholders' equity	19.1%	18.1%	
Average common stockholders' equity	18.0	17.5	
Average invested capital	15.2	13.8	

AT YEAR END

Working capital	\$197,144	\$165,086	19.4
Total assets	496,877	472,653	5.1
Total debt	94,390	110,274	(14.4)
Common stockholders' equity	213,567	190,892	11.9
Book value per common share	17.75	15.69	13.1
Number of common stockholders	6,841	7,243	(5.6)
Average number of employees	3,509	3,638	(3.5)

See accompanying notes to consolidated financial statements.

FISCAL YEAR CHANGE

This report is the first reflecting Toro's change of fiscal year from July 31 to October 31. For comparative purposes, financial information for years previously ended in July has been restated in portions of this report to reflect the new fiscal year ending in October. Financial information for the year ended October 31, 1996, the three month transition period ended October 31, 1995 and the years ended July 31, 1995 and 1994 has been derived from the audited financial statements for the applicable period. Financial information related to the October 31, 1995 balance sheet has been derived from the October 31, 1995 audited balance sheet. All other financial information for years ending in October is unaudited.

TORO'S PURPOSE is to help customers beautify and preserve outdoor landscapes with environmentally responsible products of customer-valued quality and innovation.

TORO'S MISSION is to be the leading worldwide provider of outdoor landscaping products, support services and integrated systems. Toro will explore new opportunities that build revenue growth and sustainability using our core competencies to gain a leading market position.

ON THE COVER - Toro is the exclusive provider of turf maintenance equipment to the Valderrama Club de Golf, Spain, site of the 1997 Ryder Cup of golf.

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October 31, 1996

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3 months ended October 31, 1995 and Fiscal Years Ended July 31, 1995 and July 31, 1994.

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ELEVEN-YEAR SELECTED FINANCIAL DATA The Toro Company

(Dollars in thousands, except per share data)

Years ended October 31****	1996	1995	1994	1993	1992*	1991
OPERATING DATA:						
Net sales	\$930,909	\$919,400	\$864,300	\$706,600	\$638,700	\$706,200
EARNINGS:						
Net earnings (loss)	36,409	32,362	32,426	15,282	(21,726)	16,100
Percent of sales	3.9%	3.5%	3.8%	2.2%	(3.4)%	3.8%
Per share of common stock and common stock equivalent	\$ 2.90	\$ 2.50	\$ 2.49	\$ 1.22	\$ (1.81)	\$ 0.77
DIVIDENDS:						
On common stock outstanding	5,834	5,953	6,022	5,858	5,765	5,710
Per share of common stock outstanding	0.48	0.48	0.48	0.48	0.48	0.48
RETURN ON:						
Beginning common stockholders' equity	19.1%	18.1%	22.9%	12.1%	(14.2)%	26.4%
Average common stockholders' equity	18.0%	17.5%	20.2%	11.4%	(15.5)%	26.2%
SUMMARY OF FINANCIAL POSITION:						
Current assets	\$405,001	\$386,259	\$373,400	\$326,100	\$324,200	\$322,000
Current liabilities	207,857	221,173	197,200	169,200	132,500	103,800
Working capital	197,144	165,086	176,200	156,900	191,700	218,200
Non-current assets	91,876	86,394	78,200	73,700	85,100	93,400
Total assets	496,877	472,653	451,600	399,800	409,300	415,400
Non-current liabilities, excluding long-term debt	22,438	7,223	5,300	1,400	2,500	4,100
CAPITALIZATION:						
Long-term debt, less current portion	53,015	53,365	70,400	87,300	147,900	154,100
Redeemable preferred stock	-	-	-	-	-	-
Common stockholders' equity	213,567	190,892	178,700	141,900	126,400	153,400
Total capitalization	266,582	244,257	249,100	229,200	274,300	307,500
Book value per common share	17.75	15.69	14.05	11.47	10.50	12.84
STOCK DATA:						
Number of shares of common stock outstanding (in thousands)	12,032	12,168	12,720	12,370	12,041	11,950
Number of common stockholders	6,841	7,243	-	-	-	-
Low price	\$ 28 3/8	\$ 25 5/8	\$ 20 7/8	\$ 14 1/8	\$ 11 3/8	\$ 11
High price	36 1/4	32 1/4	30 1/2	26 3/4	17 1/2	20 1/2
Close price	31 3/8	28 7/8	27 3/4	25 3/8	14 1/8	14 3/4

(Dollars in thousands, except per share data) Years ended October 31****	1990**	1989	1988	1987***	1986
OPERATING DATA:					
Net sales	\$747,300	\$639,200	\$626,200	\$551,600	\$422,300
EARNINGS:					
Net earnings (loss)	9,130	8,394	19,962	20,500	17,900
Percent of sales	1.3%	1.1%	3.1%	3.3%	3.2%
Per share of common stock and common stock equivalent	\$ 0.84	\$ 1.90	\$ 1.90	\$ 1.60	\$ 1.39
DIVIDENDS:					
On common stock outstanding	6,074	4,774	4,613	3,730	3,135
Per share of common stock outstanding	0.48	0.48	0.45	0.37	0.30
RETURN ON:					
Beginning common stockholders' equity	6.2%	8.5%	23.5%	28.4%	28.8%
Average common stockholders' equity	6.1%	6.8%	21.7%	26.1%	26.7%
SUMMARY OF FINANCIAL POSITION:					
Current assets	\$306,800	\$271,200	\$296,400	\$262,600	\$216,600
Current liabilities	133,000	125,000	144,200	121,800	114,700
Working capital	173,800	146,200	152,200	140,800	101,900
Non-current assets	103,900	57,100	55,800	52,800	27,300
Total assets	410,700	328,300	352,200	315,400	243,900
Non-current liabilities, excluding long-term debt	6,100	2,400	1,700	1,100	2,100
CAPITALIZATION:					
Long-term debt, less current portion	125,300	95,600	112,200	109,800	54,500
Redeemable preferred stock	-	6,000	9,000	10,500	10,500
Common stockholders' equity	146,300	99,300	85,100	72,200	62,100
Total capitalization	271,600	200,900	206,300	192,500	127,100
Book value per common share	12.34	9.98	8.46	7.12	6.04
STOCK DATA:					
Number of shares of common stock outstanding (in thousands)	11,859	9,946	10,059	10,144	10,280
Number of common stockholders	-	-	-	-	-
Low price	\$ 12	\$ 17 7/8	\$ 11 1/8	\$ 13 1/2	\$ 11 1/2
High price	30	24 3/8	24 7/8	23 3/4	19 1/2
Close price	12 3/4	21 5/8	18 3/8	15 1/8	17 3/8

* Includes restructuring costs of \$24.9 million, or \$1.41 per share.

** The company's consolidated financial statements include results of operations of Lawn-Boy Inc. from November 7, 1989, the date of acquisition.

*** The company's consolidated financial statements include results of operations of Wheel Horse Products, Inc. from December 19, 1986, the date of acquisition.

**** The actual date of the year end for years prior to 1995 was the Friday closest to October 31.

[graph] [graph] [graph] [graph] [graph] [graph]

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

In November 1995, the company changed its fiscal year ended July 31 to a fiscal year ended October 31. The following comparisons are based on the company's new fiscal year end. The 3 month transition period ended October 31, 1995 bridges the gap between the company's old and new fiscal year ends. A comparison of this transition period to the same period in 1994 is presented beginning on page 25. In addition, a comparison of the years ended July 31, 1995 and 1994 is also presented beginning on page 25.

Financial information relating to the year ended October 31, 1996 has been derived from the audited financial statements. The results of operations for fiscal years ended in October 1995 and 1994 have been restated from the previous July 31 year end to the new fiscal year basis and are unaudited. The October 31, 1995 balance sheet information has been derived from the October 31, 1995 audited balance sheet. Financial information for the year ended October 28, 1994 is unaudited and is presented for informational purposes only.

RESULTS OF OPERATIONS

In 1996, the company increased net earnings by 12.3% over the previous year in spite of only a modest increase in worldwide net sales. The company continues to focus on implementing operational strategies which improve production flexibility and efficiency and aggressive expense control measures which result in increased margins. Weather patterns have a major impact on the company's sales; however, the company has entered into a number of strategic alliances and acquisitions in 1996, and continues to seek other opportunities to diversify both the product categories and the global markets where products are sold. This has and will continue to reduce the impact of localized weather patterns and economic conditions on the company's sales and earnings. See "Acquisitions and Strategic Alliances" included in this MD&A.

SUMMARY

(Dollars in millions except per share data)	YEAR ENDED	% Change	Year Ended	% Change	Year Ended
	OCTOBER 31		OCTOBER 31		OCTOBER 28
	1996		1995		1994
Net sales	\$930.9	1.3%	\$919.4	6.4%	\$864.3
Cost of sales	589.2	-	589.2	7.2	549.7
Gross profit	341.7	3.5	330.2	5.0	314.6
Selling, general and administrative expense	278.3	2.3	272.1	6.5	255.6
Earnings from operations	63.4	9.1	58.1	(1.5)	59.0
Interest expense	13.5	13.4	11.9	(7.0)	12.8
Other income, net	(10.3)	33.8	(7.7)	(1.3)	(7.8)
Earning before income taxes	60.2	11.7	53.9	(0.2)	54.0
Provision for income taxes	23.8	10.7	21.5	(0.5)	21.6
Net earnings	\$ 36.4	12.3%	\$ 32.4	-	\$ 32.4
Net earnings per share of common stock and common stock equivalent	\$ 2.90	16.0%	\$ 2.50	0.4%	\$ 2.49

NET SALES BY PRODUCT LINE

(Dollars in millions)					
Consumer	\$461.0	(1.3)%	\$467.2	(1.9)%	\$476.2
Commercial	322.0	3.6	310.8	18.5	262.3
Irrigation	147.9	4.6	141.4	12.4	125.8
Total*	\$930.9	1.3%	\$919.4	6.4%	\$864.3
*Includes international sales of	\$174.2	16.4%	\$149.6	6.3%	\$140.7

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

- - - - - CONSUMER

Worldwide consumer product sales in 1996 fell by 1.3% to \$461.0 million from \$467.2 million in 1995. The decrease was primarily the result of a slow start to the lawn and garden season due to cold, wet weather throughout most of the United States during the spring season. This decline was offset partially by increased snowthrower shipments. Snowthrower demand, especially in the northeast, was high in anticipation of strong retail activity and abnormally low field inventory levels. For the year, snowthrower sales were up 31.0%, primarily the result of sales volume increases. International sales included in the worldwide consumer totals declined by 1% from the prior year. Walk behind mower sales were lower, but this decline was partially offset by strong riding product sales.

