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 April 30, 2004

THE TORO COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**1-8649**	**41-0580470**
(State of Incorporation)	(Commission File Number)	(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 ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No o

The number of shares of Common Stock outstanding as of May 28, 2004 was 24,299,472.

THE TORO COMPANY
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2000 Directors Stock Plan, as amended
Amendment No. 3 to Multi-Year Credit Agreement
Certification of CEO Pursuant to Section 302

Certification of CFO Pursuant to Section 302
Certification of CEO & CFO Pursuant to Section 906

PART I. ITEM 1. FINANCIAL INFORMATION

THE TORO COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings (Unaudited)
(Dollars and shares in thousands, except per-share data)

	Three Months Ended		Six Months Ended	
	April 30, 2004	May 2, 2003	April 30, 2004	May 2, 2003
Net sales	$548,027	$495,840	$861,600	$791,802
Cost of sales	349,148	320,208	550,111	510,589
Gross profit	198,879	175,632	311,489	281,213
Selling, general, and administrative expense	117,211	111,259	213,248	207,610
Restructuring and other income, net	(64)	(179)	(86)	(179)
Earnings from operations	81,732	64,552	98,327	73,782
Interest expense	(3,702)	(4,320)	(7,584)	(8,412)
Other income, net	465	2,410	1,774	7,692
Earnings before income taxes	78,495	62,642	92,517	73,062
Provision for income taxes	26,296	20,671	30,993	24,110
Net earnings	$ 52,199	$ 41,971	$ 61,524	$ 48,952
Basic net earnings per share of common stock	$ 2.10	$ 1.68	$ 2.47	$ 1.96
Diluted net earnings per share of common stock	$ 2.00	$ 1.61	$ 2.36	$ 1.89
Weighted average number of shares of common stock outstanding — Basic	24,800	25,006	24,863	24,964
Weighted average number of shares of common stock outstanding — Dilutive	26,089	26,021	26,115	25,910

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)

	April 30, 2004	May 2, 2003	October 31, 2003
ASSETS			
Cash and cash equivalents	$ 31,825	$ 26	$110,287
Receivables, net	484,763	483,615	280,124
Inventories, net	238,472	259,979	228,909
Prepaid expenses and other current assets	13,422	12,003	12,484
Deferred income taxes	44,256	39,653	42,111
Total current assets	812,738	795,276	673,915
Property, plant, and equipment	479,070	456,805	469,924
Less accumulated depreciation	315,973	294,625	310,808
	163,097	162,180	159,116
Deferred income taxes	1,181	4,196	1,181
Other assets	19,104	12,984	12,353
Goodwill, net	78,028	77,929	78,013
Other intangible assets, net	2,515	1,654	2,854
Total assets	$1,076,663	$1,054,219	$927,432
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of long-term debt	$ 225	$ 64	$ 3,830
Short-term debt	29,991	99,299	2,138
Accounts payable	96,636	104,319	73,976
Accrued liabilities	274,934	244,463	223,192
Total current liabilities	401,786	448,145	303,136
Long-term debt, less current portion	175,069	178,713	175,091
Deferred revenue and other long-term liabilities	12,228	8,508	12,003
Stockholders' equity:			
Preferred stock, par value $1.00, authorized 1,000,000 voting and 850,000 non-voting shares, none issued and outstanding	—	—	—
Common stock, par value $1.00, authorized 50,000,000 shares, issued and outstanding 24,230,346 shares as of April 30, 2004 (net of 2,785,764 treasury shares), 24,561,682 shares as of May 2, 2003 (net of 2,454,428 treasury shares), and 24,388,999 shares as of October 31, 2003 (net of 2,627,111 treasury shares)	24,230	24,562	24,389
Additional paid-in capital	—	18,122	7,658
Retained earnings	474,653	388,313	417,973
Accumulated other comprehensive loss	(11,303)	(12,144)	(12,818)
Total stockholders' equity	487,580	418,853	437,202
Total liabilities and stockholders' equity	$1,076,663	$1,054,219	$927,432

See accompanying notes to condensed consolidated financial statements.

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THE TORO COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Six Months Ended	
	April 30, 2004	May 2, 2003
Cash flows from operating activities:		
Net earnings	$ 61,524	$ 48,952
Adjustments to reconcile net earnings to net cash used in operating activities:		
Non-cash asset recovery	(52)	—
Equity losses from an investment	374	—
Provision for depreciation and amortization	17,052	15,707
Gain on disposal of property, plant, and equipment	(219)	(26)
Increase in deferred income taxes	(2,098)	(673)
Tax benefits related to employee stock option transactions	2,927	160
Changes in operating assets and liabilities:		
Receivables, net	(211,449)	(230,456)
Inventories, net	(8,937)	(30,475)
Prepaid expenses and other current assets	554	(1,426)
Accounts payable, accrued expenses, and deferred revenue	80,129	72,643
Net cash used in operating activities	(60,195)	(125,594)
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(21,356)	(21,927)
Proceeds from disposal of property, plant, and equipment	1,425	1,189
(Increase) decrease in investment in affiliates	(1,065)	1,000
Increase in other assets	(54)	(883)
Proceeds from sale of business	—	1,016
Net cash used in investing activities	(21,050)	(19,605)
Cash flows from financing activities:		
Increase in short-term debt	27,815	97,890
Repayments of long-term debt	(3,627)	(15,804)
Increase (decrease) in other long-term liabilities	75	(2)
Proceeds from exercise of stock options	5,709	4,039
Purchases of common stock	(23,872)	(722)
Dividends on common stock	(2,991)	(2,997)
Net cash provided by financing activities	3,109	82,404
Effect of exchange rates on cash	(326)	5
Net decrease in cash and cash equivalents	(78,462)	(62,790)
Cash and cash equivalents as of the beginning of the period	110,287	62,816
Cash and cash equivalents as of the end of the period	$ 31,825	$ 26
Supplemental disclosures of cash flow information:		
Stock issued in connection with stock compensation plans	$ 5,567	$ 3,672
Accounts receivable converted to long-term notes receivable	6,439	—

See accompanying notes to condensed consolidated financial statements.

THE TORO COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)
April 30, 2004

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. Unless the context indicates otherwise, the terms “company” and “Toro” refer to The Toro Company and its subsidiaries. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting primarily of recurring accruals, considered necessary for a fair presentation of the financial position and the results of operations. Since the company’s business is seasonal, operating results for the six months ended April 30, 2004 cannot be annualized to determine the expected results for the fiscal year ending October 31, 2004. Certain amounts from prior period’s financial statements have been reclassified to conform to this period’s presentation.

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

For further information, refer to the consolidated financial statements and notes included in the company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2003. The policies described in that report are used for preparing quarterly reports.

Accounting Policies

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, management applies judgments based on its understanding and analysis of the relevant circumstances, historical experience, and actuarial valuations. Actual amounts could differ from those estimated at the time the consolidated financial statements are prepared. Note 1 to the consolidated financial statements in the company’s Annual Report on Form 10-K provides a summary of the significant accounting policies followed in the preparation of the financial statements. Other footnotes in the company’s Annual Report on Form 10-K describe various elements of the financial statements and the assumptions made in determining specific amounts.

Comprehensive Income

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

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	**April 30, 2004**	**May 2, 2003**	**April 30, 2004**	**May 2, 2003**
Net earnings	$52,199	$41,971	$61,524	$48,952
Other comprehensive income (loss):				
Cumulative translation adjustments	(1,152)	634	(95)	1,226
Unrealized gain (loss) on derivative instruments	2,344	435	1,610	(767)
Comprehensive income	$53,391	$43,040	$63,039	$49,411

Stock-Based Compensation

The company accounts for stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB No. 25), and related Interpretations. The following table illustrates the effect on net earnings and net earnings per share if the company had applied the fair value recognition provisions of Statement of Financial Accounting Standard (SFAS) No. 123, "Accounting for Stock-Based Compensation."

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	**April 30, 2004**	**May 2, 2003**	**April 30, 2004**	**May 2, 2003**
Net earnings, as reported	$52,199	$41,971	$61,524	$48,952
Add: Stock-based employee compensation costs, net of tax, included in net earnings	2,557	831	3,680	1,663
Deduct: Stock-based employee compensation costs, net of tax, if fair value method had been applied	(1,426)	(488)	(6,812)	(5,224)
Pro forma net earnings	$53,330	$42,314	$58,392	$45,391
Net earnings per share data:				
As reported — Basic	$ 2.10	$ 1.68	$ 2.47	$ 1.96
Pro forma — Basic	$ 2.15	$ 1.69	$ 2.35	$ 1.82
As reported — Diluted	$ 2.00	$ 1.61	$ 2.36	$ 1.89
Pro forma — Diluted	$ 2.06	$ 1.64	$ 2.25	$ 1.76

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)	**April 30, 2004**	**May 2, 2003**	**October 31, 2003**
Raw materials and work in process	$ 73,840	$ 72,245	$ 67,753
Finished goods and service parts	213,814	228,670	208,176
	287,654	300,915	275,929
Less: LIFO	32,151	26,903	32,151
Other reserves	17,031	14,033	14,869
Total	$238,472	$259,979	$228,909

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Restructuring Activity

In fiscal 2003, the company announced plans to close its two-cycle engine manufacturing facility located in Oxford, Mississippi, which ceased manufacturing operations on April 30, 2004. Approximately 115 job positions and related staff reductions will be lost in connection with closing this facility. As of April 30, 2004, of the 115 job position reductions, 82 had been eliminated. As of the end of the second quarter of fiscal 2004, the restructuring and other expense reserve also included costs that will be incurred until the Madera, California manufacturing facility is sold. Therefore, the company will incur ongoing maintenance related costs after the facilities are closed and until they are sold, which is captioned in “Other” below.

