

TORO CO  
Form DEF 14A  
January 31, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant    
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

THE TORO COMPANY

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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5) Total fee paid:

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1) Amount Previously Paid:

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SEC 1913 (02-02)

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*The Toro Company*

**8111 Lyndale Avenue South, Bloomington, Minnesota  
Telephone 952/888-8801**

***Kendrick B. Melrose***  
**Chairman and CEO**

January 31, 2005

Dear Fellow Stockholders:

I am pleased to invite you to join us for the Toro Annual Meeting of Stockholders to be held on Tuesday, March 15, 2005 at 3:00 p.m. C.S.T. at our corporate offices. Details about the meeting, nominees for the Board of Directors and other matters to be acted on are presented in the Notice of Annual Meeting and Proxy Statement that follow.

In addition to Annual Meeting formalities, we will report to stockholders generally on Toro's business, and will be pleased to answer stockholders' questions relating to Toro.

We hope you plan to attend the Annual Meeting. Please exercise your right to vote by signing, dating and returning the enclosed proxy card or using Internet or telephone voting as described in the Proxy Statement, even if you plan to attend the meeting.

On behalf of your Toro Board of Directors and management, it is my pleasure to express our appreciation for your continued support.

Sincerely,

Kendrick B. Melrose

**YOUR VOTE IS IMPORTANT. PLEASE SIGN AND RETURN THE ENCLOSED PROXY CARD OR  
VOTE BY INTERNET OR TELEPHONE AS SOON AS POSSIBLE. BY DOING SO, YOU MAY SAVE  
TORO THE EXPENSE OF ADDITIONAL SOLICITATION.**

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**NOTICE OF ANNUAL MEETING**

The Toro Company 2005 Annual Meeting of Stockholders will be held on Tuesday, March 15, 2005 at 3:00 p.m. C.S.T. at Toro's corporate offices at 8111 Lyndale Avenue South, Bloomington, Minnesota, for the following purposes:

1. Approve amendment of Article IV, Section 1 of Toro's Amended and Restated Certificate of Incorporation (a) to increase the total number of shares of Common Stock Toro is authorized to issue from 50,000,000 to 100,000,000 and (b) to increase the capital stock Toro is authorized to issue from 51,850,000 to 101,850,000, to reflect the increase in the authorized Common Stock;
2. Approve amendment of Article VI, Section 1 of Toro's Amended and Restated Certificate of Incorporation to increase the size of the Board from 11 to 12 directors;
3. Elect four directors, each to serve for a term of three years;
4. Approve amendment of The Toro Company Annual Management Incentive Plan II to increase the Participation Factor percentages, to increase the maximum award that may be paid and to eliminate authority to grant Stock Retention Awards;
5. Approve amendment of The Toro Company 2000 Stock Option Plan to increase from 3,000,000 to 4,000,000 the number of authorized shares;
6. Ratify the selection of the independent auditor for Toro for Fiscal 2005 (the fiscal year ending October 31, 2005); and
7. Transact any other business properly brought before the Annual Meeting or any adjournment of the meeting.

Stockholders of record at the close of business on January 18, 2005 (the Record Date) will be entitled to vote at the meeting or at any adjournment of the meeting.

A stockholder list will be available at Toro's corporate offices beginning March 1, 2005 during normal business hours, for examination by any stockholder registered on Toro's Stock Ledger as of the Record Date, for any purpose germane to the Annual Meeting.

Since a majority of the outstanding shares of Toro Common Stock must be represented either in person or by proxy to constitute a quorum for the conduct of business, **PLEASE PROMPTLY SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD OR VOTE BY INTERNET OR TELEPHONE.**

January 31, 2005

**BY ORDER OF THE BOARD OF DIRECTORS**

**J. LAWRENCE MCINTYRE**  
Vice President, Secretary and  
General Counsel

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**THE TORO COMPANY**

8111 Lyndale Avenue South  
Bloomington, MN 55420-1196

**PROXY STATEMENT**

The Toro Company Board of Directors is soliciting your proxy for use at the 2005 Annual Meeting of Stockholders for Tuesday March 15, 2005. This Notice, Proxy Statement and enclosed form of proxy is intended to be mailed to stockholders beginning Monday, January 31, 2005.

**VOTING**

**Who Can Vote**

Only stockholders of record at the close of business on January 18, 2005 will be entitled to notice of and to vote at the Annual Meeting or any adjournment of the meeting. On that date, Toro had 22,520,531 shares of Common Stock outstanding. Each share of Toro Common Stock you own entitles you to one vote.

**Dividend Reinvestment Plan Shares.** If you are a participant in Toro's Dividend Reinvestment Plan, the number shown on the enclosed proxy card includes shares held for your account in that plan.

**Employee Benefit Plan Shares.** If you are a participant in a Company employee benefit plan that allows participant-directed voting of Common Stock held in that plan, the number shown on the enclosed proxy card includes shares you hold in that plan, as well as shares you own of record, if any. The trustee for each plan will cause votes to be cast confidentially in accordance with your instructions. Plan shares not voted by participants will be voted by the trustee in the same proportion as the votes actually cast by participants, in accordance with the terms of the respective plans.

**How You Can Vote**

If you are a stockholder whose shares are registered in your name, you may vote your shares in person at the meeting or by one of the three following methods:

**Vote by Internet**, by going to the web address <http://www.eproxy.com/ttc/> and following the instructions for Internet voting shown on the enclosed proxy card.

**Vote by Telephone**, by dialing 1-800-560-1965 and following the instructions for telephone voting shown on the enclosed proxy card.

**Vote by Proxy Card**, by completing, signing, dating and mailing the enclosed proxy card in the envelope provided. If you vote by Internet or telephone, please do not mail your proxy card.

If your shares are held in street name (through a broker, bank or other nominee), you may receive a separate voting instruction form with this Proxy Statement, or you may need to contact your broker, bank or other nominee to determine whether you will be able to vote electronically using the Internet or telephone.

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If you return your signed proxy card or use Internet or telephone voting before the Annual Meeting, the named proxies will vote your shares as you direct. You have three choices on each matter to be voted on. For the election of directors, you may (1) vote **FOR** all of the nominees, (2) **WITHHOLD** your vote from all nominees or (3) **WITHHOLD** your vote from nominees you designate. See Proposal Three Election of Directors. For each of the other proposals, you may vote **FOR** , **AGAINST** or **ABSTAIN** from voting.

**If you send in your proxy card or use Internet or telephone voting, but do not specify how you want to vote your shares, we will vote them FOR Proposal One Amendment of the Amended and Restated Certificate of Incorporation to increase the number of shares, FOR Proposal Two Amendment of the Amended and Restated Certificate of Incorporation to increase the size of the Board, FOR the election of all nominees for director as described under Proposal Three, FOR Proposal Four Amendment of The Toro Company Annual Management Incentive Plan II, FOR Proposal Five Amendment of The Toro Company 2000 Stock Option Plan and FOR Proposal Six Ratify Selection of Independent Auditor.**

## **How You May Revoke or Change Your Vote**

If you are a stockholder whose shares are registered in your name, you may revoke your proxy at any time before it is voted by one of the following methods:

Submitting another proper proxy with a more recent date than that of the proxy first given by:

following the Internet voting instructions, or

following the telephone voting instructions or

completing, signing, dating and returning a proxy card to Toro.

Sending written notice of revocation to Toro's Corporate Secretary.

Attending the Annual Meeting and voting by ballot.

If you hold your shares through a broker, bank or other nominee, you may revoke your proxy by following instructions they provide.

## **Quorum and Vote Requirements**

A majority of the outstanding shares of Common Stock must be present in person or by proxy in order to have a quorum to conduct business at the Annual Meeting. Shares represented by proxies marked Abstain or Withheld and broker non-votes are counted in determining whether a quorum is present. A broker non-vote is a proxy submitted by a broker that does not indicate a vote for some or all of the proposals because the broker does not have discretionary voting authority on some types of proposals and has not received instructions from its client as to how to vote on a particular proposal.

The affirmative vote of a plurality of shares of Common Stock present in person or represented by proxy at the meeting is required for the election of directors. This means that a director nominee with the most votes for a particular slot is elected for that slot. Only votes For and Withheld affect the outcome. The affirmative vote of the holders of a majority of all the outstanding shares of Common Stock is required for adoption of Proposal 1. The affirmative vote of





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at least 80% of the outstanding shares of Common Stock is required for adoption of Proposal 2. The other matters will be decided by the affirmative vote of a majority of the shares present in person or represented by proxy. Under New York Stock Exchange (NYSE) rules, if your shares are held in street name, the broker is permitted to vote your shares on the election of directors as well as on Proposals 1, 2 and 6. Broker non-votes are generally not counted, but abstentions and withheld votes are counted, in determining the total number of votes cast on a proposal. An abstention or withheld vote has the effect of a negative vote.

**Procedures at the Annual Meeting**

The presiding officer at the meeting will determine how business at the Annual Meeting will be conducted. Only matters brought before the Annual Meeting in accordance with Toro's Bylaws will be considered.

Only a natural person present at the Annual Meeting who either is a Toro stockholder or is acting on behalf of a stockholder may make a motion or second a motion. A person acting on behalf of a stockholder must present a written statement executed by the stockholder or the duly authorized representative of the stockholder on whose behalf the person purports to act.

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The following table shows the beneficial ownership of Toro Common Stock of each of the directors and nominees, the Chief Executive Officer and the four other most highly compensated executive officers named in the Summary Compensation table ( named executive officers ) as of January 18, 2005. The table also shows beneficial ownership by all directors and executive officers as a group, including the named executive officers. Toro is unaware of any beneficial owner of five percent or more of outstanding Toro Common Stock.

Name of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership of Common Stock	Common Stock Beneficially Owned as Percent of Common Stock Outstanding(2)
Ronald O. Baukol	27,705(3)(4)	*
Robert C. Buhrmaster	24,847(3)(4)	*
Winslow H. Buxton	29,636(3)(4)(5)	*
Janet K. Cooper	28,269(3)(4)	*
Timothy A. Ford	69,362(3)	*
Katherine J. Harless	5,900(3)(4)	*
Michael J. Hoffman	168,859(3)(4)	*
Kendrick B. Melrose	1,051,159(3)(4)(5)(6)	4.6%
Karen M. Meyer	198,727(3)(4)	*
Robert H. Nassau	21,459(3)(4)	*
Dale R. Olseth	42,142(3)(4)	*
Gregg W. Steinhafel	24,527(3)(4)	*
Christopher A. Twomey	24,389(3)(4)(5)	*
Edwin H. Wingate	33,169(3)(4)(5)	*
Stephen P. Wolfe	216,464(3)(4)(5)	*
All directors and executive officers as a group (25)	2,419,497(3)(4)(5)(6)	10.2%

\* Less than 1% of the outstanding shares of Common Stock.

- (1) Shares are deemed to be beneficially owned by a person if such person, directly or indirectly, has or shares (i) the power to vote or to direct the voting of such shares or (ii) the power to dispose or direct the disposition of such shares. In addition, beneficial ownership includes shares that such person has the right to acquire within 60 days.
- (2) Common Stock units that have not vested are not included for the purpose of calculating Percent of Class amounts.
- (3) Includes shares held of record, shares that may be acquired upon exercise of stock options within 60 days and shares allocated to executive officers under The Toro Company Investment, Savings and Employee Stock Ownership Plan. Stock options exercisable within 60 days for each of the named directors and executive officers are as follows: Mr. Baukol 14,000 shares, Mr. Buhrmaster 14,000 shares, Mr. Buxton 14,000 shares, Ms. Cooper 14,000 shares, Ms. Harless 3,500 shares, Mr. Nassau 12,000 shares, Mr. Olseth 14,000 shares, Mr. Steinhafel 12,000 shares, Mr. Twomey 14,000 shares, Mr. Wingate 14,000 shares, Mr. Melrose 477,000 shares, Mr. Hoffman 87,000 shares, Mr. Wolfe 93,818 shares, Ms. Meyer

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84,653 shares, Mr. Ford 49,667 shares and all directors and executive officers as a group 1,091,310 shares.

- (4) Includes Common Stock units credited under The Toro Company Deferred Compensation Plan for Non-Employee Directors and vested Common Stock units credited under The Toro Company Deferred Compensation Plan for Officers ( Officers Deferred Plan ). Units credited for each of the nonemployee directors at January 18, 2005 were as follows: Mr. Baukol 1,918.058 units, Mr. Buhmaster 1,918.058 units, Mr. Buxton 1,032.799 units, Ms. Cooper 4,573.832 units, Ms. Harless 1,480,783 units, Mr. Nassau 7,082,063 units, Mr. Olseth 7,082.063 units, Mr. Steinhafel 590.172 units, Mr. Twomey 1,032.799 units and Mr. Wingate 7,082.063 units. Units credited for each of the named executive officers at January 18, 2005 were as follows: Mr. Melrose 348,578.178 units, Mr. Hoffman 22,102.528 Mr. Wolfe 97,494.604 units and Ms. Meyer 80,288.685 units and all directors and executive officers as a group 718,415 units. See Compensation and Human Resources Committee Report.
- (5) Includes shares held in trusts for estate planning purposes as follows: 14,603 for Mr. Buxton, 9,506 for Mr. Twomey, 12,087 for Mr. Wingate s Family Trust, 12,043 for Mr. Wolfe and 77,321 shares for all directors and executive officers as a group, including spouses. The amount shown for Mr. Melrose includes 916 shares held of record by Mr. Melrose as custodian for minor children under the Minnesota Uniform Transfer to Minors Act.
- (6) Includes restricted stock in the amount of 24,454 shares in connection with the Chief Executive Officer Succession Incentive Agreement, which are subject to forfeiture until vested.

***SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE***

The rules of the Securities and Exchange Commission (SEC) require us to disclose the identity of directors, executive officers and beneficial owners of more than 10% of the Common Stock of Toro who did not file on a timely basis reports required by Section 16 of the Securities Exchange Act of 1934. Based solely on review of copies of those reports received by us, or written representations from reporting persons, Toro believes that all directors and executive officers complied with all filing requirements applicable to them during Fiscal 2004, except that Form 4 reports with respect to the November 1 annual grant of a stock option and a stock award to each of Toro s nonemployee directors, a July exercise of a stock option by Winslow Buxton, a nonemployee director, the reporting of a purchase of stock in lieu of compensation reportable on a Form 4 for fiscal 2004 by Ronald Baukol, a nonemployee director and the reporting of a gift reportable on the Form 5 for fiscal 2003 by Kendrick Melrose, all of which were not filed on a timely basis due to administrative oversights. Toro has no owners of more than 10% of its Common Stock.

***PROPOSAL ONE AMENDMENT OF AMENDED AND RESTATED CERTIFICATE OF  
INCORPORATION TO INCREASE AUTHORIZED SHARES***

On December 2, 2004, the Board of Directors adopted a resolution to amend and to recommend that the stockholders approve an amendment to Article IV, Section 1 of Toro s Amended and Restated Certificate of Incorporation ( Certificate ) (a) to increase the total number of shares of Common Stock Toro is authorized to issue from 50,000,000 to 100,000,000 and (b) to increase the capital stock Toro is authorized to issue from 51,850,000 to 101,850,000, to reflect the increase in the authorized Common Stock.