[GRAPH]

- - - - - COMMERCIAL

Worldwide commercial product sales increased \$11.2 million or 3.6% over the prior year to \$322.0 million. International sales were strong, up 30.4% due primarily to a strong golf market in Europe and Asia. The late spring had an adverse effect on sales to the domestic golf course market. Many golf courses were forced to cut their equipment budgets due to loss of income from fewer rounds played during the inclement spring weather. In addition, the market saw increased competitive actions among the major equipment manufacturers.

[GRAPH]

- - - - - IRRIGATION

Worldwide irrigation sales totaled \$147.9 million representing an increase of \$6.5 million or 4.6% over the prior year. International irrigation sales were strong, up 15.3% from the prior year, fueled by strong golf market sales. This was partially offset by lower sales to the residential/commercial markets which were impacted by the cold, wet spring.

[GRAPH]

- - - - - INTERNATIONAL MARKETS

Total international sales, included in the preceding net sales table, increased by 16.4% over the previous year to \$174.2 million. This was primarily the result of increased sales volumes in the European and Asian golf markets. International sales are principally denominated in U.S. dollars; however, a portion of the company's international sales are denominated in foreign currencies. To reduce the uncertainty of foreign currency exchange rate movements on these sales commitments, the company enters into foreign exchange and range forward contracts. See Note 11 to the Consolidated Financial Statements.

[GRAPH]

COST TRENDS AND PROFIT MARGINS

	YEAR ENDED OCTOBER 31	Year Ended October 31	Year Ended October 28
Margins (Percent of net sales)	1996	1995	1994
Gross profit	36.7%	35.9%	36.4%
Operating profit	6.8	6.3	6.8
Pretax earnings	6.5	5.9	6.2
Net earnings	3.9	3.5	3.7

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

Operating profit rose to \$63.4 million or 6.8% of net sales, from \$58.1 million or 6.3% of net sales in 1995. The improvement in operating profit resulted from an increase in gross profit margins of \$11.5 million, partially offset by a \$6.2 million increase in SG&A expenses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE (SG&A)

SG&A Expense (Dollars in millions)	YEAR ENDED OCTOBER 31		Year Ended October 31		Year Ended October 28	
	1996	% OF NET SALES	1995	% of Net Sales	1994	% of Net Sales
Administrative	\$ 97.5	10.5%	\$ 92.7	10.1%	\$ 82.6	9.6%
Sales and marketing	87.5	9.4	89.0	9.7	90.8	10.5
Warranty	28.5	3.0	31.9	3.5	30.0	3.5
Distributor/dealer financing	10.3	1.1	9.9	1.1	9.0	1.0
Research and development	31.3	3.4	27.4	2.9	25.0	2.9
Warehousing	15.2	1.6	14.7	1.6	12.2	1.4
Service/quality assurance	8.0	0.9	6.5	0.7	6.0	0.7
Total	\$278.3	29.9%	\$272.1	29.6%	\$255.6	29.6%

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

The increase in administrative expense of \$4.8 million was comprised primarily of additional operating expenses associated with new businesses acquired in 1996. See "Acquisitions and Strategic Alliances" included in this MD&A.

Sales and marketing expense was down \$1.5 million due to reduced direct expenses from the decrease in consumer lawn and garden sales combined with savings from added expense controls.

Warranty expense was down \$3.4 million from the prior year as a result of lower warranty reserve requirements due to continuing product quality improvements and experience factors.

Distribution/dealer financing expense increased by \$0.4 million and was flat as a percent of sales. Distributor/dealer financing expense represents the cost incurred by the company to contract with a third party financing source to finance dealer inventory purchases. The \$10.3 million charge reflected in SG&A expense represents credit facility origination costs and interest charged for a pre-established length of time. Interest is charged at market rates based on prime plus a negotiated markup. These financing arrangements are used by the company as a marketing tool to enable customers to buy inventory.

Research and development expenditures increased by \$3.9 million reflecting the company's commitment to invest in product innovation and development.

[GRAPH]

Warehousing expense increased nominally by \$0.5 million as the result of warehousing costs for new businesses.

Service/quality assurance increased 23.1% from 1995 as a result of additional quality assurance and customer service spending for the company's new ventures.

INTEREST EXPENSE

Interest expense in 1996 increased by \$1.6 million to \$13.5 million. Although the average cost of funds declined from the prior year, the benefit was diminished by higher overall debt levels resulting from higher levels of average working capital. In addition to working capital needs, the company purchased \$13.3 million of its own common stock during the year which was funded with short-term borrowings. This cash outflow was offset partially by \$12.1 million received as a result of an interest rate swap entered into during 1996. The company anticipates a significant increase in interest expense in 1997 as a result of the additional debt associated with the acquisition of James Hardie Irrigation Group. See "Acquisitions and Strategic Alliances" in this MD&A.

OTHER INCOME, NET

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

PROVISION FOR TAXES

The effective tax rate for 1996 was 39.5% compared to 39.9% in 1995. In accordance with Financial Accounting Standards No. 109, the company has determined that it is not necessary to establish a valuation reserve for the deferred income tax benefit because it is more likely than not that the net deferred income tax benefit of \$31.5 million will be principally realized through carry back to taxable income in prior years, future reversals of existing taxable temporary differences, and to a lesser extent, future taxable income.

NET EARNINGS

Net earnings for 1996 were \$36.4 million, representing a 12.3% increase over 1995 earnings of \$32.4 million. The increase is primarily the result of improved operating margins. On a per share basis, earnings increased 16% to \$2.90 from \$2.50 in 1995.

ASSETS

Total assets at October 31, 1996 increased by 5.1% to \$496.9 million compared to \$472.7 million for the prior year. The increase was primarily comprised of a \$40.8 million increase in accounts receivable resulting from third and fourth quarter lawn and garden, and snow sales, new business receivables and dealer direct financing. This increase was offset partially by a reduction in cash and cash equivalents and inventories resulting from production management strategies.

WORKING CAPITAL

Working capital at 1996 year end was \$197.1 million which represents an increase of \$32.0 million from the \$165.1 million reported for 1995. The current ratio for 1996 was 1.95 versus 1.75 in 1995. Working capital as a percent of sales was 21.2% in 1996 and 18.0% for 1995.

The increase in working capital resulted from the \$18.7 million increase in current assets, primarily accounts receivable, which was partially offset by reduced inventories. In addition, current liabilities declined by \$13.3 million, due to a combination of a \$15.0 million decline in the current portion of long term debt, and a \$8.2 million decrease in accounts payable. This was offset partially by a \$9.6 million increase in other accrued liabilities, primarily caused by a change in benefit plan year ends which impacted the timing of company payments to these plans.

CAPITAL STRUCTURE

Long-term debt includes:

- - - - \$50.0 million of 11% sinking fund debentures, due August 2017 with sinking fund payments due annually August 1998 through August 2017.
- - - - \$3.4 million variable rate industrial revenue bond, due June 2004 with sinking fund payments due annually June 1997 through June 2004.

Long-term debt at October 31, 1996 was \$53.4 million, down \$15.3 million from \$68.7 million at October 31, 1995. The amount of total long-term debt attributable to Toro Credit Company, the company's consolidated finance subsidiary, was zero at October 31, 1996 compared to \$15.0 million at October 31, 1995. Toro Credit Company is now funded by the parent. The company's capital structure is managed on a consolidated basis.

Total debt at October 31, 1996 was \$94.4 million, down \$15.9 million from \$110.3 million at October 31, 1995. The total debt to total capital ratio decreased from 36.6% in 1995 to 30.7% in 1996 as the result of decreased long-term debt and an increase in current year earnings.

Total capitalization at October 31, 1996 consisted of \$53.4 million of long-term debt, \$41.0 million of short-term borrowing and \$213.6 million of stockholders' equity.

[GRAPH]

LIQUIDITY AND CAPITAL RESOURCES

In 1996, the company continued to improve its liquidity through cash management strategies which included the continued replacement of long-term debt with short term borrowings at more favorable interest rates, combined with prudent management of inventory levels.

Management believes that the combination of funds available through its existing financing options, coupled with forecasted cash flows as well as the anticipated issuance of public debt described below will provide the capital resources for its anticipated needs.

- - - - CASH FLOW

Cash and cash equivalents declined by \$7.6 million from 1995 to 1996. This decline in cash was primarily driven by repayment of debt and stock repurchases. At October 31, 1996 the company had \$4,908,000 included in trade payables that represented the reclassification of outstanding checks in excess of related bank balances.

