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 August 3, 2001
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 August 31, 2001 was 12,496,603.

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		Nine Months Ended	
	August 3, 2001	July 28, 2000	August 3, 2001	July 28, 2000
Net sales	$ 329,811	$ 345,166	$ 1,076,813	$ 1,067,204
Cost of sales	203,599	211,879	679,468	672,029
Gross profit	126,212	133,287	397,345	395,175
Selling, general, and administrative expenses	96,221	101,867	308,006	304,585
Restructuring and other unusual income	--	--	(679)	--
Earnings from operations	29,991	31,420	90,018	90,590
Interest expense	(6,177)	(7,651)	(17,890)	(21,060)
Other income, net	3,062	2,329	4,526	748
Earnings before income taxes	26,876	26,098	76,654	70,278
Provision for income taxes	9,944	9,656	28,362	26,003
Net earnings	$ 16,932	$ 16,442	$ 48,292	$ 44,275
Basic net earnings per share of common stock	$ 1.34	$ 1.29	$ 3.79	$ 3.46
Dilutive net earnings per share of common stock	$ 1.30	$ 1.26	$ 3.68	$ 3.39
Weighted average number of shares of common stock outstanding - Basic	12,644	12,745	12,741	12,799
Weighted average number of shares of common stock outstanding - Dilutive	13,009	13,071	13,108	13,079

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)

	August 3, 2001	July 28, 2000	October 31, 2000
ASSETS			
Cash and cash equivalents	$ 90	$ 65	$ 978
Receivables, net	335,697	368,134	262,484
Inventories, net	245,569	213,461	194,926
Prepaid expenses and other current assets	10,544	10,905	12,065
Deferred income taxes	45,000	40,638	39,714
Total current assets	636,900	633,203	510,167
Property, plant, and equipment	394,721	372,639	383,497
Less accumulated depreciation	256,576	244,457	250,645
	138,145	128,182	132,852
Deferred income taxes	9,883	8,876	9,883
Goodwill and other assets	123,800	127,736	126,488
Total assets	$ 908,728	$ 897,997	$ 779,390
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of long-term debt	$ 471	$ 485	$ 38
Short-term debt	94,384	121,775	11,587
Accounts payable	56,096	43,544	65,340
Accrued liabilities	205,481	205,430	183,927
Total current liabilities	356,432	371,234	260,892
Long-term debt, less current portion	194,431	195,198	194,457
Other long-term liabilities	7,263	6,919	6,823
Stockholders' equity:			
Preferred stock, par value $1.00, authorized 1,000,000 voting and 1,000,000 non-voting shares, none issued and outstanding	--	--	--
Common stock, par value $1.00, authorized 35,000,000 shares; issued and outstanding 12,466,373 shares at August 3, 2001 (net of 1,041,682 treasury shares), 12,721,596 shares at July 28, 2000 (net of 786,459 treasury shares), and 12,569,194 shares at October 31, 2000 (net of 938,861 treasury shares)	12,466	12,721	12,569
Additional paid-in capital	37,365	52,044	47,540
Retained earnings	312,414	269,231	268,727
Accumulated other comprehensive loss	(11,643)	(9,350)	(11,618)
Total stockholders' equity	350,602	324,646	317,218
Total liabilities and stockholders' equity	$ 908,728	$ 897,997	$ 779,390

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	August 3, 2001	July 28, 2000
Cash flows from operating activities:		
Net earnings	$ 48,292	$ 44,275
Adjustments to reconcile net earnings to net cash used in operating activities:		
Provision for depreciation and amortization	26,508	28,199
Write-down of investments	1,778	1,097
Gain on disposal of property, plant, and equipment	(46)	(86)
(Increase) decrease of deferred income taxes	(5,286)	254
Tax benefits related to employee stock option transactions	4,501	854
Changes in operating assets and liabilities:		
Receivables, net	(79,558)	(107,281)
Inventories, net	(36,792)	(1,869)
Prepaid expenses and other current assets	2,147	(4,778)
Accounts payable and accrued liabilities	13,187	4,945
Net cash used in operating activities	(25,269)	(34,390)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(23,376)	(26,143)
Proceeds from asset disposals	2,181	1,480
Decrease (increase) in investment in affiliates	154	(685)
Increase in other assets	(3,027)	(2,381)
Acquisitions, net of cash acquired	(8,549)	--
Net cash used in investing activities	(32,617)	(27,729)
Cash flows from financing activities:		
Increase in short-term debt	79,190	63,512
Repayments of long-term debt	(64)	(657)
Increase in other long-term liabilities	440	744
Proceeds from exercise of stock options	15,548	3,629
Purchases of common stock	(33,559)	(10,859)
Dividends on common stock	(4,605)	(4,576)
Net cash provided by financing activities	56,950	51,793
Foreign currency translation adjustment	48	(1,569)
Net decrease in cash and cash equivalents	(888)	(11,895)
Cash and cash equivalents at beginning of period	978	11,960
Cash and cash equivalents at end of period	$ 90	$ 65

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
AUGUST 3, 2001

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 nine months ended August 3, 2001 are not indicative of the results that may be expected for the fiscal year ending October 31, 2001. 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 every three months generally on the Friday closest to the quarter end. For comparative purposes, the company's second and third quarters always reflect 13 weeks of results, therefore, the quarter end date 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, 2000. The policies described in that report are used for preparing quarterly reports.

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)	August 3, 2001	July 28, 2000	October 31, 2000
Raw materials and work in process..........	$ 71,439	$ 60,260	$ 66,175
Finished goods and service parts...........	215,246	195,810	168,135
	286,685	256,070	234,310
Less LIFO and other reserves...............	41,116	42,609	39,384
Total	$ 245,569	$ 213,461	$ 194,926

Restructuring and Other Unusual Income

At August 3, 2001, the company had $0.3 million of restructuring and other unusual expense remaining in accrued liabilities. The company has utilized $0.3 million of the original reserve since October 31, 2000 and reversed $0.7 million into restructuring and other unusual income related to the remaining accrual for the Sardis, Mississippi facility that was sold during the first quarter of fiscal 2001. The company expects the majority of the remaining reserve to be utilized when the Murray Bridge, Australia facility is sold.

Comprehensive Income

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

(Dollars in thousands)	Three Months Ended August 3, 2001	Three Months Ended July 28, 2000	Nine Months Ended August 3, 2001	Nine Months Ended July 28, 2000
Net earnings	$ 16,932	$ 16,442	$ 48,292	$ 44,275
Other comprehensive (loss) income:				
Foreign currency translation	(59)	282	48	(1,569)
Derivative instruments	(75)	--	(73)	--
Comprehensive income	$ 16,798	$ 16,724	$ 48,267	$ 42,706

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 August 3, 2001	Three Months Ended July 28, 2000	Nine Months Ended August 3, 2001	Nine Months Ended July 28, 2000
Weighted average number of shares of common stock outstanding	12,644	12,745	12,729	12,716
Assumed issuance of contingent shares	--	--	12	83
Weighted average number of shares of common stock and assumed issuance of contingent shares	12,644	12,745	12,741	12,799
Dilutive (Shares in thousands)				
Weighted average number of shares of common stock and assumed issuance of contingent shares	12,644	12,745	12,741	12,799
Assumed conversion of stock options	365	326	367	280
Weighted average number of shares of common stock, assumed issuance of contingent shares, and assumed conversion of stock options	13,009	13,071	13,108	13,079

Segment Data

As a result of the acquisition of a southwestern-based distribution company, that acquisition has increased revenues to a level that requires the distribution segment to be reported separately. The company will report its domestic distribution companies as a separate segment beginning in the third quarter of fiscal 2001.

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.