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*Section 1 of Article IV as proposed to be amended would state:*

The corporation shall be authorized to issue three classes of shares of capital stock to be designated, respectively, Common Stock , Voting Preferred Stock and Non-Voting Preferred Stock . The total number of shares of capital stock which the corporation shall have authority to issue is one hundred one million eight hundred fifty thousand (101,850,000); the total number of shares of Common Stock shall be one hundred million (100,000,000) and each such share shall have a par value of \$1.00; the total number of shares of Voting Preferred Stock shall be one million (1,000,000), and each such share shall have a par value of \$1.00 and 200,000 of such shares are designated as a series to be called the Series B Junior Participating Voting Preferred Stock, such series to have the rights, voting power, preferences and restrictions set forth in Section 2 of this Article IV; and the total number of shares of Non-Voting Preferred Stock shall be eight hundred and fifty thousand (850,000), and each such share shall have a par value of \$1.00.

As of January 18, 2005, there were 22,520,531 shares of Common Stock outstanding and 4,495,579 shares in treasury. In addition, approximately 4,578,715 shares have been reserved for future issuance under all Company employee benefit and incentive plans. Approximately 14,330,637 of the shares currently authorized by Toro s Certificate remain available for issuance or reservation for issuance.

In the past, Toro has utilized authorized but unissued shares to acquire the business or assets of other companies, to declare stock dividends and for issuance pursuant to employee and nonemployee director incentive plans. In addition, authorized but unissued shares may be sold to the public as a means of acquiring additional working capital, if required. At the present time there are no specific plans, arrangements or understandings in existence or in process for any stock dividend, public offering or issuance of shares in an acquisition. The Board has discussed the advisability of a stock split and if the increase is adopted, the Board expects to consider a stock split at one of its meetings to be held in the calendar year 2005. It is customary for corporations such as the Company to have authorized shares of more than twice the number of shares outstanding. Toro s current 22,520,531 shares outstanding constitute 45% of its current authorized shares. Therefore, the Board of Directors has determined that it is desirable for Toro to increase the number of shares of authorized Common Stock in order to meet needs that may arise from time to time in the future. The Board believes that the proposed amendment if adopted by stockholders, would provide sufficient shares to permit a stock split and accommodate other corporate transactions, although no transactions are planned at this time.

***Potential Anti-Takeover Effects.*** Shares of authorized and unissued Common Stock could be issued in one or more transactions that could make more difficult, and therefore less likely, any takeover of the Company. Issuance of additional Common Stock could have the effect of diluting the stock ownership of persons seeking control of the Company, and the possibility of such dilution could have a deterrent effect on persons seeking to acquire control. The Board of Directors also could, although it has no present intention of so doing, authorize the issuance of shares of Common Stock to a holder who might thereby obtain sufficient voting power to assure that any proposal to effect certain business combinations or amend the Company s Certificate or Bylaws would not receive the required stockholder approval. Accordingly, the power to issue additional shares of Common Stock could enable the Board of Directors to make it more difficult to replace incumbent directors and to accomplish business combinations opposed by the incumbent Board of Directors.

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Other provisions of the Company's Certificate may have the effect of preventing, discouraging or delaying any change in the control of the Company. The following provisions may have anti-takeover effects: (a) the Board of Directors is classified into three classes, each of which serves for three years, with one class being elected each year; (b) directors may be removed only for cause and only with the approval of holders of at least 80% of the voting power of the capital stock of the Company; (c) any vacancy on the Board must be filled only by the remaining directors then in office; (d) stockholder action must be taken at a meeting of stockholders and stockholders may not act by written consent; (e) special meetings of stockholders of the Company may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the entire Board; (f) a "fair price" provision requires the approval by the holders of 80% of the then outstanding Common Stock as a condition for mergers and certain other business combinations of the Company with any holder of more than 10% of such voting power (an "Interested Stockholder") unless either (i) the transaction is approved by a majority of the members of the Board of Directors who are unaffiliated with the Interested Stockholder and were members of the Board prior to the time that the Interested Stockholder became an Interested Stockholder, or (ii) certain minimum price and procedural requirements are met; and (g) the stockholder vote required to alter, amend or repeal the foregoing provisions is 80% of the outstanding voting power of the Company. In addition, in 1998 the Company's Board of Directors declared a dividend of Preferred Share Purchase Rights which entitle the Company's stockholders to buy a special kind of preferred stock at a price designated in The Toro Company and Wells Fargo Bank, National Association (formerly Norwest Bank of Minnesota, National Association) Rights Agreement. Unless redeemed by prior action of the Board, the rights are exercisable if an investor gains a 15% or more interest in the Common Stock or announces a tender offer for at least 15% of the Common Stock. If that happens, the special preferred stock could double in value, thus discouraging, or perhaps foreclosing, any change in control which has not been negotiated with the Board.

If stockholders do not approve amendment of Article IV, Section 1 of the Certificate, then this Article and Section as previously approved by stockholders will continue in effect.

**The Board of Directors unanimously recommends a vote FOR the approval of amendment of the Amended and Restated Certificate of Incorporation to increase the authorized shares.**

***PROPOSAL TWO AMENDMENT OF AMENDED AND RESTATED CERTIFICATE OF  
INCORPORATION TO INCREASE SIZE OF BOARD***

On December 2, 2004, the Board of Directors adopted a resolution to amend and to recommend that the stockholders approve an amendment to Article VI, Section 1 of Toro's Certificate to increase the size of the Board from a maximum of 11 directors to 12 directors to give the Board more flexibility to add selected talents/skills from time to time and permit greater continuity during periods of change such as the anticipated retirement of the CEO. See Proposal Three Election of Directors for information regarding the election of Messrs. Hoffman and Olseth.

*Section 1 of Article VI as proposed to be amended would state:*

Number, Election and Terms. The business and affairs of the corporation shall be managed under the direction of a Board of Directors which, subject to any right of the holders of any series of Preferred Stock then outstanding to elect additional directors under specified

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circumstances, shall consist of not less than eight nor more than twelve persons. The exact number of directors within the minimum and maximum limitations specified in the preceding sentence shall be fixed from time to time by the Board pursuant to a resolution adopted by a majority of the entire Board. The directors shall be divided into three classes, designated Classes A, B and C, as nearly equal in number as possible, with the term of office of each class to expire at the third succeeding Annual Meeting of Stockholders after its election at an Annual Meeting of Stockholders.

If stockholders do not approve amendment of Article VI, Section 1 of the Certificate, then this Article and Section as previously approved by stockholders will continue in effect, and the number of directors will be fixed at eleven, and Mr. Olseth will withdraw as a nominee for election to the Board of Directors.

**The Board of Directors unanimously recommends a vote FOR the approval of amendment of the Amended and Restated Certificate of Incorporation to increase the size of the Board.**

***PROPOSAL THREE ELECTION OF DIRECTORS***

Under Article VI, Section 1 of Toro's Certificate, the Toro Board of Directors may be comprised of between eight and eleven directors. The maximum and minimum number of directors can be changed only by amendment of the Certificate approved by the affirmative vote of 80% of the outstanding shares of Toro Common Stock.

At its meeting on December 2, 2004, the Board of Directors adopted a resolution to submit to a vote of the stockholders a proposal to amend the Certificate to increase the maximum number of directors from eleven to twelve as described in Proposal Two. Based on the proposed amendment, the Board of Directors has fixed the number of directors at twelve. The increase is intended to permit the election of Mr. Hoffman, Toro's new President and Chief Operating Officer, to the Board, subject to stockholder approval, and will also allow the Board to retain the talents of Mr. Olseth, Toro's lead director, during the transition period prior to and immediately following Mr. Melrose's anticipated retirement as Chief Executive Officer of Toro. Mr. Olseth has served on the Toro Board for twenty-five years, and is the only member who has served during Mr. Melrose's entire tenure as Chairman of Toro's Board. The Board believes Mr. Olseth will provide valuable continuity during the transition. If stockholders do not approve amendment of Article VI, Section 1 of the Certificate then Article VI, Section 1 as previously approved by stockholders will continue in effect, the number of directors will remain at eleven, as previously fixed by the Board, and Mr. Olseth will withdraw as a director nominee.

The Board is divided into three classes, with each class elected in a different year for a term of three years. The four nominees for election at the 2005 Annual Meeting—Ronald O. Baukol, Katherine J. Harless, Michael J. Hoffman and Dale R. Olseth consented to serve if elected. Mr. Olseth, the Board's lead director, has advised the Company that, if elected, he expects to remain in office only through the first year of his term, in order to be available during the period Mr. Melrose approaches his anticipated retirement as Chief Executive Officer, pursuant to the Chief Executive Officer Succession Incentive Award Agreement, and that he expects to resign after that time and not complete a three year term. If the number of directors is increased to 12 and Mr. Olseth is elected but resigns after the first year of his term, the Board of Directors has not yet determined whether it will retain a 12 person Board. If any nominee is unable to stand for election,

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the Nominating and Governance Committee may recommend a substitute for appointment by the Board.

### **Director Independence**

The Board has reviewed all transactions or relationships between each director, any member of his or her immediate family and any affiliate of such director, and Toro, its senior management and its independent auditor. Based on this review and as required by the independence standards of the NYSE, the Board has affirmatively determined that all nonemployee directors, as named below, are independent from management and its independent auditor within the meaning of the NYSE listing standards.

The Board held six meetings in person and three conference call meetings during Fiscal 2004. Each incumbent director attended at least 75% of the aggregate total number of meetings held by the Board and all committees on which he or she served.

It is Toro's policy that all directors should attend the Annual Meeting of Stockholders and Toro regularly schedules a Board meeting on the same day as the Annual Meeting. Ten members of the Board attended the 2004 Annual Meeting.

The following information with respect to business experience of nominees for election to the Board and the continuing directors has been furnished by the respective directors or nominees or obtained from the records of Toro.

### **Nominees for Election to Board of Directors (Term ending after Fiscal 2008)**

**Ronald O. Baukol, age 67.** Retired. From May 1995 through February 2002 served as Executive Vice President, International Operations, 3M Company, Saint Paul, Minnesota (diversified technology). First elected to the Toro Board in 1995, he is a member of the Executive Committee, the Compensation and Human Resources Committee and the Nominating and Governance Committee.

**Katherine J. Harless, age 53.** President since June 2000, Verizon Information Services, Inc., Dallas, Texas (publisher). From July 1996 to August 2000, she served as President, GTE Airfone, Inc, Texas and New Mexico (air-to-ground communications). First elected to the Toro Board in 2000, she is a member of the Compensation and Human Resources Committee and the Nominating and Governance Committee.

**Michael J. Hoffman, age 49.** President and Chief Operating Officer of Toro since October 2004. From November 2002 to October 2004, he served as Group Vice President, Consumer, Exmark, Landscape Contractor and International Businesses. From May 2001 to October 2002, he served as Group Vice President, Consumer and Landscape Contractor Businesses. From May 2000 to May 2001, he served as Vice President and General Manager, Consumer Business. From November 1997 to April 2000, he served as Vice President and General Manager, Commercial Business. Mr. Hoffman is standing for election for the first time at this Annual Meeting.

**Dale R. Olseth, age 74.** Chairman of the Board and Chief Executive Officer since November 1986, SurModics, Inc., Eden Prairie, Minnesota (surface modification). He also served as President of SurModics, Inc. from November 1996 to July 1998. First elected to the Toro Board in 1980, he is presiding non-management director (see Corporate Governance Complaint Procedure);



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Communications with Directors (below) and a member of the Nominating and Governance Committee and Executive Committee. Mr. Olseth is a director of SurModics, Inc.

**Members of Board of Directors Continuing in Office (Term ending after Fiscal 2005)**

**Janet K. Cooper, age 51.** Senior Vice President and Treasurer since September 2002 of Qwest Communications International Inc. (Qwest), Denver, Colorado (telecommunications). From January 2001 to June 2002 she served as Chief Financial Officer and Senior Vice President of Finance and Administration of McDATA Corporation, Broomfield, Colorado (enterprise open network storage). From July 2000 to January 2001 she was Senior Vice President, Finance, Qwest. She served in several executive positions with U S West, Inc., including from June 1999 to June 2000, Vice President Finance and Controller; from February 1999 to June 1999, Vice President Treasurer and Controller; and from May 1998 to February 1999, Vice President Treasurer. First elected to the Toro Board in 1994, she is Chair of the Audit Committee and a member of the Compensation and Human Resources Committee. Ms. Cooper is a director of Lennox International Inc.

**Kendrick B. Melrose, age 64.** Chairman of Toro since December 1987 and Chief Executive Officer of Toro since December 1983. Employed by Toro since 1970. First elected to the Toro Board in 1981. Mr. Melrose is also Chair of the Executive Committee. Mr. Melrose is a director of SurModics, Inc.

**Gregg W. Steinhafel, age 50.** President since August 1999, Target Stores, a division of Target Corporation, Minneapolis, Minnesota (retailing). First elected to the Toro Board in 1999, he is a member of the Audit Committee, the Compensation and Human Resources Committee and the Executive Committee.

**Members of Board of Directors Continuing in Office (Term ending after Fiscal 2006)**

**Robert C. Buhrmaster, age 57.** Retired. From February 1998 Chairman and from May 1994 Chief Executive Officer, Jostens, Inc., Minneapolis, Minnesota (consumer manufacturing). From May 1994 to January 2003 he also served as President. First elected to the Toro Board in 1996, he is a member of the Audit Committee, Nominating and Governance Committee and the Executive Committee. Mr. Buhrmaster is a director of Innovex, Inc.

**Winslow H. Buxton, age 65.** Retired. From January 1993 through April 2002 served as Chairman of the Board of Directors, Pentair, Inc., Saint Paul, Minnesota (diversified manufacturing). In addition, he served as Chief Executive Officer from August 1992 through December 2000, and from August 1992 to December 1999 he served as President. First elected to the Toro Board in 1998, he is Chair of the Nominating and Governance Committee and a member of the Audit Committee and the Executive Committee. Mr. Buxton is a director of Bemis Company, Inc.

**Robert H. Nassau, age 63.** Director of Corporate Accounts since November 2003, F2 Intelligence Group, Minneapolis, Minnesota (consulting). Owner and Chief Executive Officer since February 2000, Nasly Inc., an inactive corporation since June 2003, Lahaina, Hawaii (food, beverage and entertainment). From January 1997 to August 1999, he served as President and Chief Executive Officer, St. Raymond Wood Products Holding Limited (wood manufacturing). First elected to the Toro Board in 1988, he is a member of the Compensation and Human Resources Committee and the Nominating and Governance Committee.