In the second quarter of fiscal 2003, the company recorded a benefit of $0.2 million for the reversal of the remaining accrual for closing a facility in Australia, which was sold March 28, 2003.

The following is an analysis of the company’s restructuring and other income and related reserve accounts:

(Dollars in thousands)	Severance & Benefits	Asset Impairment	Other	Total
Balance as of October 31, 2003	$ 844	$ —	$ 229	$1,073
Changes in estimates	(175)	(52)	4	(223)
Other costs	—	—	137	137
Utilization	(282)	52	(191)	(421)
Balance as of April 30, 2004	$ 387	$ —	$ 179	$ 566

The company expects a majority of the remaining accruals to be utilized by the end of fiscal 2004.

Per Share Data

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

	Three Months Ended		Six Months Ended	
(Shares in thousands)	April 30, 2004	May 2, 2003	April 30, 2004	May 2, 2003
Basic				
Weighted average number of shares of common stock outstanding	24,800	25,006	24,841	24,943
Assumed issuance of contingent shares	—	—	22	21
Weighted average number of shares of common stock and assumed issuance of contingent shares	24,800	25,006	24,863	24,964
Dilutive				
Weighted average number of shares of common stock and assumed issuance of contingent shares	24,800	25,006	24,863	24,964
Assumed conversion of stock options	1,289	1,015	1,252	946
Weighted average number of shares of common stock, assumed issuance of contingent shares, and assumed conversion of stock options	26,089	26,021	26,115	25,910

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Segment Data

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

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

(Dollars in thousands) Three months ended April 30, 2004	Professional	Residential	Distribution	Other	Total
Net sales	$338,524	$194,838	$44,880	$(30,215)	$548,027
Intersegment gross sales	32,061	3,254	—	(35,315)	—
Earnings (loss) before income taxes	71,704	26,719	1,603	(21,531)	78,495
Three months ended May 2, 2003					
Net sales	$314,116	$172,469	$35,348	$(26,093)	$495,840
Intersegment gross sales	26,898	3,616	—	(30,514)	—
Earnings (loss) before income taxes	63,424	24,349	608	(25,739)	62,642

Six months ended April 30, 2004	Professional	Residential	Distribution	Other	Total
Net sales	$546,202	$292,725	$64,533	$ (41,860)	$ 861,600
Intersegment gross sales	45,995	4,085	—	(50,080)	—
Earnings (loss) before income taxes	100,153	35,056	(570)	(42,122)	92,517
Total assets	489,946	249,088	60,250	277,379	1,076,663
Six months ended May 2, 2003					
Net sales	$507,560	$267,134	$53,948	$ (36,840)	$ 791,802
Intersegment gross sales	38,942	4,459	—	(43,401)	—
Earnings (loss) before income taxes	91,180	33,010	(2,750)	(48,378)	73,062
Total assets	489,959	241,795	62,195	260,270	1,054,219

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

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	April 30, 2004	May 2, 2003	April 30, 2004	May 2, 2003
Corporate expenses	$(25,040)	$(25,430)	$(45,516)	$(49,675)
Finance charge revenue	1,247	1,017	1,711	1,864
Elimination of corporate financing expense	4,912	4,562	7,441	6,894
Interest expense, net	(3,702)	(4,320)	(7,584)	(8,412)
Other income (expense)	1,052	(1,568)	1,826	951
Total	$(21,531)	$(25,739)	$(42,122)	$(48,378)

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Goodwill

The changes in the net carrying amount of goodwill for the first six months of fiscal 2004 were as follows:

(Dollars in thousands)	Professional Segment	Residential Segment	Total
Balance as of October 31, 2003	$68,985	$9,028	$78,013
Translation adjustment	4	11	15
Balance as of April 30, 2004	$68,989	$9,039	$78,028

Other Intangible Assets

The components of other amortizable intangible assets were as follows:

	April 30, 2004		October 31, 2003	
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	$6,553	$(5,103)	$6,553	$(4,931)
Non-compete agreements	1,000	(670)	1,000	(593)
Other	1,700	(965)	1,700	(875)
Total	$9,253	$(6,738)	$9,253	$(6,399)
Total other intangible assets, net	$2,515		$2,854	

Amortization expense for intangible assets during the first six months of fiscal 2004 was $339,000. Estimated amortization expense for the remainder of fiscal 2004 and succeeding fiscal years is as follows: 2004 (remainder), $309,000; 2005, $628,000; 2006, $601,000; 2007, $407,000; 2008, $281,000; 2009, $121,000 and after 2009, $168,000.

Warranty Guarantees

The company's products are warranted to the end-user to ensure end-user confidence in design, workmanship, and overall quality. Warranty lengths vary by product line, ranging from a period of six months to seven years, and coverage includes parts, labor, and other expenses for non-maintenance repairs provided operator abuse, improper use, or negligence did not necessitate the repair. An authorized distributor or dealer must perform warranty work and submit claims for warranty reimbursement, which the company pays as long as the repairs meet prescribed standards. Warranty expense is accrued at the time of sale based on the estimated number of products under warranty, historical average costs incurred to service warranty claims, the trend in the historical ratio of claims to sales, the historical length of time between the sale and resulting warranty claim, and other factors. Special warranty reserves are also accrued for major rework campaigns. The company also sells additional warranty coverage on select products when the factory warranty period expires.

Warranty provisions, claims, and changes in estimates for the six-month periods ended were as follows:

(Dollars in Thousands) Six Months Ended	Beginning Balance	Warranty Provisions	Warranty Claims	Changes in Estimates	Ending Balance
April 30, 2004	$59,372	$21,041	$(15,553)	$1,078	$65,938
May 2, 2003	$53,590	$22,110	$(16,822)	$ (144)	$58,734

Postretirement Benefit Plans

The following table presents the components of net period benefit costs:

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	April 30, 2004	May 2, 2003	April 30, 2004	May 2, 2003
Service cost	$237	$ 97	$ 475	$194
Interest cost	218	107	436	213
Amortization of losses	178	66	356	131
Net expense	$633	$270	$1,267	$538

As of April 30, 2004, approximately $250,000 of contributions have been made. The company presently anticipates to contribute a total of $500,000 to its postretirement health-care benefit plan in fiscal 2004.

The company maintains The Toro Company Investment, Savings and Employee Stock Ownership Plan for eligible employees. The company's expenses under this plan were $3.4 million and $6.6 million for the second quarter and year-to-date period of fiscal 2004, respectively. The company's expenses under this plan were $3.0 million and $6.1 million for the second quarter and year-to-date period of fiscal 2003, respectively.

Derivative Instruments and Hedging Activities

The company uses derivative instruments to assist in the management of exposure to currency exchange rates. The company uses derivatives only in an attempt to limit underlying exposure to currency fluctuations, and not for trading purposes. The company documents all relationships between hedging instruments and the hedged items, as well as its risk-management objective and strategy for undertaking various hedging transactions. The company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged item.

The company enters into foreign currency exchange contracts to hedge the risk from forecasted settlement in local currencies of trade sales and purchases. These contracts are designated as cash flow hedges with the fair value recorded in accumulated comprehensive income (loss) and as a hedge asset or liability in prepaid expenses or accrued liabilities, as applicable. Once the forecasted transaction has been recognized as a sale or inventory 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) to earnings. During the second quarter and six months ended April 30, 2004, the amount of losses reclassified to earnings for such cash flow hedges was $2.5 million and $5.2 million, respectively. As of April 30, 2004, the amount of such contracts outstanding was $92.8 million. The unrecognized after-tax loss portion of the fair value of the contracts recorded in accumulated comprehensive loss as of April 30, 2004 was $0.6 million.

The company also enters into other foreign currency exchange contracts. These contracts are intended to hedge intercompany financing transactions and other activities that are not subject to the accounting criteria of SFAS No. 133; therefore, changes in fair value of these instruments are recorded in other income, net.

New Accounting Pronouncement

In December 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits," amendments of FASB Statements No. 87, 88, and 106. This statement added certain disclosure requirements for the major categories of plan assets and expected returns, the accumulated pension benefit obligations, the measurement date used, the benefits expected to be paid to plan participants during the next ten years, the employer's contributions expected to be paid to the plans during the next fiscal year, and interim disclosure of the components of the benefit costs along with any revisions to the contributions expected to be paid to the plans for the current fiscal year. The annual disclosures are effective for the company's fiscal 2004 Annual Report to be filed on Form 10-K. The interim disclosure has been included in the company's fiscal 2004 second quarter 10-Q, as required. SFAS No. 132 requires additional disclosure only and has no effect on the amounts reported in the company's financial statements.

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Nature of Operations

The Toro Company is in the business of designing, manufacturing, and marketing professional turf maintenance equipment, turf and agricultural irrigation systems, landscaping equipment, and residential yard products worldwide. Our emphasis is to provide well-built, dependable, and innovative products supported by an extensive service network. A significant portion of our revenues has historically been attributable to new and enhanced products. As part of our new initiative, “6 + 8”, we expect to invest in growth strategies at higher than historical levels. The goals of this initiative are to achieve an after-tax return on sales of 6 percent or better and grow revenues at an average rate of 8 percent or better by the end of fiscal 2006.