Cash provided by operating activities increased by \$12.5 million as a result of a reduction in inventories and increased earnings. This was offset by increased accounts receivable attributed to timing of snowthrower and lawn and garden sales late in the year, expanded dealer direct financing programs through Toro Credit Company, and receivables resulting from Toro's new businesses.

Cash used in investing activities declined slightly in 1996 from 1995. Investing activities consisted primarily of initial purchases of tooling components used to manufacture new products and a variety of expenditures to improve and modernize the manufacturing plants and administrative offices.

Cash used in financing activities was primarily for retirement of debt and purchases of Toro stock. The company purchased the stock for use in employee benefit plans and for potential acquisitions. The major source of cash from financing activities was cash received from the forward starting interest rate exchange agreement. See Note 3 to the Consolidated Financial Statements.

- - - - CREDIT LINES AND OTHER CAPITAL RESOURCES

The company's seasonal working capital requirements are funded with \$194.0 million of unsecured bank credit lines. Average borrowings under these lines were \$95.2 million in 1996 and \$44.6 million in 1995. The increase in the average borrowings was the result of the reduction in long-term debt, the addition of dealer direct financing through Toro Credit Company, the purchase of the company's stock and the increase in seasonal working capital. At October 31, 1996, the company had \$153.0 million of unutilized availability under these credit lines. Subsequent to the year end, the company executed an agreement for an additional \$150.0 million unsecured bank credit line expiring in December 1997.

Additionally, the company's resources included two bankers' acceptance financing agreements totaling \$40.0 million. There were no amounts outstanding under these agreements at October 31, 1996 or 1995.

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

- - - - ACQUISITION FINANCING

In December 1996, the company completed the acquisition of James Hardie Irrigation Group. The purchase price of approximately \$119.0 million has been initially financed with temporary bank debt. The company intends to file a shelf registration for public debt to facilitate the issuance of long-term

debt to replace the temporary bank debt. The company also believes that financing is available through other resources. Management believes that the capital resources available under existing arrangements are sufficient to meet the company's needs through fiscal 1997. See "Acquisitions and Strategic Alliances" included in this MD&A.

INFLATION

The company is subject to the effects of changing prices. The company has, however, generally been able to pass along inflationary increases in its costs by increasing the prices of its products.

ACQUISITIONS AND STRATEGIC ALLIANCES

On December 3, 1996, the company announced that it completed the acquisition of James Hardie Irrigation Group (JHI) from James Hardie Limited of Australia. The purchase price of approximately \$119.0 million is subject to adjustment based on changes in working capital and closing balance sheet audit adjustments, and has been initially financed with temporary bank debt. The company intends to file a shelf registration for public debt which would facilitate the issuance of long-term debt to replace the temporary bank debt. The company expects the purchase to have a modest dilutive effect on earnings per share in 1997. JHI is a worldwide leader in the production of irrigation systems to the commercial landscape market. See Note 14 to the Consolidated Financial Statements.

In addition, the company completed the acquisitions of Liquid Ag Systems and National Service Network in 1996, and joined Walt Disney Wide World of Sports, Ryobi Outdoor Products, and Maruyama Manufacturing, Inc., in alliances that provide enhanced visibility and expanded product lines into emerging markets such as the landscape contractor business.

SUMMARY

The company continued to increase earnings by leveraging a slight sales gain. Strong sales performance in several product categories offset slower performance in others. The increase in net earnings resulted from improvements in operating margin offset partially by added expenses for new businesses and product research and development. In addition, an increase in other income more than offset an increase in interest expense resulting from higher working capital levels during the year. The company strengthened its balance sheet through cash management, inventory strategies and reduced long-term debt.

CONSOLIDATED STATEMENTS OF EARNINGS The Toro Company

	YEAR ENDED OCTOBER 31 1996	Year Ended October 31 1995	Year Ended October 28 1994
(Dollars in thousands, except per share data)			
Net sales	\$930,909	\$919,427	\$864,284
Cost of sales	589,186	589,211	549,728
Gross profit	341,723	330,216	314,556
Selling, general and administrative expense	278,284	272,128	255,625
Earnings from operations	63,439	58,088	58,931
Interest expense	13,590	11,954	12,705
Other income, net	(10,331)	(7,747)	(7,819)
Earnings before income taxes	60,180	53,881	54,045
Provision for income taxes	23,771	21,519	21,619
Net earnings	\$ 36,409	\$ 32,362	\$ 32,426
Net earnings per share of common stock and common stock equivalent	\$ 2.90	\$ 2.50	\$ 2.49

(Dollars in thousands, except per share data) October 31

	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 66	\$ 7,702
Receivables:		
Customers	244,434	201,571
Other	5,208	4,787
Subtotal	249,642	206,358
Less allowance for doubtful accounts	10,005	7,542
Total receivables	239,637	198,816
Inventories	130,288	145,862
Prepaid expenses	5,133	6,417
Deferred income tax benefits	29,877	27,462
Total current assets	405,001	386,259
Property, plant and equipment:		
Land and land improvements	6,816	6,569
Buildings and leasehold improvements	46,107	47,601
Equipment	176,157	157,511
Subtotal	229,080	211,681
Less accumulated depreciation and amortization	155,270	141,726
Total property, plant and equipment	73,810	69,955
Deferred income taxes	1,600	2,384
Other assets	16,466	14,055
Total assets	\$496,877	\$472,653

LIABILITIES AND COMMON STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt	\$ 350	\$ 15,334
Short-term borrowing	41,025	41,575
Accounts payable	43,524	51,757
Accrued warranty	34,722	35,065
Accrued marketing programs	22,600	21,407
Other accrued liabilities	65,636	56,035
Total current liabilities	207,857	221,173
Long-term debt, less current portion	53,015	53,365
Other long-term liabilities	22,438	7,223
Common stockholders' equity:		
Common stock, par value \$1.00, authorized 35,000,000 shares; issued and outstanding 12,032,143 shares in 1996 (net of 877,861 treasury shares) and 12,167,835 shares in 1995 (net of 674,490 treasury shares)	12,032	12,168
Additional paid-in capital	28,462	35,712
Retained earnings	173,630	142,891
Foreign currency translation adjustment	(557)	121
Total common stockholders' equity	213,567	190,892
Total liabilities and common stockholders' equity	\$496,877	\$472,653

(Dollars in thousands)	YEAR ENDED OCTOBER 31 1996	Year Ended October 31 1995	Year Ended October 28 1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 36,409	\$ 32,362	\$ 32,426
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for depreciation and amortization	18,170	17,115	18,646
(Gain) loss on disposal of property, plant and equipment	(260)	(147)	1,244
Deferred income taxes	784	(1,089)	(2,667)
Tax benefits related to employee stock option transactions	1,490	1,178	953
Changes in operating assets and liabilities:			
Net receivables	(40,821)	1,094	(39,115)
Inventories	15,574	(13,008)	(20,041)
Prepaid expenses and deferred income tax benefits	(1,131)	(5,660)	(3,918)
Accounts payable and accrued expenses	2,218	(11,868)	43,117
Net cash provided by operating activities	32,433	19,977	30,645
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(21,389)	(26,987)	(21,036)
Proceeds from asset disposals	543	850	303
(Increase) decrease in other assets/liabilities	(857)	4,017	(2,326)
Net cash used in investing activities	(21,703)	(22,120)	(23,059)
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Decrease) increase in short-term borrowing	(550)	41,575	-
Proceeds from issuance of long-term debt	-	-	4,000
Repayments of long-term debt	(15,334)	(22,755)	(36,077)
Proceeds from deferred income	12,742	-	5,250
Proceeds from exercise of stock options	4,627	7,632	8,518
Purchases of common stock	(13,339)	(26,024)	(2,814)
Dividends on common stock	(5,834)	(5,953)	(6,022)
Repayments from ESOP	-	2,612	2,611
Net cash used in financing activities	(17,688)	(2,913)	(24,534)
Foreign currency translation adjustment	(678)	356	1,151
Net decrease in cash and cash equivalents	(7,636)	(4,700)	(15,797)
Cash and cash equivalents at beginning of year	7,702	12,402	28,199
Cash and cash equivalents at end of year	\$ 66	\$ 7,702	\$ 12,402

SELECTED FINANCIAL DATA The Toro Company

(Dollars in thousands, except per share data)	YEAR ENDED	3 Months	Years Ended			
	OCTOBER 31 1996	Ended October 31 1995	July 31 1995	July 31 1994	July 31 1993	July 31 1992*
OPERATING DATA:						
Net sales	\$930,909	\$192,278	\$932,853	\$794,341	\$684,324	\$643,748
EARNINGS:						
Net earnings (loss)	36,409	3,997	36,667	22,230	13,040	(23,753)
Percent of sales	3.9%	2.1%	3.9%	2.8%	1.9%	(3.7)%
Per share of common stock and common stock equivalent	\$ 2.90	\$ 0.32	\$ 2.81	\$ 1.71	\$ 1.05	\$ (1.98)
DIVIDENDS:						
On common stock outstanding	5,834	1,459	6,002	5,993	5,824	5,753
Per share of common stock outstanding	0.48	0.12	0.48	0.48	0.48	0.48
RETURN ON:						
Beginning common stockholders' equity	19.1%	2.2%	21.7%	15.4%	9.8%	(14.8)%
Average common stockholders' equity	18.0%	2.1%	20.7%	14.2%	9.4%	(16.2)%
SUMMARY OF FINANCIAL POSITION:						
Current assets	\$405,001	\$386,259	\$381,610	\$364,495	\$344,130	\$332,517
Current liabilities	207,857	221,173	212,659	188,712	150,260	122,087
Working capital	197,144	165,086	168,951	175,783	193,870	210,430
Non-current assets	91,876	86,394	86,705	79,144	75,073	88,793
Total assets	496,877	472,653	468,315	443,639	419,203	421,310
Non-current liabilities, excluding long-term debt	22,438	7,223	5,250	5,250	1,372	2,509
CAPITALIZATION:						
Long-term debt, less current portion	53,015	53,365	64,935	81,025	122,970	164,100
Common stockholders' equity	213,567	190,892	185,471	168,652	144,601	132,614
Total capitalization	266,582	244,257	250,406	249,677	267,571	296,714
Book value per common share	17.75	15.69	15.40	13.43	11.78	11.01
STOCK DATA:						
Number of shares of common stock outstanding (in thousands)	12,032	12,168	12,040	12,561	12,270	12,042
Number of common stockholders	6,841	7,243	7,347	7,541	7,968	8,386
Low price	\$ 28 3/8	\$ 28 1/8	\$ 21 5/8	\$ 19 3/4	\$ 11 3/8	\$ 12 1/8
High price	36 1/4	32 1/4	30 3/8	30 1/2	21 7/8	17 1/2
Close price	31 3/8	28 7/8	28 5/8	22 5/8	19 3/4	13

*Includes restructuring costs of \$24.9 million, or \$1.41 per share.