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***Christopher A. Twomey, age 56.*** Chairman of the Board since August 2003 and Chief Executive Officer and President since February 1986, Arctic Cat Inc., Thief River Falls, Minnesota (recreational vehicle manufacturer). First elected to the Toro Board in 1998, he is a member of the Audit Committee and the Nominating and Governance Committee. Mr. Twomey is a director of Arctic Cat Inc.

***Edwin H. Wingate, age 72.*** Retired. Served as Senior Vice President Personnel, Dayton Hudson Corporation, Minneapolis, Minnesota (retailing) from June 1980 through August 1997. First elected to the Toro Board in 1989, he is Chair of the Compensation and Human Resources Committee and a member of the Audit Committee. Mr. Wingate is a director of The Roche Brothers Supermarket Incorporated.

**The Board of Directors unanimously recommends a vote FOR the election of all nominees for director.**

The Board has four committees with the principal functions described below. The charter of each committee, except the Executive Committee, is posted on our web site at [www.thetorocompany.com/corporategovernance](http://www.thetorocompany.com/corporategovernance). A copy of each charter is available in print to any stockholder upon request to Toro's Assistant Corporate Secretary at 8111 Lyndale Avenue South, Bloomington, Minnesota, by telephone 888-237-3054, or by email at [jeanne.ryan@toro.com](mailto:jeanne.ryan@toro.com).

***Executive Committee.*** The Executive Committee may exercise all of the powers and authority of the Board, including the power to declare dividends on Toro Common Stock, during intervals between meetings of the Board. No meetings of the committee were held during Fiscal 2004.

***Audit Committee.*** The Audit Committee is established to oversee the accounting and financial reporting processes and audits of the financial statements of the Company. The committee assists the Board in oversight of the quality and integrity of the Company's financial reports, the Company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of Toro's internal audit function, as well as accounting and reporting processes.

Toro has long required that its Audit Committee be composed entirely of directors who are not employees of the Company and have no relationship that would interfere with their independence from management and the Company, including independence within the meaning of applicable NYSE listing standards. Each member must also be financially literate under NYSE listing standards, or become financially literate within a reasonable period of time after appointment. The Chair of the committee must have such accounting or related financial management expertise as to be considered a financial expert under rules of the Securities and Exchange Commission adopted pursuant to requirements of the Sarbanes-Oxley Act of 2002.

The Board has determined that all members of the committee are independent and financially literate and that Audit Committee Chair, Janet K. Cooper, meets the definition of financial expert as a result of her experience in senior corporate executive positions with financial oversight responsibilities, including Senior Vice President and Treasurer of Qwest, and Chief Financial Officer and Senior Vice President of Finance and Administration of McDATA Corporation, as well as other finance positions with Qwest, US West, Inc. and The Quaker Oats Company. Stockholders should understand that this designation is an SEC disclosure requirement related to Ms. Cooper's experience and understanding with respect to certain accounting and auditing matters. The

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designation does not impose on her any duties, obligations or liability that are greater than are generally imposed on her as a member of the Audit Committee and the Board, and her designation as a financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or the Board.

The committee's duties are set forth in its charter which can be found on the Toro web site at [www.thetorocompany.com/corporategovernance](http://www.thetorocompany.com/corporategovernance). Among its duties are reviewing and evaluating at least annually the qualifications, independence and performance of the Company's independent public accountants and selecting, engaging, retaining and compensating them; reviewing and approving in advance the scope, magnitude and budgets of all examinations of the Company's financial statements by the auditors; reviewing general policies and procedures with respect to accounting and financial matters and internal controls; reviewing and approving in advance the retention of the independent auditor for all types of audit and nonaudit services to be performed by independent public accountants and approving the fees for such services; meeting with independent public accountants not less than once a year without Company representatives to discuss internal controls and accuracy and completeness of the financial statements; reviewing the Company's Code of Conduct and its Code of Ethics for CEO and Senior Financial Officers, as well as policies and procedures for the receipt, retention and treatment of complaints from employees on accounting, internal accounting controls or auditing matters; receiving analyses and comments regarding accounting pronouncements; reviewing results of audits with the independent public accountants and management with a focus on difficulties encountered, material errors or irregularities, weaknesses in internal accounting controls and similar issues; and notifying the Board of major problems or deficiencies discovered with respect to committee's duties. The committee must annually review the adequacy of its charter and its own performance.

The Audit Committee held three meetings in person and conducted eight interim telephone conference calls during Fiscal 2004. At each of the meetings in person the committee met in private session with the Company's independent auditor, at two of these meetings the committee met in private session with management and at one of these meetings met in private session with the Company's internal auditor. Additional information regarding the Audit Committee and the Company's independent auditor is disclosed under the Audit Committee Report and Proposal Six.

***Compensation and Human Resources Committee.*** The Compensation and Human Resources Committee is responsible for reviewing and monitoring human resource and organizational matters and has overall responsibility for approving, evaluating and making recommendations regarding all compensation plans, policies and programs of Toro as they affect the Chairman and Chief Executive Officer, elected officers, other executive officers and management. All members of the committee meet the independence requirements of applicable NYSE listing standards. The committee has sole authority to retain and terminate any external compensation consultant used in the evaluation of Chief Executive Officer or elected officer compensation, including approval of fees. The committee approves incentive compensation awards and overall compensation levels, including annual base salaries and annual incentive opportunities for officers referred to in Section 162(m) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). The committee annually reviews and approves overall employee salary policies, as well as equity based programs for all categories of employees. The committee monitors Toro's compliance with requirements under the Sarbanes-Oxley Act of 2002 relating to 401(k) plans and loans to directors and officers, and with all other applicable laws affecting employee compensation and

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benefits. The committee reviews and determines the form and amount of compensation for independent directors and must annually review the adequacy of its charter and its own performance. Two meetings of the committee were held during Fiscal 2004.

***Nominating and Governance Committee.*** The Nominating and Governance Committee, which operates pursuant to a charter, assists the Board by identifying individuals qualified to become Board members and recommending director nominees for the annual meeting of stockholders; recommends to the Board the Corporate Governance Guidelines applicable to Toro; leads the Board in its annual review of the Board's performance, and recommends Board director nominees for each committee. All members of this committee meet the independence requirements of applicable NYSE listing standards. The committee has sole authority to retain and to terminate any search firm to be used to identify director candidates and has sole authority to approve the search firm's fees and other retention terms. The committee actively seeks individuals qualified to become Board members and makes recommendations based on experience, expertise and geographical representation. The committee, with the participation of the Chairman of the Board, annually polls the Board about directors whose terms are expiring and recommends that any director who does not continue to have the affirmative support of a majority of the members of the Board not stand for election. The committee must annually review the adequacy of its charter and its own performance. A current copy of the charter is available to stockholders on Toro's web site at [www.thetorocompany.com/corporategovernance](http://www.thetorocompany.com/corporategovernance).

***Stockholder Nominees.*** The committee does not have an express policy with regard to consideration of director candidates recommended by stockholders because Toro's bylaws permit a stockholder to nominate a candidate. The Nominating and Governance Committee will consider director candidates proposed by stockholders. Those candidates must be highly qualified exhibiting the experience and expertise required of the Board's own pool of candidates and interest in Toro's businesses, and also the ability to attend and prepare for Board, committee and stockholder meetings. Any candidate must state in advance his or her willingness and interest in serving on the Board. Candidates should represent the interests of all stockholders and not those of a special interest group. A stockholder wishing to nominate a candidate should do so in accordance with the guidelines set forth on page 36. See Other Information Stockholder Proposals for 2006 Annual Meeting below. Three meetings of the committee were held during Fiscal 2004.

*The Audit Committee Report that follows, the Compensation and Human Resources Committee Report on page 23 and the Performance Graph on page 22 shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934, or to the liabilities of Section 18 of that act. Notwithstanding anything to the contrary set forth in any of Toro's previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings, including this Proxy Statement, in whole or in part, neither of the reports nor the Performance Graph shall be incorporated by reference into any such filings.*

## **Audit Committee Report**

This report is furnished by the Audit Committee of the Toro Board of Directors with respect to Toro's financial statements for Fiscal 2004. The committee operates pursuant to a written charter first adopted by the Board on October 11, 1988 and amended four times, most recently on September 23, 2003.

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The ultimate responsibility for good corporate governance rests with the Board, whose primary roles are oversight, counseling and providing direction to Toro's management in the best long-term interests of Toro and its stockholders. The Audit Committee's purpose is to oversee the accounting and financial reporting processes of the company and audits of Toro's annual financial statements.

Toro management is responsible for the preparation and presentation of complete and accurate financial statements. The independent auditor, KPMG LLP, is responsible for performing an independent audit of Toro's financial statements in accordance with generally accepted auditing standards and for issuing a report on their audit.

In performing its oversight role, the Audit Committee has reviewed and discussed with management Toro's audited financial statements for Fiscal 2004. Management represented to the Audit Committee that Toro's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee has also discussed with KPMG LLP, Toro's independent auditor for Fiscal 2004, the matters required to be discussed by Statement on Auditing Standards 61, Communication with Audit Committees (Codification of Statements on Auditing Standards, AU 380), as in effect for Toro's Fiscal 2004. The Audit Committee has received the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) as in effect for Toro's Fiscal 2004. The committee has discussed with KPMG LLP the auditors' independence and concluded that the independent auditor is independent from Toro and its management.

Based on the review and discussions referred to in the foregoing paragraph, and subject to the limitations on the role and responsibilities of the committee in its charter, the Audit Committee recommended to the Board of Directors that Toro's audited financial statements for Fiscal 2004 be included in Toro's Annual Report on Form 10-K for the fiscal year ended October 31, 2004, for filing with the Securities and Exchange Commission.

### **Audit Committee**

Janet K. Cooper, Chair  
Robert C. Buhrmaster  
Winslow H. Buxton  
Gregg W. Steinhafel  
Christopher A. Twomey  
Edwin H. Wingate

### **Board Compensation**

***Fees and Stock Awards.*** Compensation for Toro directors who are not employees of Toro is designed to link a director's compensation with stockholder interests. The compensation therefore includes stock components as well as cash. Cash compensation for Fiscal 2004 included an annual retainer and meeting fees (\$20,000 plus a fee of \$1,000 for each meeting of the Board or a committee attended, except that no more than one committee meeting fee is paid for committee meetings held in a single day). The Chair of the Audit Committee receives \$3,000 for each meeting attended and \$500 for each interim conference call in which she participates and the Chairs of each of the other board committees receive \$2,000 for each meeting they attend.

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Nonemployee directors also receive an annual grant of Common Stock having a \$10,000 market value (valued at the average of the closing prices of Common Stock during the three months prior to the award) and a 2,000 share stock option award with vesting in approximately equal installments on each of the first, second and third anniversaries after the date of grant (with an exercise price per share equal to 100% of the fair market value of one share of Common Stock on the date of grant which is the first business day of the fiscal year) pursuant to The Toro Company Directors Stock Plan and The Toro Company 2000 Directors Stock Plan ( Directors Plans ). A director may elect to receive the annual retainer fee and meeting fees in cash or shares of Common Stock, or a combination of both. Toro also supplies directors with Toro products for their personal use.

***Other Arrangements.*** An outside director may elect to defer receipt of Board compensation under the Deferred Compensation Plan for Non-Employee Directors. Interest is accrued quarterly on deferred cash amounts at the average prime rate charged by U. S. Bank National Association, Minneapolis, Minnesota (ranging from 4% to 4.41% in Fiscal 2004). Ms. Cooper deferred all or a portion of her cash compensation and her account was credited with interest at the rates described. Deferred stock compensation is credited as Common Stock units, which are credited with dividends that are reinvested as additional units. Ms. Harless has in past years deferred her Common Stock awards and her account was credited with 6.026 Common Stock units for regular dividends paid during Fiscal 2004.

Each director is a party to an indemnification agreement that assures the director of indemnification and advancement of expenses to the fullest extent permitted by Delaware law and Toro s Amended and Restated Certificate of Incorporation, and of continued coverage under Toro s directors and officers liability insurance, to the extent it is maintained.

**Table of Contents****EXECUTIVE COMPENSATION****Summary Compensation Table**

The table below shows compensation of Toro's Chief Executive Officer and the named executive officers for the last three fiscal years. The named executive officers include the four most highly compensated executive officers other than the CEO, who were serving as executive officers on October 31, 2004.

Name and Principal Position	Year	Long Term Compensation						
		Annual Compensation			Awards		Payouts	
		Salary (\$)	Bonus \$(1)	Other Annual Compensation \$(2)	Restricted Stock (\$)	Options #(3)	LTIP Payouts \$(4)	All Other Compensation \$(5)
Kendrick B. Melrose Chairman of the Board & Chief Executive Officer	2004	\$ 740,632	\$ 940,971	\$ 1,345,139	(6)	57,000	\$ 4,688,957	\$ 429,055
	2003	711,625	613,207	52,162	0	94,000	2,100,342	327,589
	2002	683,589	553,194	360,979	0	93,000	1,384,662	309,391
Michael J. Hoffman*	2004	323,700	293,758	851,869	0	13,500	1,172,239	62,489
President & Chief Operating Officer	2003	310,000	193,905	0	0	21,000	296,419	82,199
	2002	286,506	151,974	87,090	0	24,000	359,962(7)	79,877
Stephen P. Wolfe Vice President Finance & Chief Financial Officer	2004	310,758	282,013	1,736,446	0	14,500	1,214,896	131,023
	2003	298,790	183,905	603,520	0	23,000	567,431	111,924
	2002	282,828	176,060	89,123	0	24,600	439,069	96,784
Karen M. Meyer Vice President, Administration	2004	292,738	265,660	1,257,857	0	14,000	1,150,911	123,170
	2003	280,967	172,935	591,469	0	22,000	533,555	99,286
	2002	267,710	166,649	0	0	23,000	363,029	92,514
Timothy A. Ford Group Vice President	2004	291,200	264,264	771,781	0	11,000	825,538	80,901
	2003	280,000	172,340	0	0	16,000	359,456(8)	0
	2002	261,249	181,155	0	0	16,000	190,390(8)	0

\* Mr. Hoffman was a Group Vice President for most of fiscal 2004 and did not hold the position of President and Chief Operating Officer until October 18, 2004.

- (1) Amounts reflect payments made, or deferred at the election of the officer, pursuant to the Annual Incentive Plan as in effect for the fiscal year indicated. For more information on this plan, see the Compensation and Human Resources Committee Report.
- (2) Includes the dollar value of the difference between the fair market value and the option exercise price (before payment of applicable income taxes) on stock options exercised. Fair market value is the closing price of the Common Stock on NYSE on the date of exercise or actual sale price. All of these options have an exercise price equal to fair market value on the date of grant and were exercisable immediately upon grant. Also includes the dollar value of executive perquisites for Mr. Melrose (\$18,217 of his perquisites was for car lease and expenses). The value of executive perquisites otherwise includable as Other Annual Compensation did not exceed the lesser of \$50,000 or 10% of the compensation reported in the table for the other named executive officers.
- (3) Options granted pursuant to The Toro Company 1993 Stock Option Plan and The Toro Company 2000 Stock Option Plan. For information on Toro's stock option plans, see Stock Options on page 19 under this Executive

Compensation section.