RESULTS OF OPERATIONS

Overview

The results for the second quarter of fiscal 2004 were very strong. Our net earnings rose 24.4 percent compared to the second quarter of fiscal 2003 on a sales growth rate of 10.5 percent. Year-to-date net earnings rose 25.7 percent compared to the same period last year on a year-to-date sales growth rate of 8.8 percent. Sales for most of our product lines were up mainly as a result of successful new product introductions, continued increase in demand for landscape contractor equipment, and overall improving economic conditions. In addition, our customers are anticipating strong retail demand during fiscal 2004 reflecting expectations of economic growth and positive response for our new products introduced within the past two years. Our financial condition remains strong with lower average debt levels as well as only modest increases in average receivables and lower inventory levels compared to the same period last year. As part of our next generation initiative “6 + 8”, we plan to leverage the positive momentum we have generated over the last several years while investing in the future through such investments as in engineering, brand building, and market expansion. Our employees are embracing the ideas and tools introduced through the use of “lean” manufacturing concepts, which are designed to eliminate waste throughout the company. The first half of fiscal 2004 results were strong, and we are optimistic results for the full fiscal year of 2004 will remain strong. However, in the second half of fiscal 2004, we expect to encounter continued rising costs for several key raw materials, such as steel and other commodities, and we plan to continue to invest in aforementioned key growth strategies. We expect an improvement in sales growth in fiscal 2004 compared to the sales growth in fiscal 2003, and also anticipate double-digit diluted earnings per share growth, while keeping a cautionary eye on the world economies, weather, field inventory levels, and commodity prices which could cause actual results to differ from our outlook.

Net Earnings

Second quarter of fiscal 2004 net earnings were $52.2 million or $2.00 per diluted share compared to $42.0 million or $1.61 per diluted share for the second quarter of fiscal 2003, an increase of over 24 percent. Year-to-date net earnings in fiscal 2004 were $61.5 million or $2.36 per diluted share compared to $49.0 million or $1.89 per diluted share last year, an increase of 25 percent. This year-to-date increase is even greater considering last year’s earnings benefited from a gain for a legal settlement of $3.4 million ($2.1 million net of tax). The primary factors contributing to the increase were higher sales volumes, an increase in gross margins, and leveraging selling, general and administrative expenses.

The following table summarizes the major operating costs and other income as a percentage of net sales:

	Three Months Ended		Six Months Ended	
(Dollars in thousands)	April 30, 2004	May 2, 2003	April 30, 2004	May 2, 2003
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	63.7	64.6	63.8	64.5
Gross profit	36.3	35.4	36.2	35.5
Selling, general, and administrative expense	(21.4)	(22.4)	(24.8)	(26.2)
Interest expense	(0.7)	(0.9)	(0.9)	(1.1)
Other income, net	0.1	0.5	0.2	1.0
Provision for income taxes	(4.8)	(4.1)	(3.6)	(3.0)
Net earnings	9.5%	8.5%	7.1%	6.2%

Net Sales

Worldwide consolidated net sales for the second quarter and year-to-date of fiscal 2004 were up 10.5 percent and 8.8 percent, respectively, from the same periods in the prior year. Residential segment sales increased due primarily to the introduction of a new Toro walk power mower model as well as initial stocking shipments of riding mowers sold under a private label. Professional segment net sales were also up due to continued increase in demand for landscape contractor equipment as well as positive acceptance of new products introduced within the past two years. Distribution segment sales grew significantly for the quarter and year-to-date comparison due to strong demand and improving economic conditions. Favorable currency rates also contributed approximately 1 percent of the sales growth for both the quarter and year-to-date comparison. International sales for the second quarter and year-to-date of fiscal 2004 were up 19.5 percent and 16.2 percent, respectively, from the same periods in the prior year. This increase was driven primarily by favorable currency exchange rates and new product introductions. Disregarding currency effects, international sales increased 15.2 percent and 10.4 percent for the second quarter and year-to-date of fiscal 2004, respectively, compared to the same periods in fiscal 2003.

Gross Profit

Gross profit as a percentage of net sales increased for the second quarter and year-to-date of fiscal 2004 by 0.9 and 0.7 percentage points from the same periods of the prior year, to 36.3 percent and 36.2 percent respectively. These increases were the result of the following factors: (i) cost reduction efforts, including ongoing benefits from past and continuing profit improvement initiatives and (ii) favorable foreign currency exchange rates compared to the U.S. dollar. Somewhat offsetting those positive factors were higher outbound freight expense and rising costs for steel and other commodities.

Selling, General, and Administrative Expense

Selling, general, and administrative expense (SG&A) increased for the second quarter and year-to-date of fiscal 2004 by 5.3 percent and 2.7 percent, respectively, from the same periods of the prior year. SG&A as a percentage of net sales for the second quarter and year-to-date of fiscal 2004 was 21.4 percent and 24.8 percent, respectively, compared to 22.4 percent and 26.2 percent for the second quarter and year-to-date of fiscal 2003, respectively. The percent to net sales decrease was due mainly to: (i) costs for distributor changes last year that did not occur this year; (ii) a decline in bad debt expense; and (iii) lower warehousing expense. Somewhat offsetting those decreases were: (i) continued investments in information systems; (ii) increased investments in engineering as part of our new “6 + 8” initiative; and (iii) higher incentive compensation expense.

Restructuring and Other Income, Net

In the second quarter and year-to-date of fiscal 2004, we recorded $64,000 and $86,000, respectively, of restructuring and other income, net, primarily related to changes in reserve estimates for the previously announced closure of our Oxford, Mississippi facility. In the second quarter of fiscal 2003, we recorded a benefit of $179,000 for the reversal of the remaining accrual for closing a facility in Australia, which was sold March 28, 2003.

Interest Expense

Interest expense for the second quarter and year-to-date of fiscal 2004 declined 14.3 percent and 9.8 percent, respectively, from the same periods in the prior year. This decrease was primarily due to lower levels of debt as we continue to use earnings to finance operating activities and pay down debt.

Other Income, Net

Other income, net for the second quarter and year-to-date of fiscal 2004 was $0.5 million and $1.8 million, respectively. This is a decrease of $1.9 million and $5.9 million, respectively, from the same periods of the prior year. The decrease was due primarily to the following items incurred or realized last year: (i) a gain from a legal settlement; (ii) insurance recoveries; and (iii) gain from the sale of a distributorship. In addition, during the second quarter of fiscal 2004, we recorded equity losses from an investment and higher levels of currency losses.

Provision for Income Taxes

The effective tax rate for the second quarter and year-to-date of fiscal 2004 was 33.5 percent compared to 33.0 percent in the same periods in the prior year. The increase was due to an anticipated increase in domestic earnings, which is expected to dilute the effects of export tax benefits.

BUSINESS SEGMENTS

We operate in three reportable segments: professional, residential, and distribution. A fourth segment called "other" consists of corporate and financing functions. 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.

The following table summarizes net sales by segment:

	Three Months Ended			
(Dollars in thousands)	**April 30, 2004**	**May 2, 2003**	**$ Change**	**% Change**
Professional	$338,524	$314,116	$24,408	7.8%
Residential	194,838	172,469	22,369	13.0
Distribution	44,880	35,348	9,532	27.0
Other	(30,215)	(26,093)	(4,122)	(15.8)
Total *	$548,027	$495,840	$52,187	10.5%
* Includes international net sales of:	$111,773	$ 93,555	$18,218	19.5%

	Six Months Ended			
(Dollars in thousands)	**April 30, 2004**	**May 2, 2003**	**$ Change**	**% Change**
Professional	$546,202	$507,560	$38,642	7.6%
Residential	292,725	267,134	25,591	9.6
Distribution	64,533	53,948	10,585	19.6
Other	(41,860)	(36,840)	(5,020)	(13.6)
Total *	$861,600	$791,802	$69,798	8.8%
* Includes international net sales of:	$187,151	$161,011	$26,140	16.2%

The following table summarizes operating earnings (loss) by segment:

	Three Months Ended			
(Dollars in thousands)	**April 30, 2004**	**May 2, 2003**	**$ Change**	**% Change**
Professional	$ 71,704	$ 63,424	$ 8,280	13.1%
Residential	26,719	24,349	2,370	9.7
Distribution	1,603	608	995	163.7
Other	(21,531)	(25,739)	4,208	16.3
Total	$ 78,495	$ 62,642	$15,853	25.3%

	Six Months Ended			
(Dollars in thousands)	**April 30, 2004**	**May 2, 2003**	**$ Change**	**% Change**
Professional	$100,153	$ 91,180	$ 8,973	9.8%
Residential	35,056	33,010	2,046	6.2
Distribution	(570)	(2,750)	2,180	79.3
Other	(42,122)	(48,378)	6,256	12.9
Total	$ 92,517	$ 73,062	$19,455	26.6%

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Professional

Net Sales. Worldwide net sales for the professional segment in the second quarter and year-to-date of fiscal 2004 were up 7.8 percent and 7.6 percent, respectively, compared to the same periods last year. Worldwide shipments of most product lines were up due to the success of introducing new products within the past two years, continued increase in demand for landscape contractor equipment, and overall improving economic conditions that have resulted in strong retail demand in most businesses. Somewhat offsetting those increases was a decline in golf irrigation product sales due to timing of golf projects. International sales were significantly up due also to strong demand and the success of introducing new products as well as a weaker U.S. dollar.

