UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended May 3, 2002 Commission File Number 1-8649

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

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

8111 LYNDALE AVENUE SOUTH
BLOOMINGTON, MINNESOTA 55420
TELEPHONE NUMBER: (952) 888-8801

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

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

Yes X No

The number of shares of Common Stock outstanding as of May 31, 2002 was 12,467,890.

THE TORO COMPANY
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PART I. ITEM 1. FINANCIAL INFORMATION

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

	Three Months Ended		Six Months Ended	
	May 3, 2002	May 4, 2001	May 3, 2002	May 4, 2001
Net sales	$ 470,314	$ 459,613	$ 748,229	$ 739,963
Cost of sales	308,262	302,583	490,870	491,552
Gross profit	162,052	157,030	257,359	248,411
Selling, general, and administrative expense	104,265	101,445	193,277	189,063
Restructuring and other expense (income)	-	-	9,953	(679)
Earnings from operations	57,787	55,585	54,129	60,027
Interest expense	(5,248)	(6,437)	(10,568)	(11,713)
Other income (expense), net	1,734	(1,439)	3,068	1,464
Earnings before income taxes and cumulative effect of change in accounting principle	54,273	47,709	46,629	49,778
Provision for income taxes	16,135	17,652	13,612	18,418
Earnings before cumulative effect of change in accounting principle	38,138	30,057	33,017	31,360
Cumulative effect of change in accounting principle, net of income tax benefit of $509	-	-	(24,614)	-
Net earnings	$ 38,138	$ 30,057	$ 8,403	$ 31,360
Basic net earnings per share of common stock, before cumulative effect of change in accounting principle	$ 3.03	$ 2.34	2.63	$ 2.45
Cumulative effect change in accounting principle, net of income tax benefit	-	-	(1.96)	-
Basic net earnings per share of common stock	$ 3.03	$ 2.34	$ .67	$ 2.45
Dilutive net earnings per share of common stock, before cumulative effect of change in accounting principle	$ 2.91	$ 2.28	$ 2.56	$ 2.38
Cumulative effect of change in accounting principle, net of income tax benefit	-	-	(1.91)	-
Dilutive net earnings per share of common stock	$ 2.91	$ 2.28	$ 0.65	2.38
Weighted average number of shares of common stock outstanding - Basic	12,597	12,827	12,548	12,789
Weighted average number of shares of common stock outstanding - Dilutive	13,093	13,205	12,919	13,150

See accompanying notes to condensed consolidated financial statements.

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

	May 3, 2002	May 4, 2001	October 31, 2001
ASSETS			
Cash and cash equivalents	$ 62	$ 1,191	$ 12,876
Receivables, net	463,886	458,822	271,677
Inventories, net	235,366	239,443	234,661
Prepaid expenses and other current assets	9,259	8,812	11,052
Deferred income taxes	39,200	44,960	33,927
Total current assets	747,773	753,228	564,193
Property, plant, and equipment	423,253	387,495	401,943
Less accumulated depreciation	272,733	249,983	259,698
	150,520	137,512	142,245
Deferred income taxes	9,721	9,883	9,721
Other assets	14,481	12,694	11,983
Goodwill	77,839	104,802	102,924
Other intangible assets	2,186	4,809	4,608
Total assets	$ 1,002,520	$ 1,022,928	$ 835,674
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of long-term debt	$ 16,274	$ 21	$ 513
Short-term debt	130,238	178,189	34,413
Accounts payable	90,170	77,131	77,549
Accrued liabilities	221,852	227,345	180,092
Total current liabilities	458,534	482,686	292,567
Long-term debt, less current portion	178,781	194,432	194,565
Other long-term liabilities	7,221	7,022	7,149
Stockholders' equity:			
Preferred stock, par value $1.00, authorized 1,000,000 voting and 850,000 non-voting shares, none issued and outstanding	-	-	-
Common stock, par value $1.00, authorized 35,000,000 shares, issued and outstanding 12,464,085 shares at May 3, 2002 (net of 1,043,970 treasury shares), 12,540,204 shares at May 4, 2001 (net of 967,851 treasury shares), and 12,266,045 shares at October 31, 2001 (net of 1,242,010 treasury shares)	12,464	12,540	12,266
Additional paid-in capital	39,459	40,762	29,048
Retained earnings	318,453	296,995	313,067
Accumulated other comprehensive loss	(12,392)	(11,509)	(12,988)
Total stockholders' equity	357,984	338,788	341,393
Total liabilities and stockholders' equity	$ 1,002,520	$ 1,022,928	$ 835,674

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	May 3, 2002	May 4, 2001
Cash flows from operating activities:		
Net earnings	$ 8,403	$ 31,360
Adjustments to reconcile net earnings to net cash used in operating activities:		
Cumulative effect of change in accounting principle	24,614	-
Noncash asset impairment write-off	4,163	-
Provision for depreciation and amortization	14,067	16,672
Write-down of investments	-	1,778
Gain on disposal of property, plant, and equipment	(27)	(51)
Increase in deferred income taxes	(5,274)	(5,246)
Tax benefits related to employee stock option transactions	1,245	4,501
Changes in operating assets and liabilities:		
Receivables, net	(192,209)	(195,290)
Inventories, net	(705)	(41,317)
Prepaid expenses and other current assets	1,549	3,409
Accounts payable and accrued liabilities	56,214	56,608
Net cash used in operating activities	(87,960)	(127,576)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(20,914)	(16,122)
Proceeds from asset disposals	141	2,098
Decrease in investment in affiliates	-	141
Increase in other assets	(3,185)	(1,372)
Acquisition, net of cash acquired	-	(6,189)
Net cash used in investing activities	(23,958)	(21,444)
Cash flows from financing activities:		
Increase in short-term debt	95,825	166,602
Repayments of long-term debt	(23)	(42)
Increase in other long-term liabilities	72	199
Proceeds from exercise of stock options	10,748	14,586
Purchases of common stock	(5,311)	(29,126)
Dividends on common stock	(3,017)	(3,093)
Net cash provided by financing activities	98,294	149,126
Foreign currency translation adjustment	810	107
Net (decrease) increase in cash and cash equivalents	(12,814)	213
Cash and cash equivalents at beginning of period	12,876	978
Cash and cash equivalents at end of period	$ 62	$ 1,191

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MAY 3, 2002

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. Unless the context indicates otherwise, the terms "company" and "Toro" refer to The Toro Company and its subsidiaries. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting primarily of recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. Since the company's business is seasonal, operating results for the six months ended May 3, 2002 are not indicative of the results that may be expected for the fiscal year ending October 31, 2002. Certain amounts from prior period's financial statements have been reclassified to conform to this period's presentation.

The company's fiscal year ends on October 31, and quarterly results are reported based on three month periods that generally end on the Friday closest to the quarter end. For comparative purposes, however; the company's second and third quarters always include exactly 13 weeks of results so that the quarter end date for these two quarters is not necessarily the Friday closest to the quarter end.

For further information, refer to the consolidated financial statements and notes included in the company's Annual Report on Form 10-K for the fiscal year ended October 31, 2001. The policies described in that report are used for preparing quarterly reports.

Accounting Policies

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management must make a variety of decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of appropriate accounting principles to be applied and assumptions on which to base accounting estimates. In reaching such decisions, management makes judgments based on its understanding and analysis of the relevant circumstances. Note 1 to the consolidated financial statements in the company's Annual Report on Form 10-K provides a summary of the significant accounting policies followed in the preparation of the financial statements. Other footnotes in the company's Annual Report on Form 10-K describe various elements of the financial statements and the assumptions made in determining specific amounts. While actual results could differ from those estimated at the time of preparation of the consolidated financial statements, management is committed to preparing financial statements which incorporate accounting policies, assumptions, and estimates that promote the representational faithfulness, verifiability, neutrality, and transparency of the accounting information included in the consolidated financial statements.