- (4) Amounts shown for Fiscal 2004 reflect the value of Performance Shares that vested for the three year Award Term of Fiscal 2002 through 2004 under The Toro Company Performance Share Plan (the Performance Share Plan ), a long term incentive plan described in greater

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detail under Long Term Incentive Compensation and the Compensation and Human Resources Committee Report. Performance Shares that vested with respect to Fiscal 2002 to 2004 are valued as of December 6, 2004, the date the Compensation and Human Resources Committee certified performance goal achievement. Award payouts were based on cumulative net income plus after tax interest expense and cumulative average net asset turns performance goals with respect to the Fiscal 2002 to 2004 performance period. The number of shares issued or credited to each officer with respect to Fiscal 2004 is as follows: Mr. Melrose 63,536, Mr. Hoffman 15,884, Mr. Wolfe 16,462, Ms. Meyer 15,595 and Mr. Ford 11,552. Amounts shown for Fiscal 2003 reflect the value of Performance Shares vested for a three year performance period of Fiscal 2001 to 2003 for Messrs. Melrose, Hoffman and Wolfe and Ms. Meyer and a two year transitional performance period for Mr. Ford who first became a participant in this plan for Fiscal 2002. Those shares were valued as of December 4, 2002.

- (5) Amounts include Company contributions and allocations to The Toro Company Investment, Savings and Employee Stock Ownership Plan (a defined contribution retirement plan) for calendar years 2004, 2003 and 2002 (an aggregate of \$24,215 each for Messrs. Melrose, Hoffman, Wolfe, Ms. Meyer and Mr. Ford for calendar year 2004). Also includes amounts accrued pursuant to Toro's Supplemental Management Retirement Plan for executive officers who receive annual compensation of \$205,000 or more (\$404,840 for Mr. Melrose, \$38,274 for Mr. Hoffman, \$106,808 for Mr. Wolfe, \$98,955 for Ms. Meyer and \$56,686 for Mr. Ford for calendar year 2004). Participants' accounts are credited with an amount equal to the difference between the aggregate amount that would have been allocated to tax-qualified profit-sharing and other defined contribution plans, without regard to limitations imposed by the Internal Revenue Code, and the aggregate amount of contributions actually allocated ( excess benefit accounts ). Although amounts credited to such accounts remain a part of Toro's general assets until distributed to participants, if there is a change of control of Toro (as defined in the plans), or if we accept a participant's request to direct investment of an account, we will transfer to a trust an amount in cash equal to the total amount of accrued benefits for all participants or for the electing participant, as the case may be. Because these plans operate on a calendar year basis, a small portion of the amounts shown for each fiscal year may have been accrued with respect to a different fiscal year.
- (6) Mr. Melrose holds 24,454 shares of unvested restricted stock under the Chief Executive Officer Succession Incentive Agreement. The value of these shares based on the closing price of the Common Stock on the NYSE on October 29, 2004 was \$68.25.
- (7) Amount reflects the value of 4,400 shares of restricted stock, which vested with respect to achievement of a division controllable profit contribution performance goal for the Consumer Business established May 18, 2000. The value is based on the closing price of Toro Common Stock on October 31, 2002, the vesting date. Dividends were paid on the restricted stock.
- (8) The amount shown for Mr. Ford was for payment under a one year transition award for Fiscal 2002 to bring him into The Toro Company Performance Share Plan, and for Fiscal 2003, was for a two year transition award for Fiscal 2002 and 2003.

**Employment Agreements**

***Change in Control Agreements.*** Each of the executive officers, including those named in the *Summary Compensation Table*, is a party to a change of control employment agreement adopted in

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Fiscal 1995 and amended in Fiscal 1998. The agreements are operative only upon the occurrence of a change in control, which includes substantially those events described below. Absent a change in control, the agreements do not require Toro to retain the executives or to pay them any specified level of compensation or benefits.

Each agreement provides that for three years after a change in control, there will be no adverse change in the executive's salary, bonus opportunity, benefits or location of employment. If during this three year period the executive's employment is terminated by Toro other than for cause, or if the executive terminates employment for good reason (as defined in the agreements, and including compensation reductions, demotions, relocation and excess travel), or voluntarily during the 30 day period following the first anniversary of the change in control, the executive is entitled to receive all accrued salary and annual incentive payments through the date of termination and, except in the event of death or disability, a lump sum severance payment ( Lump Sum Payment ) equal to three times the sum of base salary and annual bonus (and certain insurance and other welfare plan benefits). Further, in the event an excise tax is imposed on payments under the agreement, an additional payment ( gross-up ) is required in an amount such that after the payment of all taxes, both income and excise, the executive will be in the same after-tax position as if no excise tax under the Internal Revenue Code had been imposed.

Generally, and subject to certain exceptions, a change in control is deemed to have occurred if: (1) a majority of Toro's Board of Directors becomes comprised of persons other than persons for whose election proxies have been solicited by the Board, or who are then serving as directors appointed by the Board to fill vacancies caused by death or resignation (but not removal) of a director or to fill newly created directorships; (2) another party becomes the beneficial owner of at least 15% of Toro's outstanding voting stock; or (3) Toro's stockholders approve a definitive agreement or plan to merge or consolidate Toro with another party (other than certain limited types of mergers), to exchange shares of voting stock of Toro for shares of another corporation pursuant to a statutory exchange, to sell or otherwise dispose of all or substantially all of Toro's assets, or to liquidate or dissolve Toro.

If a change in control of Toro had occurred on January 1, 2005 and had resulted in the involuntary termination of the Chief Executive Officer and the named executive officers at that time or the termination by such executives for good reason, the Lump Sum Payment to be made to the Chief Executive Officer and the named executive officers in the aggregate would have been approximately \$13,159,998 (before excise tax). Toro has also established a trust for the benefit of these officers which, in the event of a change of control, must be funded in an amount equal to Toro's accrued liability related to the agreements.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On September 14, 2004, The Toro Company purchased 100,000 shares of Toro common stock from Kendrick B. Melrose, Toro's Chairman and Chief Executive Officer. The purchase was effected under the terms of an Officer Stock Purchase Policy, which was approved by Toro's Board of Directors on September 16, 1999. Pursuant to the terms of the Officer Stock Purchase Policy, Mr. Melrose requested prior to the opening of the market on the morning of September 14, 2004 that Toro purchase 100,000 of his shares of Toro common stock at a purchase price equal to \$70.08 per share, which represented the closing price of a share of Toro common stock on September 13, 2004, as reported by the New York Stock Exchange. Toro, which had recently and from time to

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time been in the market effecting repurchases of its common stock under its Board of Directors approved stock repurchase program, agreed to purchase the shares from Mr. Melrose.

**Stock Options**

Toro has outstanding options granted under two stock option plans, The Toro Company 1993 Stock Option Plan and The Toro Company 2000 Stock Option Plan. The 1993 Plan terminated August 17, 2003 and no more options may be granted under that plan. The plans are administered by the Compensation and Human Resources Committee which selects employees to whom options are granted.

As of January 1, 2005, 394,366 shares of Common Stock remained available for new grants under the 2000 Plan. The exercise price of an option must be not less than 100% of the fair market value of the Common Stock on the date of grant and an option may not be repriced, once granted. Options are not transferable except by will or the laws of descent and distribution. Options may have a term of up to ten years. The committee may permit options to be exercised immediately after grant or may impose vesting requirements. Options may be exercised using cash, stock or a cashless method through a broker.

**Option Grants in Last Fiscal Year**

The following table shows options granted under the 2000 Plan during Fiscal 2004 to the Chief Executive Officer and the named executive officers.

Name	Individual Grants			Expiration Date	Grant Date Value
	Number of Shares Underlying Options Granted (#)	Percent of Total Options Granted to Employees In Fiscal Year	Exercise or Base Price (\$ Per Share)		Grant Date Present Value(\$)(1)
Kendrick B. Melrose	57,000	17.13%	\$48.32	12/4/13	\$1,187,310
Michael J. Hoffman	13,500	4.06	\$48.32	12/4/13	281,205
Stephen P. Wolfe	14,500	4.36	\$48.32	12/4/13	302,035
Karen M. Meyer	14,000	4.21	\$48.32	12/4/13	291,620
Timothy A. Ford	11,000	3.31	\$48.32	12/4/13	224,130

(1) The grant date present value shown is an estimate only, arrived at using the Black-Scholes option pricing model, with the following weighted average assumptions as of the December 4, 2003 grant date: risk-free interest rate of 4.10%, expected life of option of 9 years, expected dividend yield of .26% and expected stock volatility of 27.60%.

**Table of Contents****Aggregated Option Exercises in Fiscal 2004****And Fiscal Year-End Values**

The following table summarizes stock options exercised by the Chief Executive Officer and the named executive officers during Fiscal 2004 and the total number of options held by each listed individual as of October 31, 2004.

Name	Shares Acquired on Exercise(#)	Value Realized(\$)	Number of Securities Underlying Unexercised Options at Fiscal Period End(#)		Value of Unexercised In-the-Money Options at Fiscal Period End\$(1)	
			Exercisable	Unexercisable(2)	Exercisable	Unexercisable
Kendrick B. Melrose	24,000	1,284,660	458,000	57,000	\$21,885,923	\$1,136,000
Michael J. Hoffman	16,000	851,869	85,200	13,500	3,995,761	269,055
Stephen P. Wolfe	34,380	1,736,446	88,894	14,500	4,056,076	288,985
Karen M. Meyer	25,614	1,257,857	79,986	14,000	3,616,096	279,020
Timothy A. Ford	16,000	771,781	46,000	11,000	1,945,850	219,230

(1) Difference between October 29, 2004 closing price of the Common Stock on the NYSE (\$68.25) and the option exercise price.

**Long Term Incentive Compensation**

The following table shows awards of long term incentive compensation made under the Performance Share Plan to the Chief Executive Officer and the named executive officers during Fiscal 2004.

Name	Number of Shares, Units or Other Rights (#)(1)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plan(s)(2)		
			Threshold (#)	Target (#)	Maximum (#)
Kendrick B. Melrose	1 Award	Fiscal 2004 through 2006	1	25,000	50,000
Michael J. Hoffman	1 Award	Fiscal 2004 through 2006	1	6,000	12,000
Stephen P. Wolfe	1 Award	Fiscal 2004 through 2006	1	6,500	13,000
Karen M. Meyer	1 Award	Fiscal 2004 through 2006	1	6,000	12,000
Timothy A. Ford	1 Award	Fiscal 2004 through 2006	1	5,000	10,000

(1) Performance Share Awards are granted under the Performance Share Plan. A Performance Share Award is a right to receive shares of Common Stock if Toro achieves pre-established financial performance goals during a performance period, usually three years. If performance goals are achieved at levels above or below a pre-established target level, the number of shares issued in payment of the award will be increased or reduced, including to zero. For additional information on this plan, see the Compensation and Human Resources Committee Report.

(2) The amounts shown are the number of shares of Common Stock that may be issued if performance goals are

achieved. The goals are based on net income plus after tax interest and total average net assets, as set forth in a matrix approved by the Compensation and Human Resources Committee. If actual performance is below performance goal threshold levels, no payouts are made. The potential dollar value of a payout will fluctuate with the market value of the Common Stock. At the date of the grant of these awards on December 4, 2003, the closing price of the Common Stock on the NYSE was \$48.32. On October 29, 2004, the closing price of the Common Stock was \$68.25.

**Table of Contents****Equity Compensation Plan Information**

The following table provides information about shares of Toro Common Stock that may be issued under Toro's equity compensation plans, as of October 31, 2004.

Plan Category(1)	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
<b>Equity compensation plans approved by security holders</b>	1,837,407(1)(2)	\$27.035	2,133,998(3)
<b>Equity compensation plans not approved by security holders</b>	0	N/A	46,860(4)
<b>Total</b>	1,837,407(1)	\$27.035	2,180,858(3)(4)

- (1) Amount includes outstanding options under The Toro Company 2000 Stock Option Plan, The Toro Company 1993 Stock Option Plan, The Toro Company 2000 Directors Stock Plan and The Toro Company Director Stock Plan.
- (2) Performance Share Awards (a right to receive shares of Common Stock if Toro achieves pre-established, long-term performance goals) outstanding under The Toro Company Performance Share Plan are not included in the amount in column (a) and have been disregarded in computing the weighted average exercise price in column (b), because they do not have an exercise price.
- (3) Amount includes 736,143 shares remaining available for future issuance upon exercise of options that may be granted under the option plans listed in note (1) above. The 2000 Stock Option Plan is proposed to be amended to increase the number of authorized shares by 1,000,000. See Proposal Five. Amount also includes 1,397,885 shares remaining available for grant under the Performance Share Plan. Shares that remain available under The Toro Company Directors Stock Plan (7,852 shares) and The Toro Company 2000 Directors Stock Plan (120,000) may be used for annual grants of shares of Common Stock to nonemployee directors ( Directors Shares ), in addition to option grants. Under the Directors Share program, each nonemployee director receives shares having a value equal to \$10,000, valued at fair market value, on the first business day of each fiscal year.
- (4) Amount reflects 46,860 shares remaining available for future issuance under the Toro Australia Pty. Limited General Employee Stock Plan. This plan was not required to be approved by stockholders at the time of its adoption. Under this plan, eligible employees of a subsidiary of Toro may acquire shares of Toro Common Stock in exchange for salary reduction. Up to 50,000 shares of Common Stock are authorized to be issued under this plan.



**Table of Contents****Performance Graph**

The following graph depicts total cumulative stockholder return (assuming reinvestment of dividends) of Toro Common Stock, the S&P 500 Index and an industry peer index for the preceding five fiscal years commencing with Fiscal 2000.

**COMPARISON OF 5 YEAR CUMULATIVE**

	Cumulative Total Return					
	10/99	10/00	10/01	10/02	10/03	10/04
THE TORO COMPANY	100.00	99.01	122.84	184.53	289.03	398.51
S & P 500	100.00	106.09	79.67	67.64	81.70	89.40
PEER GROUP	100.00	88.15	94.61	101.93	143.03	167.34

\*This graph assumes \$100 invested on October 31, 1999 in the Common Stock, the S&P 500 Index and the peer group index including reinvestment of dividends.

The industry peer index is based on companies included in the Fortune 500 Industrial and Farm Equipment Index for 2002, the most recent year available, including: AGCO Corporation, The Alpine Group, American Standard Companies, Inc., The Black & Decker Corporation, Briggs & Stratton Corporation, Caterpillar Inc., Crane Co., Cummins Engine Company, Inc., Deere & Company, Dover Corporation, Flowserve Corporation, General Cable Corporation, Harsco Corporation, Illinois Tool Works Inc., International Game Technology, ITT Industries, Inc., Kennametal Inc., Lennox International Inc., Milacron Inc., NACCO Industries, Inc., Pall Corporation, Parker-Hannifin Corporation, Pentair, Inc., Snap-On Incorporated, The Shaw Group Inc., Stewart & Stevenson Services Inc., Tecumseh Products Company, Teleflex, Terex Corporation, Timken Company, Unova, Inc., Walter Industries Inc. and York International Corporation.