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

In November 1995, the company changed its fiscal year ended July 31 to a fiscal year ended October 31. A comparison of the year ended October 31, 1996 to the year ended October 31, 1995 is presented beginning on page 16. The 3 month transition period ended October 31, 1995 bridges the gap between the company's old and new fiscal year ends. A comparison of this transition period to the same period in 1994 is presented below. In addition, a comparison of the years ended July 31, 1995 and 1994 is also presented below.

Financial information related to the 3 month transition period ended October 31, 1995, and the years ended July 31, 1995 and 1994 has been derived from the audited financial statements. Financial information related to the 3 month period ended October 28, 1994 is unaudited.

RESULTS OF OPERATIONS

The sales for the 3 month transition period ended October 31, 1995 were \$192.3 million versus \$205.7 million in the same period of the prior year. The decline was due to extraordinary snow product sales in 1994. Earnings for the period were \$4.0 million versus \$8.3 million in the prior year.

SUMMARY

(Dollars in millions except per share data)	3 Months Ended October 31 1995	% Change	3 Months Ended October 28 1994	Year Ended July 31 1995	% Change	Year Ended July 31 1994
Net sales	\$192.3	(6.5)%	\$205.7	\$932.9	17.4%	\$794.3
Cost of sales	120.6	(6.9)	129.6	598.3	18.1	506.8
Gross profit	71.7	(5.8)	76.1	334.6	16.4	287.5
Selling, general and administrative expense	65.0	3.7	62.7	269.8	10.2	244.9
Earnings from operations	6.7	(50.0)	13.4	64.8	52.1	42.6
Interest expense	2.5	-	2.5	11.9	(12.5)	13.6
Other income, net	(2.4)	(17.2)	(2.9)	(8.2)	2.5	(8.0)
Earnings before income taxes	6.6	(52.2)	13.8	61.1	65.1	37.0
Provision for income taxes	2.6	(52.7)	5.5	24.4	64.9	14.8
Net earnings	\$ 4.0	(51.8)%	8.3	\$ 36.7	65.3%	\$ 22.2
Net earnings per share of common stock and common stock equivalent	\$ 0.32	(50.0)%	\$ 0.64	\$ 2.81	64.3%	\$ 1.71

SALES BY PRODUCT LINE

(Dollars in millions)	3 Months Ended October 31 1995	% Change	3 Months Ended October 28 1994	Year Ended July 31 1995	% Change	Year Ended July 31 1994
Net Sales	\$192.3	(6.5)%	\$205.7	\$932.9	17.4%	\$794.3
Consumer	\$105.9	(16.4)%	\$126.7	\$488.1	14.6%	\$425.8
Commercial	54.1	11.1	48.7	305.3	20.6	253.2
Irrigation	32.3	6.6	30.3	139.5	21.0	115.3
Total*	\$192.3	(6.5)%	\$205.7	\$932.9	17.4%	\$794.3
*Includes international sales of	\$ 20.9	(11.8)%	\$ 23.7	\$152.4	17.1%	\$130.1

3 MONTHS ENDED OCTOBER 31, 1995 COMPARED WITH 3 MONTHS ENDED OCTOBER 28, 1994

Worldwide net sales for the 3 months ended October 31, 1995, of \$192.3 million decreased by \$13.4 million from the prior year primarily as a result of decreased sales of snow removal equipment. The decline in the quarter was offset partially by an increase in commercial and irrigation product sales. The increase in commercial product sales was the result of new product introductions, golf course openings, increased sales of equipment to landscape contractors and increased sales in the municipal markets. Irrigation sales increased because of new product introductions and increased demand for do-it-yourself products. International sales included in the table on the previous page declined from the prior year because of a temporary business interruption in the irrigation product line as a result of distribution changes as well as decreased sales of snow removal equipment.

YEAR ENDED JULY 31, 1995 COMPARED WITH YEAR ENDED JULY 31, 1994

Worldwide sales increased \$138.6 million in fiscal 1995 to \$932.9 million with increases in all product lines as discussed below:

CONSUMER

Worldwide consumer product sales rose 14.6% to \$488.1 million in 1995. Consumer product sales represented 52.3% and 53.6% of consolidated net sales for 1995 and 1994, respectively. International sales included in consumer product sales increased \$5.6 million from the prior year.

Exceptional sales of snow removal equipment as well as increased sales of riding products and Toro-Registered Trademark-brand walk power mowers contributed to the increase over the prior year. This increase was offset partially by a decline in Lawn-Boy-Registered Trademark- walk power mower sales as a result of reduced shipments in response to a delayed spring season as well as actions to reduce excess retail inventory.

COMMERCIAL

Worldwide commercial product sales increased \$52.1 million over the prior year. International sales included in commercial product sales increased \$9.0 million from the prior year.

Sales were strong in both the golf and municipal markets because of new golf course openings and increased spending in the municipal market. Sales of equipment to landscape contractors and sales of recycling equipment products also contributed to the increase.

IRRIGATION

Worldwide irrigation product sales increased 21.0% to \$139.5 million in 1995. International sales included in irrigation product sales increased \$6.0 million.

Increased sales of irrigation products in the golf industry as well as an improved market share for do-it-yourself products contributed to the sales increase. The company's change to direct distribution through irrigation product wholesale dealers in the California and Texas markets, made in 1994 to better respond to customer needs, was favorably received in the marketplace. Improved international economies and weather conditions also resulted in increased sales.

INTERNATIONAL MARKETS

International sales are included in the preceding net sales table. International sales increased 17.1% to \$152.4 million in 1995. Sales in Canada improved over the prior year because of the strengthened economy. The drought in Australia curtailed sales slightly, but was offset by increased sales in Europe because of the weak U.S. dollar.

COST TRENDS AND PROFIT MARGINS

Margins (Percent of net sales)	3 Months Ended October 31 1995	3 Months Ended October 28 1994	Year Ended July 31 1995	Year Ended July 31 1994
Gross profit	37.3%	37.0%	35.9%	36.2%
Operating profit	3.5	6.5	6.9	5.4
Pretax earnings	3.4	6.7	6.5	4.7
Net earnings	2.1	4.0	3.9	2.8

3 MONTHS ENDED OCTOBER 31, 1995 COMPARED WITH 3 MONTHS ENDED OCTOBER 28, 1994

Gross profit of \$71.7 million decreased \$4.4 million from the prior year because of the decline in sales. As a percent of sales, gross profit for the period ended October 31, 1995 was 37.3% compared with 37.0% for the period ended October 28, 1994 primarily due to increased sales of commercial and irrigation products, offset partially by reduced sales of snow removal equipment.

YEAR ENDED JULY 31, 1995 COMPARED WITH YEAR ENDED JULY 31, 1994

Gross profit of \$334.6 million increased 16.4% over the \$287.5 million in 1994. As a percent of net sales, gross profit decreased slightly to 35.9% for 1995 compared with 36.2% in 1994. The percentage decrease resulted from the mix of product sales and increased costs of raw material. Gross profit increased \$47.1 million to \$334.6 million. This was the result of the increased sales volume which was offset by the items mentioned above.

Operating profit improved from the prior year by \$22.2 million because of improved operating leverage as a result of increased sales.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE (SG&A)

SG&A Expense (Dollars in millions)	3 Months Ended October 31 1995	% of Net Sales	3 Months Ended October 28 1994	% of Net Sales	Year Ended July 31 1995	% of Net Sales	Year Ended July 31 1994	% of Net Sales
Administrative	\$24.0	12.5%	\$20.8	10.1%	\$ 89.5	9.6%	\$ 80.2	10.1%
Sales and marketing	20.6	10.7	23.8	11.6	92.1	9.9	84.4	10.6
Warranty	6.6	3.4	5.7	2.8	31.0	3.3	29.0	3.6
Distributor/dealer financing	2.1	1.1	2.0	1.0	9.7	1.0	8.6	1.1
Research and development	6.9	3.6	6.0	2.9	26.5	2.8	24.6	3.1
Warehousing	3.2	1.7	2.9	1.4	14.5	1.6	11.8	1.5
Service/quality assurance	1.6	0.8	1.5	0.7	6.5	0.7	6.3	0.8
Total	\$65.0	33.8%	\$62.7	30.5%	\$269.8	28.9%	\$244.9	30.8%

3 MONTHS ENDED OCTOBER 31, 1995 COMPARED WITH 3 MONTHS ENDED OCTOBER 28, 1994

SG&A increased \$2.3 million from the prior year and as a percent of sales increased to 33.8%. Administrative expense increased from the prior year as the company continued its implementation of a company-wide information system as well as an overall increase in spending. Warranty increased from the prior year as a result of a change in the sales mix of products. Research and development expenditures were above the prior year reflecting the company's continued commitment to product innovation. These increases were offset partially by a decrease in sales and marketing expense primarily because of reduced sales.