Inventories

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

Inventories were as follows:

(Dollars in thousands)	May 3, 2002	May 4, 2001	October 31, 2001
Raw materials and work in process	$ 72,305	$ 77,503	$ 70,458
Finished goods and service parts	208,289	203,666	207,231
	280,594	281,169	277,689
Less: LIFO	29,264	27,861	29,264
Other reserves	15,964	13,865	13,764
Total	$ 235,366	$ 239,443	$ 234,661

Restructuring and Other Expense (Income)

In the first quarter of fiscal 2002, the company announced plans to close its Evansville, Indiana and Riverside, California manufacturing facilities during fiscal 2002. Approximately 500 employees will be terminated in connection with closing these manufacturing facilities and related office staff reductions. As of May 3, 2002, 27 employees have been terminated. In addition, the company will incur ongoing costs after the facilities are closed and until they are sold, which is captioned in "other" below. These actions are part of Toro's overall long-term strategy to reduce production costs and improve long-term competitiveness. The company also incurred a charge for asset impairment related to write-downs of patents and non-compete agreements during the first quarter of fiscal 2002.

The following is an analysis of the company's restructuring and other expense reserve accounts:

(Dollars in thousands)	Asset Impairment	Severance & Benefits	Other	Total
Balance as of October 31, 2001	$ 200	$ -	$ 45	$ 245
Initial charge	4,163	3,527	2,263	9,953
Utilization	(2,032)	(410)	-	(2,442)
Balance at May 3, 2002	$ 2,331	$ 3,117	$ 2,308	$ 7,756

The company expects a majority of the reserve will be utilized by October 31, 2002.

Cumulative Effect of Change in Accounting Principle

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also provides new criteria in the determination of intangible assets, including goodwill acquired in a business combination, and expands financial disclosures concerning business combinations consummated after June 30, 2001. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized but instead tested for impairment at least annually at the reporting unit level using a two-step impairment test. The application of SFAS No. 141 did not affect previously reported amounts included in goodwill and other intangible assets for the company.

Effective November 1, 2001, the company adopted SFAS No. 142. SFAS No. 142 provides a six-month transitional period from the effective date of adoption for the company to perform an assessment of whether there is an indication that goodwill is impaired. To the extent that an indication of impairment exists, the company must perform a second test to measure the amount of the impairment. The company tested for impairment of its reporting units by comparing fair value to carrying value. Fair value was determined using a discounted cash flow and cost methodology. The company employed a third-party appraisal firm in determining the fair value of its agricultural irrigation reporting unit. This evaluation indicated that all the goodwill recorded for several acquisitions in the agricultural irrigation market was impaired. The performance of these acquired businesses has not met management's original expectations. This is mainly due to lower than anticipated growth rates in the drip line market, which has resulted in lower industry-wide pricing and margins on product sales. Accordingly, noncash impairment charges on adoption of SFAS No. 142 of $24.6 million, net of income tax benefit of $.5 million, were recognized as a cumulative effect of change in accounting principle in the first quarter ended February 1, 2002. Impairment adjustments recognized after adoption, if any, generally are required to be recognized as operating expenses, captioned in selling, general, and administrative expense.

Comprehensive Income

Comprehensive income and the components of other comprehensive income (loss) were as follows:

(Dollars in thousands)	Three Months Ended May 3, 2002	Three Months Ended May 4, 2001	Six Months Ended May 3, 2002	Six Months Ended May 4, 2001
Net earnings	$ 38,138	$ 30,057	$ 8,403	$ 31,360
Other comprehensive income (loss):				
Foreign currency translation	836	(790)	810	107
Unrealized gain (loss) on derivative instruments	38	131	(214)	2
Comprehensive income	$ 39,012	$ 29,398	$ 8,999	$ 31,469

Net Earnings Per Share

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

Basic (Shares in thousands)	Three Months Ended May 3, 2002	Three Months Ended May 4, 2001	Six Months Ended May 3, 2002	Six Months Ended May 4, 2001
Weighted average number of shares of common stock outstanding	12,597	12,827	12,533	12,771
Assumed issuance of contingent shares	-	-	15	18
Weighted average number of shares of common stock and assumed issuance of contingent shares	12,597	12,827	12,548	12,789

Dilutive (Shares in thousands)	Three Months Ended May 3, 2002	Three Months Ended May 4, 2001	Six Months Ended May 3, 2002	Six Months Ended May 4, 2001
Weighted average number of shares of common stock and assumed issuance of contingent shares	12,597	12,827	12,548	12,789
Assumed conversion of stock options	496	378	371	361
Weighted average number of shares of common stock, assumed issuance of contingent shares, and assumed conversion of stock options	13,093	13,205	12,919	13,150

Segment Data

The presentation of segment information reflects the manner in which management organizes segments for making operating decisions and assessing performance. On this basis, the company has determined it has three reportable business segments: Professional, Residential, and Distribution. The other segment consists of corporate activities, including corporate financing activities and elimination of intersegment revenues and expenses.

Segment Data (continued)

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

(Dollars in thousands) Three months ended May 3, 2002	Professional	Residential	Distribution	Other	Total
Net sales	$ 290,201	$169,735	$44,144	$(33,766)	$ 470,314
Intersegment gross sales	31,373	6,471	-	(37,844)	-
Earnings (loss) before income taxes	53,217	20,071	1,736	(20,751)	54,273
Three months ended May 4, 2001					
Net sales	$ 294,771	$155,551	$42,281	$(32,990)	$ 459,613
Intersegment gross sales	32,660	4,905	-	(37,565)	-
Earnings (loss) before income taxes	49,485	18,381	1,271	(21,428)	47,709

Six months ended May 3, 2002	Professional(1)	Residential(2)	Distribution	Other	Total
Net sales	$ 465,966	$261,951	$68,373	$(48,061)	$ 748,229
Intersegment gross sales	47,040	7,721	-	(54,761)	-
Earnings (loss) before income taxes	62,297	27,777	(351)	(43,094)	46,629
Total assets	488,136	201,120	69,450	243,814	1,002,520
Six months ended May 4, 2001					
Net sales	$ 478,385	$244,878	$60,513	$(43,813)	$ 739,963
Intersegment gross sales	45,193	5,856	-	(51,049)	-
Earnings (loss) before income taxes	67,556	24,873	(1,309)	(41,342)	49,778
Total assets	513,934	156,698	58,458	293,838	1,022,928

(1) Includes restructuring and other expense of $10.0 million in fiscal 2002.
(2) Includes restructuring and other expense (income) of $(0.7) million in fiscal 2001.

The following table presents the details of the other segment earnings (loss) before income taxes:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	May 3, 2002	May 4, 2001	May 3, 2002	May 4, 2001
Corporate expenses	$(18,268)	$(17,936)	$(39,517)	$(36,357)
Finance charge revenue	1,249	1,689	2,317	3,010
Elimination of corporate financing expense	4,423	4,551	7,038	7,230
Interest expense, net	(5,248)	(6,437)	(10,568)	(11,713)
Other expense	(2,907)	(3,295)	(2,364)	(3,512)
Total	$(20,751)	$(21,428)	$(43,094)	$(41,342)

Goodwill

As described previously, the company adopted SFAS No. 142 as of November 1, 2001. The following table reflects the consolidated results adjusted as though the adoption of SFAS No. 142 occurred as of the beginning of the six month period ended May 4, 2001:

(Dollars in thousands, except per share data)	Three Months Ended May 3, 2002	Three Months Ended May 4, 2001	Six Months Ended May 3, 2002	Six Months Ended May 4, 2001
Net earnings:				
As reported	$ 38,138	$ 30,057	$ 8,403	$ 31,360
Goodwill amortization, net of tax	-	2,813	-	4,256
Adjusted net earnings	$ 38,138	$ 32,870	$ 8,403	$ 35,616
Basic net earnings per share:				
As reported	$ 3.03	$ 2.34	$ 0.67	$ 2.45
Goodwill amortization, net of tax	-	0.22	-	0.33
Adjusted basic net earnings per share	$ 3.03	$ 2.56	$ 0.67	$ 2.78
Diluted net earnings per share:				
As reported	$ 2.91	$ 2.28	$ 0.65	$ 2.38
Goodwill amortization, net of tax	-	0.21	-	0.32
Adjusted diluted net earnings per share	$ 2.91	$ 2.49	$ 0.65	$ 2.70

The changes in the net carrying amount of goodwill for the first six months of fiscal 2002 were as follows:

(Dollars in thousands)	Professional Segment	Residential Segment	Total
Balance as of October 31, 2001	$ 94,050	$ 8,874	$ 102,924
Impairment charge	(25,123)	-	(25,123)
Translation adjustment	11	27	38
Balance as of May 3, 2002	$ 68,938	$ 8,901	$ 77,839

Other Intangible Assets

During the first quarter of fiscal 2002, the company determined that the patents and non-compete agreements related to the agricultural irrigation market were impaired. This impairment charge of $2.0 million was recognized as part of restructuring and other expense during the first quarter of fiscal 2002.