Publication of the Fortune 500 Industrial and Farm Equipment Index was discontinued after 2002. However, management believes that the issuers in the index provide a good representation of



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Toro's peer issuers on an industry basis and the use of the group provides continuity because Toro has used the index for many years.

### **Compensation and Human Resources Committee Report**

#### **On Executive Compensation**

This report is furnished by Toro's Compensation and Human Resources Committee of the Board of Directors. We review, establish and approve changes to compensation policies and administer compensation plans for Toro's executive officers.

#### **General Policies**

For nearly a decade, we have tied a substantial portion of total executive compensation to achievement of financial goals of Toro and its divisions, and for over five years we have relied heavily on Performance Shares as a component of total compensation, linking a significant portion of executive compensation to Toro's stock price. The Performance Shares assure that compensation is reflected as an expense in Toro's financial statements. Toro's compensation policies are designed to attract, retain and motivate highly qualified executives; to assure that Toro competes successfully for executive talent to accomplish its goals; to compensate executive officers for performance, and to encourage significant ownership of Toro Common Stock by its officers. We continue to be conservative in granting stock options. We have begun to award nonqualified stock options to our senior executives, allowing the Company to benefit from tax deductions when options are exercised, in contrast to incentive stock option tax treatment, which is less favorable to Toro. We believe these policies have contributed to the positive market performance of Toro's Common Stock.

Each year we establish target dollar amounts of executive compensation based on an independent evaluation of the market competitiveness of Toro's officer compensation program conducted by a professional compensation consulting firm. The Chair of the Committee meets privately with the consulting firm. We establish a target total compensation package for each executive position, usually within a 5% range of the median market level for similar positions in businesses with revenues comparable to those of Toro, but subject to adjustment to reflect level of experience. The total compensation package is then divided into three components (base salary, annual incentive compensation and long term compensation). Incentive compensation comprises the largest component of target compensation.

#### **Base Salary**

We establish a base salary range for each executive position, reflecting median base salaries for the comparative group. Surveys are conducted annually.

A base salary within the market range is set for each executive by considering the experience and individual performance of the executive. For Fiscal 2004, base salaries for Mr. Melrose and the named executive officers ranged from 4.0 to 4.4% higher than 2003 salaries, and were at the median market level. Mr. Melrose's salary for Fiscal 2004 was set at \$740,632 based on the same method used in establishing other executive officers' base salaries. For compensation purposes, the Committee evaluates Mr. Melrose's performance on an annual basis. Mr. Melrose evaluates the other named executive officers and those evaluations are used by the Committee in establishing base salaries.

**Table of Contents****Incentive Compensation**

An executive of Toro will earn total compensation that is competitive with the market only if Toro achieves corporate financial performance goals and incentive compensation is paid. If goals are exceeded, incentive compensation can cause total compensation to exceed median market levels. Total compensation for Fiscal 2004 reflected strong achievement of both annual and long term performance goals under the Annual Management Incentive Plan and the Performance Share Plan. Because payments under the Performance Share Plan are made in shares of Toro Common Stock, and Toro's stock has performed well in the market over the past three years, total compensation came in substantially above median market levels, reflecting the strong performance that has benefited all stockholders.

The incentive components of compensation are intended to encourage achievement of both short term and long term financial and operational objectives. We have increasingly placed emphasis on compensation tied to the market price of Toro's Common Stock. In Fiscal 1999 we began to supplement traditional stock option grants with awards of performance shares under the Performance Share Plan, so that the value of long term incentive compensation is based entirely on performance of Toro's Common Stock in the market.

Toro's strong performance in Fiscal 2004 resulted in Mr. Melrose's incentive compensation comprising 88.37% of his total compensation (excluding the value of stock option grants), and his total compensation package was slightly above median market levels. The Committee considers Mr. Melrose's compensation to be moderate when measured against Toro's Common Stock performance compared to competitors and companies in the S & P 500 index over the past three years. The portion of other named executive officers' total compensation attributable to incentive award payments (excluding option gains) was 81.78% of total compensation.

**Annual Incentive Compensation.** Under Toro's stockholder-approved Annual Management Incentive Plan II (Annual Incentive Plan), executive officers and other key employees are eligible to receive an annual cash bonus based on a percentage of base salary (determined by the executive officer's position) and Toro's achievement of performance goals and, for most participants, division and individual performance. If performance goals are exceeded, award amounts increase up to a pre-established maximum, but not more than 200% of the target award amount. If goals are not met, awards are reduced or not paid at all. Proposed participants in the Annual Incentive Plan are recommended by management and selected by the Committee. The maximum allowable award at target (planned) performance under the Annual Incentive Plan for the Chief Executive Officer is currently 75% of base salary and for the other named executive officers 55% of their base salaries. We have proposed increasing these percentages. See Proposal Four. The percentage set for annual performance awards for Fiscal 2004 was 70% for Mr. Melrose and 50% for the other named executive officers. Percentages are based on the executive's job position and outside competitive market factors and not on individual factors.

In the past, we selected officers to receive Stock Retention Awards, which entitled an officer to convert a portion of a cash award payout to shares of Common Stock or deferred Common Stock units, and to receive additional shares of stock for shares acquired in the conversion. The Committee has not awarded Stock Retention Awards for several years and recently voted to eliminate these awards from the plan, because we are generally satisfied that officers have achieved

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stock ownership guidelines and other elements of compensation are adequate. See page 27 for stock ownership guidelines.

Under the Annual Incentive Plan as in effect for Fiscal 2004, the Committee established earnings per share (EPS) and average net asset turns performance goals as the basis for payment of a target award amount for each corporate participant. Additional division goals were established for other executive officers based on division controllable profit contribution and current assets turns goals, tailored to each division. A division participant's award was based 50% on the level of achievement of corporate goals and 50% on the level of achievement of the applicable division goals. Under additional Strategic Performance Goals, a recipient's pre-established payout can be increased by up to an additional 20% of the award payment that would otherwise be made with respect to corporate and division performance goal achievement, but to not more than 200% of the target award. If Strategic Performance Goals are not achieved, an award payment may be reduced by as much as 20%. Strategic Performance Goals related to revenue growth, warranty, Toro inventory and field inventory plans for each of the divisions were established for Fiscal 2004 for selected officers and general managers who are not named executive officers, including Messrs. P.A. Burkart, W. E. Brown, D. P. Himan, T.M. Swain, R. W. Rodier and M. B. Stinson.

Toro achieved its corporate performance goals for Fiscal 2004, with both EPS and average net asset turns exceeding the target goals, and bonus payments were made under the Annual Incentive Plan at 181.5% of target awards for corporate participants, including Mr. Melrose and the four named executive officers. Award payments of 185.6% of targets were made to commercial division participants, reflecting strong performance. Consumer division and Toro LCB performance also exceeded targets by more than last year, and participants received awards at 166.2% of target and 184.1% of target, respectively. Exmark participants received awards at 171.4% of target, reflecting continued strong performance. Efforts of the agricultural division began to pay off with improved performance in Fiscal 2004 and participants received award payments at 166.9% of target. The irrigation division received the corporate payout, but not the divisional payout. The Committee increased total payouts that otherwise would have been made for Strategic Performance Goal achievement for Messrs. Brown and Rodier and reduced the payouts for Messrs. Swain and Stinson.

***Long Term Incentive Compensation.*** Key employees may receive long term incentive compensation in the form of Performance Shares under the Performance Share Plan and stock options under Toro's stockholder-approved plans.

Under a Performance Share Award, shares of Common Stock are issued if Toro achieves pre-established performance goals, generally over a three year period. The number of shares covered by an award is based on a target dollar value that is a component of total compensation divided by the market value of the Common Stock prior to the time of the award, discounted for projected annual forfeitures. Under awards granted in Fiscal 2002 for the three year award period Fiscal 2002 to 2004, the Committee established performance goals based on cumulative net income plus after tax interest expense and cumulative average net asset turns. Toro exceeded the cumulative corporate average net asset turns goal, but underperformed slightly on the cumulative net income plus after tax interest goal. Overall, performance exceeded the target and we certified payments to plan participants, including Mr. Melrose and the named executive officers, at 144.4% of target award amounts.

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We also make stock option grants pursuant to Toro's stock option plans. We grant options to all key management employees, including Mr. Melrose and the named executive officers, using a target dollar value that is a percentage of target total compensation and a Black-Scholes valuation of the Common Stock. All options granted under the stock option plans have exercise prices that are equal to fair market value at the date of grant. The options granted to Mr. Melrose and the named executive officers in Fiscal 2004 vest in three approximately equal amounts on each of the first, second and third anniversaries after the date of grant and remain exercisable for a period of ten years after the date of grant. In Fiscal 2004, we granted Mr. Melrose an option to purchase 57,000 shares. Other grants are shown in the Summary Compensation Table.

**Perquisites.** Toro provides members of its management, including Mr. Melrose and the named executive officers, with a variety of perquisites, including payments up to a fixed annual amount for a leased automobile, including gasoline and car maintenance (with no fixed limit for Mr. Melrose); club dues payments of up to \$200 per month for one club (with payments for two clubs for Mr. Melrose); personal and financial tax advisory services having a value of up to \$6,000 (\$12,000 for Mr. Melrose); Toro products (with a \$6,000 limit on irrigation systems); reserved parking; annual physical and nutrition assessment up to \$500 for expenses not covered by insurance; company paid medical insurance, including for dependents; travel and accident insurance; one basic level air travel club membership; a basic cell phone; access to Toro's long distance telephone service on up to two lines in their primary residence, and an extra week of vacation. The value of these perks does not exceed the lesser of \$50,000 or 10% of the total of annual salary and bonus for any executive officer, except Mr. Melrose, as shown in the Summary Compensation Table. We believe these perks are an important component of compensation and are necessary to compete for top management talent.

**Section 162(m).** In making its decisions about compensation for Mr. Melrose and other officers likely to be named executive officers, the Committee considers Section 162(m) of the Internal Revenue Code (Section 162(m)), which limits to \$1 million per year the compensation expense deduction Toro may take for compensation paid to a person who is a covered employee for purposes of the Internal Revenue Code, unless the compensation is performance-based. It is generally the policy of Toro that the components of executive compensation that are inherently performance-based should qualify for exclusion from the deduction limitation under Section 162(m). The Committee believes that annual incentive award payments under the Annual Incentive Plan, long term incentive award payments under the Performance Share Plan and stock options currently qualify as performance-based.

We believe, however, that while tax deductibility is an important factor, it is not the sole factor to be considered in setting executive compensation policy, and therefore reserve the right, in appropriate circumstances, to pay amounts in addition to base salary that might not be deductible. The Committee's purpose in doing so is to assure that Toro retains its best executives and remains competitive in the market for executive talent.

If non-performance-based compensation in excess of \$1 million should become payable to a person who is a covered employee, we may consider requiring deferral of receipt of any amounts earned in excess of the cap to a tax year following the year in which the individual leaves the employment of Toro, if permissible under the Internal Revenue Code and regulations thereunder.

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**Stock Ownership Guidelines**

In November 1997, the Committee adopted guidelines to encourage accumulation and retention of Toro Common Stock by officers of Toro, ranging from a goal of five times base salary for the Chief Executive Officer to two or three times for other corporate officers. The recommended time period for reaching the guideline is five years. Based on the Committee's evaluation as of December 2, 2004, each of the named executive officers was in compliance with the established guidelines. The Committee will continue to review compliance with the policy on an annual basis.

**Approval of Incentive Plans**

All of our recommendations with respect to compensation attributable to Fiscal 2004 were approved and adopted by the Board of Directors. In accordance with Toro's past practice under Section 16 of the Securities Exchange Act of 1934 and Section 162(m), we continue to make decisions regarding the grant of stock options and other awards and our decisions are reported to and ratified by the Board.

**Compensation and Human Resources Committee**

Edwin H. Wingate, Chair  
Ronald O. Baukol  
Janet K. Cooper

Katherine J. Harless  
Robert H. Nassau  
Gregg W. Steinhafel

**Compensation and Human Resources**

**Committee Interlocks and Insider Participation**

The members of the Compensation and Human Resources Committee are Edwin H. Wingate, Chair, Ronald O. Baukol, Janet K. Cooper, Katherine J. Harless, Robert H. Nassau and Gregg W. Steinhafel. Mr. Wingate was an officer of Toro from 1969 until 1981. None of the other named directors is or has been an officer or employee of Toro. Although Mr. Melrose is not a member of the Committee, he attends the meetings for the purpose of providing continuity and detailed information about employees and compensation plans. Mr. Melrose does not participate in any option grant or incentive award decision or any decision of the Committee that might affect him personally.

***PROPOSAL FOUR AMENDMENT OF THE TORO COMPANY  
ANNUAL MANAGEMENT INCENTIVE PLAN II***

At its December 2, 2004 meeting, the Compensation and Human Resources Committee recommended, and the Board of Directors ratified, amendments to the Annual Plan (i) to increase the maximum percentages of annual base salary (called a Participation Factor in the Annual Plan) that may be paid as annual bonuses to plan participants, (ii) to increase the maximum award that may be paid from \$1,500,000 to \$2,000,000 and (iii) to eliminate authority to grant Stock Retention Awards. The Participation Factor for the Chief Executive Officer is increased by 25% to 100%, and Participation Factors for other officers are increased by 15 to 20%, depending on the position. (See *Award Amounts* below.) The Company's compensation consultants recommended this amendment to keep the Company competitive in the market for executive talent. The

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amendment would allow a Participation Factor of 100% for the Chief Executive Officer, 85% for the President and Chief Operating Officer and 75% for the other named executive officers. The Committee has established a Participation Factor for the Fiscal 2005 award term of 75% for the Chief Executive Officer and 55% for other named executive officers, the maximums permitted under the current plan.

Because the Committee is generally satisfied that officers have achieved stock ownership guidelines and that there are other opportunities for officers to reach their stock ownership levels, the Committee and Board of Directors have determined that no further Stock Retention Awards are likely to be granted under the plan. If stockholder approval of the amended plan is received, this provision of the plan will remain in effect until December 5, 2005, until all shares or units previously awarded under Stock Retention Awards vest, but the Committee would not grant any additional awards.

Stockholders are asked to approve the amendment increasing participation factors and the maximum award that may be paid annually to ensure that payments made under the Annual Plan continue to qualify as performance-based for purposes of Section 162(m). If stockholder approval of the amendment is not received, the Compensation and Human Resources Committee will reconsider the amendment, and the Annual Plan as previously approved by stockholders will continue in effect.