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

(Dollars in thousands) Three months ended August 3, 2001:	Professional	Residential	Distribution	Other	Total
Net sales	$224,992	$88,052	$43,452	$(26,685)	$329,811
Intersegment net sales	24,736	1,946	(26,682)	--	--
Earnings (loss) before income taxes	37,702	5,100	192	(16,118)	26,876
Three months ended July 28, 2000:					
Net sales	$235,662	$94,553	$41,376	$(26,425)	$345,166
Intersegment net sales	23,498	2,927	(26,425)	--	--
Earnings (loss) before income taxes	36,398	5,400	2,190	(17,890)	26,098

(Dollars in thousands) Nine months ended August 3, 2001:	Professional	Residential	Distribution	Other	Total
Net sales	$710,054	$340,831	$103,956	$(78,028)	$1,076,813
Intersegment net sales	69,923	7,802	(77,725)	--	--
Earnings (loss) before income taxes	105,259	29,973	(1,117)	(57,461)	76,654
Total assets	478,447	129,966	68,960	231,355	908,728
Nine months ended July 28, 2000:					
Net sales	$693,967	$349,759	$97,341	$(73,863)	$1,067,204
Intersegment net sales	61,651	12,212	(73,863)	--	--
Earnings (loss) before income taxes	96,735	26,760	3,191	(56,408)	70,278
Total assets	473,996	141,100	52,586	230,315	897,997

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

(Dollars in thousands)	Three Months Ended August 3, 2001	Three Months Ended July 28, 2000	Nine Months Ended August 3, 2001	Nine Months Ended July 28, 2000
Corporate expenses	$(16,781)	$(17,565)	$(53,077)	$(50,748)
Finance charge revenue	1,278	1,184	4,287	3,921
Elimination of corporate financing expense	4,825	5,521	12,055	13,921
Interest expense, net	(6,177)	(7,651)	(17,890)	(21,060)
Other	737	621	(2,836)	(2,442)
Total	$(16,118)	$(17,890)	$(57,461)	$(56,408)

Derivative Financial Instruments

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 enters into forward foreign 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 other comprehensive income (loss) and as a hedge asset or liability 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 other comprehensive income (loss) into earnings. During the quarter ended August 3, 2001, the amount of adjustments to earnings for such cash flow hedges was immaterial. At August 3, 2001, the amount of such forward contracts outstanding was $8,604,467. The unrecognized after-tax gain portion of the fair value of the contracts recorded in accumulated other comprehensive income (loss) at August 3, 2001 was $89,001.

The company enters into forward foreign 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 other comprehensive income (loss) and as a hedge asset or liability 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 other comprehensive income (loss) into earnings. During the quarter ended August 3, 2001, the amount of adjustments to earnings for such cash flow hedges was immaterial. At August 3, 2001, the amount of such forward contracts outstanding was $14,159,414. The unrecognized after-tax loss portion of the fair value of the contracts recorded in accumulated other comprehensive income (loss) at August 3, 2001 was $162,315.

The company enters into forward foreign exchange contracts to hedge the risk from forecasted settlement in local currencies of intercompany sales. These transactions and other forward foreign exchange contracts do not meet the accounting rules established under SFAS 133 of recording the unrecognized after-tax gain or loss portion of the fair value of the contracts in accumulated other comprehensive income (loss). Therefore, the related fair value of the derivative hedge contract is recognized in earnings.

New Accounting Pronouncements

In July, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and use of the pooling-of-interests method will be prohibited. SFAS No. 141 also provides new criteria to determine whether an acquired intangible asset should be recognized separately from goodwill. SFAS No. 142 will require 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 company will adopt SFAS No. 142 on November 1, 2001. The company is currently in the process of determining the impact of these pronouncements on its financial position and results of operations related to valuation of goodwill and other intangible assets. Any impairment resulting from initial application of the statements will be recorded as a cumulative effect of accounting change during the first six months of fiscal 2002. The company has made a preliminary assessment related to the effect of no longer amortizing goodwill. If SFAS No. 142 had been effective as of November 1, 2000, the company's net earnings per dilutive share would have been approximately $1.42 to $1.47 for the third quarter of fiscal 2001 and approximately $4.13 to $4.18 for the first nine months of fiscal 2001.

The Emerging Issues Task Force (EITF) has issued the final versions of EITF No. 00-10, "Accounting for Shipping and Handling Fees and Costs," EITF No. 00-14, "Accounting for Certain Sales Incentives," and EITF No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products."

EITF No. 00-10 provides guidance regarding shipping and handling costs incurred for selling goods, and the income statement classification of amounts charged to customers for shipping and handling as well as costs incurred related to shipping and handling. EITF No. 00-10 will be effective for the company in the fourth quarter of fiscal 2001. Toro currently reports freight revenue and freight costs related to selling goods as part of net sales. Therefore, the company expects the reclassification of freight costs incurred for shipping and handling goods to customers to increase both net sales and cost of goods sold.

New Accounting Pronouncements (continued)

EITF No. 00-14 provides guidance regarding accounting for sales incentives offered to customers, and the proper income statement classification. The company plans to adopt EITF No. 00-14 in the fourth quarter of fiscal 2001. The company expects to reclassify costs incurred related to EITF No. 00-14 from selling, general, and administrative expense to net sales, which will reduce both amounts.

EITF No. 00-25 provides guidance whether consideration from a vendor to a customer is an adjustment of the selling prices and, therefore, should be deducted from revenue in the income statement or a cost incurred for assets or services and, therefore, should be included as a cost or an expense in the income statement. The company plans to adopt EITF No. 00-25 in the fourth quarter of fiscal 2001. The company expects to reclassify certain costs including floor plan interest, currency support, and certain cooperative marketing programs from selling, general, and administrative expense to net sales, which will reduce both amounts.

In December 1999, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 summarizes certain SEC staff views in applying accounting principles generally accepted in the United States of America to revenue recognition in financial statements. SAB 101 will be effective for the company in the fourth quarter of fiscal 2001. Toro is currently evaluating the impact of SAB 101 on its financial condition and results of operations.

Acquisitions

During the third quarter of fiscal 2001, Toro completed two immaterial acquisitions, which included Electronic Industrial Controls, Inc. (EICON), a provider of innovative computer control systems for the irrigation industry, located in Englewood, Colorado and a southwestern-based distribution company.

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

FORWARD-LOOKING INFORMATION

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, forward-looking statements may be made orally or in press releases, conferences, reports, over the Internet, 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 the continuing slow down in the global and domestic economy; the continued decline in consumer confidence and possibility of a recession; weakness in retail sales; inability to achieve earnings growth in fiscal 2001 of 12 to 15 percent above fiscal 2000; inability to achieve double digit earnings growth in fiscal 2002 (excluding the effect of the change in reporting goodwill) above fiscal 2001; inability to maintain revenue at fiscal 2000 level in fiscal 2001; inability to grow revenue in the single digits in fiscal 2002 above fiscal 2001; inability to achieve gross margin in fiscal 2001 of 37 to 38 percent; inability to keep growth of operating expenses in fiscal 2001 at 5 to 9 percent, in dollars, above fiscal 2000; inability to maintain a tax rate of 37 percent in fiscal 2001; inability to achieve goals of the "5 by Five" profit improvement program, which includes achieving an after tax return on sales of 5 percent by fiscal 2003; rising energy costs; 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; the company's ability to acquire, develop, and integrate new businesses and manage alliances successfully; the degree of success in implementing a distribution initiative designed to develop a new distribution model; increased competition in the company's businesses from competitors that have greater financial resources, including competitive pricing pressures; impact of the Internet and e-commerce on the company's business and distribution channels; changes in distributor ownership; financial viability of some distributors and dealers; unforeseen difficulties in the implementation of strategies to use outside providers for warehousing and transportation services; changes in distributors', dealers', home centers', or mass retailers' purchasing practices, especially elimination of shelf space for Toro's products; the company's ability to cost-effectively expand existing and open new manufacturing facilities; the company's ability to manage costs and capacity constraints at its manufacturing facilities; the company's ability to rationalize its product lines and plant configurations, including closing manufacturing facilities; the ability to retain and hire quality employees; threatened or pending litigation on matters relating to patent infringement and commercial disputes; and the impact of new accounting standards, including possible impairment charges related to intangible assets and elimination of goodwill amortization related to SFAS No. 142.