The components of other amortizable intangible assets were as follows:

(Dollars in thousands)	May 3, 2002 Gross Carrying Amount	May 3, 2002 Accumulated Amortization	October 31, 2001 Gross Carrying Amount	October 31, 2001 Accumulated Amortization
Patents	$ 6,104	$ (4,444)	$ 7,104	$ (4,501)
Non-compete agreements	800	(319)	3,183	(1,285)
Other	800	(755)	1,197	(1,090)
Total	$ 7,704	$ (5,518)	$ 11,484	$ (6,876)
Total other intangible assets, net	$ 2,186		$ 4,608	

Amortization expense for intangible assets during the first six months of fiscal 2002 was $0.4 million. Estimated amortization expense for the remainder of fiscal 2002 and succeeding fiscal years are as follows ($ in thousands): 2002 (remainder), $286; 2003, $479; 2004, $357; 2005, $337; 2006, $337; 2007, $182 and beyond 2008, $208.

Derivative Instruments and Hedging Activities

The company uses derivative instruments to manage exposure to foreign currency. Toro uses derivatives only in an attempt to limit underlying exposure to currency fluctuations, and not for trading purposes. The company maintains a record of each hedging instrument and the items it hedges, as well as the risk-management objective and strategy for undertaking the particular hedge. The company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged item.

The company enters into foreign currency exchange contracts to hedge the risk from forecasted settlement in local currencies of trade sales. These contracts are designated as cash flow hedges with the fair value recorded in accumulated comprehensive income (loss) and as a hedge asset or liability in prepaid expenses or accrued liabilities, as applicable. Once the forecasted transaction has been recognized as a sale and a related asset recorded in the balance sheet, the related fair value of the derivative hedge contract is reclassified from accumulated comprehensive income (loss) into earnings. During the quarter ended May 3, 2002, the amount of adjustments to earnings for such cash flow hedges was immaterial. At May 3, 2002, the amount of such contracts outstanding was $9.2 million. The unrecognized after-tax loss portion of the fair value of the contracts recorded in accumulated comprehensive income (loss) at May 3, 2002 was immaterial.

The company enters into foreign currency exchange contracts to hedge the risk from forecasted settlement in local currencies of trade purchases. These contracts are designated as cash flow hedges with the fair value recorded in accumulated comprehensive income (loss) and as a hedge asset or liability in prepaid expenses or accrued liabilities, as applicable. Once the forecasted transaction has been recognized as a purchase and a related liability recorded in the balance sheet, the related fair value of the derivative hedge contract is reclassified from accumulated comprehensive income (loss) into earnings. During the quarter ended May 3, 2002, the amount of adjustments to earnings for such cash flow hedges was immaterial. At May 3, 2002, the amount of such contracts outstanding was $3.0 million. The unrecognized after-tax loss portion of the fair value of the contracts recorded in accumulated comprehensive income (loss) at May 3, 2002 was immaterial.

The company also enters into foreign currency exchange contracts to hedge the risk from forecasted settlement in local currencies of intercompany sales. Some of these transactions and other foreign currency exchange contracts do not meet the accounting rules established under SFAS No. 133 of recording the unrecognized after-tax gain or loss portion of the fair value of the contracts in accumulated comprehensive income (loss). Therefore, the related fair value of the derivative hedge contract is recognized in earnings.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses the diverse accounting practices for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The company plans to adopt the provisions of SFAS No. 143 during the first quarter of fiscal 2003, as required. Management expects that the adoption of SFAS No. 143 will not have a material impact on the company's financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement establishes a single accounting model for the impairment or disposal of long-lived assets. The company plans to adopt the provisions of SFAS No. 144 during the first quarter of fiscal 2003, as required. Management expects that the adoption of SFAS No. 144 will not have a material impact on the company's financial statements.

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

FORWARD-LOOKING INFORMATION

Safe Harbor Statement. This Quarterly Report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are not historical are forward-looking and reflect expectations about future company performance. In addition, forward-looking statements may be made orally or in press releases, conferences, reports, on Toro's worldwide web site, or otherwise, in the future by or on behalf of the company. When used by or on behalf of the company, the words "expect", "anticipate", "estimate", "believe", "intend", and similar expressions generally identify forward-looking statements.

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses operating in a global market, as well as matters specific to the company and the markets it serves. Particular risks and uncertainties that could affect the company's overall financial position include slower growth in the global and domestic economies; economic uncertainty created by the threat of terrorist acts and war, which may result in reductions in consumer spending, including spending for travel and golf, and heightened security for import and export shipments of components and finished goods; the company's customers' ability to pay amounts owed to Toro; inability to achieve earnings growth in fiscal 2002 (excluding the effect of the change in reporting goodwill and announced restructuring plans) above fiscal 2001; inability to increase fiscal 2002 revenue above fiscal 2001; inability to achieve goals of the "5 by Five" profit improvement program, which means achieving an after-tax return on sales of five percent by fiscal 2003; the company's ability to develop and manufacture new and existing products based on anticipated investments in manufacturing capacity and engineering; market acceptance of existing and new products relative to expectations and based on current commitments to fund advertising and promotions; increased competition in the company's businesses from competitors that have greater financial resources, including competitive pricing pressures; financial viability of some distributors and dealers; the company's ability to acquire, develop, and integrate new businesses and manage alliances successfully; changes in distributor ownership; changes in distributors', dealers', home centers', or mass retailers' purchasing practices, especially elimination or reduction of shelf space for Toro's products; the company's ability to cost-effectively expand existing, open new, move production between, and close manufacturing facilities; the company's ability to manage costs and capacity constraints at its manufacturing facilities; the company's ability to manage inventory levels and fully realize recorded inventory value; the impact of unexpected trends in warranty claims or unknown product defects; the ability to retain and hire quality employees; threatened or pending litigation on matters relating to patent infringement, employment, and commercial disputes; the impact of new accounting standards; and the risk that these uncertainties could affect the impact of critical accounting policies and estimates.

Particular risks and uncertainties facing the company's professional segment at the present include slower growth in both global and domestic economies that has been important to the growth of the company's professional businesses, including the golf and landscape contractor markets; management of field inventory levels; market acceptance of new products; unforeseen product quality problems; the degree of success related to the announced restructuring and plant consolidations; a slower growth rate in new golf course construction or existing golf course renovations; a slower growth rate in the number of new golfers, which slows new golf course construction; a potential slowdown in new home construction; a potential slowdown in the trend to outsource lawn maintenance to landscape contractors; challenges of establishing new dealers for the Sitework Systems product line; and the degree of success in reducing costs and management changes in the agricultural irrigation market business.

Particular risks and uncertainties facing the company's residential segment at the present time include inflationary pressures and slower economic growth; a decline in consumer spending for higher-priced products; a decline in retail sales; a weaker than expected market response to new products and potential sales decline for existing product categories; unforeseen product quality problems; degree of financial success related to the new moderate-priced walk power mowers and related capital investments for a new production facility to satisfy expected increase in demand for this product and the increased dependence on The Home Depot as a customer; changing buying patterns, including but not limited to a trend away from purchases at dealer outlets to price and value sensitive purchases at hardware retailers, home centers, and mass retailers; loss of, or a significant reduction in, sales through a significant distribution channel or customer, particularly as the company's residential segment is more dependent on home center sales; and a potential slowdown in home sales.

Particular risks and uncertainties facing the company's international business at the present include weak economic conditions in the European market; heightened security for import and export shipments of components or finished goods, including delays at border crossings, especially with Mexico; the cost of price support provided to international customers and suppliers; internal and external conflicts in or between foreign countries and economic recession in countries that are markets for Toro; currency fluctuations of the dollar against the euro, Japanese yen, Australian dollar, British pound, Canadian dollar, and Mexican peso; and tax law changes.