YEAR ENDED JULY 31, 1995 COMPARED WITH YEAR ENDED JULY 31, 1994

SG&A was up \$24.9 million from 1994 and was 28.9% of net sales in 1995 compared with 30.8% in 1994. The decline as a percent of sales was the result of improved leverage and expense control. The increase in administrative expense of \$9.3 million occurred principally as a result of a company-wide initiative to replace existing information systems, increased payouts in various employee incentive and profit sharing plans, the addition of a joint venture with a distributor, the addition of dealer direct financing through Toro Credit Company, and distribution support.

Sales and marketing expense was up \$7.7 million from the prior year. As a percent of net sales, sales and marketing was 9.9%, a decrease from 10.6% in 1994. The dollar increase reflected the company's increased sales volume as well as an increase in brand advertising.

Warranty expense increased by \$2.0 million and as a percent of net sales was 3.3% in 1995 compared with 3.6% in 1994. The \$2.0 million increase was primarily the result of increased sales volume, and new product introductions.

Distributor/dealer financing expense represents the cost incurred by the company to contract with a third party financing source to finance dealer inventory purchases. The \$9.7 million charge reflected in SG&A represents credit facility origination costs and interest charges for a pre-established length of time. Interest is charged at market rates based on prime plus a negotiated mark-up. These financing arrangements are used by the company as a marketing tool to enable customers to buy inventory. This expense increased \$1.1 million in 1995 because of the increased sales volume and was offset partially by the reduction of third party financing expense which was taken on through the addition of dealer direct financing through Toro Credit Company.

Research and development expense was up \$1.9 million primarily as the result of continued investment in product innovation.

INTEREST EXPENSE

3 MONTHS ENDED OCTOBER 31, 1995 COMPARED WITH 3 MONTHS ENDED OCTOBER 28, 1994

Interest expense for the 3 months ended October 31, 1995 was \$2.5 million which was unchanged from the amount reported in 1994.

YEAR ENDED JULY 31, 1995 COMPARED WITH YEAR ENDED JULY 31, 1994

Interest expense for 1995 decreased to \$11.9 million from the \$13.6 million reported in 1994 as the result of the company's continued reduction in long-term debt and utilization of short-term borrowing at lower interest rates.

OTHER INCOME, NET

3 MONTHS ENDED OCTOBER 31, 1995 COMPARED WITH 3 MONTHS ENDED OCTOBER 28, 1994

Other income, net at October 31, 1995 was \$2.4 million versus \$2.9 million in 1994. The decrease in other income, net was due to a decline in financing revenue for the period.

YEAR ENDED JULY 31, 1995 COMPARED WITH YEAR ENDED JULY 31, 1994.

Other income, net was \$0.2 million greater than the \$8.0 million reported in 1994. Excluding the effect of two lawsuit settlements and the sale of the portable heater business in the prior year, other income increased because of gains on fixed asset disposals versus losses in the prior year, favorable foreign currency activity, and income resulting from joint venture activity.

PROVISION FOR TAXES

3 Months Ended October 31, 1995 Compared With 3 Months Ended October 28, 1994

The effective tax rate for the period ended October 31, 1995 was 39.5% compared to 40.0% for the 3 month period ended October 28, 1994.

Year Ended July 31, 1995 Compared With Year Ended July 31, 1994

The effective tax rate remained at 40% of pretax earnings in 1995. In accordance with Financial Accounting Standards No. 109, the company has determined that it is not necessary to establish a valuation reserve for the deferred income tax benefit because it is more likely than not that the net deferred income tax benefit of \$30.9 million will be principally realized through carry back to taxable income in prior years, and future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income.

NET EARNINGS

3 Months Ended October 31, 1995 Compared With 3 Months Ended October 28, 1994

Net earnings for the 3 months ended October 31, 1995 was \$4.0 million versus \$8.3 million a year prior. The decrease in earnings was primarily the result of extraordinary snow product sales in the prior 3 month period.

Year Ended July 31, 1995 Compared With Year Ended July 31, 1994

Net earnings for 1995 were \$36.7 million or \$2.81 per share, as compared with net earnings of \$22.2 million or \$1.71 per share in 1994. The increase in earnings was primarily the result of increased sales, improved operating leverage, and cost control measures such as lower borrowing costs.

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, 1996 and 1995, and the related consolidated statements of earnings and cash flows for the year ended October 31, 1996, the three month period ended October 31, 1995 and the years ended July 31, 1995 and 1994. 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, 1996 and 1995, and the results of their operations and their cash flows for the year ended October 31, 1996, the three month period ended October 31, 1995 and the years ended July 31, 1995 and 1994 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Minneapolis, Minnesota
December 16, 1996

CONSOLIDATED STATEMENTS OF EARNINGS The Toro Company

	YEAR ENDED OCTOBER 31 1996	3 Months Ended October 31 1995	Year Ended	
			July 31 1995	July 31 1994
(Dollars in thousands, except per share data)				
Net sales	\$ 930,909	\$192,278	\$ 932,853	\$794,341
Cost of sales	589,186	120,575	598,275	506,816
Gross profit	341,723	71,703	334,578	287,525
Selling, general and administrative expense	278,284	65,048	269,757	244,943
Earnings from operations	63,439	6,655	64,821	42,582
Interest expense	13,590	2,532	11,902	13,562
Other income, net	(10,331)	(2,483)	(8,193)	(8,030)
Earnings before income taxes	60,180	6,606	61,112	37,050
Provision for income taxes	23,771	2,609	24,445	14,820
Net earnings	\$ 36,409	\$ 3,997	\$ 36,667	\$ 22,230
Net earnings per share of common stock and common stock equivalent	\$ 2.90	\$ 0.32	\$ 2.81	\$ 1.71

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

(Dollars in thousands, except per share data) October 31

	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 66	\$ 7,702
Receivables:		
Customers	244,434	201,571
Other	5,208	4,787
Subtotal	249,642	206,358
Less allowance for doubtful accounts	10,005	7,542
Total receivables	239,637	198,816
Inventories	130,288	145,862
Prepaid expenses	5,133	6,417
Deferred income tax benefits	29,877	27,462
Total current assets	405,001	386,259
Property, plant and equipment:		
Land and land improvements	6,816	6,569
Buildings and leasehold improvements	46,107	47,601
Equipment	176,157	157,511
Subtotal	229,080	211,681
Less accumulated depreciation and amortization	155,270	141,726
Total property, plant and equipment	73,810	69,955
Deferred income taxes	1,600	2,384
Other assets	16,466	14,055
Total assets	\$496,877	\$ 472,653
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 350	\$ 15,334
Short-term borrowing	41,025	41,575
Accounts payable	43,524	51,757
Accrued warranty	34,722	35,065
Accrued marketing programs	22,600	21,407
Other accrued liabilities	65,636	56,035
Total current liabilities	207,857	221,173
Long-term debt, less current portion	53,015	53,365
Other long-term liabilities	22,438	7,223
Common stockholders' equity:		
Common stock, par value \$1.00, authorized 35,000,000 shares; issued and outstanding 12,032,143 shares in 1996 (net of 877,861 treasury shares) and 12,167,835 shares in 1995 (net of 674,490 treasury shares)	12,032	12,168
Additional paid-in capital	28,462	35,712
Retained earnings	173,630	142,891
Foreign currency translation adjustment	(557)	121
Total common stockholders' equity	213,567	190,892
Total liabilities and common stockholders' equity	\$496,877	\$472,653

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

(Dollars in thousands)	YEAR ENDED	3 Months Ended	Year Ended	
	OCTOBER 31 1996	October 31 1995	July 31 1995	July 31 1994
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net earnings	\$ 36,409	\$ 3,997	\$ 36,667	\$ 22,230
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:				
Provision for depreciation and amortization	18,170	3,590	17,240	18,839
(Gain) loss on disposal of property, plant and equipment	(260)	(34)	(135)	1,265
Deferred income taxes	784	194	(1,282)	(2,668)
Tax benefits related to employee stock option transactions	1,490	-	1,178	953
Changes in operating assets and liabilities:				
Net receivables	(40,821)	13,640	(28,773)	(3,320)
Inventories	15,574	(22,142)	(4,956)	(40,056)
Prepaid expenses and deferred income tax benefits	(1,131)	1,962	(10,024)	(2,551)
Accounts payable and accrued expenses	2,218	(9,770)	5,622	33,152
Net cash provided by (used in) operating activities	32,433	(8,563)	15,537	27,844
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, plant and equipment	(21,389)	(3,302)	(28,162)	(18,173)
Proceeds from asset disposals	543	43	843	267
(Increase) decrease in other assets/liabilities	(857)	1,793	3,935	(4,973)
Net cash used in investing activities	(21,703)	(1,466)	(23,384)	(22,879)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Increase (decrease) in sale of receivables	-	(2,331)	2,331	-
(Decrease) increase in short-term borrowing	(550)	19,040	22,535	-
Proceeds from issuance of long-term debt	-	-	-	4,000
Repayments of long-term debt	(15,334)	(12,326)	(20,300)	(40,645)
Proceeds from deferred income	12,742	-	-	5,250
Proceeds from exercise of stock options	4,627	3,586	8,251	6,144
Purchases of common stock	(13,339)	(891)	(26,225)	(2,284)
Dividends on common stock	(5,834)	(1,459)	(6,002)	(5,993)
Repayments from ESOP	-	-	2,612	2,611
Net cash provided by (used in) financing activities	(17,688)	5,619	(16,798)	(30,917)
Foreign currency translation adjustment	(678)	188	338	390
Net decrease in cash and cash equivalents	(7,636)	(4,222)	(24,307)	(25,562)
Cash and cash equivalents at beginning of period	7,702	11,924	36,231	61,793
Cash and cash equivalents at end of period	\$ 66	\$ 7,702	\$ 11,924	\$ 36,231
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	\$ 15,335	\$ 4,694	\$ 9,567	\$ 14,092
Income taxes	20,447	109	34,936	19,498

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED DATA

FISCAL YEAR CHANGE

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

BASIS OF CONSOLIDATION

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

CASH AND CASH EQUIVALENTS

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The provision for doubtful accounts included in selling, general and administrative expense was \$3,358,000 for the year ended October 31, 1996, \$720,000 for the 3 months ended October 31, 1995, \$1,543,000 for the year ended July 31, 1995, and \$3,032,000 for the year ended July 31, 1994.