Particular risks and uncertainties facing the company's professional segment at the present include inflationary pressures and a slow down in both global and domestic economic growth that has been important to the growth of the company's professional businesses, including the golf and landscape contractor markets; product quality problems in the development and production of irrigation products and other product lines, including potential loss of market share; delays in key new irrigation product introductions; the degree of success related to reorganization and management changes in the irrigation and agricultural irrigation areas; increasing oil prices that raise the cost of resin used in irrigation and agricultural irrigation products; a continued slow down in new golf course construction or existing golf course renovations; a decline in the growth rate in the number of new golfers, which slows new golf course construction; a reported decline in rounds of golf, which delays investments by golf courses for new equipment and irrigation systems; a slow down in new home construction; the financial impact of direct-to-dealer distribution changes related to the Sitework Systems product line; and challenges of establishing new dealers for the Sitework Systems product line.

Particular risks and uncertainties facing the company's residential segment at the present include inflationary pressures and slower economic growth; a decline in consumer confidence; a decline in retail sales; market response to new products and potential sales decline of other existing product categories; the successful manufacturing alliance with third parties; 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; a slowdown in home sales; and the company's expansion into selected home center markets and the potential decline of sales on other product lines and distribution channels.

Particular risks and uncertainties facing the company's international business at the present include weak economic conditions in the European market; socio-economic conditions in some international markets, which include euro conversion affecting 12 countries, internal and external conflicts between foreign countries, and continuing economic crisis in Japan; tax law changes in Mexico; currency fluctuations of the dollar against the euro, Japanese yen, and Australian dollar; the cost of currency support provided to international customers to compensate for weak currencies compared to the U.S. dollar; and competitive implications and price transparencies related to the euro conversion.

Particular risks and uncertainties facing the company's distribution segment at the present include inflationary pressures and slower economic growth; a decline in consumer confidence; 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 continued slow down in new golf course construction or existing golf course renovations; successful integration of acquired distribution companies; ability to hire quality service technicians; impact of Toro pricing on some product lines sold through the distribution companies; ability to successfully implement a just-in-time inventory initiative; and the ability to rationalize product lines.

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 affect from terrorists actions; weather conditions affecting demand, including warm winters and wet or cold spring and dry summer weather; unanticipated problems or costs associated with the transition of European currencies to the common euro currency; a slowing in housing starts or new golf course starts; inability to raise prices of products due to market conditions; changes in market demographics; actions of competitors; 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; availability of 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

Toro's results for the third quarter of fiscal 2001 were mixed, with a profitability increase of 3.0 percent despite a decline in sales of 4.4 percent. Fiscal 2001 third quarter net sales were $329.8 million compared to $345.2 million for the third quarter of fiscal 2000. Year-to-date net sales were $1,076.8 million compared to $1,067.2 million last year, a slight increase of 0.9 percent. Worldwide sales for the professional segment declined 4.5 percent compared to last year's third quarter, but rose 2.3 percent year-to-date. Worldwide sales for the residential segment decreased 6.9 percent compared to last year's third quarter and 2.6 percent for the year. The distribution segment sales were up 5.0 percent for the quarter and 6.8 percent for the year due to the addition of sales from two newly acquired distribution companies. International sales were down 16.2 percent for the quarter and 2.7 percent year-to-date; disregarding currency effects, international sales decreased 13.3 percent for the quarter, but increased slightly by 0.9 percent for the first nine months of fiscal 2001. The weak economy and unfavorable weather conditions have contributed to the sales decline, although the decline was somewhat offset by continued growth in landscape contractor market sales and positive acceptance of new professional and residential segment products.

Net earnings increased 3.0 percent to $16.9 million from $16.4 million for the same quarter in fiscal 2000, and dilutive earnings per share for the quarter rose 3.2 percent to $1.30 from $1.26 in fiscal 2000 third quarter. Year-to-date net earnings were $48.3 million compared to $44.3 million last year, an increase of 9.1 percent, and dilutive earnings per share for the year were $3.68 compared to $3.39 last year. Excluding restructuring and other unusual income, year-to-date net earnings would have been $47.9 million and dilutive earnings per share would have been $3.65. Reduced interest expense and higher levels of other income, net were the main contributors to the earnings improvement.

The following table summarizes net sales by segment:

(Dollars in thousands)	Three Months Ended			
	August 3, 2001	July 28, 2000	$ Change	% Change
Professional	$ 224,992	$ 235,662	$ (10,670)	(4.5)%
Residential	88,052	94,553	(6,501)	(6.9)
Distribution	43,452	41,376	2,076	5.0
Other	(26,685)	(26,425)	(260)	(1.0)
Total *	$ 329,811	$ 345,166	$ (15,355)	(4.4)%
* Includes international sales of	$ 54,711	$ 65,291	$ (10,580)	(16.2)%

(Dollars in thousands)	Nine Months Ended			
	August 3, 2001	July 28, 2000	$ Change	% Change
Professional	$ 710,054	$ 693,967	$ 16,087	2.3%
Residential	340,831	349,759	(8,928)	(2.6)
Distribution	103,956	97,341	6,615	6.8
Other	(78,028)	(73,863)	(4,165)	(5.6)
Total *	$ 1,076,813	$ 1,067,204	$ 9,609	0.9%
* Includes international sales of	$ 215,113	$ 221,178	$ (6,065)	(2.7)%

Professional Segment Net Sales

Net sales for the worldwide professional segment in the third quarter of fiscal 2001 were $225.0 million compared to $235.7 million in the third quarter of fiscal 2000, a decrease of 4.5 percent. A weaker economy, unfavorable weather conditions, and a slow down in new golf course construction had a negative effect on sales to the golf market worldwide for equipment and irrigation systems. Sales were also lower for residential/commercial irrigation products due to unfavorable weather and economic conditions. International sales, mainly in Europe, were also negatively affected by the weak economy and unfavorable weather conditions. Sitework Systems shipments declined compared to last year's third quarter due to challenges in setting up a new dealer channel. Somewhat offsetting those declines were good volume increases for both Exmark and Toro brands due to the continued growth of the landscape contractor market and acceptance of new products. Shipments of newly introduced commercial equipment also had a positive impact for the quarter.

Net sales for the worldwide professional segment in the first nine months of fiscal 2001 were $710.1 million compared to $694.0 million last year, an increase of 2.3 percent. The worldwide landscape contractor market led this increase with higher sales volumes of mowing equipment for both Exmark and Toro brands. Commercial equipment sales were also up for the year due to the addition of sales from Goossen Industries, Inc. (Goossen) and the introduction of new products, despite a decline in sales for the golf market. Somewhat offsetting those increases were significantly lower sales for golf and residential/commercial irrigation products due to the same reasons noted in the quarter comparison as well as high field inventory levels entering fiscal 2001 for the Irritrol brand. Sitework Systems product line sales were also down for the year due to the same reasons mentioned in the quarter comparison as well as a change to dealer-direct distribution that resulted in returned product from some distributors. Despite this distribution change, retail volume sales have increased compared to last year for the Sitework Systems product line.