Operating Earnings. Operating earnings for the professional segment in the second quarter and year-to-date of fiscal 2004 increased 13.1 percent and 9.8 percent, respectively, compared to the same periods last year. Expressed as a percentage of net sales, professional segment operating margins increased to 21.2 percent compared to 20.2 percent in the second quarter of fiscal 2003, and fiscal 2004 year-to-date professional segment operating margins increased to 18.3 percent compared to 18.0 percent last year. The increases were due mainly to higher gross margins as a result of the same factors discussed previously in the Gross Profit section. SG&A expense as a percentage of net sales was also lower due mainly to leveraging the fixed portion of SG&A costs over higher sales volumes. Somewhat offsetting the year-to-date profit improvement was lower other income in fiscal 2004 considering there was a gain from a legal settlement realized last year.

Residential

Net Sales. Worldwide net sales for the residential segment in the second quarter and year-to-date of fiscal 2004 were up by 13.0 percent and 9.6 percent, respectively, compared to the same periods last year. Shipments of Toro walk power mowers to the home center channel led this increase as we introduced a new model and experienced strong retail demand. In addition, fiscal 2004 second quarter sales benefited from a shift of sales from the first quarter in comparison to the same prior year periods as a result of the timing of a retail promotional program. Sales of riding products were slightly up due to initial stocking shipments of new products sold under a private label. However, other riding product sales declined due to initial stocking orders for the new TimeCutter® zero-turning radius riding mowers introduced last year as well as continued strong competition. For the year-to-date comparison, snowthrower product shipments were also higher due to the successful introduction of our new two-stage snowthrower products as well as heavy snowfalls in key markets, which also resulted in lower field inventory levels this year compared to last year. International sales benefited from a weaker U.S. dollar as well as strong sales of Pope® irrigation products in Australia and increased sales of walk power mower products.

Operating Earnings. Operating earnings for the residential segment in the second quarter and year-to-date of fiscal 2004 increased 9.7 percent and 6.2 percent, respectively, compared to the same periods last year due to higher sales volumes. Expressed as a percentage of net sales, residential segment operating margins decreased to 13.7 percent compared to 14.1 percent in the second quarter of fiscal 2003, and fiscal 2004 year-to-date residential segment operating margins decreased to 12.0 percent compared to 12.4 percent last year. This decline was due mainly to increased sales of new products with lower gross margins.

Distribution

Net Sales. Worldwide net sales for the distribution segment in the second quarter and year-to-date of fiscal 2004 were up 27.0 percent and 19.6 percent, respectively, compared to the same periods last year. The sales increase was due primarily to strong demand for commercial equipment and the addition of sales from a southeastern-based distributor acquired during the second quarter of fiscal 2003.

Operating Earnings (Losses). Operating earnings for the distribution segment were $1.6 million in the second quarter of fiscal 2004 compared to $0.6 million in the second quarter of fiscal 2003. Year-to-date operating losses for fiscal 2004 were $0.6 million compared to $2.8 million last year. This favorable change in operating results was due to higher sales volumes at the company-owned distributorships.

Other

Net Sales. Net sales for the other segment include the elimination of sales from the professional and residential segments to the distribution segment. Professional and residential segment shipments to the company-owned distributorships are eliminated in the other segment because consolidated results reflect those sales in the distribution segment after products are sold by the company-owned distributorships. In addition, elimination of the professional and residential segments' floor plan interest costs from Toro Credit Company are also included in this segment. The other segment net sales elimination increased for the second quarter and year-to-date of fiscal 2004 by 15.8 percent and 13.6 percent, respectively, compared to the same periods last year, reflecting higher levels of shipments to the distribution companies.

Operating Losses. Operating losses for the other segment improved for the second quarter and year-to-date of fiscal 2003 by $4.2 million and $6.3 million, respectively, compared to the same periods last year. This was due to the following factors: (i) costs for distributor changes last year that did not occur this year; (ii) a decline in bad debt expense; (iii) reduction of the gross profit elimination in inventory at our company-owned distributors due mainly to a decline in inventory levels; and (iv) lower interest expense. Somewhat offsetting those decreases were continued investments in information systems and higher incentive compensation costs.

FINANCIAL POSITION

Working Capital

During the first half of fiscal 2004, our financial condition remained strong and emphasis continued on improving asset management. Average working capital for the first half of fiscal 2004 was $373.0 million compared to $311.0 million for the first half of fiscal 2003. The increase of 19.9 percent was due primarily to lower average debt and higher average cash and cash equivalents, somewhat offset by higher average accrued liabilities. Average receivables for the first half of fiscal 2004 increased by 2.4 percent compared to the first half of fiscal 2003 on a sales increase of 8.8 percent. Our average days outstanding for receivables improved to 77 days based on sales for the last twelve months ended April 30, 2004, compared to 83 days for the twelve months ended May 2, 2003. Average inventory levels declined 2.5 percent for the first half of fiscal 2004 compared to the first half of fiscal 2003, and average inventory turnover improved 4.0 percent for the last twelve months ended April 30, 2004 compared to the last twelve months ended May 2, 2003. The improvement in average days outstanding for receivables and average inventory turnover reflects our continuing efforts to improve asset utilization.

Liquidity and Capital Resources

Our businesses are working capital intensive and require funding for purchases of raw materials used in production, replacement parts inventory, capital expenditures, expansion and upgrading of existing facilities, as well as for financing receivables from customers. We believe that cash generated from operations, together with our fixed rate long-term debt, bank credit lines, and cash on hand, provide us with adequate liquidity to meet our operating requirements. We believe that the combination of funds available through existing or anticipated financing arrangements, coupled with forecasted cash flows, will be sufficient to provide the necessary capital resources for our anticipated working capital, capital expenditures, debt repayments, and stock repurchases through at least the next twelve months.

Cash Flow. Cash used in operating activities for the first six months of fiscal 2004 was 52.1 percent lower than the first six months of fiscal 2003, due primarily to higher earnings and a lower increase in receivables and inventory levels as well as higher accrued liabilities. Cash used in investing activities was higher by 7.4 percent compared to the first half of fiscal 2003, mainly due to cash used for an investment in fiscal 2004, whereas we received proceeds from an investment and sale of a distributorship in fiscal 2003. Cash provided by financing activities was $3.1 million for the first six months of fiscal 2004 compared to $82.4 million for the first six months of fiscal 2003. This change was due to a lower increase in short-term debt during the first six months of fiscal 2004 compared to the first six months of fiscal 2003 as a result of using cash on hand to finance operating activities, somewhat offset by lower levels of repayments of long-term debt and higher repurchases of common stock.

Credit Lines and Other Capital Resources. Our business is seasonal, with peak borrowing generally occurring between February and May each year. Our U.S. seasonal working capital requirements are funded with a $175.0 million medium-term committed unsecured bank credit line with various banks, which expires in February 2005. We also have a $75.0 million secured credit line backed by a multi-year credit agreement. Interest expense on these credit lines is determined based on a LIBOR or commercial paper rate plus a basis point spread defined in the credit agreements. In addition, our non-U.S. operations and a domestic subsidiary

also maintain unsecured short-term lines of credit of approximately $12.0 million. These facilities bear interest at various rates depending on the rates in their respective countries of operation. We also have a letter of credit subfacility as part of our credit agreements. Average borrowings were $9.4 million in the first half of fiscal 2004 compared to $50.4 million in the first half of fiscal 2003. The significant decrease in average short-term debt resulted primarily from the use of cash to finance working capital requirements and higher average levels of accrued liabilities. As of April 30, 2004, we had $232.0 million of unutilized availability under our credit agreements.

Significant financial covenants in our credit agreements are interest coverage and debt to capitalization ratios. We were in compliance with all covenants related to our credit agreements as of April 30, 2004, and expect to be in compliance with all covenants for the remainder of fiscal 2004. Our credit agreements require compliance with all of the covenants defined in the agreements. However, if we are out of compliance with any debt covenant required by our credit agreements, the banks could terminate their commitments unless we could negotiate a covenant waiver from the banks. In addition, our long-term public notes and debentures could become due and payable if we were unable to obtain a covenant waiver or refinance our medium-term debt under our credit agreements. If our credit rating falls below investment grade, the interest rate we currently pay on outstanding debt on the credit agreements would increase, but the credit commitments could not be cancelled by the banks based only on a ratings downgrade. Our debt rating for long-term unsecured senior, non-credit enhanced debt has been unchanged for the first half of fiscal 2004 by Standard and Poor’s Ratings Group at BBB- and by Moody’s Investors Service at Baa3.

Off-Balance Sheet Arrangements and Contractual Obligations

Our off-balance sheet arrangements relate to customer financing activities and inventory purchase commitments as well as operating lease commitments. See our most recent Annual Report filed on Form 10-K for further details regarding our off-balance sheet arrangements and contractual obligations. There has been no material change in this information.

Inflation

We are subject to the effects of inflation and changing prices. In our opinion, changes in net sales and net earnings that have resulted from inflation and changing prices have not been material during the periods presented. However, there is no assurance that inflation will not materially affect us in the future. In fiscal 2004, we expect steel and other commodity prices to increase. We will attempt to deal with these and other inflationary pressures by actively pursuing internal cost reduction efforts and introducing slight price increases.