INVENTORIES

The majority of all inventories are valued at the lower of cost or net realizable value with cost determined by the last-in, first-out (LIFO) method. Had the first-in, first-out (FIFO) method of cost determination been used, inventories would have been \$25,642,000 and \$24,841,000 higher than reported at October 31, 1996, and 1995, respectively. Under the FIFO method, work-in-process inventories were \$69,182,000 and \$86,285,000 and finished goods inventories were \$86,748,000 and \$84,418,000 at October 31, 1996 and 1995, respectively.

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 using the units of production method. Expenditures for major renewals and betterments which substantially increase the useful lives of existing assets are capitalized, and maintenance and repairs are charged to operating expenses as incurred. Software is expensed at the time of purchase. The cost and related accumulated depreciation of all plant and equipment disposed of are removed from the accounts, and any gain or loss from such disposal is included in current period earnings.

ACCRUED WARRANTY

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

DEFERRED INCOME

The company has recorded deferred income related to a forward starting interest rate exchange agreement. The deferred income will be recognized commencing August 1, 1997 as an adjustment to interest expense over the term of the agreement. See Note 3 to the Consolidated Financial Statements.

FOREIGN CURRENCY TRANSLATION

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

ACCOUNTING FOR REVENUES

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

COST OF FINANCING DISTRIBUTOR/DEALER INVENTORY

Included in selling, general and administrative expense are costs associated with various programs in which the company shares costs of financing distributor and dealer inventories. These costs of \$10,252,000 for the year ended October 31, 1996, \$2,063,000 for the 3 months ended October 31, 1995, \$9,675,000 for the year ended July 31, 1995, and \$8,587,000 for the year ended July 31, 1994, are charged against operations as incurred.

RESEARCH AND DEVELOPMENT

Expenditures for research and development, including engineering, of \$31,343,000 for the year ended October 31, 1996, \$6,864,000 for the 3 months ended October 31, 1995, \$26,513,000 for the year ended July 31, 1995 and \$24,581,000 for the year ended July 31, 1994 are charged against operations as incurred.

DISTRIBUTION

Included in selling, general and administrative expense are costs associated with changes to the company's distribution channels. These costs were \$6,682,000 for the year ended October 31, 1996, \$823,000 for the 3 months ended October 31, 1995, \$3,400,000 for the year ended July 31, 1995 and \$4,300,000 for the year ended July 31, 1994. Those costs associated with business changes are accrued on the basis of historical experience, while costs related to specific changes to the company's distribution system are recorded when authorized.

INCOME TAXES

In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (FAS 109), 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 carry back to taxable income in prior years, future reversals of existing taxable temporary differences, and to a lesser extent, future taxable income.

NET EARNINGS PER SHARE OF COMMON STOCK AND COMMON STOCK EQUIVALENTS

Net earnings per share of common stock and common stock equivalents are computed by dividing net earnings by the weighted average number of common shares and common stock equivalents outstanding during the respective periods. Common stock equivalents include potentially dilutive stock options. These shares are included under the treasury stock method using the average market price of the company's stock during each period. The effect of full dilution using the year-end price of the company's stock was immaterial.

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, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENT

In October 1995, the Financial Accounting Standards Board released Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation," (FAS 123). The company accounts for its stock options and employee stock ownership plan in accordance with the provisions of the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25). FAS 123 provides an alternative to APB 25 and is effective for fiscal years beginning after December 15, 1995. The company expects to continue to account for its employee stock plans in accordance with the provisions of APB 25. Accordingly, FAS 123 is not expected to have any material impact on the company's financial position or results of operations. Effective with the issuance of the company's fiscal 1997 financial statements, the company will disclose proforma net income and per share amounts as if FAS 123 were applied.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform with the current year presentation.

2 SHORT-TERM CAPITAL RESOURCES

At October 31, 1996, the company had available unsecured lines of credit with five banks in the aggregate of \$194,000,000. Most of these agreements require the company to pay a fee of 0.175% per year on the available lines of credit. This fee is recorded by the company as interest expense. The company had \$41,025,000 outstanding at October 31, 1996, and \$41,575,000 outstanding at October 31, 1995. The weighted average interest rate on short-term borrowing for 1996 was 6.0% (6.0% for the 3 months ended October 31, 1995, 7.7% for the year ended July 31, 1995 and 6.5% for the year ended July 31, 1994). Interest expense was \$7,036,000 in 1996 (\$695,000 for the 3 months ended October 31, 1995, \$2,498,000 for the year ended July 31, 1995 and \$822,000 for the year ended July 31, 1994), including facility fees. The weighted average short-term borrowing was \$117,080,000 for the year ended October 31, 1996 (\$11,496,000 for the 3 months ended October 31, 1995, \$32,335,000 for the year ended July 31, 1995 and \$12,755,000 for the year ended July 31, 1994).

In addition, the company's capital resources include two \$20,000,000 bankers' acceptance financing agreements in 1996 and 1995. The company had no amount outstanding under these agreements at October 31, 1996, and 1995.

3 LONG-TERM DEBT

A summary of long-term debt is as follows:

(Dollars in thousands) October 31	1996	1995
11% Sinking Fund Debentures due annually August 1998-2017 callable August 1, 1997	\$50,000	\$50,000
Industrial Revenue Bond due annually June 1997-2004 with various interest rates	3,365	3,699
9.57% senior note due January 1996	-	5,000
9.53% senior note due August 1996	-	10,000
	53,365	68,699
Less current portion	350	15,334
Long-term debt, less current portion	\$53,015	\$53,365

The weighted average interest rate on long-term debt for 1996 was 10.5% (10.5% for the 3 months ended October 31, 1995, 9.9% for the year ended July 31, 1995 and 9.8% for the year ended July 31, 1994). Interest expense was \$6,555,000 in 1996 (\$1,837,000 for the 3 months ended October 31, 1995, \$8,673,000 for the year ended July 31, 1995 and \$12,236,000 for the year ended July 31, 1994), including commitment and facility fees. The weighted average long-term debt outstanding was \$62,366,000 in 1996 (\$17,557,000 for the 3 months ended October 31, 1995, \$87,330,000 for the year ended July 31, 1995 and \$125,388,000 for the year ended July 31, 1994).

The company entered into a forward starting interest rate exchange agreement with a bank on March 6, 1996 to hedge the anticipated refinancing of its \$50 million, 11% long-term sinking fund debentures callable August 1, 1997, and to realize the benefit of favorable interest rates. Simultaneously with entering into this interest rate exchange agreement, the company terminated its interest rate exchange agreement entered into during February 1994. The effect of this transaction was to extend the original forward starting interest rate exchange agreement from 5 years to 30 years. As a result of this transaction, the deferred income balance was increased from \$5.25 million in 1994 to \$17.3 million in March of 1996. The net additional cash received in March 1996 was \$12.1 million. In return for the net proceeds, the company will pay the bank 10.55% on a notational amount of \$50 million from August 1, 1997 through August 2, 2027 and the company will receive payments based on a floating rate equal to the London Interbank Offered Rate (LIBOR) on the notational amount over the same period.

The net interest rate differential to be received or paid and the \$17.3 million deferred income will be recognized commencing August 1, 1997 as an adjustment to interest expense over the term of the agreement.

On August 12, 1996 the company entered into another forward starting interest rate exchange agreement with a bank to additionally hedge the anticipated refinancing of the \$50 million currently financed under short-term credit agreements. The company received or paid no cash as a result of this transaction.

Under the terms of the long-term debt agreements and the interest rate exchange agreements, the company is subject to certain covenants. At October 31, 1996, the company was in compliance with all such covenants.

The terms of certain agreements of Toro Credit Company restrict the payment of dividends and loans or advances to the parent company. Of the Toro Credit Company's retained earnings of \$63,584,000, all were available for distribution to the parent at October 31, 1996.

Principal payments required on long-term debt in each of the next five years ending October 31 are as follows: 1997, \$350,000; 1998, \$2,865,000; 1999, \$2,885,000; 2000, \$2,905,000; 2001, \$2,925,000; and after 2001, \$41,435,000.