Residential Segment Net Sales

Net sales for the worldwide residential segment in the third quarter of fiscal 2001 were $88.1 million compared to $94.6 million in the third quarter of fiscal 2000, a decrease of 6.9 percent. Worldwide shipments of walk power mowers led this decrease due to cold and wet spring weather in most markets as well as weak economic conditions and a slow down in consumer spending. International shipments of walk power mowers and riding products were also down due mainly to the weak economy and unfavorable weather conditions in Europe. Offsetting those declines were strong riding product sales, mainly for new products, which include the Toro(R) TimeCutter(TM) Z mower and the Toro Twister(R) utility vehicle. However, other riding product shipments were down due to unfavorable weather conditions and the weak economy as well as a shift of sales away from existing product lines to the new Toro(R) TimeCutter(TM) Z mower. Electric blower sales were up for the quarter due to the introduction of a new product that shipped in the third quarter of fiscal 2001. Do-it-yourself irrigation product sales also increased for the quarter due to dry weather experienced during the third quarter in key markets and the release of watering bans in the Southeast region, somewhat offset by lost placement at some home centers. Snowthrower shipments were significantly up for the quarter due to low field inventory levels and dealer's fulfillment of presold units.

Year-to-date net sales for the worldwide residential segment in fiscal 2001 were $340.8 million compared to $349.8 million last year, a decrease of 2.6 percent. Despite strong initial shipments of new products, sales were down for most product categories. Snowthrower product sales were down due to the comparison to abnormally high sales in the first quarter of fiscal 2000 resulting from a shift in shipments from the fourth quarter of fiscal 1999 to the first quarter of fiscal 2000. Shipments of walk power mowers and riding products were also down due to the same contributing factors mentioned in the quarter comparison. Do-it-yourself irrigation sales declined for the year due mainly to lost placement at some home centers. Offsetting those decreases was an increase of home solutions product sales, mainly electric trimmers, due to placement expansion at some mass retailers. In fiscal 2001, the residential segment experienced a decrease in sales as a result of customers' asset management efforts to reduce field inventory levels and related financing costs.

Field inventory levels were lower than in the comparable quarter of fiscal 2000 for most residential segment product lines, and are expected to be lower at the end of fiscal 2001 as compared to October 31, 2000. The heavy snowfalls during the winter of 2000-2001 throughout the Snow Belt resulted in significantly higher retail sales of snowthrower products, leaving low field inventory levels. Therefore, the company anticipates significantly higher snowthrower sales in the fourth quarter of fiscal 2001 compared to fiscal 2000.

Distribution Segment Net Sales

Net sales for the distribution segment in the third quarter of fiscal 2001 were $43.5 million compared to $41.4 million in the third quarter of fiscal 2000, an increase of 5.0 percent. The sales increase was due to the addition of sales for two newly acquired distribution companies in fiscal 2001, which added $8.6 million of incremental net sales for the third quarter of fiscal 2001. Factoring out sales from these two acquisitions, sales for the distribution segment would have been down $6.5 million or 15.6 percent compared to the third quarter of fiscal 2000. This decline was due to lower sales related to the weak economy and unfavorable weather conditions, which has reduced the number of golf course projects.

Year-to-date net sales for the distribution segment in fiscal 2001 were $104.0 million compared to $97.3 million last year, an increase of 6.8 percent. The sales increase was due to the addition of sales for two newly acquired distribution companies in fiscal 2001, which added $11.2 million of incremental net sales for the first nine months of fiscal 2001. Factoring out sales from these two acquisitions, sales for the distribution segment would have been down $4.5 million or 4.7 percent. This decline was due to the same contributing factors mentioned in the quarter comparison.

Other Segment Net Sales

Net sales in this segment include the elimination of sales from the professional and residential segments to the distribution segment. The other segment sales elimination in the third quarter of fiscal 2001 were $(26.7) million compared to $(26.4) million in the third quarter of fiscal 2000.

Year-to-date sales elimination in fiscal 2001 was $(78.0) million compared to $(73.9) million last year, an increase of $4.1 million. This increase was due to the addition of two company-owned distributors in fiscal 2001.

Gross Profit

Third quarter gross profit was $126.2 million compared to $133.3 million last year, a decrease of 5.3 percent. As a percentage of net sales, gross profit for the third quarter of fiscal 2001 was 38.3 percent compared to 38.6 percent for the third quarter of fiscal 2000. This decline was due to the elimination of gross profit previously recorded with respect to sales of Toro products to a southwestern-based distributor, which was acquired in the third quarter of fiscal 2001. The decline was also a result of lower sales of high margin products, somewhat offset by lower levels of tooling amortization expense due to fully amortized tooling.

Year-to-date gross profit was $397.3 million compared to $395.2 million last year, an increase of 0.5 percent. As a percentage of net sales, gross profit for the first nine months of fiscal 2001 was 36.9 percent compared to 37.0 percent for the first nine months of fiscal 2000. This decline as a percentage of net sales for the year was mainly due to the same contributing factors mentioned in the quarter comparison.

Selling, General, and Administrative Expense

Third quarter selling, general, and administrative expense (SG&A) was $96.2 million compared to $101.9 million last year, a decrease of 5.5 percent. As a percentage of net sales, SG&A decreased slightly to 29.2 percent from 29.5 percent for the same quarter in fiscal 2000. Acquisitions added approximately $1.9 million of incremental SG&A expense for the third quarter of fiscal 2001. SG&A expense was down due to lower warranty expense resulting from favorable claims experience for the residential segment as well as lower special warranty reserves for product modifications when compared to higher expenses in the third quarter of fiscal 2000 for the professional segment. Incentive compensation costs were also down for the third quarter comparison and marketing costs were lower due to expense reduction efforts. Somewhat offsetting these decreases was higher costs for currency support for international sales.

Year-to-date SG&A expense was $308.0 million compared to $304.6 million last year, a slight increase of 1.1 percent. As a percentage of net sales, SG&A expense increased slightly to 28.6 percent from 28.5 percent last year. Acquisitions added approximately $3.8 million of incremental SG&A expense for the first nine months of fiscal 2001. The increase in SG&A costs was due to higher levels of currency support for international sales and higher incentive compensation costs recorded in the first half of fiscal 2001. Offsetting those increases were lower warranty and marketing costs due to the same factors mentioned in the quarter comparison.

Restructuring and Other Unusual Income

Year-to-date restructuring and other unusual income was $0.7 million, which increased income for the residential segment. This income derived from the reversal of the remaining accrual for closing of the Sardis, Mississippi facility, which was sold during the first quarter of fiscal 2001.

Interest Expense

Third quarter interest expense was $6.2 million compared to $7.7 million last year, a decrease of 19.3 percent. This decrease was primarily due to lower levels of short-term debt as a result of improved asset management, the use of earnings from the past 12 months to pay down debt, and lower interest rates.

Year-to-date interest expense was $17.9 million compared to $21.1 million last year, a decrease of 15.1 percent. This decrease in interest expense for the year was due to the same contributing factors as in the quarter comparison.

Other Income, Net

Third quarter other income, net, was $3.1 million compared to $2.3 million last year, an increase of $0.8 million. This improvement was due to higher finance charge revenue and an insurance recovery, somewhat offset by lower levels of exchange rate currency gains.

Year-to-date other income, net, was $4.5 million compared to $0.7 million last year, an increase of $3.8 million. This increase was due to lower levels of exchange rate currency losses compared to the first nine months of last year, increased royalty income, and an insurance recovery, but was somewhat offset by an increase in write-downs of investments.

Operating Earnings (Loss) by Segment

Operating earnings (loss) by segment is defined as earnings (loss) from operations plus other income, 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 third quarter of fiscal 2001 were $37.7 million compared to $36.4 million in the third quarter of fiscal 2000, an increase of 3.6 percent. As a percentage of net sales, professional segment operating margins increased to 16.8 percent from 15.4 percent for the same quarter in fiscal 2000. This profit improvement was mainly due to lower SG&A costs as a percent of sales, which declined 1.7 percent due primarily to lower marketing costs and warranty expenses. This was somewhat offset by lower levels of currency gains. Gross margins were even with last year at 39.4 percent for the third quarter.