Critical Accounting Policies and Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, we must make decisions which impact the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgments based on our understanding and analysis of the relevant circumstances, historical experience, and actuarial valuations. Actual amounts could differ from those estimated at the time the consolidated financial statements are prepared.

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2003. Not all of those significant accounting policies require us to make difficult subjective or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (i) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (ii) different estimates reasonably could have been used or changes in the estimate that are reasonably likely to occur from period to period would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. Our critical accounting estimates include the following:

Warranty Reserve. Warranty coverage on our products ranges from a period of six months to seven years, and coverage includes parts, labor, and other expenses for non-maintenance repairs, provided operator abuse, improper use or negligence did not necessitate the repair. At the time of sale, we accrue a warranty reserve by product line for estimated costs in connection with future warranty claims. We also establish reserves for major rework campaigns upon approval. The amount of our warranty reserves is based primarily on the estimated number of products under warranty, historical average costs incurred to service warranty claims, the trend in the historical ratio of claims to sales, and the historical length of time between the sale and resulting warranty claim. We periodically assess the adequacy of our warranty reserves based on changes in these factors and record any necessary adjustments if actual claim experience indicates that adjustments are necessary. Actual claims could be higher or lower than amounts estimated, as the amount and value of warranty claims are subject to variation of such factors as performance of new

products, significant manufacturing or design defects not discovered until after the product is delivered to customers, product failure rates, and higher or lower than expected service costs for a repair. We believe that analysis of historical trends and knowledge of potential manufacturing or design problems provide sufficient information to establish a reasonable estimate for warranty claims at the time of sale. An unexpected increase in warranty claims or in the costs associated with servicing those claims would result in an increase in our warranty accrual and a decrease in our net earnings.

Accounts and Notes Receivable Valuation. We value accounts and notes receivable, net of an allowance for doubtful accounts. Each quarter, we estimate our ability to collect outstanding receivables, which provides a basis for an allowance estimate for doubtful accounts. In doing so, we evaluate the age of our receivables, past collection history, current financial conditions of key customers, and economic conditions. Based on this evaluation, we establish a reserve for specific accounts and notes receivable that we believe are uncollectible, as well as an estimate of uncollectible receivables not specifically known. Portions of our accounts receivable are protected by a security interest in products held by customers, which minimizes our collection exposure. A deterioration in the financial condition of any key customer or a significant slowdown in the economy could have a material negative impact on our ability to collect a portion or all of the accounts and notes receivable. We believe that an analysis of historical trends and our current knowledge of potential collection problems provide us sufficient information to establish a reasonable estimate for an allowance for doubtful accounts. However, since we cannot predict with certainty future changes in the financial stability of our customers, our actual future losses from uncollectible accounts may differ from our estimates. In the event we determine that a smaller or larger uncollectible accounts reserve is appropriate, we would record a credit or charge to selling, general, and administrative expense in the period in which we made such a determination.

Forward-Looking Information

Safe Harbor Statement. This Quarterly Report on Form 10-Q contains or incorporates by reference not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, we or others on our behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences and/or web casts open to the public, in press releases or reports, on our Internet web site or otherwise. Statements that are not historical are forward-looking and reflect expectations and assumptions. We try to identify forward-looking statements in this report and elsewhere by using words such as "expect", "looking ahead", "anticipate", "plan", "estimate", "believe", "should", "intend", and similar expressions. Our forward-looking statements generally relate to our future performance, including our anticipated operating results and liquidity requirements, our business strategies and goals, and the effect of laws, rules and regulations and outstanding litigation on our business.

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 Toro. The following are some of the factors known to us that could cause our actual results to differ materially from what we have anticipated in our forward-looking statements:

- Changes in global and domestic economies, including but not limited to slow growth rate, slow down in home sales, rise in interest rates, inflation, unemployment, and weaker consumer confidence, which could have a negative impact on our financial results.
- Continued threat of terrorist acts and war, which may result in heightened security and higher costs for import and export shipments of components or finished goods, and contraction of the U.S. and worldwide economies.
- Our ability to achieve goals of the "6 + 8" initiative, which is intended to increase our after-tax return on sales to 6 percent or better and grow revenues at an average rate of 8 percent or better by the end of fiscal 2006.
- Our ability to implement lean manufacturing "no waste" and productivity improvement initiatives, which are intended to improve gross margins and offset a portion of rising raw material costs.
- Increased competition, including competitive pricing pressures, new competitors entering the markets we serve, potential loss of market share, new product introductions, and financing programs offered by both domestic and foreign companies.
- Fluctuations in the cost and availability of raw materials, such as steel and other commodities, and the ability to maintain favorable supplier arrangements and relationships.
- Weather conditions that reduce demand for our products.
- Our ability to acquire, develop, and integrate new businesses and manage alliances successfully, both of which are important to our revenue growth.
- Our ability to achieve projected sales and earnings growth for fiscal 2004.
- Market acceptance of new products as well as sales generated from these new products relative to expectations, based on existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs, and research and development.

- Elimination or reduction of shelf space for our products at retailers.
- Unforeseen inventory adjustments or changes in purchasing patterns by our customers, which could reduce sales and necessitate lowering manufacturing volumes, or increase inventory above acceptable levels.
- Changes in our relationship with and terms from third party financing sources utilized by our customers.
- Unforeseen product quality problems in the development and production of new and existing products, which could result in loss of market share, reduced sales, and higher warranty expense.
- Degree of success in restructuring and plant consolidation, including our ability to cost-effectively expand existing, move production between, and close manufacturing facilities.
- The degree of recovery in the golf course market.
- 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.
- Increased dependence on The Home Depot, Inc. as a customer for the residential segment.
- Reduced government spending for grounds maintenance equipment due to reduced tax revenue and tighter government budgets.
- Governmental restrictions placed on water usage as well as water availability.
- Financial viability of some distributors and dealers, changes in distributor ownership, our success in partnering with new dealers, and our customers' ability to pay amounts owed to us.
- Changes in laws and regulations, including changes in accounting standards; taxation changes, including tax rate changes, new tax laws, revised tax law interpretations, or the repeal of the foreign export benefit; and environmental laws.
- The effects of litigation, including threatened or pending litigation, on matters relating to patent infringement, employment, and commercial disputes.
- Adverse changes in currency exchange rates or raw material commodity prices, and the costs we incur in providing price support to international customers and suppliers.

We wish to caution readers not to place undue reliance on any forward-looking statement which speaks only as of the date made and to recognize that forward-looking 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 that we may consider immaterial or do not anticipate at this time. The foregoing risks and uncertainties are not exclusive and further information concerning the company and our businesses, including factors that potentially could materially affect our financial results or condition, may emerge from time to time. We assume no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. We advise you, however, to consult any further disclosures we make on related subjects in our future quarterly reports on Form 10-Q and current reports on Form 8-K we file with or furnish to the Securities and Exchange Commission.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk stemming from changes in foreign currency exchange rates, interest rates, and commodity prices. Changes in these factors could cause fluctuations in our net earnings and cash flows. In the normal course of business, we actively manage the exposure to foreign currency market risk by entering into various hedging instruments, authorized under company policies that place controls on these activities, with counterparties that are highly rated financial institutions. Our hedging activities involve the use of a variety of derivative financial instruments. We use derivative instruments only in an attempt to limit underlying exposure from currency fluctuations and to minimize earnings and cash volatility associated with foreign exchange rate changes, and not for trading purposes. Our market risk on interest rates relates primarily to short-term debt and the potential increase in fair value of long-term debt resulting from a potential decrease in interest rates. However, we do not have a cash flow or earnings exposure due to market risks on long-term debt. See further discussions on these market risks below.

Foreign Currency Exchange Rate Risk. We are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales and loans to wholly owned subsidiaries as well as sales to third party customers, purchases from suppliers, and bank lines of credit with creditors denominated in foreign currencies. Because our products are manufactured or sourced primarily from the United States, a stronger U.S. dollar generally has a negative impact on results from operations outside the United States while a weaker dollar generally has a positive effect. Our primary exchange rate exposure is with the euro, the Japanese yen, the Australian dollar, the Canadian dollar, the British pound, and the Mexican peso against the U.S. dollar.

We enter into various contracts, principally forward contracts that change in value as foreign exchange rates change, to protect the value of existing foreign currency assets, liabilities, anticipated sales, and probable commitments. Decisions on whether to use such contracts are made based on the amount of exposures to the currency involved, and an assessment of the near-term market value for each currency. Worldwide foreign currency exchange rate exposures are reviewed monthly. The gains and losses on these contracts offset changes in the value of the related exposures. Therefore, changes in market values of these hedge instruments are highly correlated with changes in market values of underlying hedged items both at inception of the hedge and over the life of the hedge contract. During the second quarter and six months ended April 30, 2004, the amount of losses reclassified to earnings for such cash flow hedges was $2.5 million and $5.2 million, respectively.