## **Description of the Annual Management Incentive Plan II**

Following is a summary of the material features of the Annual Plan. Capitalized terms have the meanings set forth in the Annual Plan.

***Purpose.*** The purpose of the Annual Plan is to enhance stockholder value by providing participants an annual incentive to reinforce achievement of the Company's performance goals; to link a significant portion of a participating officer's compensation to the achievement by the Company, and in certain cases, a division or individual, of Performance Goals, and to attract, motivate and retain officers on a competitive basis.

***Eligibility and Participation.*** Participation is limited to officers, including executive officers, who through their position or performance can have a significant, positive impact on the Company's financial results, as determined by the Compensation and Human Resources Committee. The Company maintains a separate annual bonus plan for key employees who are not officers. Approximately 16 individuals are expected to receive awards under the Annual Plan each year.

***Award Amounts.*** The Target Payout for an Annual Performance Award is based on a Participation Factor, which is intended to reflect a participant's level of responsibility. As amended, the Participation Factors are as follows: up to 100% for the Chairman and Chief Executive Officer; up to 85% for the President and Chief Operating Officer; up to 75% for other elected officers and up to 65% for appointed officers. Actual Participation Factors for any award may be, and generally have been, set below the maximum percentage permitted.

The Target Payout can be earned only if Performance Goals are achieved at levels established in advance by the Compensation and Human Resources Committee. The Committee may establish Maximum Payouts of up to 200% of Target Payouts in the event corporate and division goals are exceeded in an amount specified by the Committee. The Committee has the discretion to reduce

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an award payment by up to 20% of the authorized amount that would otherwise be paid to a division vice president or general manager, based on the Committee's evaluation of quality of performance. At the time an award is made, the Committee may establish additional individual strategic performance measures called SPM Performance Goals. If an SPM Performance Goal is achieved, an award payment may be increased by up to 20% of the award payment that would otherwise be made with respect to corporate and division Performance Goal achievement, but to not more than 200% of the Target Payout. If SPM Performance Goals are not achieved, an award payment may be reduced by as much as 20% of the amount that would otherwise be paid.

**Performance Goals.** An award payment under an Annual Performance Award will be paid only upon the achievement of Performance Goals established by the Compensation and Human Resources Committee in writing not later than 90 days after the beginning of the fiscal year to which the Performance Goals relate. Performance Goal measures include revenue, revenue growth, cost of goods sold, earnings per share, earnings growth, return on average net assets, return on average total assets, return on average current assets, return on equity, average net asset dollar level, average current asset turns, average net asset turns, average inventory asset turns, division profit adjustment, division controllable profit contribution, division average asset dollars, economic value added, controllable value added, product innovation, asset management, customer satisfaction scores, customer care and fill rate. Supplemental Division Performance Goals for division participants may be based on any of the foregoing division specific operating performance goals including sustained earnings, product warranty experience, product recalls or inventory levels. SPM Performance Goals may be based on quantitative or qualitative factors, and may include, but are not limited to, aggressive revenue growth, sustained earnings initiative, warranty experience, product recalls, field inventory, acquisition experience, customer satisfaction (determined by such measurements as product innovation, asset management, product quality, warranty, on-time delivery, after-market service, customer care or customer satisfaction scores or survey results), inventory reduction and inventory turnover or any of the other Performance Goals listed. Stockholders have previously approved all of these Performance Goals.

**Maximum Award.** The maximum amount that may be paid under an Annual Performance Award to a Plan Participant who is or may become a person referred to in Section 162(m) with respect to any fiscal year will be \$2,000,000, if the proposed amendment is approved by stockholders. If the increase is not approved by stockholders, the maximum will remain at \$1,500,000.

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

**Plan Amendment and Termination.** The Committee may amend, suspend or terminate the Annual Plan at any time, with or without advance notice to plan participants, but no amendment to the plan will be effective that would increase the maximum amount that may be paid to a plan

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participant, that would change the stated performance goal criteria or that would modify the requirements as to eligibility for participation, unless the stockholders of the Company approve the change in accordance with the requirements of Section 162(m), or that requires approval under any other law or regulation.

**Benefits.** It is not presently possible to determine the dollar value of award payments that may be made, or the individuals who may be selected for such awards, in the future under this plan. Award payments made with respect to Fiscal 2004, Fiscal 2003 and Fiscal 2002 to the Chief Executive Officer and each of the named executive officers are shown in the bonus column of the Summary Compensation Table. Award payments made to all executive officers as group for Fiscal 2004 aggregated \$3,475,765 and to all non-executive officer employees as a group aggregated \$182,627. Non-executive directors (outside directors) are not eligible to participate in this plan.

**The Board of Directors unanimously recommends a vote FOR the approval of amendment of The Toro Company Annual Incentive Plan II.**

***PROPOSAL FIVE AMENDMENT OF THE TORO COMPANY***

***2000 STOCK OPTION PLAN***

At its December 2, 2004 meeting, the Compensation and Human Resources Committee recommended, and the Board of Directors ratified, an amendment to The Toro Company 2000 Stock Option Plan to increase by 1,000,000, the number of shares of Common Stock authorized for issuance pursuant to options to be granted under the plan.

The Board of Directors wishes to provide for additional shares of Common Stock to be made available for the grant of options to key employees.

Stockholders are asked to approve the amendment to qualify options for treatment as incentive stock options for purposes of Section 422 of the Internal Revenue Code, to qualify compensation under the 2000 Plan as performance-based for purposes of Section 162(m), and in order to satisfy NYSE guidelines relating to equity compensation. If stockholder approval is not received, the Compensation and Human Resources Committee will reconsider the amendment to the 2000 Plan and the present plan will remain in effect.

**Summary of the 2000 Plan Features**

Following is a summary of the material features of the 2000 Plan.

**Purpose.** The purpose of the 2000 Plan is to enhance stockholder value by providing an incentive to key employees, including executive officers, and consultants, to contribute significantly to long term performance and growth of the Company, to link a significant portion of a participant's compensation to the value of the Common Stock and to attract and retain experienced and knowledgeable employees on a competitive basis.

**Eligibility and Participation.** Any employee regularly employed in an executive, managerial, professional or technical position, and any other individual who performs services for the Company, and who contributes significantly to long term performance objectives of the Company, is eligible to participate in the 2000 Plan. The Compensation and Human Resources Committee has the power to select individuals to whom options will be granted. At the present time, approximately 150 employees are eligible to participate in the plan.



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***Award of Options and Terms.*** Options may be granted either as incentive stock options under Section 422 of the Internal Revenue Code, or as nonqualified options. For Fiscal 2005, the Compensation and Human Resources Committee began to grant nonqualified options only. The term of each option will be fixed by the Committee, subject to the requirements of Section 422 for incentive stock options, but no option may have a term longer than ten years. The exercise price of an option may not be less than 100% of fair market value of the Common Stock on the date of grant. After an option is granted, the exercise price may not be reduced. The market value of one share of the Common Stock on the NYSE on January 18, 2005 was \$82.62.

An option may not be transferred except by will or the laws of descent and distribution. During the lifetime of the option holder, the option may be exercised only by the option holder and only while an employee of the Company or a parent or subsidiary of the Company and only if continuously so employed since the date the option was granted, unless the Committee provides otherwise. If the Committee does not establish other provisions at the time of grant, an option (1) may be exercised not later than the earlier of the date the option expires or one year after termination of employment by reason of disability or death, (2) may be exercised not later than the earlier of the date the option expires or up to four years after the date of retirement as defined in the 2000 Plan or (3) may be exercised for up to three months after termination for reasons other than disability, death or retirement. In the event an option holder terminates employment or performance of services and is employed or retained by a competitor of the Company within one year, or violates a confidentiality or similar agreement with the Company or engages in conduct detrimental to the Company, any outstanding options held by such person may be canceled or rescinded and the Company will have the right to the return of the economic value of any option realized during the 12 month period prior to the option holder's termination of employment or service.

The Committee may include a provision in an option permitting the grant of a new option when payment of the exercise price of the option is made in shares of Common Stock (an accelerated ownership option). The terms of the accelerated ownership option would be the same as those of the original option, except that the exercise price would be the fair market value at the date of grant of the new accelerated ownership option. The Committee has not granted any of these options in the past.

The 2000 Plan provides that the Committee may permit exercise of an option by a variety of methods, including payment in cash or shares of Common Stock or a combination of cash and shares of Common Stock, or a same day sale through a brokerage firm in accordance with regulations of the Federal Reserve Board.

***Maximum Award.*** The maximum number of shares that may be covered by options granted to any individual during any calendar year is 100,000. To the extent that the aggregate fair market value (as of the grant date) of Common Stock with respect to which incentive stock options are exercisable for the first time during any calendar year by an individual exceeds \$100,000 or such other limit as may be required by the Internal Revenue Code, options that exceed such limit will be treated as nonqualified options.

***Change of Control.*** In the event of a change of control of the Company as defined in the 2000 Plan, all unvested options will fully vest, unless otherwise limited by the Committee at the time of grant.

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***Plan Amendment and Termination.*** The 2000 Plan may be amended, suspended or terminated at any time by the Board of Directors, but no amendment that would increase the maximum number of shares that may be subjected to options or that may be awarded to a person referred to in Section 162(m) or that would modify requirements as to eligibility for participation in the plan will be effective without approval of the stockholders, in accordance with the Internal Revenue Code; and no material revision will be effective without stockholder approval under regulations of the SEC and NYSE. No amendment to the 2000 Plan may, without the consent of the option holder, alter or impair any option previously granted under the 2000 Plan. The 2000 Plan will remain in effect until all shares of Common Stock reserved for issuance have been purchased, except that no options may be granted under the 2000 Plan later than ten years after its effective date of March 29, 2000.

***Shares Authorized.*** The number of shares of Common Stock authorized for issuance under the 2000 Plan as amended is 4,000,000, subject to adjustment in the event of a stock split, recapitalization or other similar change affecting the Common Stock. Shares of Common Stock to be issued upon the exercise of options 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. Shares of Common Stock covered by options that terminate without being exercised will again be available for option grants.

***Benefits.*** It is not presently possible to determine the dollar value of award payments that may be made, or the individuals who may be selected for such awards, in the future under this plan. Stock option grants under the 2000 Plan made in Fiscal 2004 to the Chief Executive Officer and each of the named executive officers are shown in the Summary Compensation Table and the Stock Options table. Options granted in Fiscal 2004 to all executive officers as a group aggregated 159,500 and to all non-executive officer employees as a group aggregated 153,300 shares. Non-executive directors (outside directors) are not eligible to participate in this plan.

## **Tax Consequences Under the Plan**

Following is a brief description of the federal income tax treatment that will generally apply to options granted under the 2000 Plan, based on the Internal Revenue Code as presently in effect.

With respect to incentive stock options, generally the option holder is not taxed and the Company is not entitled to a deduction on either the grant or the exercise of an incentive stock option, so long as the requirements of Section 422 of the Internal Revenue Code continue to be met. If the option holder meets the employment requirements and does not dispose of the shares of Common Stock acquired upon exercise of an incentive stock option until at least (1) one year after transfer of the shares pursuant to the exercise of the option and (2) two years after the date the option was granted, gain or loss realized on sale of the shares will be treated as long term capital gain or loss. If the shares of Common Stock are disposed of before those periods expire, which is called a disqualifying disposition, the option holder will be required to recognize ordinary income in an amount equal to the lesser of (1) the excess, if any, of the fair market value of the Common Stock on the date of exercise over the exercise price or (2) if the disposition is a taxable sale or exchange, the amount of gain realized. Upon such a disqualifying disposition, the Company will generally be entitled, at the same time, to a deduction equal to the amount of ordinary income recognized by such person.

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The grant of an option that does not qualify for treatment as an incentive stock option is generally not a taxable event for the option holder. Upon exercise of the option, the option holder will generally be required to recognize ordinary income in an amount equal to the excess of the fair market value of the Common Stock acquired upon exercise (determined as of the date of exercise) over the exercise price of the option, and the Company will be entitled to a deduction in an equal amount.

Option agreements under the 2000 Plan may provide for accelerated vesting in the event of a change of control of the Company. If such a provision becomes effective, certain amounts with respect to benefits derived may be characterized as parachute payments under provisions of the Internal Revenue Code. If such provisions are applicable, an employee will be subject to a 20% excise tax on any excess parachute payment pursuant to Internal Revenue Code Section 4999 and the Company will be denied a deduction with respect to such excess parachute payment pursuant to Internal Revenue Code Section 280G. An employee generally is deemed to have received a parachute payment if such employee receives compensation that (1) is contingent upon a change in the ownership or control of the Company and (2) exceeds, in the aggregate, an amount equal to three times the employee's base amount. The base amount generally is the average of the annual compensation of such employee for the five years preceding the change in ownership or control. An excess parachute payment with respect to any employee is the excess of the total parachute payments to such person over such person's base amount.

**The Board of Directors unanimously recommends a vote FOR the approval of amendment of The Toro Company 2000 Stock Option Plan.**

***PROPOSAL SIX RATIFY SELECTION OF INDEPENDENT AUDITOR***

The Audit Committee of the Board of Directors has again selected KPMG LLP to serve as independent auditors for Fiscal 2005. Although it is not required to do so, the Board of Directors wishes to submit the selection of KPMG LLP for stockholder approval at the meeting. Even if the selection is ratified, the Audit Committee may in its discretion change the appointment at any time during the year, if it determines that such a change would be in the best interests of Toro and its stockholders.

Representatives of KPMG LLP will be present at the Annual Meeting to answer appropriate questions. They will also have the opportunity to make a statement if they wish to do so.

If the stockholders do not approve the selection of KPMG LLP, the Board of Directors will reconsider its selection.

**Table of Contents****Audit, Audit-Related, Tax and Other Fees**

The following table presents fees billed by KPMG LLP for professional services for Fiscal 2004 and 2003, by category as described in the notes to the table. All fees paid to KPMG were pre-approved by the Audit Committee.

	<u>2004</u>	<u>2003</u>
Audit Fees(1)	\$781,200	\$698,491
Audit-Related Fees(2)	50,000	139,600
Tax Fees(3)	107,000	172,432
All Other Fees	-0-	-0-

(1) Aggregate fees billed for professional services and rendered by KPMG LLP for the audit of Toro's annual financial statements, by year, review of financial statements included in Toro's Quarterly Reports on Form 10-Q and other services normally provided in connection with Toro's statutory and regulatory filings or engagements.

(2) Aggregate fees billed for KPMG LLP's assurance and services reasonably related to the performance of the audit or review of Toro's financial statements, including benefit plan audits and review of documentation related to preparation of certifications under Sarbanes Oxley Act of 2002, Section 404.

(3) Aggregate fees billed for professional services rendered by KPMG LLP for tax compliance, tax advice and tax planning, including preparation of tax forms and some consulting for overseas and foreign tax fees.