Particular risks and uncertainties facing the company's distribution segment at the present include inflationary pressures and slower economic growth; a decline in retail sales; viability of dealers; degree of success related to operation restructuring, including technology and facility investments in the distribution companies; ability to capture national account business; purchasing practices of national accounts; a slower growth rate in new golf course construction or existing golf course renovations; successful integration of acquired distribution companies; impact of Toro pricing on some product lines sold through the distribution companies; ability to successfully implement a just-in-time inventory initiative; and unforeseen product quality problems.

In addition, the company is subject to risks and uncertainties facing its industry in general, including changes in business, financial, and political conditions and the economy in general in both foreign and domestic markets; the uncertainty of the economic effect from terrorists' actions and the war on terrorism; weather conditions affecting demand, including warm winters and wet or cold spring and dry summer weather; a slowing in housing starts or new golf course starts; inability to raise prices of products due to market conditions; changes in market demographics; actions of competitors; seasonal factors in the company's industry; unforeseen litigation; government action, including budget levels, regulation, and legislation, primarily legislation relating to the environment, commerce, infrastructure spending, health, and safety; imposition of new tariffs on commodities, such as steel; availability of raw materials and unforeseen price fluctuations for commodity raw materials; and the company's ability to maintain good relations with its employees.

The company wishes to caution readers not to place undue reliance on any forward-looking statement and to recognize that the statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others not now anticipated. The foregoing statements are not exclusive and further information concerning the company and its businesses, including factors that potentially could materially affect the company's financial results, may emerge from time to time. Toro assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

RESULTS OF OPERATIONS

Second quarter net sales were $470.3 million compared to $459.6 million last year, an increase of 2.3 percent. Year-to-date net sales were up slightly by 1.1 percent. Residential segment net sales, led by initial stocking and positive reaction to the new moderate-priced line of Toro walk power mowers, contributed to the increase. Worldwide sales for the professional segment were down for the second quarter and year-to-date compared to last year due primarily to Toro's as well as customers' efforts to reduce field inventory levels. Distribution segment sales were higher than last year due to the addition of revenues of a distribution company acquired in the second half of fiscal 2001, which also contributed to the unfavorable change in the other segment due to the sales elimination increase. International sales were up for the second quarter due in part to stronger than expected demand in the Asian golf market during the second quarter. However, international net sales are down for the year due to economic uncertainties in foreign markets. Disregarding currency effects, international sales were up 4.0 percent for the second quarter and down slightly year-to-date by 0.9 percent.

The following table summarizes net sales by segment:

	Three Months Ended			
(Dollars in thousands)	May 3, 2002	May 4, 2001	$ Change	% Change
Professional	$ 290,201	$ 294,771	$ (4,570)	(1.6)%
Residential	169,735	155,551	14,184	9.1
Distribution	44,144	42,281	1,863	4.4
Other	(33,766)	(32,990)	(776)	(2.4)
Total *	$ 470,314	$ 459,613	$ 10,701	2.3%
* Includes international net sales of:	$ 86,279	$ 83,651	$ 2,628	3.1%

	Six Months Ended			
(Dollars in thousands)	May 3, 2002	May 4, 2001	$ Change	% Change
Professional	$ 465,966	$ 478,385	$ (12,419)	(2.6)%
Residential	261,951	244,878	17,073	7.0
Distribution	68,373	60,513	7,860	13.0
Other	(48,061)	(43,813)	(4,248)	(9.7)
Total *	$ 748,229	$ 739,963	$ 8,266	1.1%
* Includes international net sales of:	$ 149,374	$ 152,384	$ (3,010)	(2.0)%

Second quarter net earnings for fiscal 2002 were $36.4 million before a one-time tax refund of $1.8 million compared to $32.9 million in the second quarter of fiscal 2001, which excludes goodwill amortization. This increase of 10.6 percent was due primarily to higher sales, an improvement in gross profit margins, lower interest expense, and an increase in other income, net, somewhat offset by an increase in warranty expense. Year-to-date net earnings in fiscal 2002 were $8.4 million, which includes a cumulative effect of change in accounting principle of $24.6 million for the goodwill write-off related to the adoption of SFAS No. 142 as well as restructuring and other expense of $10.0 million and a one-time tax refund of $1.8 million. Dilutive net earnings per share before cumulative effect of change in accounting principle, restructuring and other expense (income), a one-time tax refund and excluding goodwill amortization for the first six months of fiscal 2001, were $2.93 in the first six months of fiscal 2002 compared to $2.67 in the first six months of fiscal 2001, an increase of 9.7 percent. The increase was due to the same reasons as in the quarter comparison.

The following table summarizes the changes in net earnings and dilutive earnings per share data, net of tax effect:

	Three Months Ended			
	May 3, 2002		May 4, 2001	
	Dollars (in thousands)	Dilutive per Common Share	Dollars (in thousands)	Dilutive per Common Share
Net earnings	$ 38,138	$ 2.91	$ 30,057	$ 2.28
Add (subtract):				
Goodwill amortization expense	-	-	2,813	0.21
One-time tax refund	(1,775)	(0.13)	-	-
Adjusted earnings before goodwill amortization expense and one-time tax refund	$ 36,363	$ 2.78	$ 32,870	$ 2.49

	Six Months Ended			
	May 3, 2002		May 4, 2001	
	Dollars (in thousands)	Dilutive per Common Share	Dollars (in thousands)	Dilutive per Common Share
Net earnings	$ 8,403	$ 0.65	$ 31,360	$ 2.38
Add (subtract):				
Cumulative effect of change in accounting principle	24,614	1.91	-	-
Restructuring and other expense (income)	6,668	0.51	(447)	(0.03)
Goodwill amortization expense	-	-	4,256	0.32
One-time tax refund	(1,775)	(0.14)	-	-
Adjusted earnings before cumulative effect of change in accounting principle, restructuring and other expense (income), goodwill amortization expense, and one-time tax refund	$ 37,910	$ 2.93	$ 35,169	$ 2.67

Professional Segment Net Sales

Net sales for the worldwide professional segment in the second quarter of fiscal 2002 were down 1.6 percent compared to the second quarter of fiscal 2001. A decline in shipments of landscape contractor mowing equipment led this decrease as a result of Toro's as well as customers' efforts to reduce field inventory levels and the late spring weather. Sitework Systems shipments were also down compared to the second quarter of last year due to transitioning to new dealers in key markets. Worldwide agricultural irrigation sales also declined in the second quarter compared to 2001 due to lower demand for drip line products. However, commercial equipment and irrigation product sales were up compared to last year's second quarter due to lower field inventory levels entering fiscal 2002 as well as the successful introduction of new products. International sales were also up for the second quarter comparison by 4.3 percent due in part to stronger than expected demand in the Asian golf market.

Net sales for the worldwide professional segment in the first six months of fiscal 2002 were down 2.6 percent compared to the first six months of fiscal 2001. The decline in shipments of landscape contractor mowing equipment led this decrease due to the same factors mentioned in the quarter comparison above. Commercial equipment sales were up slightly for the year, and irrigation product sales also increased compared to last year mainly due to lower field inventory levels entering fiscal 2002. Sitework Systems and agricultural irrigation product sales were also slightly up for the year-to-date comparison.

Residential Segment Net Sales

Net sales for the worldwide residential segment in the second quarter of fiscal 2002 increased 9.1 percent compared to the second quarter of fiscal 2001. Walk power mower shipments led this increase due to initial stocking and positive reaction to the new moderate-priced line of Toro walk power mowers sold at The Home Depot and through the Toro dealer network. Sales of retail irrigation products were also higher compared to the second quarter of fiscal 2001 due to additional regional placement with a key customer. Offsetting those increases to some degree were lower worldwide shipments of riding products due to continued weak economic conditions that has resulted in lower sales of higher-priced products. In addition, the comparison with last year is more difficult because of initial stocking shipments in 2001 for new riding products, such as the Toro Timecutter(TM) Z mower and the Toro Twister(TM) utility vehicle. Sales of electric blowers and trimmers were also down due to the cold spring weather, field inventory reduction efforts by Toro's customers, and a decline in shipments to a mass customer as a result of credit line restrictions. Lawn-Boy walk power mower shipments also declined due to lost placement for the 4 cycle engine models as well as a shift in consumer spending to the new moderate-priced line of Toro walk power mowers.