Year-to-date operating earnings for the worldwide professional segment in fiscal 2001 were $105.3 million compared to $96.7 million last year, an increase of 8.8 percent. As a percentage of net sales, professional segment operating margins increased to 14.8 percent from 13.9 percent last year. This increase was due to higher sales volumes, mainly for landscape contractor equipment. A 1.2 percent reduction in SG&A costs as a percent of sales also contributed to this improvement and was due to the same reasons mentioned in the quarter comparison, but the reduction was somewhat offset by higher costs for currency support. Lower levels of currency losses also contributed to the increase in profits. However, gross margins were lower as a percentage of sales by 0.5 percent.

Residential Segment Operating Earnings

Operating earnings for the worldwide residential segment in the third quarter of fiscal 2001 were $5.1 million compared to $5.4 million in the third quarter of fiscal 2000, a decrease of 5.6 percent. As a percentage of net sales, residential segment operating margins increased to 5.8 percent from 5.7 percent over the same quarter in fiscal 2000. Gross margin rose 1.1 percent as a percentage of net sales due to increased sales of higher margin products, continued cost reduction efforts, and lower amounts of tooling amortization expense due to fully amortized tooling. SG&A expense as a percentage of net sales was higher by 0.5 percent mainly due to lower sales volumes.

Year-to-date operating earnings for the worldwide residential segment in fiscal 2001 were $30.0 million compared to $26.8 million last year, an increase of 12.0 percent. As a percentage of net sales, residential segment operating margins increased to 8.8 percent from 7.7 percent last year. Gross margin increased 1.0 percent as a percentage of sales due to the same contributing factors mentioned in the quarter comparison. Restructuring and other unusual income of $0.7 million this year also contributed to the improvement in operating earnings. SG&A costs as a percentage of sales were also slightly lower than last year by 0.1 percent.

Distribution Segment Operating Earnings (Losses)

Operating earnings for the distribution segment in the third quarter of fiscal 2001 were $0.2 million compared to $2.2 million in the third quarter of fiscal 2000, a decrease of $2.0 million. This profit decline was attributable to higher SG&A costs, mainly due to the acquisition of two distribution companies that added $1.8 million of incremental SG&A costs and restructuring of these operations. Gross margins were slightly lower by 0.1 percent for the quarter.

The distribution segment fiscal 2001 year-to-date results were $1.1 million of operating losses compared to $3.2 million of operating earnings last year, an unfavorable change of $4.3 million. Gross margin decreased as a percentage of sales by 0.4 percent due to lower sales of high margin product lines. SG&A costs were also higher for the year due to the acquisitions of two distribution companies that added $2.3 million of incremental SG&A costs. SG&A expense was also higher due to investments and operational restructuring in these distribution companies.

Other Segment Operating Losses

Operating losses for the other segment in the third quarter of fiscal 2001 were $16.1 million compared to a loss of $17.9 million in the third quarter of fiscal 2000, an improvement of $1.8 million. The improvement was due to lower interest costs, reduced corporate expenses, and increased other income, somewhat offset by higher gross profit reversal related to the acquisition of a southwestern-based distribution company mentioned previously.

Year-to-date operating losses for the other segment in fiscal 2001 were $57.5 million compared to losses of $56.4 million in fiscal 2000, an unfavorable change of $1.1 million. The loss increase was due to higher corporate expenses, mainly for incentive compensation expenses, legal costs, and bad debt expense. In addition, gross profit reversal related to the acquisition of a southwestern-based distribution company also contributed to this loss increase for the year. These negative factors were slightly offset by lower interest costs and higher other income.

Provision for Income Taxes

The effective tax rate for the first nine months of fiscal 2001 and fiscal 2000 was 37.0 percent.

Financial Position as of August 3, 2001

August 3, 2001 compared to July 28, 2000

Total assets at August 3, 2001 were $908.7 million compared to $898.0 million on July 28, 2000, an increase of $10.7 million. Net accounts receivable decreased by $32.4 million. Acquisitions added $8.4 million of incremental net receivables. The decline in accounts receivable was mainly due to lower sales volumes and improved collection efforts. Inventory increased $32.1 million. Acquisitions added $11.4 million of incremental net inventory. This inventory increase was mainly due to the sales shortfall, prebuilding of inventory, and early purchases of work-in-process compared to last year. Net property, plant, and equipment increased $10.0 million due to higher amounts of capital additions in comparison to depreciation expense as well as the addition of property, plant, and equipment related to the acquisitions. Goodwill and other assets decreased $3.9 million primarily as a result of valuation charges for the company's investment in a technology company and a distribution company as well as amortization of goodwill and intangible assets.

Total current liabilities at August 3, 2001 were $356.4 million compared to $371.2 million at July 28, 2000, a decrease of $14.8 million. Short-term debt decreased by $27.4 million due to higher levels of accounts payable, net earnings, and lower amounts of accounts receivable, somewhat offset by higher levels inventory. Accounts payable increased by $12.6 million due to the company's efforts to increase the number of days outstanding in accounts payable by renegotiating payment terms with vendors.

August 3, 2001 compared to October 31, 2000

Total assets at August 3, 2001 were $908.7 million compared to $779.4 million at October 31, 2000, an increase of $129.3 million. Net accounts receivable increased $73.2 million from October 31, 2000 due to the normal seasonal increase in accounts receivable. Inventory increased by $50.6 million due to the normal seasonal buildup of inventory, plus prebuilding of inventory and early purchases of work-in-process inventory. In addition, acquisitions added $11.4 million of incremental net inventory. Net property, plant, and equipment increased $5.3 million due to higher amounts of capital additions in comparison to depreciation expense. Goodwill and other assets decreased $2.7 million primarily as a result of valuation charges for the company's investment in a technology company and a distribution company as well as amortization of goodwill and intangible assets during the first nine months of fiscal 2001.

Total current liabilities at August 3, 2001 were $356.4 million compared to $260.9 million at October 31, 2000, an increase of $95.5 million. This increase was the result of additional short-term debt of $82.8 million, reflecting the company's strategy of utilizing short-term debt to fund seasonal working capital needs. Accounts payable decreased by $9.2 million due to the timing of payments, somewhat offset by the company's efforts to extend its payment terms as described above. Accrued liabilities increased by $21.6 million due mainly to higher accruals for warranty, income tax, and currency support costs as well as higher accruals for various seasonal sales and marketing programs.

Outlook

Toro anticipates the weakened economy and unfavorable weather conditions to continue through the remainder of fiscal 2001, and sales are expected to be relatively flat compared to fiscal 2000. In fiscal 2002, the company is estimating revenue to be up in the single digits from fiscal 2001. On a positive note, the company anticipates to achieve earnings growth of 12 to 15 percent in fiscal 2001 above fiscal 2000. In fiscal 2002, Toro is estimating that earnings will grow in the double digits over fiscal 2001, excluding the effect of the change in reporting goodwill. Toro also anticipates gross margin at 37 to 38 percent for fiscal 2001 and growth of operating expenses in fiscal 2001 at 5 to 9 percent, in dollars, above fiscal 2000. The tax rate is expected to remain at 37.0 percent for the remainder of fiscal 2001.

Liquidity and Capital Resources

Cash used in operating activities for the first nine months of fiscal 2001 was $9.1 million lower than the first nine months in fiscal 2000 primarily due to a decrease in accounts receivable, higher levels of accounts payable, and an increase in net earnings, somewhat offset by an increase in inventory. Cash used in investing activities increased $4.9 million due to the purchase price, net of cash acquired, for Goossen and EICON, slightly offset by reduced purchases of property, plant, and equipment compared to last year. Cash provided by financing activities was higher by $5.2 million due to a higher increase of short-term debt for the first nine months of fiscal 2001 compared to the first nine months of fiscal 2000 and proceeds from stock option exercises, somewhat offset by higher amounts of common stock repurchases. In addition, cash on hand at October 31, 1999, which was high due to the fiscal year end occurring on a Sunday when cash received on Saturday could not be utilized to pay down short-term debt until fiscal 2000, was used for operating and investing activities in the first quarter of fiscal 2000.