The following foreign currency exchange contracts held by us have maturity dates in fiscal 2004. All items are non-trading and stated in U.S. dollars. Some derivative instruments we enter into do not meet the hedging criteria of SFAS No. 133; therefore, changes in fair value are recorded in other income, net. The average contracted rate, notional amount, pre-tax value of derivative instruments in accumulated other comprehensive income (loss), and fair value impact of derivative instruments in other income, net as of April 30, 2004 were as follows:

Dollars in thousands (except average contracted rate)	Average Contracted Rate	Notional Amount	Value in Accumulated Other Comprehensive Income (Loss)	Fair Value Impact Gain (Loss)
Buy US dollar/Sell Australian dollar	0.6976	$25,492.6	$(284.7)	$ (480.8)
Buy US dollar/Sell Canadian dollar	0.7179	3,876.4	(41.6)	(4.7)
Buy US dollar/Sell Euro	1.1567	98,471.8	(295.7)	(1,834.2)
Buy Euro/Sell US dollar	1.2072	4,104.6	—	(80.7)
Buy Japanese yen/Sell US dollar	116.8857	3,253.6	138.9	75.8
Buy Australian dollar/Sell US dollar	0.7276	4,874.9	—	(42.6)
Buy Mexican peso/Sell US dollar	11.0542	6,875.2	(286.4)	—

Interest Rate Risk. We are exposed to interest rate risk arising from transactions that are entered into during the normal course of business. Our short- and medium-term debt rates are dependent upon the LIBOR rate plus an additional percentage based on our current borrowing level. See our most recent Annual Report filed on Form 10-K (Item 7A). There has been no material change in this information.

Commodity Price Risk. Some raw materials used in our products are exposed to commodity price changes. We manage some of this risk by using a combination of short-term and long-term agreements with some vendors. The primary commodity price exposures are with aluminum, steel, and plastic resin.

Item 4. CONTROLS AND PROCEDURES

The company maintains disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The company's management evaluated, with the participation of the company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the company's disclosure controls and procedures as of the end of the period covered in this Quarterly Report on Form 10-Q. Based on that evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were effective as of the end of such period. There was no change in the company's internal control over financial reporting that occurred during the company's fiscal second quarter ended April 30, 2004 that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. CHANGES IN SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table shows the second quarter of fiscal 2004 stock repurchase activity:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 31, 2004 through February 27, 2004	880	$54.34	880	36,006
February 28, 2004 through March 26, 2004	0	0	0	1,036,006
March 27, 2004 through April 30, 2004	56,179(2)(3)	$60.00	55,593	1,036,006
Total	57,059	$59.89	56,473	

(1) On September 20, 2001, the company's Board of Directors authorized the repurchase of up to 2,000,000 shares of the company's common stock (doubled from the original amount of 1,000,000 shares as a result of the stock split effective April 1, 2003) in open-market or private transactions. On March 12, 2004, the company's Board of Directors authorized the repurchase of up to an additional 1,000,000 shares of the company's common stock under this program in open-market or private transactions. On May 27, 2004, the company's Board of Directors authorized the repurchase of up to an additional 2,000,000 shares under this program, bringing the total maximum number of shares the company is authorized to repurchase under this program to 3,000,000 shares, and authorizing such repurchases to be made in open-market transactions, tender offers, private transactions or other transactions.

(2) On March 12, 2004, the company's Board of Directors authorized the repurchase of up to 2,500,000 shares of the company's common stock through a Dutch auction self-tender offer. On April 21, 2004, the company repurchased 55,593 shares at a price of $60.00 per share. The total cost paid to repurchase shares tendered in the self tender offer plus other tender offer related costs was $4.0 million.

(3) Includes 586 units (shares) of the company's common stock purchased in open-market transactions at an average price of $60.87 per share on behalf of a rabbi trust formed to pay benefit obligations of the company to participants in deferred compensation plans.

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Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Annual Meeting of Stockholders was held on March 12, 2004.

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

	For	Against	Abstain	Broker Non-Votes
1. Election of Directors — for terms expiring in March 2007				
Robert C. Buhrmaster	20,703,075	1,058,936	0	0
Winslow H. Buxton	20,712,832	1,049,179	0	0
Robert H. Nassau	20,323,358	1,438,653	0	0
Christopher A. Twomey	20,735,911	1,026,100	0	0
2. Approval of Selection of Independent Auditors for Fiscal 2004.	20,983,994	693,801	84,215	0
3. Approval to transact any other business or any adjournment of the meeting.	11,384,545	9,753,149	624,317	0

Ronald O. Baukol, Katherine J. Harless, and Dale R. Olseth continue to serve as directors of the company for terms expiring in March 2005.

Janet K. Cooper, Kendrick B. Melrose, Gregg W. Steinhafel, and Edwin H. Wingate continue to serve as directors of the company for terms expiring in March 2006.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3(i) and 4(a)	Amended and Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 4(b) to Registrant’s Current Report on Form 8-K dated May 28, 2003, Commission File No. 1-8649).
3(ii) and 4(b)	Bylaws of Registrant (incorporated by reference to Exhibit 4(c) to Registrant’s Current Report on Form 8-K dated May 28, 2003, Commission File No. 1-8649).
4(c)	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(d)	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(e)	Certificate of Adjusted Purchase Price or Number of Shares dated April 14, 2003 filed by Registrant with Wells Fargo Bank Minnesota, N.A., as Rights Agent, in connection with Rights Agreement dated as of May 20, 1998 (incorporated by reference to Exhibit 2 to Registrant’s Amendment No. 1 to Registration Statement on Form 8-A/A dated April 14, 2003, Commission File No. 1-8649).
4(f)	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)	The Toro Company 2000 Directors Stock Plan, as amended.
10(b)	Amendment No. 3 to Multi-Year Credit Agreement dated as of March 10, 2004, by and among The Toro Company and Toro Credit Company, the borrowers, Bank of America, N.A. as Administrative Agent, and each of the Banks as defined in the Multi-Year Credit Agreement dated as of February 22, 2002.
31(a)	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
31(b)	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

During the fiscal quarter ended April 30, 2004, Toro filed or furnished the following reports on Form 8-K:

1. Current Report on Form 8-K containing the Company's expected earnings for the quarter ended January 30, 2004 was furnished on February 12, 2004 under Item 12.

2. Current Report on Form 8-K containing the Company's earnings release for the quarter ended January 30, 2004 was furnished on February 24, 2004 under Item 12.

3. Current Report on Form 8-K containing the Company's press release dated March 12, 2004 announcing Toro's Dutch auction self-tender offer to repurchase up to 2,500,000 shares of its common stock, approved repurchase of up to an additional 1,000,000 shares of its common stock in the open market or in private transactions, and declaration of a regular quarterly cash dividend of 6 cents per share to stockholders of record on March 22, 2004 was filed on March 12, 2004 under Item 5.

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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 hereunto duly authorized.

THE TORO COMPANY
(Registrant)

Date: June 9, 2004

By /s/ Stephen P. Wolfe
Stephen P. Wolfe
Vice President Finance, Treasurer and Chief Financial Officer (duly authorized officer and principal financial officer)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
10(a)	The Toro Company 2000 Directors Stock Plan, as amended.
10(b)	Amendment No. 3 to Multi-Year Credit Agreement dated as of March 10, 2004, by and among The Toro Company and Toro Credit Company, the borrowers, Bank of America, N.A. as Administrative Agent, and each of the Banks as defined in the Multi-Year Credit Agreement dated as of February 22, 2002.
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THE TORO COMPANY
2000 DIRECTORS STOCK PLAN

1. **Purpose of the Plan.** The purpose of The Toro Company 2000 Directors Stock Plan ("Plan") is to enable The Toro Company (the "Company") to attract and retain experienced and knowledgeable directors to serve on the Board of Directors of the Company or its subsidiaries, and to further align their interests with those of the stockholders of the Company by providing for or increasing their stock ownership interests in the Company. It is intended that the Plan be interpreted so that transactions under the Plan are exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to the extent applicable.

2. **Eligibility.** All members of the Company's Board of Directors who are not current employees of the Company or any of its subsidiaries ("Nonemployee Directors") are eligible to participate in the Plan.

3. **Plan Awards.**

a. **Directors Shares.** To carry out the purposes of the Plan, the Company shall, on the first business day of each fiscal year, issue to each person who is then a Nonemployee Director shares of the Company's Common Stock, $1.00 par value and related preferred share purchase rights (the "Common Stock"), in an amount equal to $10,000 divided by the fair market value of one share of Common Stock rounded down to the greatest number of whole shares ("Directors Shares") subject to adjustment as provided in Section 5 hereof. Fair market value for this purpose shall be the average of the 4 p.m. Eastern Time closing prices of the Common Stock as reported by the New York Stock Exchange for each of the trading days in the three calendar months immediately prior to the date of issue of the Directors Shares.

b. **Directors Options.**

i. ***Annual Grant.*** Subject to the terms and conditions of this Section 3.b., on the first business day of each fiscal year, the Company shall grant a nonqualified option ("Directors Option") to purchase 2,000 shares of Common Stock to each person who is then a Nonemployee Director. Directors Options shall be granted at an exercise price per share equal to the fair market value of one share of Common Stock on the date of grant, but not less than par value. Fair market value for this purpose shall be the 4 p.m. Eastern Time closing price of the Common Stock as reported by the New York Stock Exchange for the date of grant. No option may be repriced, once granted.

ii. ***Vesting, Transferability and Exercisability.***

(a) ***Vesting.*** Except as provided in Sections 3.b.ii.(c)(1) and (2), Directors Options shall vest and become exercisable in three equal installments on each of the first, second and third anniversaries following the date of grant, and shall remain exercisable for a term of ten years after the date of grant.