4 INCOME TAXES

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

	YEAR ENDED	3 Months Ended	Year Ended	
	OCTOBER 31 1996	October 31 1995	July 31 1995	July 31 1994
Statutory federal income tax rate	35.0%	35.0%	35.0%	35.0%
Increase (reduction) in income taxes resulting from:				
Benefits from foreign sales corporation	(0.8)	(0.2)	(0.8)	(1.6)
State and local income taxes, net of federal income tax benefit	2.5	4.6	2.4	2.4
Effect of foreign source income	0.0	1.5	0.5	1.3
Other, net	2.8	(1.4)	2.9	2.9
Consolidated effective tax rate	39.5%	39.5%	40.0%	40.0%

Components of the provision for income taxes are as follows:

	YEAR ENDED	3 Months Ended	Year Ended	
	OCTOBER 31 1996	October 31 1995	July 31 1995	July 31 1994
Current:				
Federal	\$22,479	\$ 731	\$24,878	\$18,487
State	2,754	238	2,942	2,610
Current provision	25,233	969	27,820	21,097
Deferred:				
Federal	(1,051)	1,414	(2,689)	(5,059)
State	(411)	226	(686)	(1,218)
Deferred provision	(1,462)	1,640	(3,375)	(6,277)
Total provision for income taxes	\$23,771	\$2,609	\$24,445	\$14,820

The tax effects of temporary differences that give rise to the net deferred tax assets at October 31, 1996 and 1995 are presented below.

(Dollars in thousands)	1996	1995
Allowance for doubtful accounts	\$ 5,151	\$ 4,254
Inventory reserves	536	(459)
Uniform capitalization	2,252	2,302
Depreciation	1,600	2,384
Warranty reserves	12,881	12,754
Marketing programs	2,018	1,973
Distributor reserves	2,603	2,474
Restructuring reserves	1,091	1,386
Accrued retirement	3,410	2,770
Other	(65)	8
Consolidated deferred income tax assets	\$31,477	\$29,846

During the years ended October 31, 1996 and July 31, 1995, respectively, \$1,490,000 and \$1,178,000 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.

5 COMMON STOCKHOLDERS EQUITY

Changes in the components of common stockholders' equity during the fiscal year ended October 31, 1996, the 3 months ended October 31, 1995, and the fiscal years ended July 31, 1995 and 1994 were as follows:

(Dollars in thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Receivable from ESOP	Foreign Currency Translation Adjustment
Balance at July 31, 1993	\$12,270	\$ 44,898	\$ 93,451	\$(5,223)	\$(795)
Common dividends paid (\$0.48 per share)	-	-	(5,993)	-	-
Issuance of 388,588 shares under stock option plans	388	5,756	-	-	-
Purchase of 97,758 common shares	(97)	(2,187)	-	-	-
Payment received from ESOP	-	-	-	2,611	-
Foreign currency translation adjustment	-	-	-	-	390
Tax benefits related to employee stock option transactions	-	953	-	-	-
Net earnings	-	-	22,230	-	-
Balance at July 31, 1994	\$12,561	\$ 49,420	\$109,688	\$(2,612)	\$(405)
Common dividends paid (\$0.48 per share)	-	-	(6,002)	-	-
Issuance of 444,783 shares under stock option plans	445	7,806	-	-	-
Purchase of 965,757 common shares	(966)	(25,259)	-	-	-
Payment received from ESOP	-	-	-	2,612	-
Foreign currency translation adjustment	-	-	-	-	338
Tax benefits related to employee stock option transactions	-	1,178	-	-	-
Net earnings	-	-	36,667	-	-
Balance at July 31, 1995	\$12,040	\$ 33,145	\$140,353	\$ 0	\$(67)
Common dividends paid (\$0.12 per share)	-	-	(1,459)	-	-
Issuance of 156,263 shares under stock option plans	156	3,431	-	-	-
Purchase of 28,204 common shares	(28)	(864)	-	-	-
Foreign currency translation adjustment	-	-	-	-	188
Net earnings	-	-	3,997	-	-
Balance at October 31, 1995	\$12,168	\$ 35,712	\$142,891	\$ 0	\$ 121
Common dividends paid (\$0.48 per share)	-	-	(5,834)	-	-
Issuance of 294,324 shares under stock option plans	294	4,333	-	-	-
Purchase of 429,692 common shares	(430)	(13,073)	-	-	-
Foreign currency translation adjustment	-	-	-	-	(678)
Tax benefits related to employee stock option transactions	-	1,490	-	-	-
Other	-	-	164	-	-
Net earnings	-	-	36,409	-	-
BALANCE AT OCTOBER 31, 1996	\$12,032	\$ 28,462	\$173,630	\$ 0	\$(557)

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

6 STOCK OPTION PLANS

Incentive stock options and nonqualified options may be granted under the terms of the stockholder approved 1989 Stock Option Plan and the 1993 Stock Option Plan (the "Plans"). Each incentive stock option and nonqualified stock option is granted at an exercise price equal to 100% of the fair market value of the Common Stock on the date of the grant, except for performance based stock options, such as those granted in connection with the Continuous Performance Award Plan for which the exercise price is an average of the closing stock prices for the three months preceding the grant date. Stock options granted under the Plans may be exercised in whole or in part from time to time, not later than 10 years from the date of grant or other period, as specified in the option agreement. Most stock options are subject to cancellation upon termination of the option holder's employment. However, some nonqualified options granted under the Plans can be exercised for up to four years after retirement, at or after age 60, but not beyond the date the option originally expires. Only nonqualified stock options may be granted under the terms of the 1992 Directors Stock Plan (the "Director Plan"). The Director Plan is a formula plan. Each option granted under the Director Plan is granted at an exercise price equal to 100% of the fair market value of the Common Stock on the date of the grant. Stock options granted under the Director Plan may be exercised only while serving as a member of the Board of Directors of the company, except in the event of death or disability. Stock option transactions are summarized as follows:

	YEAR ENDED	3 Months Ended	Year Ended	
	OCTOBER 31 1996	October 31 1995	July 31 1995	July 31 1994
Outstanding at beginning of period	1,253,311	1,166,579	1,259,509	1,421,923
Granted	48,768	256,496	323,474	264,217
Exercised or cancelled	(194,221)	(169,764)	(416,404)	(426,631)
Outstanding at end of period	1,107,858	1,253,311	1,166,579	1,259,509
Price range of granted options	\$29.125-32.50	\$ 29.00	\$ 23.625-29.50	\$ 18.75-25.50
Shares reserved for granting future stock options at end of period	1,009,868	1,040,877	621,738	923,240
Options exercisable at end of period	882,670	843,476	780,169	765,510
Price range of exercisable options	\$ 10.90-32.50	\$10.90-29.50	\$ 10.70-29.50	\$10.70-25.875

The options outstanding at October 31, 1996 were granted in 1992 (305,000 shares); 1993 (130,195 shares); 1994 (179,068 shares); and 1995 (209,606 shares); the 3 months ended October 31, 1995 (237,721 shares) and the year ended October 31, 1996 (46,268 shares).

The company has an Employee Stock Ownership Plan (ESOP) which covers substantially all employees of the company and its subsidiaries. The plan was a leveraged ESOP which means funds were borrowed to purchase the shares. At July 31, 1995, ESOP indebtedness to the company was paid in full and funding of the ESOP was completed. Principal payments of ESOP debt were \$2,612,000 for the year ended July 31, 1995 and \$2,611,000 for the year ended July 31, 1994. Interest incurred on ESOP debt and interest received by the company was \$258,000 for the year ended July 31, 1995 and \$512,000 for the year ended July 31, 1994. Dividends on the ESOP shares used for debt service by the ESOP were \$107,000 for the year ended July 31, 1995 and \$195,000 for the year ended July 31, 1994. The expenses recognized related to the ESOP were \$2,504,000 for the year ended July 31, 1995 and \$2,417,000 for the year ended July 31, 1994. There were no principal payments of ESOP debt, interest incurred or received, dividends or expenses related to the ESOP for the year ended October 31, 1996 or the 3 months ended October 31, 1995.

On August 1, 1995, the ESOP plan year end was changed to December 31. The company's contributions to the plan, net of dividends, were \$639,000 for the year ended October 31, 1996, zero for the 3 months ended October 31, 1995, \$2,762,000 for the year ended July 31, 1995 and \$2,929,000 for the year ended July 31, 1994.

Effective August 1, 1995, the company adopted a new employee benefit program which replaces the ESOP, profit sharing, and matching stock plans. The current ESOP was replaced with a new Employee Stock Ownership Plan. The employee profit sharing plans and the matching stock plan were merged into the Toro Company Investment and Savings Plan which has a plan year end of December 31. Under this plan, eligible employees receive a pre-established percentage of their salary. Contributions to this plan for the year ended October 31, 1996 were \$2,539,000. In addition, this plan includes a 401(k) which provides for company matching contributions of up to two percent of salary. Matching contributions to the Toro 401(k) Employee Savings and Toro Matching Plan for the year ended October 31, 1996 were \$1,679,000.

Contributions to the company's former employee profit sharing plans which covered substantially all employees of the company and its subsidiaries were made annually, immediately following the fiscal year end. The contribution made in the 3 months ended October 31, 1995, which pertained to the year ended July 31, 1995, was \$3,833,000. For the years ended July 31, 1995 and 1994 the contributions paid totaled \$4,100,000 and \$4,150,000, respectively, and pertained to the preceding fiscal years. Such amounts are based upon annual earnings before income taxes and minimum contributions required under the plans.

Under the company's former matching stock plan, shares of common stock were acquired by employees through payroll deductions and employer matching contributions pursuant to the plan. Contributions were \$660,000 for the year ended July 31, 1995 and \$485,000 for the year ended July 31, 1994.

In addition, the company and its subsidiaries have supplemental and other retirement plans covering certain employees. Pension expense under these plans in 1996, 1995 and 1994 was not significant.