Net sales for the worldwide residential segment in the first six months of fiscal 2002 increased 7.0 percent compared to the first six months of fiscal 2001. The increase was due to the same contributing factors mentioned in the above quarter comparison, except that sales of electric blowers were up for the year-to-date comparison due to warm fall weather that extended the selling season into the first quarter of fiscal 2002 and higher snowthrower shipments due to low field inventory levels entering the 2001/2002 winter season. International sales were down compared to last year due to high field inventory levels of walk power mowers and riding products, somewhat offset by increased sales of retail irrigation products in Australia due to favorable weather conditions.

Distribution Segment Net Sales

Net sales for the distribution segment in the second quarter of fiscal 2002 increased 4.4 percent compared to the second quarter of fiscal 2001. The increase was due to the addition of sales from a distribution company acquired in the third quarter of fiscal 2001. This increase was partially offset by lower sales at two company-owned distributors located in the midwest and southern United States regions as a result of unfavorable weather conditions that have negatively affected shipments to the golf market.

Net sales for the distribution segment in the first six months of fiscal 2002 increased 13.0 percent compared to the first six months of fiscal 2001. The change was due to the same contributing factors mentioned in the quarter comparison above.

Other Segment Net Sales

Net sales for the other segment includes the elimination of sales from the professional and residential segments to the distribution segment, and elimination of the professional and residential segments' floor plan interest costs from the Toro Credit Company. The other segment net sales elimination in the second quarter of fiscal 2002 increased 2.4 percent compared to the second quarter of fiscal 2001. This increase was mainly due to the additional sales elimination for a distribution company acquired in the third quarter of fiscal 2001.

Year-to-date net sales elimination for the other segment in fiscal 2002 increased 9.7 percent compared to last year. This increase was mainly due to the additional sales elimination for a distribution company acquired in the third quarter of fiscal 2001.

Gross Profit

Second quarter gross profit in fiscal 2002 was up 3.2 percent compared to the second quarter of fiscal 2001. As a percentage of net sales, gross profit in the second quarter of fiscal 2002 was 34.5 percent compared to 34.2 percent in the second quarter of fiscal 2001. This increase was due to cost reduction efforts, lower resin costs for irrigation products, as well as positive results from lower material costs as part of the company's "5 by Five" program initiatives. International gross profit also improved due to lower currency support costs in fiscal 2002 compared to fiscal 2001. Somewhat offsetting those positive factors were higher manufacturing costs due to lower plant utilization.

Year-to-date gross profit was up 3.6 percent compared to last year. As a percentage of net sales, year-to-date gross profit in fiscal 2002 was 34.4 percent compared to 33.6 percent last year. This improvement was the result of the same reasons mentioned in the above quarter comparison.

Selling, General, and Administrative Expense

Second quarter selling, general, and administrative expense (SG&A) increased 2.8 percent compared to the second quarter of fiscal 2001. SG&A for the second quarter of fiscal 2001 included goodwill amortization expense of $2.1 million, which is not reflected in SG&A costs in fiscal 2002 due to the adoption of SFAS No. 142 described previously. Excluding goodwill amortization expense for the second quarter of fiscal 2001, SG&A as a percentage of net sales was 22.2 percent in the second quarter of fiscal 2002 compared to 21.6 percent in the second quarter of fiscal 2001. SG&A costs were up mainly due to higher warranty expense related to special reserves for known product modifications for both professional and residential segment products. The acquisition of a distribution company in the third quarter of fiscal 2001 also added approximately $1.3 million of incremental SG&A expense.

Year-to-date SG&A expense increased 2.2 percent compared to last year. SG&A for fiscal 2001 included goodwill amortization expense of $4.2 million, which is not reflected in SG&A costs in fiscal 2002 due to the adoption of SFAS No. 142 described previously. Excluding goodwill amortization expense for fiscal 2001, SG&A as a percentage of net sales was 25.8 percent in the first six months of fiscal 2002 compared to 25.0 percent in the first six months of fiscal 2001. The increase was due to the same contributing factors mentioned in the above quarter comparison plus higher bad debt expense due to collection uncertainty for some customers and increased incentive compensation expense. The acquisition of a distribution company in the third quarter of fiscal 2001 also added approximately $2.7 million of incremental SG&A expense in the first six months of fiscal 2002.

Restructuring and Other Expense (Income)

Year-to-date restructuring and other expense for fiscal 2002 was $10.0 million. In the first quarter of fiscal 2002, the company announced plans to close its Evansville, Indiana and Riverside, California manufacturing facilities during fiscal 2002. These actions are part of Toro's overall long-term strategy to reduce production costs and improve long-term competitiveness. The closure of these facilities resulted in a pre-tax restructuring and other expense charge of $8.0 million. In the first quarter of fiscal 2002, the company also incurred a $2.0 million charge for asset impairment related to write-offs of patents and non-compete agreements in the agricultural irrigation business. Toro also evaluated the recoverability of some acquired intangible assets and determined the acquired patents and non-compete agreements in the agricultural irrigation business had no future value due to changes in this business. During the first quarter of fiscal 2001, the company had restructuring and other unusual income of $0.7 million. This income related to the reversal of an accrual remaining for closing of the Sardis, Mississippi facility, which was sold during the first quarter of fiscal 2001.

Interest Expense

Second quarter interest expense in fiscal 2002 declined 18.5 percent compared to the second quarter of fiscal 2001. This decrease was primarily due to lower levels of short-term debt as a result of using prior years' earnings to pay down debt as well as lower interest rates.

Year-to-date interest expense in fiscal 2002 declined 9.8 percent compared to last year. This decrease in interest expense for the year was due to the same contributing factors as in the quarter comparison.

Other Income (Expense), Net

Second quarter other income, net, in fiscal 2002 was $1.7 million compared to other expense, net of $1.4 million in the second quarter of fiscal 2001, a favorable change of $3.1 million. This favorable variance was due to lower currency exchange rate losses and lower write-downs of investments, somewhat offset by a decline in finance charge revenue.

Year-to-date other income, net, was $3.1 million compared to $1.5 million last year, a favorable change of $1.6 million. This favorable variance was due to the same reasons mentioned in the above quarter comparison.

Operating Earnings (Loss) by Segment

Operating earnings (loss) by segment is defined as earnings (loss) from operations plus other income (expense), net for the professional, residential, and distribution segments. The other segment operating loss consists of corporate activities, including corporate financing activities, other income, net, and interest expense.

Professional Segment Operating Earnings

Operating earnings for the worldwide professional segment in the second quarter of fiscal 2002 were $53.2 million compared to $49.5 million last year, an increase of 7.5 percent. As a percentage of net sales, second quarter fiscal 2002 operating earnings were 18.3 percent compared to 16.8 percent in last year's comparable quarter. Gross margin as a percentage of net sales rose 1.8 percent, mainly from cost reduction efforts, lower resin costs for irrigation products, as well as positive results from lower material costs as part of the company's "5 by Five" program initiatives, somewhat offset by higher manufacturing costs due to lower plant utilization. SG&A costs as a percent of professional segment sales were higher by 0.6 percent due to increased warranty expense, partially offset by lower costs related to the exclusion of goodwill amortization expense in the second quarter of fiscal 2002. Other income, net for the professional segment was also higher contributing to the profit improvement due to lower write-off of investments and currency exchange rate losses.

Year-to-date operating earnings before restructuring and other expense for the worldwide professional segment in fiscal 2002 was $72.3 million compared to $67.6 million last year, an increase of 6.9 percent. As a percentage of net sales, professional segment operating margins increased to 15.5 percent from 14.1 percent last year. The reasons for the increase are the same as in the quarter comparison.