The company's U.S. seasonal working capital requirements are funded with $289.0 million of committed unsecured bank credit lines. In addition, the company's non-U.S. operations maintain unsecured short-term lines of credit of approximately $16.0 million. The company also has banker's acceptance agreements under which an additional $40.0 million of credit lines are available. The company's business is seasonal, with peak borrowing under the working capital lines described above generally occurring between February and May each year.

Management believes that the combination of funds available through its existing or anticipated financing arrangements, coupled with forecasted cash flows, will provide the necessary capital resources for the company's anticipated working capital, capital additions, acquisitions, and stock repurchases through fiscal 2002.

Inflation

The company is subject to the effects of changing prices. During the first nine months of fiscal 2001, the company continued to experience inflationary pressures for purchases of general commodities. The company is attempting to deal with these inflationary pressures by actively pursuing internal cost reduction efforts and through slight price increases. No significant price increases are planned for fiscal 2001 because of competitive pressures.

Euro Currency

The European Monetary Union (EMU) is in the last few months of a three-year transition phase during which a common currency (the "euro") was introduced in participating countries. This new currency is being used for financial transactions and on January 1, 2002 will replace the old national currencies, which must be withdrawn by July 2002. During the transition to the euro, companies and public administrations have been changing budgetary, accounting, contractual, and fiscal systems while using parallel currencies and converting legacy data. Uncertainty continues as to what effects the conversion to the euro will have on the marketplace, especially the effects on individual consumers. One anticipated effect will be more transparent price differences on goods in European countries.

Significant issues for the company arising from the transition are price competition on Toro distributor and Toro direct sales, and the possible need for and cost of currency support for Toro distributors in the European Union. Current concerns include currency swings and instability in the rate of exchange between the euro and the U.S. dollar, and the lack of diversification of currencies in Europe with the introduction of the euro. The company currently invoices international export shipments in U.S. dollars, however, it is analyzing the effects of invoicing in foreign currencies, and the euro would be among those currencies considered.

One of the company's European subsidiaries commenced using a new Enterprise Resource Planning (ERP) system in May 2001, without any major negative impact on its operations, which is euro compliant. The company's other European subsidiary is converting to the same ERP system. This new system will enable both subsidiaries to report financial transactions and fiscal reports in the euro for fiscal 2002. The cost of converting to these systems has been immaterial compared to the company's overall operating expenses.

Based on evaluation to date, management currently believes that while the company will incur internal and external costs to adjust to the euro indirectly, such costs are not expected to have a significant impact on operations, cash flows, or the financial condition of the company and its subsidiaries taken as a whole in future periods.

Quantitative and Qualitative Disclosures about Market Risk

Toro is exposed to market risk stemming from changes in foreign 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 Exchange Risk

Toro is subject to risk from sales and loans to wholly owned subsidiaries as well as sales to, purchases from, and bank lines of credit with, third party customers, suppliers, and creditors, respectively, denominated in foreign currencies. The company manages foreign exchange rate exposure from anticipated sales, accounts receivable, intercompany loans, anticipated purchases, credit obligations through the use of naturally occurring offsetting positions (borrowing in local currency) and forward and swap foreign exchange contracts. Forward foreign exchange contracts to hedge forecasted transactions are designated as cash flow hedges with the fair value recorded in accumulated other 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 other comprehensive income (loss) into earnings. The related amounts payable to, or receivable from, the contract counter parties are included in other accrued liabilities or prepaid expenses and other current assets.

The following forward exchange contracts held by the company have maturity dates in fiscal year 2001 and 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 133, therefore, the fair value impact is recorded in other income, net. The average contracted rate, notional amount, pre-tax value of derivative instruments in accumulated other comprehensive loss, and fair value of derivative instruments in other income, net at August 3, 2001 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	.5182	$ 15,120.0	$ 46.4	$ 54.1
Buy US dollar/Sell Canadian dollar	1.4543	2,544.2	93.2	40.6
Buy Australian dollar/Sell US dollar	.5183	10,966.1	--	(7.9)
Buy Canadian dollar/Sell US dollar	1.5478	355.4	1.7	1.1
Buy British pound/Sell US dollar	1.3881	1,492.2	36.1	(.1)
Buy Euro/Sell US dollar	.8731	7,857.9	56.5	(3.2)
Buy Japanese yen/Sell US dollar	117.4345	10,644.2	(350.3)	(71.6)
Buy Mexican peso/Sell US dollar	9.8007	2,066.2	--	15.1

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 that information.

Commodities

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

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

3(i)(a) and 4(a)	Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form S-3, Registration No. 33-16125).
3(i)(b)	and 4(b) Certificate of Amendment to Certificate of Incorporation of Registrant dated December 9, 1986 (incorporated by reference to Exhibit 3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended January 30, 1987, Commission File No. 1-8649).
3(i)(c)	and 4(c) Certificate of Designation to Certificate of Incorporation of Registrant dated May 28, 1998 (incorporated by reference to Exhibit (1)(A) to Registrant's Current Report on Form 8-K dated May 27, 1998).
3(ii) and 4(d)	Bylaws of Registrant, as amended.
4(e)	Specimen form of Common Stock certificate (incorporated by reference to Exhibit 4(c) to Registrant's Registration Statement on Form S-8, Registration No. 2-94417).
4(f)	Rights Agreement dated as of May 20, 1998, between Registrant and 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 Exhibit 10(c) to Registrant's Quarterly Report on Form 10-Q for the quarter ended April 28, 2000).*
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 Exhibit 10(f) to Registrant's Quarterly Report on Form 10-Q for the quarter ended July 30, 1999).*
10(g)	The Toro Company 2000 Stock Option Plan (incorporated by reference to Exhibit 10(g) to Registrant's Quarterly Report on Form 10-Q for the quarter ended April 28, 2000).*
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 July 30, 1999).*

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(l) to Registrant's Quarterly Report on Form 10-Q for the quarter ended May 4, 2001).*

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* 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: September 17, 2001

EXHIBIT 3(ii) and 4(d)

BYLAWS
OF
THE TORO COMPANY
(A Delaware Corporation)

ARTICLE I
Offices, Corporate Seal, and Records

Section 1.1 The registered office of the Corporation shall be established and maintained in the City of Dover, in the County of Kent, in the State of Delaware, and the Corporation may have other offices, either within or without the State of Delaware, at such place or places as the Board of Directors may from time to time determine. Unless otherwise determined by the Board of Directors, the principal executive office of the Corporation shall be at 8111 Lyndale Avenue South, in the City of Bloomington, County of Hennepin, State of Minnesota.

Section 1.2 The Corporation may have a corporate seal in such form as determined by the Board of Directors, which may be altered at its pleasure, and the seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 1.3 The Corporation shall at all times keep at its principal executive office, or at such other place or places as the Board of Directors may determine, a share register giving the names and addresses of the stockholders, the number and classes of shares held by each, and the dates on which the certificates therefor were issued.

Section 1.4 The Corporation shall at all times keep at its principal executive office the following records:

(a) The original or copies of records of all proceedings of stockholders and directors, of its Bylaws and all amendments thereto, and of reports made to stockholders or any of them within the next preceding three years;

(b) A statement of names and usual business addresses of its directors and principal officers;

(c) Appropriate financial statements.