(b) ***No Transfer.*** No Directors Option shall be assigned or transferred, except by will or the laws of descent and distribution. An option so transferred may be exercised after the death of the individual to

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

(c) ***Exercise.*** During the lifetime of a Nonemployee Director, Directors Options held by such individual may be exercised only by the Nonemployee Director and only while serving as a member of the Board of Directors of the Company and only if the Nonemployee Director has been continuously so serving since the date such options were granted, except as follows:

(1) ***Disability or Death.*** In the event of disability or death of a Nonemployee Director, all outstanding unvested options shall vest effective as of the date of death or termination of service by reason of disability, and all such vested options may be exercised by such individual or his or her legal representatives not later than the earlier of the date the option expires or one year after the date such service as a Nonemployee Director ceases by reason of disability or death.

(2) ***Termination.*** If a Nonemployee Director has served as a member of the Board of Directors for ten full fiscal years or longer and terminates service on the Board, (A) outstanding unvested options shall remain outstanding and continue to vest in accordance with their terms, and (B) the Nonemployee Director may exercise all such vested outstanding options for up to four years after the date of termination, but not later than the date an option expires. If a Nonemployee Director has served as a member of the Board of Directors for less than ten years and terminates service on the Board, (C) all unvested options shall expire and be canceled and (D) the Nonemployee Director may exercise any vested outstanding options for up to three months after the date of termination, but not later than the date an option expires.

(d) ***Methods of Exercise and Payment of Exercise Price.*** Subject to the terms and conditions of the Plan and the terms and conditions of the option agreement, a vested option may be exercised in whole at any time or in part from time to time, by delivery to the Company at its principal office of a written notice of exercise specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the exercise price for shares to be purchased at that time. Payment may be made (1) in cash, (2) by tendering (either actually or by attestation) shares of Common Stock already owned for at least six months (or shorter period necessary to avoid a charge to the Company’s earnings for financial statement purposes) valued at the fair market value of the Common Stock on the date of exercise, (3) in a combination of cash and Common Stock or (4) by delivery of a notice of exercise of options, together with irrevocable instructions, approved in advance by proper officers of the Company, (A) to a brokerage firm designated by the Company, to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the exercise price and any related tax withholding obligations and (B) to the Company, to deliver certificates for such purchased shares directly to such brokerage firm, all in accordance with regulations of the Federal Reserve Board.

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

c. **Share Proration.** If, on any date on which Directors Shares are to be issued pursuant to Section 3.a. or Directors Options are to be granted pursuant to Section 3.b., the number of shares of

Common Stock is insufficient for the issuance of the entire number of shares to be issued or for the grant of the entire number of options, as calculated in accordance with Section 3.a. or Section 3.b., respectively, then the number of shares to be issued and options to be granted to each Nonemployee Director entitled to receive Directors Shares or Directors Options on such date shall be such Nonemployee Director's proportionate share of the available number of shares and options (rounded down to the greatest number of whole shares), provided that if a sufficient number of shares of Common Stock is available to issue all of the Directors Shares, then the entire number of Directors Shares shall be issued first and the number of shares to be subjected to options shall be prorated in accordance with this section.

4. **Shares in Lieu of Fees.** A Nonemployee Director shall have the right to elect to receive shares of Common Stock in lieu of annual retainer and meeting fees otherwise payable in cash. The election to receive Common Stock shall be made prior to the date fees are otherwise scheduled to be paid but not later than May 31 of the calendar year for which the fees are to be paid. Fees that are earned after the date a director makes an election shall be reserved through the rest of the calendar year and shares shall be issued in December of that year. The number of shares to be issued shall be determined by dividing the dollar amount of reserved fees by the 4 p.m. Eastern Time closing price of one share of Common Stock as reported by the New York Stock Exchange for the date that the shares are issued.

5. **Stock Subject to Plan.** Subject to adjustment as provided in this paragraph and subject to increase by amendment of the Plan, the total number of shares of Common Stock reserved and available for issuance in connection with the Plan shall be 240,000 shares. If any Directors Option granted hereunder expires unexercised, terminates, is exchanged for other options without the issuance of shares of Common Stock or is exercised by delivery or constructive delivery of shares of Common Stock already owned by the option holder, the shares of Common Stock reserved for issuance pursuant to such option shall, to the extent of any such termination or to the extent the shares covered by an option are not issued or used, again be available for option grants under the Plan, unless prohibited by applicable law or regulation. Any shares issued by the Company in connection with the assumption or substitution of outstanding option grants from any acquired corporation shall not reduce the shares available for stock awards or option grants under the Plan. In the event of a corporate transaction involving the Company, the Common Stock or the Company's corporate or capital structure, including but not limited to any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, reclassification, split-up, spin-off, combination or exchange of shares, or a sale of the Company or of all or part of its assets or any distribution to stockholders other than a normal cash dividend, the Committee shall make such proportional adjustments as are necessary to preserve the benefits or potential benefits of the Directors Shares and Directors Options. Action by the Committee may include all or any of adjustment in (a) the maximum number and kind of securities subject to the Plan as set forth in this paragraph; (b) the maximum number and kind of securities that may be made subject to Directors Options and the determination of the number or kind of Directors Shares; (c) the number and kind of securities subject to any outstanding Directors Option; and (d) any other adjustments that the Committee determines to be equitable.

6. **Change of Control.** In the event of a Change of Control of the Company as hereinafter defined, all Directors Options shall fully vest, and be exercisable in their entirety immediately, and notwithstanding any other provisions of the Plan, shall continue to be exercisable for three years following the Change of Control, but not later than ten years after the date of grant.

Change of Control means:

a. The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 15% or more of either (i) the then-outstanding shares of Common Stock of the Company (the “Outstanding Company Common Stock”) or (ii) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection a., the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction that complies with clauses (i), (ii) and (iii) of subsection c. of this Section 6; or

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

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

resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

d. Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

7. **Administration of the Plan.** The Plan shall be administered by a committee composed of those members of the Board of Directors of the Company who are also employees of the Company (the "Committee"). The Committee shall have the authority to carry out all provisions of the Plan; provided, however, that it shall have no discretion to determine which Nonemployee Directors may receive Directors Shares or Directors Options or to set the value of such Directors Shares or Directors Options, other than to make the calculations required by Section 3.a., Section 3.b. Section 4 or Section 5.

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

9. **Effective Date and Term of Plan.** The Plan first became effective March 14, 2001 and shall be perpetual, unless terminated by action of the Board of Directors.

10. **Amendment.** The Board may amend, suspend or terminate the Plan at any time, with or without advance notice to Plan participants. The effective date of any amendment to the Plan shall be the date of its adoption by the Board of Directors, subject to stockholder approval, if required. No amendment of the Plan shall adversely affect in a material manner any right of any option holder with respect to any option theretofore granted without such option holder's written consent.

11. **Governing Law.** The Plan, Directors Shares, Directors Options and agreements entered into under the Plan shall be construed, administered and governed in all respects under and by the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan or an option or an award or agreement to the substantive law of another jurisdiction.

AMENDMENT NO. 3 TO MULTI-YEAR CREDIT AGREEMENT

This Amendment No. 3 to Multi- Year Credit Agreement (this “Agreement ”) dated as of March 10, 2004 is made by and among **THE TORO COMPANY**, a Delaware corporation (“Toro”), the **SUBSIDIARY BORROWERS** (as defined in the Credit Agreement, defined below), **TORO CREDIT COMPANY**, a Minnesota corporation (“Credit” and together with Toro and the Subsidiary Borrowers, the “Companies”), **BANK OF AMERICA, N.A.**, in its capacity as administrative agent (in such capacity, the “Agent”) and each of the Banks (as defined in the Credit Agreement, defined below) signatory hereto.

WITNESSETH:

WHEREAS, the Companies, the Agent and the Banks have entered into that certain Multi-Year Credit Agreement dated as of February 22, 2002, as amended by that certain Amendment No. 1 to Multi-Year Credit Agreement dated December 11, 2002 and by that certain Amendment No. 2 to Multi- Year Credit Agreement dated July 9, 2003 (as hereby further amended and as from time to time hereafter further amended, modified, supplemented, restated, or amended and restated, the “Credit Agreement ”; the capitalized terms as used in this Agreement not otherwise defined herein shall have the respective meanings given thereto in the Credit Agreement), pursuant to which the Banks have made available to the Companies a revolving credit facility (including a letter of credit facility and a swing line facility); and

WHEREAS, the Companies have requested that the Credit Agreement be amended to permit additional repurchases of Toro stock, and the Agent and the Banks have agreed so to amend the Credit Agreement on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and further valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Amendment to Credit Agreement. Subject to the terms and conditions set forth herein, the Credit Agreement is hereby amended as follows:

(a) Section 7.10 of the Credit Agreement is hereby amended by deleting the text of such provision in its entirety and substituting in lieu thereof the following:

“ Section 7.10 Use of Proceeds. Each Company shall use the proceeds of the Loans for (a) general working capital needs and capital expenditures and (b) to replace and refinance outstanding indebtedness under the Existing Facilities, (c) subject to the proviso below, the purchase or other acquisition by Toro of shares of its capital stock and related preferred stock purchase rights to the extent permitted by Section 8.7(c), and (d) other lawful corporate purposes, other than, directly or indirectly, (i) for purposes of undertaking an Acquisition or Joint Venture in contravention of any Requirement of Law or of any Loan Document, (ii) to purchase or carry Margin Stock, (iii) to repay or otherwise refinance indebtedness of any Company or others incurred to purchase or carry Margin Stock, (iv) to extend credit for the purpose of purchasing or carrying any Margin Stock, or (v) to acquire any security in any transaction that is subject to Section 13 or 14

of the Exchange Act; provided, however, that notwithstanding clauses (ii) through (v) above, Toro may use proceeds of Loans as described in clause (c) above so long as either (x) the Margin Stock so acquired is promptly retired following the purchase or other acquisition thereof or (y) at all times and after giving effect to each such purchase or acquisition, not more than twenty five percent (25%) of the total assets of the Companies and their Subsidiaries on a consolidated basis are represented by Margin Stock owned by the Companies and their Subsidiaries on a consolidated basis.";

(b) Section 8.4 of the Credit Agreement is hereby amended by (i) deleting "and" at the end of clause (f) thereof, (ii) deleting "." at the end of clause (g) thereof and substituting in lieu thereof "; and", and (iii) adding the following new clause (h):

"(h) Purchases by Toro of shares of its capital stock and associated rights to purchase shares of Toro's preferred stock pursuant to Toro's shareholder rights plan to the extent permitted by Sections 7.10 and 8.7(c)."