**Auditor Fees Pre-approval Policy**

In 2003, the Audit Committee amended provisions of its charter on approval of audit and non-audit services to be provided by the independent auditor to Toro. The provision requires that the committee review and pre-approve in advance the fees and types of audit services and non-audit services to be performed by the independent public accountants, other than de minimus non-audit services allowed by relevant law. The committee may periodically pre-approve the retention of the independent auditor for additional non-audit services.

**The Board of Directors unanimously recommends a vote FOR ratification of the selection of KPMG LLP as Toro's independent auditor for Fiscal 2005.**

***CORPORATE GOVERNANCE*****Corporate Governance Certification**

In accordance with NYSE Listing Standard 303A.12, Mr. Melrose, Toro's Chief Executive Officer, certified to the NYSE, as of April 12, 2004, that he was unaware of any violation by Toro of the NYSE's corporate governance listing standards.

**Code of Conduct and Code of Ethics for the CEO and Senior Financial Officers**

All of our employees, including our Chief Executive Officer and other senior executives, are required to comply with our long-standing Code of Conduct to help ensure that our business is conducted in accordance with the highest standards of moral and ethical behavior. Toro's continued



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growth and profitability are linked to our ability to make decisions that are consistent with our traditional business values and ethical principles. The Board of Directors recently adopted a Code of Ethics for the CEO and Senior Financial Officers applicable to the Chief Executive Officer, Chief Financial Officer (Toro's principal financial officer), Vice President and Corporate Controller (Toro's principal accounting officer and controller), and to all business unit controllers and senior accounting personnel identified by the Corporate Controller (Senior Financial Officers) who are bound by the provisions set forth in the Code of Conduct relating to ethical conduct, conflicts of interest and compliance with the law. Toro's Code of Conduct and its Code of Ethics for the CEO and Senior Financial Officers are published on our web site at [www.thetorocompany.com/corporategovernance](http://www.thetorocompany.com/corporategovernance). Copies of the codes are available in print without charge to any person who requests them. Please address your request to Toro's Assistant Corporate Secretary at 8111 Lyndale Avenue South, Bloomington, Minnesota 55420-1196, or by telephone at 888-237-3054, or by email at [jeanne.ryan@toro.com](mailto:jeanne.ryan@toro.com).

## **Complaint Procedure; Communications with Directors**

In Fiscal 2003, the Board of Directors appointed Dale R. Olseth as presiding non-management director (sometimes referred to as the Lead Director) with the responsibility to facilitate communications by stockholders and employees directly with the independent, non-management members of the Board of Directors, as well as to convene and preside at executive sessions of the Board. The presiding non-management director maintains a special telephone line in his office, for the purposes described below.

The Sarbanes-Oxley Act of 2002 requires companies to maintain procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Toro has such procedures in place. Our 24-hour, toll-free confidential compliance line is available for the submission of concerns regarding these matters by any employee. Any employee who believes he or she has witnessed an incident involving financial fraud may leave a confidential or anonymous message at 1-800-850-7247 (U.S.) or +1-703-797-1734 (outside U.S.) or for the presiding non-management director, Dale R. Olseth, at 952-887-7268.

Toro's Board of Directors has also established a process for stockholders to send communications to the independent directors. Stockholders may communicate with the Board through the presiding non-management director by calling 952-887-7268 or by writing to Company's Corporate Secretary. Communications sent to the Company addressed to the Board of Directors are screened by the Corporate Secretary for appropriateness before being forwarded. The independent director is notified of receipt of any communication.

From time to time we revise Toro's Corporate Governance Guidelines in response to changing regulatory requirements, evolving best practices and the concerns of our stockholders and other constituencies. Toro's Corporate Governance Guidelines are published on our web site at [www.thetorocompany.com/corporategovernance](http://www.thetorocompany.com/corporategovernance). You may obtain a copy of the guidelines in print by addressing your request to Toro's Assistant Corporate Secretary at 8111 Lyndale Avenue South, Bloomington, Minnesota, by telephone 888-237-3054, or by email at [jeanne.ryan@toro.com](mailto:jeanne.ryan@toro.com).

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**OTHER INFORMATION**

**Stockholder Proposals for Annual Meeting in 2006**

The 2006 Annual Meeting of Stockholders is expected to be held on March 21, 2006. If you wish to make a proposal to be included in Toro's Proxy Statement for the 2006 Annual Meeting, you must assure that the proposal is received by the Secretary of Toro no later than the close of business on October 4, 2005, unless the date of the meeting is delayed by more than 30 calendar days.

If you wish to nominate a candidate for election to the Board of Directors or propose other business at the 2006 Annual Meeting, you must give complete and timely written notice to the Secretary of Toro, in accordance with Toro's Bylaws. The deadline for the 2006 Annual Meeting is not later than December 16, 2005 nor earlier than November 2, 2005, unless the date of the meeting is advanced by more than 30 days or delayed by more than 60 days, in which case notice must be delivered not earlier than the 90th day nor later than the 60th day prior to the rescheduled meeting, or the 10th day following the day on which Toro first makes public announcement of the rescheduled meeting. If you would like a copy of Toro's Bylaws, you may write to Toro's Secretary or obtain a copy through the SEC's EDGAR filing database at [www.sec.gov/edgar/seachedgar/webusers.htm](http://www.sec.gov/edgar/seachedgar/webusers.htm) (Exhibit 4(c) to Toro's Current Report on Form 8-K dated May 28, 2003). If a proposal is not timely and properly made in accordance with the procedures set forth in the Bylaws, it will be defective and may not be brought before the meeting. If the proposal is nonetheless brought before the meeting and the chairman of the meeting does not exercise the power and duty to declare the proposal defective, the persons named in the proxy may use their discretionary voting with respect to the proposal.

**Householding of Annual Meeting Materials**

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of Toro's Proxy Statement or Annual Report on Form 10-K may have been sent to multiple stockholders in each household. Additional copies of these documents are available in print to any stockholder who requests them. Please address your request to Toro's Investor Relations Department at 8111 Lyndale Avenue South, Bloomington, Minnesota 55420-1196, or by telephone at 952-887-7141, or by email at [invest@toro.com](mailto:invest@toro.com). Any stockholder who wants to receive separate copies of Toro's Proxy Statement or Annual Report to Stockholders in the future, or any stockholder who is receiving multiple copies and would like to receive only one copy per household, should contact the stockholder's bank, broker, or other nominee record holder. A copy of these documents may also be downloaded and printed from Toro's web site at [www.thetorocompany.com/corporategovernance](http://www.thetorocompany.com/corporategovernance).

**Annual Report**

Toro's Annual Report on Form 10-K for Fiscal 2004 (the fiscal year ended October 31, 2004) is enclosed with the mailing of this Proxy Statement to stockholders of record. The Form 10-K includes consolidated financial statements and notes, selected financial data and Management's Discussion and Analysis of Financial Condition and Results of Operations. The Form 10-K is included in The Toro Company Corporate Profile Fiscal Year 2004, which contains information

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about Toro's businesses, but is not part of Toro's disclosure deemed to be filed with the Securities and Exchange Commission.

**Cost and Method of Solicitation**

Toro will pay the cost of soliciting proxies and may make arrangements with brokerage houses, custodians, nominees and other fiduciaries to send proxy material to beneficial owners of the Common Stock. Toro will reimburse them for reasonable out-of-pocket expenses. In addition to solicitation by mail, directors, officers and employees of Toro may solicit proxies by telephone, electronic transmission and personally. They will receive no compensation for such services other than regular employee compensation. Toro has retained Morrow & Co., for an estimated fee of \$7,500 plus out-of-pocket costs and expenses, to assist in distributing proxy materials and soliciting proxies.

**Other Business**

We know of no other matters that may come before the Annual Meeting. However, if matters other than those referred to above should properly come before the Annual Meeting, the persons named on the enclosed proxy card intend to vote such proxy in accordance with their best judgment.

Dated: January 31, 2005

**BY ORDER OF THE BOARD OF DIRECTORS**

**J. LAWRENCE MCINTYRE**

Vice President, Secretary and General Counsel

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Appendix

The Toro Company Annual Management Incentive Plan II

The Toro Company 2000 Stock Option Plan\*

\*The Company intends to register shares of Common Stock provided for under The Toro Company 2000 Stock Option Plan as soon as practicable after March 15, 2005.

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**The Toro Company  
Annual Management Incentive Plan II**

1. **Plan Purpose.** The purpose of The Toro Company Annual Management Incentive Plan II (the Plan ) is to enhance stockholder value of The Toro Company (the Company ) by providing an annual incentive to reinforce achievement of the Company's performance goals ( Performance Goals ); to link a significant portion of a participating officer's annual compensation to the achievement by the Company, and in certain cases, a division or individual, of Performance Goals and to attract, motivate and retain officers and general managers on a competitive basis by making awards based on annual achievement of Performance Goals ( Annual Performance Awards ).
2. **Eligibility and Participation.** Within the first 90 days of each fiscal year, or before the first 25% of a shorter performance period has elapsed, the Compensation and Human Resources Committee (the Committee ) shall select as recipients of Annual Performance Awards ( Plan Participants ) those officers and general managers of the Company who, through their position or performance, can have a significant, positive impact on the Company's financial results. A Plan Participant is selected to participate in the Plan for one fiscal year, but may be selected again. Newly-hired and newly-promoted officers and general managers may be selected as Plan Participants after the first 90 days of a fiscal year subject to the provisions of this paragraph and paragraph 4.a. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.
3. **Award Amounts.**
  - a. **Target Payout.** The target amount that may be paid with respect to an Annual Performance Award (the Target Payout ) shall be determined by the Committee and shall be based on a percentage of a Plan Participant's actual annual base salary at the time of grant ( Participation Factor ), within the range established by this paragraph and subject to adjustment as provided in the last sentence of this paragraph. The Participation Factors, which are intended to reflect a Plan Participant's level of responsibility, are up to 100% for the Chairman and Chief Executive Officer, up to 85% for the President and Chief Operating Officer, up to 75% for other elected officers and up to 65% for other officers. The Chief Executive Officer may approve modifications to the foregoing Participation Factors for any participant who is not a person referred to in Section 162(m) of the Internal Revenue Code of 1986, as amended, or the regulations thereunder ( Section 162(m) ), if such modification is based on level of responsibility. The Committee may establish curves, matrices or other measurements for prorating the amount of payouts for achievement of Performance Goals at less or greater than the Target Payout.
  - b. **Maximum Payout.** The Committee may also establish a maximum potential payout amount (the Maximum Payout ) with respect to an Annual Performance Award of up to 200% of the Target Payout in the event Performance Goal targets are exceeded by an amount established by the Committee at the time Performance Goals are established. The Committee may establish curves, matrices or other measurements for prorating the amount of payouts for achievement of Performance Goals at greater

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than the Target Payout but less than the Maximum Payout.

- c. ***Division Payout.*** At the time an Annual Performance Award is made, the Committee may establish supplemental division-specific Performance Goals ( Supplemental Division Performance Goals ) and may provide that achievement of a Supplemental Division Performance Goal at or above an established target level shall be required in order to earn a Target Payout or Maximum Payout. The Committee shall also have the discretion to reduce by an amount up to 20% the amount that would otherwise be paid under the division payout formula to a division officer or general manager based on the Committee's evaluation of the quality of division performance.
- d. ***Strategic Performance Measure Payout.*** At the time an Annual Performance Award is made, the Committee may increase the Target Payout and the Maximum Payout (as either may be prorated in accordance with paragraphs 3.a. and 3.b.) by up to 20% but to not more than 200% of the Target Payout, for selected Plan Participants ( Strategic Performance Participants ), to reflect individual strategic performance measures ( SPM Performance Goals ) established at that time by the Committee. The Committee shall have the discretion to reduce by an amount up to 20% the amount that would otherwise be paid under the payout formula to a Strategic Performance Participant based on the Committee's evaluation of the individual's achievement of the SPM Performance Goal.
- e. ***Section 162(m) Maximum.*** With respect to any Plan Participant who is or may become a person referred to in Section 162(m), the maximum dollar amount that may be paid under an Annual Performance Award shall be set at the time the Committee grants the award and establishes Performance Goals under the award, and the Committee shall have the discretion to decrease an award payment, but may not under any circumstances increase such amount. Notwithstanding any other provision of this Plan, the maximum dollar amount a Plan Participant may be paid under an Annual Performance Award, with respect to any fiscal year is \$2,000,000. The Committee may, in its discretion, decrease this maximum, but may not, under any circumstances, increase this maximum.

**4. Performance Goals.**

- a. ***Establishment.*** An award payment under an Annual Performance Award shall be made to a Plan Participant only if the Company, a division and/or the individual participant achieves Performance Goals established by the Committee in writing not later than 90 days after the commencement of the fiscal year to which the Performance Goal relates, provided that the outcome is substantially uncertain at the time the Committee establishes the Performance Goal; and provided further that in no event will a Performance Goal be considered to be pre-established if it is established after 25% of the period of service (as scheduled in good faith at the time the Performance Goal is established) has elapsed.
- b. ***Performance Goal Criteria.*** Performance Goals to be established under paragraph 4.a. shall be based on revenue, revenue growth, cost of goods sold, earnings per share (EPS), earnings growth, return on average net assets (ROANA), return on average total assets, return on average current assets, return on equity, average net

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asset dollar level, average current asset turns, average net asset turns, average inventory asset turns, division profit adjustment, division controllable profit contribution, division average asset dollars, economic value added, controllable value added, product innovation, asset management, customer satisfaction scores, customer care and fill rate. Supplemental Division Performance Goals for division participants that may be established under paragraph 4.a. may be based on any of the foregoing and/or on division specific operating performance goals including sustained earnings, product warranty experience, product recalls or inventory levels. SPM Performance Goals that may be established under paragraph 4.a. may be based on quantitative or qualitative factors, and may include, but are not limited to, aggressive revenue growth, sustained earnings initiative, warranty experience, product recalls, field inventory, acquisition experience, customer satisfaction (determined by such measurements as product innovation, asset management, product quality, warranty, on-time delivery, after-market service, customer care or customer satisfaction scores or survey results), inventory reduction and inventory turnover or any of the other Performance Goals listed in this paragraph. Each Performance Goal is to be specifically defined by the Committee on a Company, division or individual basis and/or in comparison with peer group performance.