Section 1.5 Subject to law and any order of the Court of Chancery, any stockholder of record shall have the right to inspect and make copies or extracts therefrom, upon proper written demand under oath stating the purpose thereof, in person or by attorney or other agent, at any reasonable time or times, for any proper purpose, and at the principal executive offices of the corporation, the stock ledger, a list of stockholders, and other books and records, required financial statements, and the records of the proceedings of the stockholders and directors.

ARTICLE II
Meeting of Stockholders

Section 2.1 All meetings of the stockholders shall be held at such place within or without the State of Delaware as may be designated by the Board of Directors in the notice of the meeting.

Section 2.2 The Regular Meetings of the stockholders, if any, shall be held on the day or date and at the time and place as the Board of Directors may fix from time to time in its discretion, for the election of directors and the transaction of such other business as may come before the meeting; provided, however, that any previously scheduled regular meeting of the stockholders may be postponed by resolution of the Board of Directors upon public notice given prior to the date previously scheduled for such regular meeting of the stockholders; and provided, further, that no business with respect to which special notice is required by law shall be transacted at a regular meeting unless such notice shall have been given.

Section 2.3 Special meetings of the stockholders for any purpose or purposes may be called only by the Board of Directors, pursuant to a resolution approved by a majority of the entire Board of Directors; provided, however, that any previously scheduled special meeting of the stockholders may be postponed by resolution of the Board of Directors upon public notice given prior to the date previously scheduled for such special meeting of the stockholders. Business transacted at a special meeting shall be confined to the purposes stated in the call and notice thereof.

Section 2.4 Notice of each regular and special meeting of stockholders stating the date, time and place thereof, and the general nature of the business to be considered thereat, shall be given at least ten (10) days and not more than sixty (60) days before the date of the meeting to each stockholder entitled to vote thereat. Such notice shall be deemed delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation.

Section 2.5 Each stockholder who is entitled to vote pursuant to the terms of the Certificate of Incorporation and these Bylaws, or who is entitled to vote pursuant to the laws of the State of Delaware, shall be entitled to vote in person or by proxy, but no proxy shall be voted after three years from its date unless such proxy provides for a longer period. All elections for directors shall be determined by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. All other questions shall be decided by the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on such question.

A complete list of the stockholders entitled to vote at any meeting of stockholders at which directors are to be elected, arranged in alphabetical order, with the address of each, and the number of shares held by each, shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

The Board of Directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including without limitation as officers, employees, agents of representatives of the Corporation, to act at the meeting and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate inspector has been appointed to act or is able to act at a meeting of stockholders, the Chair of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

The Chair of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at the meeting.

Section 2.6 Except as otherwise required by law, by the Certificate of Incorporation or by these Bylaws, the presence, in person or by proxy, of stockholders holding a majority of the voting power of the outstanding stock of the Corporation shall constitute a quorum at all meetings of the stockholders. The Chair of any regular or special meeting of the stockholders or a majority in interest of the stockholders entitled to vote thereat shall have the power to adjourn such meeting from time to time, without notice other than announcement at the meeting, whether or not there is such a quorum. No notice of the time and place of adjourned meetings need be given except as required by law; provided, however, that if such adjournment is for more than thirty (30) days, or if after such adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at such adjourned meeting. At any such adjourned meeting at which the requisite amount of stock entitled to vote shall be represented, any business may be transacted which might have been transacted at the meeting as originally noticed; but only those stockholders entitled to vote at the meeting as originally noticed shall be entitled to vote at any adjournment or adjournments thereof unless the Board of Directors shall have fixed a new record date for such adjournment or adjournments pursuant to Section 2.7 of these Bylaws.

The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 2.7 In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect to any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be less than ten nor more than sixty days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment or adjournments of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 2.8 (A) (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at a regular meeting of stockholders (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Bylaw.

(2) For nominations or other business to be properly brought before a regular meeting by a stockholder pursuant to clause (c) of paragraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than forty-five (45) days nor more than ninety (90) days prior to the first anniversary of the date on which the Corporation first mailed its proxy materials for the preceding year's regular meeting; provided, however, that in the event that the date of the regular meeting is advanced by more than thirty (30) days or delayed by more than sixty (60) days from the anniversary date of the preceding year's regular meeting, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such rescheduled regular meeting and not later than the close of business on the later of the 60th day prior to such rescheduled regular meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought

before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation that are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in paragraph (A) (2) of this Bylaw, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Corporation at least seventy (70) days prior to the first anniversary of the preceding year's regular meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(B) Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (A) (2) at the principal executive offices of the Corporation not earlier than the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by; the Board of Directors to be elected at such meeting.

(C) (1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a regular meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal shall be disregarded. The Chair of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal shall be disregarded.

(2) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

(3) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

ARTICLE III
Directors

Section 3.1 The business and affairs of the Corporation shall be managed under the direction of a Board of Directors which, subject to any right of the holders of any series of Preferred Stock then outstanding to elect additional directors under specified circumstances, shall consist of not less than eight (8) nor more than eleven (11) persons. The exact number of directors within the minimum and maximum limitations specified in the preceding sentence shall be fixed from time to time by the Board pursuant to a resolution adopted by a majority of its members. The directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of Class A to expire at the 1984 Annual Meeting of Stockholders, the term of office of Class B to expire at the 1985 Annual Meeting of Stockholders and the term of office of Class C to expire at the 1986 Annual Meeting of Stockholders. At each Annual Meeting of Stockholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Stockholders after their election.

Section 3.2 Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled only by majority vote of the directors then in office, and directors so chosen shall hold office for a term expiring at the Annual Meeting of Stockholders at which the term of the Class to which they have been elected expires. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any director, or the entire Board, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 80% of the voting power of the then outstanding Common Stock of the Company.

Section 3.3 Regular meetings of the Board shall be held at bi-monthly intervals during each fiscal year, or on such alternate intervals or dates as the Board may fix from time to time in its discretion, and at such time and place as the Chairman of the Board of Directors or, in his absence, the President shall determine, preferably at the principal executive office of the Corporation during the third week of the month. At least three (3) days' notice thereof shall be given by the Secretary to each director, either personally or by telephone, mail, telegram or facsimile transmission.

Section 3.4 Special meetings of the Board may be called by the Chief Executive Officer or by any two directors, and not less than twenty-four (24) hours' notice thereof shall be given by the Secretary to any director, either personally or by telephone, mail, telegram or facsimile transmission.

Section 3.5 Any action taken by the Board or any committee thereof at any meeting where all members are present shall be valid whether or not notice of such meeting was in fact given, except as provided by law. Any action which might be taken at a meeting of the Board, or at a meeting of any committee thereof as the case may be, may be taken without meeting as provided by law.

Section 3.6 At all meetings of the Board a majority of the directors shall be necessary and sufficient to constitute a quorum for the transaction of business, but if less than a quorum are present, those present may adjourn the meeting from time to time until a quorum shall be present.

Section 3.7 The Board may unanimously elect from among the directors an Executive Committee, a Compensation Committee, an Audit Committee, and a Nominating Committee, and such other committees as the Board may from time to time determine, to serve at the pleasure of the Board. The members of the Board of Directors and of said Committees shall have the role of monitoring the conduct of the business and affairs of the corporation on behalf of all of the constituencies of the Corporation, including in particular, those who invest in the stock of the Corporation, in an environment of loyal but independent oversight. Each Committee shall maintain independent minutes of action, and with the exception of the Audit Committee, and resolutions of the Compensation Committee relating to matters governed by or within the scope of Section 16 of the Securities and Exchange Act of 1934 or Section 162(m) of the Internal Revenue Code of 1986, or its successor provision, such minutes shall be subject to approval by the Board.