Residential Segment Operating Earnings

Operating earnings for the worldwide residential segment in the second quarter of fiscal 2002 were $20.1 million compared to $18.4 million in the second quarter of fiscal 2001, an increase of 9.2 percent. As a percentage of net sales, residential segment operating margins were even with the prior year's comparable quarter at 11.8 percent. Gross margin fell 1.3 percent as a percentage of net sales due to lower margins for the new moderate-priced line of walk power mowers and higher manufacturing costs, partially offset by lower costs for currency support in fiscal 2002 compared to fiscal 2001. SG&A costs were lower by 0.9 percent as a percentage of residential segment sales due to leveraging fixed SG&A costs over higher sales volumes, somewhat offset by higher warranty expense. Other income, net for the residential segment was also higher due to lower currency exchange rate losses.

Year-to-date operating earnings before restructuring and other income for the worldwide residential segment in fiscal 2002 was $27.8 million compared to $24.2 million last year, an increase of 14.8 percent. As a percentage of net sales, residential segment operating margins increased to 10.6 percent from 9.9 percent last year. The reasons for the increase are the same as in the quarter comparison.

Distribution Segment Operating Earnings (Loss)

Operating earnings for the distribution segment in the second quarter of fiscal 2002 were $1.7 million compared to $1.3 million for the second quarter of fiscal 2001. The 36.6 percent improvement was mainly due to operating improvement at one of the company-owned distributorships.

Year-to-date operating losses for the distribution segment in fiscal 2002 were $0.4 million compared to $1.3 million last year. The $0.9 million improvement was mainly due to operating improvement at one of the company-owned distributorships.

Other Segment Operating Losses

Operating losses for the other segment in the second quarter of fiscal 2002 were $20.8 million compared to losses of $21.4 million in the second quarter of fiscal 2001, a favorable change of 3.2 percent. This improvement was due to lower interest expense and an increase in other income, net related to lower write-off of investments and currency exchange rate losses.

Year-to-date operating losses for the other segment in fiscal 2002 were $43.1 million compared to losses of $41.3 million in fiscal 2001, an unfavorable change of 4.2 percent. This loss increase was due to higher bad debt expense and incentive compensation costs, slightly offset by lower interest expense.

Provision for Income Taxes

The effective tax rate in the second quarter and six months of fiscal 2002 was 33.0 percent compared to 37.0 percent in the second quarter and first six months of fiscal 2001 before a one-time federal tax refund of $1.8 million. The decrease was mainly due to the adoption of SFAS No. 142 that eliminated goodwill amortization expense beginning in the first quarter of fiscal 2002, of which most was not deductible for tax purposes. The tax rate also decreased due to increased benefits from foreign tax strategies related to Toro's foreign sales corporation. In the second quarter of fiscal 2002, Toro received a one-time federal tax refund related to the company's foreign sales corporation for prior fiscal years.

Cumulative Effect of Change in Accounting Principle

In connection with the adoption of SFAS No. 142, the company performed an evaluation of goodwill as of November 1, 2001. The results of the evaluation indicated that goodwill related to the agricultural irrigation reporting unit was impaired. The performance of this reporting unit had not met management's original expectations, mainly due to lower than anticipated growth rates in the drip line market. This resulted in lower industry-wide pricing and margins on product sales. The company measured the amount of impairment based on a comparison of the fair value to its carrying value. Accordingly, the company recognized a $24.6 million non-cash charge, net of income tax benefit of $0.5 million, as a cumulative effect of change in accounting principle for the write-off of goodwill for the agricultural irrigation reporting unit. The results of this unit are reflected in the professional segment of the company. The company is still committed to the agricultural irrigation business and expects the performance of this business to improve over the next few years as a result of cost reduction efforts and strengthened management. The company is still committed to this business.

Financial Position as of May 3, 2002

May 3, 2002 compared to May 4, 2001

Total assets at May 3, 2002 were $1,002.5 million compared to $1,022.9 million on May 4, 2001, a decrease of $20.4 million. Net accounts receivable increased by $5.1 million or 1.1 percent, which is approximately equivalent to the year-to-date sales increase. Inventory decreased $4.1 million or 1.7 percent. The addition of a new distribution company acquired in the third quarter of fiscal 2001 added $4.8 million of incremental net inventory. The inventory decrease was mainly due to improved asset management and reduced production for some professional segment products. Net property, plant, and equipment increased $13.0 million due to higher amounts of capital additions in comparison to depreciation expense, mainly for plant expansion in Mexico and at the Beatrice, Nebraska facility. Goodwill and other intangible assets decreased $29.6 million mainly due to the goodwill and other intangible asset write-offs for the agricultural irrigation business as part of the adoption of SFAS No. 142. In addition, amortization expense of goodwill and other intangible assets in fiscal 2001 also contributed to the decrease in goodwill and other intangible assets.

Total current liabilities at May 3, 2002 were $458.5 million compared to $482.7 million at May 4, 2001, a decrease of 5.0 percent. Short-term debt decreased by $48.0 million mainly due to using prior years' earnings to pay down short-term debt as well as higher levels of accounts payable. Accounts payable increased by $13.0 million due to the company's efforts to extend its payment terms. Accrued liabilities decreased by $5.5 million mainly due to a decrease in income tax and marketing accruals.

Financial Position as of May 3, 2002 (continued)

May 3, 2002 compared to October 31, 2001

Total assets at May 3, 2002 were $1,002.5 million compared to $835.7 million at October 31, 2001, an increase of $166.8 million. Net accounts receivable increased $192.2 million from October 31, 2001 due to the seasonal increase in accounts receivable, which historically occurs between January and April. Inventory slightly increased by $0.7 million. Net property, plant, and equipment increased $8.3 million due to higher amounts of capital additions in comparison to depreciation expense mainly for plant expansion in Mexico and at the Beatrice, Nebraska facility. Goodwill and other intangible assets decreased $27.5 million mainly due to the goodwill and other intangible asset write-offs for the agricultural irrigation business as previously discussed.

Total current liabilities at May 3, 2002 were $458.5 million compared to $292.6 million at October 31, 2001, an increase of $166.0 million. This increase was the result of additional short-term debt of $95.8 million, reflecting the company's strategy of utilizing short-term debt to fund seasonal working capital needs. These requirements are historically greatest in the winter and spring months. Accounts payable increased by $12.6 million due to the company's efforts to extend its payment terms. Accrued liabilities also increased by $41.8 million due mainly to higher accruals for warranty, income tax, and restructuring and other expense as well as higher accruals for various seasonal sales and marketing programs, which are at their peak during the spring selling season.

Critical Accounting Estimates

The Securities and Exchange Commission (SEC) recently issued proposed guidance for disclosure of critical accounting policies. The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The company plans to adopt the disclosure requirements regarding critical accounting policies once the final rules are required to be adopted.

Toro's significant accounting policies are described in Note 1 to the consolidated financial statements in the company's Annual Report on Form 10-K. Not all of these significant accounting policies require management to make difficult subjective or complex judgments or estimates. However, management believes the following accounting policies, which require more significant judgments and estimates used in the preparation of our consolidated financial statements, could be deemed to be critical within the SEC definition.

Accounts and Notes Receivable Valuation

The company establishes a reserve for specific accounts and notes receivables that are believed to be uncollectable as well as an estimate of uncollectable receivables. The company evaluates past collection history, current financial conditions of key customers, and economic conditions when establishing an allowance for doubtful accounts every quarter. Portions of the accounts receivable are supported by a security interest in product held by customers, which minimizes Toro's collection exposure. A deterioration in the financial condition of any key customer or a significant continued slow down in the economy could have a material negative impact on the company's ability to collect a portion of the accounts and notes receivable. Management believes it has properly reserved for potential uncollectable receivables at May 3, 2002.

Inventory Valuation

The company establishes a reserve for excess and obsolete inventory. The reserve is based on a review of the expected selling price of inventory each quarter. Toro's inventory is not exposed to rapid technological changes. However, valuation of inventory can be affected by significant redesign of existing products. The company has programs in place that it believes can facilitate sales of products that will be significantly redesigned for the next model year.

The company manufactures products in advance of the selling season. As a result, Toro could have higher than planned inventory levels if demand declines significantly from anticipated levels. The majority of the company's products do not change from year to year, so that excess inventory from one year is usually sold for at least cost in the next fiscal year. Management believes it has established an adequate reserve for excess and obsolete inventory as of May 3, 2002.