5. **Payments.** Before any payment is made under the Plan, the Committee must certify in writing, as reflected in the minutes, that the Performance Goals established with respect to an Annual Performance Award have been achieved. To the extent necessary with respect to any fiscal year, in order to avoid any undue windfall or hardship due to external causes, the Committee may make the determination as to whether a Performance Goal has been achieved without regard to the effect on the Performance Goal measure, as it may otherwise be presented in the financial statements, of any change in accounting standards, any acquisition by the Company not planned for at the time the Performance Goals are established or any Board-approved extraordinary or non-recurring event or item.
6. **Administration.** The Committee shall have the authority to administer the Plan; establish policies under the Plan; amend the Plan, subject to the provisions of paragraph 8; interpret provisions of the Plan; select Plan Participants; establish Performance Goals; make Annual Performance Awards; or terminate the Plan, in its sole discretion. The Committee may delegate certain of these activities and all decisions not required to be exercised by it under Section 162(m) or Section 16 of the Exchange Act, as it solely determines. All decisions of the Committee shall be final and binding upon all parties including the Company, its stockholders and Plan Participants.
7. **Governing Law.** The Plan, awards granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan or an award or agreement to the substantive law of another jurisdiction.
8. **Plan Amendment and Termination.** The Committee may, in its sole discretion, amend, suspend or terminate the Plan at any time, with or without advance notice to Plan Participants, provided that no amendment to the Plan shall be effective that (a) would increase the maximum amount payable under paragraph 3.e. to a Plan Participant who is a person referred to in Section 162(m); that would change the Performance Goal criteria

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applicable to a Plan Participant who is a person referred to in Section 162(m) for payment of awards stated under paragraph 4; or that would modify the requirements as to eligibility for participation under paragraph 2, unless the stockholders of the Company shall have approved such change in accordance with the requirements of Section 162(m), or (b) requires stockholder approval under any other law or regulation. No amendment, modification or termination of the Plan may adversely affect in a material manner any right of any Plan Participant with respect to any Annual Performance Award theretofore granted without such participant's written consent.

- 9. Effective Date of the Plan and Amendments.** The Plan first became effective on November 1, 1995. Any amendment to the Plan shall be effective on the date established by the Committee, subject to stockholder approval, if required under the provisions of paragraph 8.

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**THE TORO COMPANY  
2000 STOCK OPTION PLAN**

1. **Purpose.** The purpose of The Toro Company 2000 Stock Option Plan (the *Plan*) is to enhance stockholder value of The Toro Company (the *Company*) by providing an incentive to key employees and other key individuals who perform services for the Company, to contribute significantly to the long-term performance and growth of the Company; to link a significant portion of a participant's compensation to the value of the Company's Common Stock, par value \$1.00 per share, and related Preferred Share Purchase Rights (*Common Stock*); and to attract and retain experienced and knowledgeable employees on a competitive basis. These purposes are expected to be achieved by granting options to acquire the Common Stock (*options*).
2. **Eligibility.** Any employee of the Company who is regularly employed in an executive, managerial, professional or technical position and any other individual who performs services for the Company and who contributes significantly to the strategic and long-term performance objectives of the Company is eligible to participate in the Plan. 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.
  - a. **Limitations.** 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, and the maximum number of shares that may be covered by options granted to any individual during any calendar year shall be 100,000 shares. 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*.
3. **Stock Options.**
  - a. **ISOs and Nonqualified Options.** Options granted under the Plan may 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*).
  - i. **Incentive Stock Options.** Incentive Stock Options shall meet the applicable requirements of, and contain or be deemed to contain all provisions required by, the Code or corresponding provisions of subsequent revenue laws and regulations in effect at the time such options are granted. Any ambiguities in construction shall be interpreted in order to effectuate such intent. To the extent that the aggregate fair market value of Common Stock (determined at the time of grant of the Incentive Stock Option) 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

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account in the order in which they were granted.

- b. **Agreements.** Options shall be evidenced by stock option agreements in such form and not inconsistent with the Plan as the Compensation and Human Resources Committee (the Committee) of the Board of Directors shall approve from time to time.
- c. **Number of Shares, Date of Grant and Term.** An option agreement shall specify the number of shares of Common Stock to which it pertains; 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, and the term of the option, which shall not exceed ten years.
- d. **Exercise Price.** The exercise price of an option shall be not less than 100% of fair market value of the Common Stock on the date of grant. Fair market value is the 4 p.m. Eastern Time closing price for the Common Stock as reported by the New York Stock Exchange. After an option is granted, the exercise price shall not be reduced.
- e. **Vesting, Transferability and Exercisability.**
  - (i) **Vesting.** 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.
  - (ii) **No Transfer.** Options shall not be transferable by the option holder except by will or applicable laws of descent and distribution.
  - (iii) **Exercise.** During the lifetime of an option holder, option the 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, except as the Committee may otherwise determine and provide for in an option agreement at the time of grant or, if the Committee does not so provide, as follows:
    - (a) **Disability.** In the event of disability of an option holder, options may be exercised by such individual or his or her guardian or legal representative, not later than the earlier of the date the option expires or one year after the date employment or performance of services ceases by reason of disability, but only with respect to an option exercisable at the time employment or performance of services ceases.
    - (b) **Death.** An option may be exercised after the death of an option holder 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) **Retirement.** An option may be exercised by an option holder after such individual ceases to be an employee by reason of retirement for up to four years after the date of retirement but not later than the date the option expires. Retirement shall have the meaning established by the Committee from time to time or, if no such meaning is established, shall mean termination of employment with the Company at

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an age and with a number of years of service to the Company which, when added together, equal at least 65.

(d) *Other Termination of Employment.* An option may be exercised by an option holder after such individual ceases to be an employee (for reasons other than disability, death or retirement) for up to three months after the date of termination of employment but not later than the date the option expires.

(iv) *Non-compete.* Notwithstanding any other provision of paragraph 3.e., if within one year after the termination of employment with or performance of services for the Company, an option holder is (a) employed or retained by or renders service to any organization that, directly or indirectly, competes with or becomes competitive with the Company, or if the rendering of such services is prejudicial or in conflict with the interests of the Company, or (b) violates any confidentiality agreement or agreement governing the ownership or assignment of intellectual property rights with the Company, or (c) engages in any other conduct or act determined to be injurious, detrimental or prejudicial to any interest of the Company, the Company may cancel or rescind or restrict all options held by such individual and shall have the right to the 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 that is twelve months prior to the date of termination to the date of the last exercise, provided however, that this provision shall not be applicable in the event of a Change of Control.

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

- f. **Methods of Exercise and Payment of Exercise Price.** 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) by tendering (either actually or by attestation) shares of Common Stock already owned for at least six months (or other period necessary to avoid a charge to the Company's earnings for financial statement purposes) 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; or the Committee may also, in its sole discretion exercised either at the time the option is granted or at any time before an option is exercised, (iv) permit option holders to deliver a notice of exercise of options, together with irrevocable instructions, approved in advance by proper officers of the Company, (A) to a brokerage firm designated by the Company, to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the exercise price and any related tax withholding obligations and (B) to the Company, to deliver certificates for such purchased shares directly to such brokerage firm, all in accordance with regulations of the Federal Reserve Board; or (v) authorize such other methods as it deems appropriate and as comply with requirements of the Code, the Securities Exchange Act of 1934 (the Exchange Act) and other applicable laws and regulations. No shares of Common Stock shall be issued



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until full payment 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 that 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. **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 the option is exercised and shares of Common Stock are issued. 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.
4. **Common Stock Subject to the Plan.** Subject to adjustment to reflect corporate transactions provided for in this paragraph 4.a. 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 4,000,000. If any option granted under the Plan 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 under the Plan 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.
- a. **Adjustments for Corporate Transactions.** In the event of a corporate transaction involving the Company (including, without limitation, any merger, consolidation, recapitalization, reorganization, split off, spin off, reclassification, combination, stock dividend, stock split, reverse stock split, repurchase, exchange, extraordinary cash dividend, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or 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), the Committee shall make such proportional adjustments as are necessary to preserve the benefits or potential benefits of the options. Action by the Committee may include appropriate adjustments in all or any of (i) the number of shares of the Common Stock or other new or different securities that may be available for option grants under the Plan; (ii) the number of shares of Common Stock or other new or different securities subject to outstanding options; (iii) the option price per share of

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outstanding options and, if deemed appropriate, cash payments; (iv) the maximum number and kind of securities that may be made subject to options for any individual as set forth in paragraph 2.a.; or (v) any other adjustment the Committee determines to be equitable. The Committee may also, in its sole discretion, make provisions in any option agreement for the protection of outstanding options in the event of such a corporate transaction.

5. **Administration of the Plan.** The Plan shall be administered by the Committee, provided that members of the Committee shall be non-employee directors as contemplated by Rule 16b-3 under the Exchange Act or any successor rule and shall qualify to administer the Plan as outside directors as contemplated by Section 162(m) of the Internal Revenue Code and the regulations thereunder ( Section 162(m) ). The Committee may delegate administrative duties and all decisions not required to be exercised by it under Section 162(m), Section 16 of the Exchange Act or the rules of the New York Stock Exchange to an officer of the Company. 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, including the Company, its stockholders and option holders. No member of the Board or of the Committee shall be liable for any action taken or determination made in good faith with respect to the Plan or any option granted under the Plan.

Subject to the express provisions of the Plan, the Committee shall have authority, in its discretion, to grant options; 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 to make all other determinations deemed necessary or advisable for the administration of the Plan.

6. **Foreign Nationals and Residents of California.**

a. **Foreign Nationals.** Without amending the Plan, options 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 purposes of the Plan.

b. **California Residents.** Without amending the Plan, and notwithstanding any provision of the Plan to the contrary, options granted to individuals who are residents of the State of California may contain such terms and conditions as may be required by applicable California statutes governing stock options.

7. **Change of Control.** In the event of a Change of Control of the Company as hereinafter defined, whether or not approved by the Board, 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 Change of Control, but not later than ten years after the date of grant.

a. **Definition.** For the purpose of this paragraph 7, a Change of Control shall mean:

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(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a Person ) of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 15% or more of either (A) the then-outstanding shares of Common Stock of the Company (the Outstanding Company Common Stock ) or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities ); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (D) any acquisition by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of subsection (iii) of this paragraph 7; or

(ii) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the Incumbent Board ) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation of a reorganization, merger or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company or the acquisition by the Company of assets or stock of another entity (a Business Combination ), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 15% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then-outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action

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of the Board, providing for such Business Combination; or

(iv) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

8. **Tax Withholding.** 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 require the option holder to pay the amount of any such taxes 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. The Company may also deduct from any such settlement any other amounts due the Company by the option holder.
9. **Governing Law.** The Plan, options granted under the Plan and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan or an agreement to the substantive law of another jurisdiction.
10. **Plan Amendment and Termination.** The Board may amend, suspend or terminate the Plan at any time, with or without advance notice to option holders, 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 that (a) would increase the maximum number of shares that may be subjected to options or that may be granted to any person referred to in Section 162(m) or that would modify requirements as to eligibility for participation in the Plan, unless the stockholders of the Company shall have approved such amendment in accordance with applicable provisions of the Code, or (b) requires stockholder approval under any other law or regulation. No amendment, modification or termination of the Plan may 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. **Effective Date and Duration of the Plan.** The Plan first became effective on March 29, 2000. Any amendment to the Plan shall be effective on the date established by the Committee, subject to stockholder approval, if required. The Plan shall remain in effect until all shares reserved for issuance pursuant to the Plan have been purchased pursuant to options granted under the Plan, provided that options under the Plan must be granted not later than ten years after the effective date of the Plan or any future amendment approved by stockholders.

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**THE TORO COMPANY**  
**ANNUAL MEETING OF STOCKHOLDERS**

**Tuesday, March 15, 2005**  
**3:00 p.m. C.S.T.**

**The Toro Company**  
**8111 Lyndale Avenue South**  
**Bloomington, MN 55420**

**proxy**

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**This Proxy is solicited on behalf of the Board of Directors for use at the Annual Meeting on March 15, 2005.**

The shares of stock held in your account or in a dividend reinvestment account will be voted as you specify below or by telephone or Internet. Shares held in employee benefit plans for which a proxy is not received will be voted by the trustee in the same proportion as votes actually cast by plan participants.

**If no choice is specified, the proxy will be voted FOR Items 1, 2, 3, 4, 5, 6 and 7.**

By signing, dating and returning this proxy card, you revoke all prior proxies, including any proxy previously given by telephone or Internet, and appoint K. B. Melrose and J. L. McIntyre, or either of them, with full power of substitution to vote your shares on the matters shown on the reverse side and any other matter which may properly come before the Annual Meeting and all adjournments.

*See reverse for voting instructions.*

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**There are three ways to vote your Proxy**

**Your telephone or Internet vote authorizes K. B. Melrose and J. L. McIntyre, or either of them (the Named Proxies), to vote your shares in the same manner as if you marked, signed, dated and returned your proxy card.**

**COMPANY #**

**VOTE BY TELEPHONE TOLL FREE 1-800-560-1965 QUICK « ««EASY « «« IMMEDIATE**

Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on March 14, 2005.

Please have your proxy card and the last four digits of your Social Security Number or taxpayer identification number available. Follow the simple instructions the voice provides you.

**VOTE BY INTERNET <http://www.eproxy.com/ttc/> QUICK « ««EASY « «« IMMEDIATE**

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on March 14, 2005.

Please have your proxy card and the last four digits of your Social Security Number or taxpayer identification number available. Follow the simple instructions to obtain your records and create an electronic ballot.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to The Toro Company c/o Shareowner Services<sup>SM</sup>, P.O. Box 64873, St. Paul, MN 55164-0873.

**If you vote by telephone or Internet, please do not mail your proxy card**

**The Board of Directors Recommends a Vote FOR Items 1, 2, 3, 4, 5, 6 and 7.**

- 1. Approve amendment of Amended and Restated Certificate of Incorporation to increase the authorized shares.       For     Against     Abstain
- 2. Approve amendment of Amended and Restated Certificate of Incorporation to increase size of board.       For     Against     Abstain

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|----|------------------------|-----------------|-----------------|---|---|---|--|
| 3. | Election of directors: | 01 R.O. Baukol  | 03 M.J. Hoffman | o | Vote FOR<br>all nominees<br>(except as<br>marked) | o | Vote<br>WITHHELD<br>from all<br>nominees |
|    |                        | 02 K.J. Harless | 04 D.R. Olseth  |   |   |   |  |

**(Instructions: To withhold authority to vote for one or more nominees, write the number(s) of the nominee(s) in the box provided to the right. If you do not withhold authority to vote for one or more nominee, your proxy shall be deemed to grant such authority.)**

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|----|--|-----------------------|-----|-----------------------|---------|-----------------------|---------|
| 4. | Approve amendments of Annual Management Incentive Plan II.   | <input type="radio"/> | For | <input type="radio"/> | Against | <input type="radio"/> | Abstain |
| 5. | Approve amendment of The Toro Company 2000 Stock Option Plan.  | <input type="radio"/> | For | <input type="radio"/> | Against | <input type="radio"/> | Abstain |
| 6. | Ratify selection of independent auditors for Fiscal 2005.  | <input type="radio"/> | For | <input type="radio"/> | Against | <input type="radio"/> | Abstain |
| 7. | To transact any other business properly brought before the Annual Meeting or any adjournment of the meeting. | <input type="radio"/> | For | <input type="radio"/> | Against | <input type="radio"/> | Abstain |

**THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR EACH PROPOSAL.**

Address Change? Mark Box   
 Indicate changes below:  
 Date\_\_\_\_\_

**Signature(s) in Box**

Please sign exactly as your name(s) appear on this Proxy. If held in joint tenancy, all persons must sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the proxy.