Section 3.8 The Executive Committee shall consist of two or more of the directors of the Corporation, including the Chairman of the Board of Directors, and one of the members shall be designated by the Board of Directors as its Chair. The Chair of the Executive Committee shall preside at all meetings of the Executive Committee and shall perform such other duties as may be prescribed by the Board of Directors. The underlying purpose of the Executive Committee is to exercise all of the powers and authority of the Board during intervals between meetings of the Board, including the power to declare dividends on the Corporation's common stock. The Committee shall have discretionary authority to undertake additional activities within the scope of its primary functions.

Section 3.9 The Audit Committee shall consist of a minimum of three directors of the Corporation, none of whom shall be officers or employees of the Corporation, and one of the members shall be designated by the Board of Directors as its Chair. The Chair of the Audit Committee shall preside at all meetings of the Audit Committee and shall perform such other duties as may be prescribed by the Board of Directors. The purpose of the Audit Committee is to assist the Board of Directors in fulfilling the Board's responsibility to oversee the Corporation's financial reports and accounting and reporting practices and to perform its duties and responsibilities as outlined in the Audit Committee Charter. The manager of the Corporation's internal auditing function, when operative, shall have an indirect reporting relationship to the Audit Committee, and shall perform such duties as may be prescribed by the Board of Directors or by the Audit Committee. The Committee shall have discretionary authority to undertake additional activities within the scope of its primary functions.

Section 3.10 The Compensation Committee shall consist of two or more directors of the Corporation, none of whom shall be officers or employees of the Corporation, and one of the members shall be designated by the Board of Directors as its Chair. The Chair of the Compensation Committee shall preside at all meetings of the Compensation Committee and shall perform such other duties as may be prescribed by the Board of Directors. The purposes of the Compensation Committee include: to administer all employee benefit plans heretofore or hereafter established including the granting of stock options and incentive awards authorized under employee benefit plans governed by or within the scope of Section 16 of the Securities and Exchange Act of 1934 or Section 162(m) of the Internal Revenue Code of 1986, or its successor provision; to study and analyze specific and general matters of management compensation; to periodically review management compensation policies and practices; to make recommendations to the Board respecting incentive compensation awards; and to consider and approve officer salary adjustments of elected officers of the Corporation at the level of Vice President and above.

Section 3.11 The Nominating Committee shall consist of two or more directors of the Corporation who do not have any direct or indirect material economic or personal association with the Corporation, or with any of its affiliates or the employees thereof. One of the members of the Committee shall be designated as its Chair by the Board of Directors. The Chair of the Nominating Committee shall preside at all meetings of the Nominating Committee and shall perform such other duties as may be prescribed by the Board of Directors. The primary functions of the Nominating Committee are to review with the Chief Executive Officer of the Corporation an appropriate size and makeup for the Board of Directors, including individuals having such background and business experience as are consistent with and compatible to the long-range interests and future direction of the Corporation; to consider the qualifications of persons identified as prospective Directors to either fill vacancies on the Board or enlarge its membership; to conduct research to identify and recommend nomination of suitable candidates who are willing to serve as members of the Board of Directors and who will make a substantial contribution to the Corporation based upon a careful review of their experience, background, interests, ability and availability to meet time commitments for board and committee responsibilities; and to determine whether any prospective or seated member of the Board has any economic or familial relationship with the Corporation which may negate his/her suitability for such service. The Committee shall also monitor current members of the Board in light of the same guidelines used to select candidates, shall direct the activities of the Board and management in matters of corporate governance, and shall have general discretionary authority to undertake additional activities within the scope of its primary functions.

Section 3.12 Meetings of each committee shall be held from time to time as the Chair of such committee, the Chairman of the Board of Directors, or any two members of such committee shall determine, preferably at the principal executive office of the Corporation. All members of each committee shall be given written notice of any meeting by the Secretary, such notice to be mailed to each member at least three (3) days prior to the date thereof; provided, however, such written notice shall not be required as to any member who shall receive notice in person at least twenty-four (24) hours prior to the time of the meeting. Any member may in writing, before or after any meeting, waive notice thereof, and any member by his attendance at, and participation in, the action taken at any meeting shall be deemed to have waived notice thereof. A majority of the members of a committee shall constitute a quorum. Any action which might be taken at a meeting of a committee may be taken without meeting if evidenced by a resolution signed by all members. The Chair of each Board committee shall preside at all meetings of such committee and shall perform such other duties as may be prescribed by the Board of Directors or the Chairman thereof.

Section 3.13 All action taken by the Board committees shall be reported to the Board of Directors at its meeting next succeeding such action and shall be subject to revision by the Board of Directors provided that no acts or rights of third parties shall be prejudiced thereby. All such action shall also be recorded in the minute books of the Corporation in the same manner in which action taken by the Board of Directors is recorded. The affirmative vote of the majority of all members of each committee shall be necessary to its adoption of any resolution.

ARTICLE IV
Officers

Section 4.1 The officers of this Corporation shall be elected by the Board from time to time as it deems appropriate, and shall include a Chairman of the Board of Directors, who shall serve as Chief Executive Officer, to be elected by the Board of Directors from among its members, a president, and one or more vice presidents one of whom shall perform the duties of the Chief Financial Officer, a secretary, a treasurer, and such other officers and agents as may from time to time be elected by the Board of Directors. Any two offices except those of the President and Vice President may be held by the same person. All officers shall hold office at the pleasure of the Board of Directors and be subject to dismissal by it, with or without cause.

Section 4.2 The salary and other compensation of the Chairman of the Board, the President and all elected Vice Presidents shall be fixed by the Board of Directors. If any vacancy shall occur among the elected officers, it shall be filled by the Board.

Section 4.3 The Chairman of the Board of Directors, or in his absence the Chair of the Compensation Committee, shall preside at all meetings of the Board of Directors. The Chairman of the Board has authority to appoint certain officers of the Company, including vice presidents and certain assistant officers whose responsibilities do not warrant election by the Board of Directors, and shall also perform such other duties as may be prescribed by the Board of Directors.

Section 4.4 The President shall be Chief Operating Officer of the Corporation and, as such, shall carry out the plans for the Corporation as approved by the Chairman of the Board and the Board of Directors. In the absence of the Chairman of the Board of Directors, he shall preside at all meetings of the stockholders and otherwise perform the Chief Executive Officer's duties as prescribed by the Board of Directors.

Section 4.5 Each Vice President shall perform such duties as may be prescribed by the Board of Directors. The Vice President of Finance shall be the Chief Financial Officer. In the absence or disability of the Chairman of the Board, the President shall succeed to his powers and duties, and in the absence of the President, the Chief Financial Officer shall succeed to his powers and duties, and in the event all are unable to serve for any reason, the Vice Presidents shall succeed to their power and duties in the order in which elected.

Section 4.6 The Secretary shall attend all meetings of the Board of Directors, Executive Committee, and of the stockholders, and record all votes and keep minutes of all proceedings. He shall give, or cause to be given, required notices of meetings of the Board of Directors, Executive Committee and of the stockholders. He shall keep in safe custody the seal of the Corporation and, when authorized by the Board, affix the same to any instrument requiring it, and shall perform such other duties as may be prescribed by the Board of Directors.

Section 4.7 The Treasurer shall maintain necessary relationships with banks and other financial institutions and provide for adequate lines of credit; shall plan for and maintain adequate funds in appropriate working and depository accounts to meeting outstanding and planned commitments; and shall be responsible for safe custody and control of all funds and securities of the Corporation. He shall establish policies and procedures in relation to, and supervise management of, the extension of credit, and the collection of receivables. He shall maintain appropriate bond and dividend records, provide for proper signature or endorsement on all financial documents of the Corporation, and shall perform such other duties as may be prescribed by the President.

Section 4.8 The assistant to any officer shall, in the absence or disability of that officer, perform his duties and shall perform such other duties as may be prescribed by the Board of Directors.