Critical Accounting Estimates (continued)

Warranty Reserves

The company establishes a reserve for future warranty claims at the time of sale based on historical claims experience by product line. The company also establishes reserves for special rework campaigns for known major product modifications. In general, warranties tend to be for six months to ten years, and cover all parts and labor for non-maintenance repairs and wear items, provided operator abuse, improper use, or negligence did not necessitate the repair. Actual claims could be materially higher than the reserve accrued at the time of sale due both to the long warranty period offered by the company and to the possibility that actual claims could be higher than the reserve if a significant manufacturing or design defect is not discovered until after the product is delivered to customers.

Management believes that analysis of historical trends and knowledge of potential manufacturing or design problems provides sufficient information to establish an estimate for warranty claims at the time of sale. Management believes it has sufficiently reserved for future warranty claims as of May 3, 2002.

Liquidity and Capital Resources

Cash used in operating activities for the first six months of fiscal 2002 was $39.6 million, or 31.1 percent lower than the first six months in fiscal 2001, primarily due to a slower rate of increase in working capital, mainly for inventory, as compared to the prior year's comparable period. Cash used in investing activities was higher by $2.5 million, or 11.7 percent when compared with the first six months of fiscal 2001, during which the company paid $6.2 million, net of cash acquired for Goossen Industries, Inc. Higher levels of purchases of property, plant, and equipment and other assets in the first six months of fiscal 2002 compared to the same time period in fiscal 2001 also contributed to the increase. Cash provided by financing activities was lower by $50.8 million because the company borrowed less short-term debt during the first six months of fiscal 2002 compared to the first six months of fiscal 2001. In addition, Toro was able to use cash on hand at October 31, 2001, which was higher compared to cash on hand at October 31, 2000, for operating and investing activities in the first quarter of fiscal 2002.

The company entered into new agreements (Working Capital Agreements) with its banks during February 2002 to fund its seasonal working capital requirements. The Working Capital Agreements provide $250.0 million of committed unsecured bank credit lines. Under these Working Capital Agreements, the company can also borrow in currencies other than U.S. dollars. Interest expense on these credit lines is based on LIBOR plus a basis point spread defined in the Working Capital Agreements, which increased in the new agreements. However, the company anticipates lower interest expense in fiscal 2002 compared to fiscal 2001 due to lower average LIBOR rates and lower average borrowing levels. The company's non-U.S. operations and a domestic subsidiary also maintain unsecured short-term lines of credit of approximately $10 million. These facilities bear interest at various rates depending on the rates in their respective countries of operation. The company also has a letter of credit subfacility as part of the above Working Capital Agreements. The company's business is seasonal, with peak borrowing under the agreements described above generally occurring between February and May each year. Significant financial covenants in the Working Capital Agreements relate to interest coverage and debt to total capitalization ratios. The company was in compliance with all covenants related to the Working Capital Agreements at May 3, 2002. If the company was out of compliance with any debt covenant required by the Working Capital Agreements, the banks could terminate their commitments unless Toro could negotiate a covenant waiver from the banks. In addition, the company's long-term public notes and debentures could become due and payable if the company was unable to obtain a covenant waiver or refinance its short-term debt under its Working Capital Agreements. If the company's credit rating falls below investment grade, the interest rate it currently pays on outstanding debt on the Working Capital Agreements would rise, but the credit commitments could not be cancelled by the banks based only on a ratings downgrade.

Management believes that the combination of funds available through its existing Working Capital Agreements, coupled with forecasted cash flows, will provide the necessary capital resources for the company's anticipated working capital, capital additions, acquisitions, and stock repurchases during the next twelve months.

Contractual Obligations and Commercial Commitments

The following information is presented as of October 31, 2001, and there has been no material change in this information.

(Dollars in thousands)	Due in Fiscal						
Obligation	2002	2003	2004	2005	2006	After 2006	Total
Long-term debt	$ 513	$ 15,830	$ 44	$ 45	$ 46	$ 178,600	$ 195,078
Capital lease obligation	92	-	-	-	-	-	92
Operating leases	9,523	7,220	5,075	3,676	2,527	5,761	33,782
Total cash obligations	$ 10,128	$ 23,050	$ 5,119	$ 3,721	$ 2,573	$ 184,361	$ 228,952

The company also has approximately $20 million in outstanding letters of credit at any given time as required by certain vendor contracts. The company also has guaranteed debts incurred by business partners, aggregating $1.4 million as of May 3, 2002.

Customer Financing

Wholesale Financing

Toro Credit Company (TCC), a wholly owned finance subsidiary of the company, provides financing for selected products manufactured by Toro to Toro's North American distributors and approximately 250 domestic dealers. Independent Toro and Exmark distributors and dealers that do not finance through TCC generally finance their inventories with third party financing companies.

TCC and other third party finance companies purchase selected receivables from Toro and its distributors and dealers for extended periods, which enables those customers to carry representative inventories of equipment. Down payments are not required and, depending on the finance program for each product line, finance charges are either incurred by Toro, shared between Toro and the distributor or dealer, or paid by the distributor or dealer. A security interest is retained in the distributors' and dealers' inventories, and periodic physical checks are made of those inventories. Under the terms of the sales to distributors and dealers, finance charges are charged to distributors and dealers on outstanding balances, from the earlier of the date when product is sold to a customer, or the expiration of company-supported finance terms granted at the time of sale to the distributor or dealer, until payment is received by the third party finance company. Rates are generally fixed or based on prime rate plus a fixed percentage depending on whether the financing is for a distributor or dealer. Rates may also vary based on the product that is financed. Distributors and dealers cannot cancel purchases after goods are shipped and are responsible for payment even if the equipment is not sold to retail customers.

Third party financing companies purchased $359.9 million of domestic receivables of Toro financed products during the last twelve months. The outstanding receivable balance owed from the company's domestic distributors and dealers to third party financing companies was $165.2 million at May 3, 2002. The company also enters into limited inventory repurchase agreements with third party financing companies. At May 3, 2002, the company was contingently liable to repurchase up to $3.7 million of inventory related to receivables under these financing arrangements. The company has repurchased only immaterial amounts of inventory from third party financing companies over the past few years. However, an adverse change in retail sales could cause this situation to change and thereby require Toro to repurchase financed product.

In the normal course of business, the company's international operations have arrangements with other third party finance companies to provide wholesale financing services. None of these arrangements has any material financial involvement required by the company.

Customer Financing (continued)

End-User Financing

During February 2002, the company entered into an agreement with a third party financing company to provide lease financing options to domestic golf course and some grounds equipment customers. The purpose of the agreement is a sales and marketing tool to give end-users of the company's products alternative financing options when purchasing Toro product. Under the terms of this agreement, the company could be contingently liable for a portion of the credit collection and residual realization risk on the underlying equipment for leasing transactions financed under this program. Under a provision of this agreement, if Toro maintains an investment grade credit rating, the company is not required to provide any collateral. If the company's credit rating falls below investment grade, Toro would be required to provide collateral in the form of a letter of credit, up to $5.0 million.

In the normal course of business, Toro has arrangements with other financial institutions to provide various forms of financing options to end customers. None of these other arrangements has any material financial involvement required by the company.

Distributor Financing

The company enters into long-term loan and equity investment agreements with some distribution partners. These transactions are used for expansion of the distribution partners' businesses, acquisitions, refinancing working capital agreements, or ownership changes. As of May 3, 2002, Toro had borrowed and/or invested $7.5 million in some distribution companies, which is included in other long-term assets on the consolidated balance sheet.

Inflation

The company is subject to the effects of inflation and changing prices. In management's opinion, changes in net sales and net earnings that have resulted from inflation and changing prices have not been material during the periods presented. However, there is no assurance that inflation will not materially affect the company in the future.