8 SEGMENT DATA

The company classifies its operations into one industry segment, outdoor maintenance equipment. International sales were \$174,249,000 for the year ended October 31, 1996, \$20,935,000 for the 3 months ended October 31, 1995, \$152,409,000 for the year ended July 31, 1995 and \$130,053,000 for the year ended July 31, 1994. Of these amounts, export sales were \$154,716,000 for the year ended October 31, 1996, \$18,557,000 for the 3 months ended October 31, 1995, \$126,560,000 for the year ended July 31, 1995 and \$109,344,000 for the year ended July 31, 1994. Export sales by geographic area are as follows:

(Dollars in thousands)	Year Ended	3 Months Ended	Year Ended	
	October 31 1996	October 31 1995	July 31 1995	July 31 1994
Europe	\$ 80,986	\$ 6,098	\$ 60,239	\$ 48,976
Canada	26,322	4,848	31,921	28,039
Pacific Rim	42,976	6,955	28,979	27,535
Other	4,432	656	5,421	4,794
Total export sales	\$154,716	\$18,557	\$126,560	\$109,344

Sales to any particular customer were not significant.

9 LEASE COMMITMENTS

Minimum lease commitments in future years under noncancelable operating leases are as follows: 1997, \$6,333,000; 1998, \$4,147,000; 1999, \$2,782,000; 2000, \$1,916,000; 2001, \$1,457,000; and after 2001, \$1,687,000.

Total lease expense was as follows:

(Dollars in thousands)	YEAR ENDED	3 Months Ended	Year Ended	
	OCTOBER 31 1996	October 31 1995	July 31 1995	July 31 1994
Warehouse and office space	\$3,291	\$ 905	\$3,360	\$2,198
Trucks and autos	2,191	374	1,890	2,039
Equipment	3,933	924	3,721	3,044
Total	\$9,415	\$2,203	\$8,971	\$7,281

10 COMMITMENTS AND CONTINGENT LIABILITIES

The company was contingently liable to repurchase \$10,578,000 at October 31, 1996 and \$10,442,000 at October 31, 1995, of inventory relating to receivables under dealer financing arrangements. Additionally, debts incurred by certain distributors, aggregating \$1,008,000 at October 31, 1996, and \$1,176,000 at October 31, 1995, have been guaranteed by the company.

In the ordinary course of business, the company may become liable with respect to pending and threatened litigation, taxes, 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.

11 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, 1996, and 1995, the company had \$19,705,000 and \$14,735,000, respectively, in outstanding letters of credit.

CONCENTRATIONS OF CREDIT RISK

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

FOREIGN CURRENCY INVESTMENTS

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

At October 31, 1996, the company had contracts maturing at various dates to purchase \$1,196,000 in foreign currencies and to sell \$29,198,000 in foreign currencies at the contract rates. In addition, the company had range forward options of \$1,343,000 at October 31, 1996.

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

FAIR VALUE

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of FAS Statement 107, "Disclosures about Fair Value of Financial Instruments." Estimated fair value amounts have been determined using available information and appropriate valuation methodologies. Because considerable judgement 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.

The carrying and estimated fair values of the company's financial instruments at October 31, 1996, are as follows:

(Dollars in millions)	Carrying Value	Estimated Fair Value
Long-term debt	\$53,365	\$62,887
Deferred income (interest rate exchange agreements)	17,992	22,969

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

For long-term debt with fixed interest rates, fair value is estimated by discounting the projected cash flows using the rate at which similar amounts could currently be borrowed.

The estimated fair value of the 11% sinking fund debentures represents the amount the company would pay to redeem the notes based on the terms of the debenture.

The estimated fair value of the deferred income represents the cost to terminate the interest rate exchange agreements, had management elected to do so, which would have resulted in a loss of approximately \$4,977,000.

12 CONSOLIDATED FINANCE SUBSIDIARY - TORO CREDIT COMPANY

Toro Credit Company is a consolidated finance subsidiary of the company and operates primarily in the finance industry with wholesale financing of distributor and dealer inventories under various financing arrangements and other programs.

(Dollars in thousands)	YEAR ENDED	3 Months Ended	Year Ended	
	OCTOBER 31 1996	October 31 1995	July 31 1995	July 31 1994
Summary of Earnings				
Finance revenues	\$23,507	\$4,641	\$21,259	\$17,436
Expenses:				
Operating	3,371	827	3,428	2,068
Interest	6,248	737	4,902	4,737
Foreign currency exchange net (gains) losses	(10)	(18)	(37)	96
Total expenses	9,609	1,546	8,293	6,901
Earnings before income taxes	13,898	3,095	12,966	10,535
Provision for income taxes	5,230	1,111	4,744	3,669
Net earnings	\$ 8,668	\$1,984	\$ 8,222	\$ 6,866

(Dollars in thousands)	YEAR ENDED OCTOBER 31 1996	Year Ended October 31 1995
Summary Balance Sheets		
Assets		
Cash and cash equivalents	\$ 1,053	\$ 1,469
Receivables-net	147,582	131,510
Other receivables and assets	1,766	1,858
Total assets	\$150,401	\$134,837
Liabilities and Shareholders' Equity		
Current portion of long-term debt	\$ -	\$ 15,000
Other liabilities	78,817	56,921
Long-term debt, less current portion	-	-
Shareholders' equity	71,584	62,916
Total liabilities and shareholders' equity	\$150,401	\$134,837

Of the finance revenues presented above, \$19,306,000 for the year ended October 31, 1996, \$3,642,000 for the 3 months ended October 31, 1995, \$17,114,000 for the year ended July 31, 1995 and \$13,272,000 for the year ended July 31, 1994, represent transactions with the parent company, The Toro Company, which are eliminated in consolidation. The remaining finance revenues of \$4,201,000 for the year ended October 31, 1996, \$999,000 for the 3 months ended October 31, 1995, \$4,145,000 for the year ended July 31, 1995 and \$4,164,000 for the year ended July 31, 1994 are included in other income, in The Toro Company's Consolidated Statements of Earnings. The expenses and balance sheet items (net of eliminations) are included in the Consolidated Statements of Earnings and Consolidated Balance Sheets under the corresponding classifications.

13 QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1996 and 1995 is as follows:

(Dollars in thousands except per share data)	3 Months Ended		FISCAL YEAR ENDED OCTOBER 31, 1996			
	October 31, 1995	FIRST	SECOND	THIRD	FOURTH	
Net sales	\$192,278	\$211,501	\$288,646	\$232,565	\$198,197	
Gross profit	71,703	76,329	103,810	85,884	75,700	
Net earnings	3,997	8,498	16,820	6,465	4,626	
Net earnings per share of common stock and common stock equivalent	0.32	0.67	1.33	0.52	0.37	
Dividends per common share	0.12	0.12	0.12	0.12	0.12	
Market price of common stock						
High bid	32 1/4	36 1/4	35 1/4	34 5/8	34 1/8	
Low bid	28 1/8	28 3/8	30 5/8	30	30 1/4	

Quarter	Fiscal Year Ended July 31, 1995			
	First	Second	Third	Fourth
Net sales	\$205,704	\$213,950	\$310,613	\$202,586
Gross profit	76,065	76,068	107,342	75,103
Net earnings	8,302	6,799	17,539	4,027
Net earnings per share of common stock and common stock equivalent	0.64	0.51	1.32	0.32
Dividends per common share	0.12	0.12	0.12	0.12
Market price of common stock				
High bid	29 7/8	29 3/8	30 3/8	29 7/8
Low bid	21 5/8	26	27 1/2	25 5/8

14 Subsequent Event

On December 3, 1996, the company acquired James Hardie Irrigation Group (JHI) from James Hardie Limited of Australia. The purchase price of approximately \$119.0 million is subject to adjustment, based on changes in working capital and closing balance sheet audit adjustments, and has been initially financed with temporary bank debt. The acquisition is being accounted for as a purchase. JHI is headquartered in Laguna Niguel, California and has production facilities in Texas, California, Florida, and Australia. It is a worldwide leader in the production of irrigation systems to the commercial landscape market. For its latest fiscal year ended March 31, 1996, JHI had unaudited net sales of approximately \$140.4 million and unaudited operating income of approximately \$3.7 million.

The Toro Company

THE TORO COMPANY
SUBSIDIARIES OF REGISTRANT

All of the following are subsidiaries of The Toro Company as of January 20, 1997.

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

[LETTERHEAD]

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, 33-62743, and 333-4521) on Forms S-3 and S-8 of The Toro Company of our reports dated December 16, 1996, relating to the consolidated balance sheets of The Toro Company and subsidiaries as of October 31, 1996 and 1995, and the related consolidated statements of earnings and cash flows and related financial statement schedule for the year ended October 31, 1996, the three-month period ended October 31, 1995 and the years ended July 31, 1995 and 1994, which reports are included in or incorporated by reference in the annual report on Form 10-K of The Toro Company.

KPMG Peat Marwick LLP

Minneapolis, Minnesota
January 29, 1997

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

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YEAR		
	OCT-31-1996	
	NOV-01-1995	
	OCT-31-1996	66
		0
	244,434	
	10,005	
	130,288	
	405,001	229,080
	155,270	
	496,877	
	207,857	53,365
	0	0
		12,032
	496,877	201,535
		930,909
	930,909	589,186
	278,284	
	(10,331)	
	3,358	
	13,590	
	60,180	
	23,771	
	36,409	0
		0
		0
	36,409	
	2.90	
	2.90	

Total Long-Term Debt

Does not include Additional paid-in capital.

Other income-net.