(c) Section 8.7 of the Credit Agreement is hereby amended by deleting clause (c) therefrom and inserting the following in lieu thereof the following new clause (c):

"(c) Toro may declare and pay cash dividends to its stockholders and purchase, redeem or otherwise acquire shares of its capital stock or warrants, rights or options to acquire any such shares for cash up to an amount equal to (A) the sum of (i) 50% of the consolidated net income of Toro and its Subsidiaries arising after October 31, 2001 and computed on a cumulative consolidated basis, plus (ii) $50,000,000, plus (B) to the extent utilized solely to purchase, redeem or otherwise acquire shares of its capital stock and associated rights to purchase shares of Toro's preferred stock pursuant to Toro's shareholder rights plan, an additional $175,000,000; provided, that, immediately after giving effect to any such proposed action, no Default or Event of Default would exist; and"

(d) Section 4(d) of Exhibit C, the Form of Compliance Certificate, is amended by (i) amending the line denoted "Amount $______" to read

"Total Amount $______", and

(ii) amending the line immediately below the line decscribed in clause (i) to read as follows:

"Amount utilized for repurchases of Toro stock $______".

2. Conditions Precedent. The effectiveness of this Agreement and the amendments to the Credit Agreement herein provided are subject to the satisfaction of the following conditions precedent:

(a) The Agent shall have received each of the following documents or instruments in form and substance reasonably acceptable to the Agent:

(i) ten (10) original counterparts of this Agreement, duly executed by the Companies, the Agent, and the Required Banks, together with all schedules and exhibits thereto duly completed;

(ii) such other documents, instruments, opinions, certifications, undertakings, further assurances and other matters as the Agent shall reasonably require.

(b) all fees and expenses payable to the Agent and the Banks (including the fees and expenses of counsel to the Agent) invoiced to date, including all fees associated with this Agreement, shall have been paid in full.

3. Reaffirmation by each of the Companies. Each of the Companies hereby consents, acknowledges and agrees to the amendments of the Credit Agreement set forth herein.

4. Representations and Warranties. In order to induce the Agent and the Banks to enter into this Agreement, each of the Companies represents and warrants to the Agent and the Banks as follows:

(a) The representations and warranties in Article VI of the Credit Agreement (after giving effect to this Agreement) and in each of the other Loan Documents to which such Company is a party are true and correct in all material respects on and as of the date hereof, except to the extent that such representations and warranties expressly relate to an earlier date;

(b) There does not exist any pending or threatened action, suit, investigation or proceeding in any court or before any arbitrator or Governmental Authority that purports (A) to have a Material Adverse Effect on any of the Companies or their Subsidiaries, or (B) to affect any transaction contemplated under this Agreement or any Loan Document or the ability of any Company to perform its respective obligations under this Agreement or any Loan Document;

(c) There has occurred since October 31, 2003, no event or circumstance that has resulted or could reasonably be expected to result in a Material Adverse Effect or a material adverse change in or a material adverse effect upon the business, assets, liabilities (actual or contingent), operations, condition (financial or otherwise), or prospects of Toro and its Subsidiaries taken as a whole; and

(d) No Default or Event of Default has occurred and is continuing.

5. Entire Agreement. This Agreement, together with all the other Loan Documents (collectively, the “Relevant Documents”), sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relative to such subject matter. No promise, condition, representation or warranty, express or implied, not herein set forth shall bind any party hereto, and not one of them has relied on any such promise, condition, representation or warranty. Each of the parties hereto acknowledges that, except as otherwise expressly stated in the Relevant Documents, no representations, warranties or commitments, express or implied, have been made

by any party to the other. None of the terms or conditions of this Agreement may be changed, modified, waived or canceled orally or otherwise, except as permitted pursuant to Section 12.1 of the Credit Agreement.

6. Full Force and Effect of Agreement. Except as hereby specifically amended, modified or supplemented, the Credit Agreement and all other Loan Documents are hereby confirmed and ratified in all respects by each party hereto and shall be and remain in full force and effect according to their respective terms.

7. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument.

8. Governing Law. This Agreement shall in all respects be governed by, and construed in accordance with, the laws of the state of New York.

9. Enforceability. Should any one or more of the provisions of this Agreement be determined to be illegal or unenforceable as to one or more of the parties hereto, all other provisions nevertheless shall remain effective and binding on the parties hereto.

10. References. All references in any of the Loan Documents to the "Credit Agreement" shall mean the Credit Agreement, as amended hereby.

11. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Companies, the Agent and each of the Banks, and their respective successors, assigns and legal representatives; provided, however, that no Company, without the prior consent of the Required Banks, may assign any rights, powers, duties or obligations hereunder.

12. Expenses. The Companies agree to pay to the Agent all reasonable out-of-pocket expenses incurred or arising in connection with the negotiation and preparation of this Agreement.

[Signature Pages Follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 3 to Multi-Year Credit Agreement to be made, executed and delivered by their duly authorized officers as of the day and year first above written.

THE TORO COMPANY

By: /s/ THOMAS J. LARSON
Name: Thomas J. Larson
Title: Assistant Treasurer

TORO CREDIT COMPANY

By: /s/ THOMAS J. LARSON
Name: Thomas J. Larson
Title: Secretary-Treasurer

TORO INTERNATIONAL COMPANY

By: /s/ STEPHEN P. WOLFE
Name: Stephen P. Wolfe
Title: V.P. and Treasurer

TOVER OVERSEAS, B.V.

By: /s/ ROBERT BUITENDIJK
Name: Temmes Management Services BV
Title: Director

TORO FACTORING COMPANY LIMITED (formerly TORO FACTORING COMPANY, N.V.)

By: /s/ J. LAWRENCE MCINTYRE
Name: J. Lawrence McIntyre
Title: Managing Director

TORO MANUFACTURING LLC

By: /s/ STEPHEN P. WOLFE
NAME: STEPHEN P. WOLFE
TITLE: PRESIDENT

EXMARK MANUFACTURING COMPANY INCORPORATED

By: /s/ J. LAWRENCE MCINTYRE
NAME: J. Lawrence McIntyre
TITLE: Vice President And Secretary

BANK OF AMERICA, N.A., as Administrative Agent

BY: /s/ RENITA CUMMINGS

NAME: Renita Cummings

TITLE: Assistant Vice President

BANK OF AMERICA, N.A.,
as Issuing Bank, Swing Line Bank and a Bank

BY: /s/ JEFFREY A. ARMITAGE
NAME: Jeffrey A. Armitage
TITLE: Principal

WELLS FARGO BANK, NATIONAL ASSOCIATION
as a Bank

BY: /s/ SCOTT D. BJELDE
NAME: Scott D. Bjelde
TITLE: Senior Vice President

BY: /s/ JENNIFER D. BARRET
NAME: Jennifer D. Barrett
TITLE: Vice President and Loan Team Manager

THE BANK OF NEW YORK, as a Bank

BY: /s/ JOHN PAUL MAROTTA
NAME: John Paul Marotta
TITLE: Vice President

HARRIS TRUST AND SAVINGS BANK, as a Bank

BY: /s/ ANDREW T. CLAAR

NAME: Andrew T. Claar

TITLE: Vice President

U.S. BANK NATIONAL ASSOCIATION, as a Bank

BY: /s/ SAM S. PEPPER, JR.
NAME: Sam S. Pepper, Jr.
TITLE: Vice President

SUNTRUST BANK, as a Bank

BY: /s/ MOLLY J. DRENNAN
NAME: Molly J. Drennan
TITLE: Director

Exhibit 31(a)

Certification pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Kendrick B. Melrose, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Toro Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 9, 2004

/s/ Kendrick B. Melrose
Kendrick B. Melrose
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31(b)

Certification pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Stephen P. Wolfe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Toro Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 9, 2004

/s/ Stephen P. Wolfe

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

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Toro Company (the "Company") on Form 10-Q for the quarterly period ended April 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Kendrick B. Melrose, Chairman and Chief Executive Officer of the Company, and Stephen P. Wolfe, Vice President-Finance, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kendrick B. Melrose

Kendrick B. Melrose
Chairman and Chief Executive Officer
June 9, 2004

/s/ Stephen P. Wolfe

Stephen P. Wolfe
Vice President-Finance,
Treasurer and Chief Financial Officer
June 9, 2004

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.