Outlook

The company anticipates sales growth in the second half of fiscal 2002 for the professional segment as Toro introduces new products and programs, including new financing solutions for golf courses, municipalities, and sports fields to acquire irrigation systems and maintenance equipment. However, sales in the landscape contractor market are anticipated to be lower than projected in fiscal 2002 due to the sales shortfall in the first six months of fiscal 2002 that is not expected to be fully recovered in the remaining second half of the year due to field inventory management efforts. Management expects sales growth in fiscal 2002 for the residential segment to be driven primarily by the new line of moderate-priced Toro brand walk power mowers sold at The Home Depot and Toro dealer networks. In addition, continued benefits from "5 by Five" programs are also expected to improve fiscal 2002 earnings. Management expects sales growth in the single digits in fiscal 2002 over fiscal 2001, and double digit earnings growth in fiscal 2002 over fiscal 2001, before cumulative effect of accounting change, restructuring and other expense and exclusion of goodwill amortization, while keeping a cautionary eye on the weather and world economies.

Quantitative and Qualitative Disclosures about Market Risk

Toro is exposed to market risk stemming from changes in foreign currency exchange rates, interest rates, and commodity prices. Changes in these factors could cause fluctuations in the company's net earnings and cash flows. In the normal course of business, Toro actively manages the exposure of certain market risks by entering into various hedging transactions, authorized under company policies that place controls on these activities. The company's hedging transactions involve the use of a variety of derivative instruments. Toro uses derivatives only in an attempt to limit underlying exposure to currency fluctuations, and not for trading purposes.

Foreign Currency Exchange Rate Risk

The company is exposed to foreign currency exchange rate risk arising from transactions in the normal course of business. Toro is subject to risk from sales and loans to wholly owned subsidiaries as well as sales to third party customers, purchases from suppliers, and bank lines of credit with creditors denominated in foreign currencies. The company manages foreign currency exchange rate exposure from anticipated sales, accounts receivable, intercompany loans, anticipated purchases, and credit obligations through the use of naturally occurring offsetting positions (borrowing in local currency) and foreign currency exchange contracts. Foreign currency exchange contracts to hedge forecasted transactions are designated as cash flow hedges with the fair value recorded in accumulated comprehensive income (loss) and as a hedge asset or liability as applicable. Once the forecasted transaction has been recognized as a sale or purchase and a related asset or liability recorded on the balance sheet, the related fair value of the derivative hedge contract is reclassified from accumulated comprehensive income (loss) into earnings. The related amounts payable to, or receivable from, the contract counter parties are included in accrued liabilities or prepaid expenses and other current assets.

The following foreign currency exchange contracts held by the company have maturity dates in fiscal 2002. All items are non-trading and stated in U.S. dollars. Certain derivative instruments the company enters into do not meet the hedging criteria of SFAS No. 133, therefore, the fair value impact is recorded in other income, net. The average contracted rate, notional amount, value of derivative instrument in accumulated comprehensive income (loss), and fair value of derivative instrument in other income, net at May 3, 2002 were as follows:

DOLLARS IN THOUSANDS	AVERAGE CONTRACTED RATE	NOTIONAL AMOUNT	VALUE IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	FAIR VALUE IMPACT GAIN (LOSS)
Buy US dollar/Sell Australian dollar	.5188	$ 7,235.6	$ (27.5)	$ (161.0)
Buy US dollar/Sell Canadian dollar	1.5661	4,054.6	(5.4)	(3.5)
Buy US dollar/Sell Euro	.8961	2,778.0	(6.1)	(4.3)
Buy Australian dollar/Sell US dollar	.5150	2,475.9	(0.6)	101.2
Buy British pound/Sell US dollar	1.3745	137.5	-	8.9
Buy Canadian dollar/Sell US dollar	.6413	192.4	-	(0.3)
Buy Euro/Sell US dollar	.8834	5,565.3	24.1	86.9
Buy Japanese yen/Sell US dollar	120.8032	3,600.9	(154.4)	(39.8)
Buy Mexican peso/Sell US dollar	9.9114	4,288.0	-	174.9
Buy Swiss franc/Sell US dollar	1.7035	797.2	49.3	-

Interest Rate Risk

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

Commodities

Some raw materials used in the company's products are exposed to commodity price changes. Toro manages some of this risk by using long-term agreements with some vendors. The primary commodity price exposures are with aluminum, steel, and plastic resin.

Related Party Transactions

The company has entered into related party transactions. Toro sells product to a distribution company that is owned in part by an executive officer of Toro. This executive officer is currently on temporary assignment at Toro and will return to the distributorship upon completion of his assignment. In addition, Toro also sells products to companies whose executive officers are members of Toro's Board of Directors. The company believes the transactions described above between Toro and related parties are at arms-length and not material to the consolidated financial results of the company.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Annual Meeting of Stockholders was held on March 14, 2002.

(b) The results of the stockholder votes were as follows:

	For	Against	Abstain	Broker Non-Votes
1. Election of Directors				
Ronald O. Baukol	9,726,173	1,323,938	0	0
Katherine J. Harless	10,306,567	743,543	0	0
Dale R. Olseth	10,002,933	1,047,177	0	0
2. Approval of amendment of The Toro Company Annual Management Incentive Plan II.	10,020,593	886,465	143,053	0
3. Approval of amendment of The Toro Company Performance Share Plan.	7,992,445	1,884,578	108,919	1,064,168
4. Approval of amendment of The Toro Company 2000 Stock Option Plan.	8,211,184	1,673,968	100,791	1,064,168
5. Approval of Selection of Independent Auditors for Fiscal 2002.	10,781,203	209,760	59,146	0

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

3(i) and 4(a) Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3(i) and 4(a) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2001).

3(ii) and 4(b) Bylaws of Registrant (incorporated by reference to Exhibit 3(ii) and 4(d) to Registrant's Quarterly Report on Form 10-Q for the quarter ended August 3, 2001).

4(e) Specimen form of Common Stock certificate (incorporated by reference to Exhibit 4(c) to Registrant's Registration Statement on Form S-8, Registration No. 2-94417).

4(f) Rights Agreement dated as of May 20, 1998, between Registrant and Wells Fargo Bank Minnesota, National Association relating to rights to purchase Series B Junior Participating Voting Preferred Stock, as amended (incorporated by reference to Registrant's Current Report on Form 8-K dated May 27, 1998, Commission File No. 1-8649).

4(g) Indenture dated as of January 31, 1997, between Registrant and First National Trust Association, as Trustee, relating to the Registrant's 7.125% Notes due June 15, 2007 and its 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K for June 24, 1997, Commission File No. 1-8649).

10(a) Form of Employment Agreement in effect for executive officers of Registrant (incorporated by reference to Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*

10(b) The Toro Company Directors Stock Plan (incorporated by reference to Exhibit 10(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended April 28, 2000).*

10(c)	The Toro Company Annual Management Incentive Plan II for officers of Registrant (incorporated by reference to the appendix to Registrant's Proxy Statement on Form DEF 14A for the fiscal year ended October 31, 2001).*
10(d)	The Toro Company 1989 Stock Option Plan (incorporated by reference to Exhibit 10(e) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(e)	The Toro Company 1993 Stock Option Plan (incorporated by reference to Exhibit 10(f) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(f)	The Toro Company Performance Share Plan (incorporated by reference to the appendix to Registrant's Proxy Statement on Form DEF 14A for the fiscal year ended October 31, 2001).*
10(g)	The Toro Company 2000 Stock Option Plan (incorporated by reference to the appendix to Registrant's Proxy Statement on Form DEF 14A for the fiscal year ended October 31, 2001).*
10(h)	The Toro Company Supplemental Management Retirement Plan (incorporated by reference to Exhibit 10(h) to Registrant's Quarterly Report on Form 10-Q for the quarter ended April 28, 2000).*
10(i)	The Toro Company Supplemental Retirement Plan (incorporated by reference to Exhibit 10(i) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(j)	The Toro Company Chief Executive Officer Incentive Award Agreement (incorporated by reference to Exhibit 10(k) to Registrant's Quarterly Report on Form 10-Q for the quarter ended April 28, 2000).*
10(k)	The Toro Company Deferred Compensation Plan for Officers (incorporated by reference to Exhibit 10(k) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 28, 2000).*
10(l)	The Toro Company Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 28, 2000).*
10(m)	The Toro Company 2000 Directors Stock Plan (incorporated by reference to Exhibit 10(m) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 28, 2000).*

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

(b) Reports on Form 8-K

None.

SIGNATURES

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

THE TORO COMPANY
(Registrant)

By /s/ Stephen P. Wolfe

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

Date: June 17, 2002