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 July 29, 2022

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

For the Transition Period from to
Commission File Number: **1-8649**

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

Delaware	**41-0580470**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.

8111 Lyndale Avenue South
Bloomington, Minnesota 55420-1196
Telephone Number: (952) 888-8801
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	**TTC**	**New York Stock Exchange**

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 ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the registrant's common stock outstanding as of August 25, 2022 was 104,202,639.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 web sites or otherwise. Statements that are not historical are forward-looking and reflect expectations and assumptions that we believe to be reasonable. Forward-looking statements are based on our current expectations of future events, and often can be identified in this report and elsewhere by using words such as "expect," "strive," "outlook," "guidance," "forecast," "goal," "anticipate," "continue," "plan," "estimate," "project," "target," "improve," "believe," "become," "should," "could," "will," "would," "possible," "may," "likely," "intend," "can," "pursue," "potential," "pro forma," variations of such words or the negative thereof, and similar expressions or future dates. Our forward-looking statements generally relate to our future performance, including our anticipated operating results, liquidity requirements and financial condition; the anticipated impacts of the novel coronavirus ("COVID-19" or "virus"), current global supply chain disruptions, Russia's invasion of Ukraine and the related sanctions and geopolitical tensions, the inflationary environment, tight labor market and other macroeconomic factors; our business strategies, priorities, goals, and commitments; acquisitions and business initiatives; and the effect of laws, rules, policies, regulations, tax reform, new accounting pronouncements, and outstanding litigation on our business and future performance.

Forward-looking statements are only projections and involve risks and uncertainties that could cause actual results to differ materially from those projected or implied in the forward-looking statements. 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:

- Adverse economic conditions and outlook in the United States and in other countries in which we conduct business, including as a result of COVID-19 or Russia's invasion of Ukraine and the related sanctions and geopolitical tensions, such as but not limited to business closures, slowdowns, suspensions or delays of production and commercial activity; slow or negative economic growth rates or recessionary conditions; reduced or negative consumer confidence; reduced consumer spending levels; increased or prolonged high or low unemployment rates; tight labor market, higher costs, longer lead times and reduced availability of commodities, components, parts, and accessories, including as a result of transportation-related costs, inflation, changing prices, foreign currency fluctuations, tariffs, and/or duties; inflationary or deflationary pressures; slowdowns or reductions in levels of interest in the game of golf or golf course activity, development, renovation or improvement; golf course closures; reduced governmental or municipal spending; reduced infrastructure spending; reduced levels of home ownership, construction or sales; home foreclosures; the impact of U.S. federal debt, state debt and sovereign debt defaults; reduced credit availability or unfavorable credit terms for us or our distributors, dealers, or end-user customers; higher short-term, mortgage, and other interest rates; and general economic and political conditions and expectations;
- Continuing effects associated with COVID-19, including its variants, and the macroeconomic effects resulting therefrom, on (i) our business, financial condition, and operating results; (ii) our dealers, distributors, mass retailers, and other channel partners and customers; (iii) our suppliers and companies throughout our supply chain and any such supplier's ability to meet supply commitments, requirements, and/or demands; (iv) our ability to continue to obtain commodities, components, parts, and accessories on a timely basis through our supply chain and at anticipated costs; (v) the financial and credit markets and economic activity generally; (vi) our ability to access lending, capital markets, and other sources of liquidity when needed on reasonable terms or at all; and (vii) other risks described herein and in our U.S. Securities and Exchange Commission ("SEC") reports, which have been and could continue to be heightened as a result of COVID-19;
- Continuing disruption and/or shortages in the availability of and the cost of commodities, components, parts, or accessories used in our products;
- Our ability to continue to enhance existing products and develop and market new products that respond to customer needs and preferences and achieve market acceptance;
- Effect that weather conditions or climate change have on demand for our products and operations, including our supply chain;
- Changes in our product mix;
- Effect of competition;
- Our ability to cost-effectively expand and renovate existing facilities, open and manage new or acquired facilities, move production between manufacturing facilities, and/or any disruption at or near any of our facilities or other operations or those of our suppliers, distribution channel customers, mass retailers, or home centers where our products are sold;
- Our ability to retain our executive officers or other key employees, attract and retain other qualified employees or successfully implement executive officer, key employee or other leadership or employee transitions and any failure by us, or our suppliers or distribution channel partners, to hire and/or retain a labor force to enhance existing products and

develop and market new products, adequately staff manufacturing operations, perform service or warranty work or other necessary activities, or allow employees to adequately and safely perform their jobs;
- Our inability to maintain appropriate inventory levels, including as a result of global supply chain disruptions, and if we underestimate or overestimate demand for our products, and the effect of inventory management decisions of our distribution channel customers;
- Changes in composition of, financial viability of, and the relationships with, our distribution channel customers;
- Risks associated with our credit arrangements and ratings and any material change in the availability or terms of, or termination or disruption of, credit offered to our customers, distributors, and dealers;
- Risks associated with our international operations, including but not limited to the effect of foreign currency exchange rate fluctuations and compliance with foreign legal and regulatory requirements, and Russia's invasion of Ukraine and the related sanctions and geopolitical tensions;
- Our failure to comply with all applicable legal and regulatory requirements and the effect of product quality issues, product liability claims, and other litigation to which we are or may be subject;
- Risks associated with our acquisitions and alliances, joint ventures, investments or partnerships and our failure to successfully complete divestitures or other restructuring activities;
- Our ability to obtain and protect our intellectual property and other proprietary rights or operate our business without infringing upon the intellectual property or other proprietary rights of others;
- Failure of our information systems or information security practices or those of our business partners or third-party service providers to adequately perform and/or protect sensitive or confidential information;
- Our ability to achieve our financial projections or other business initiatives in the time periods that we anticipate or at all;
- Changes in accounting or tax standards and policies and/or assumptions utilized in determining accounting tax estimates; and
- Impact of increased scrutiny on our environmental, social and governance (“ESG”) practices and SEC rule making on ESG disclosures.

For more information regarding these and other uncertainties and factors that could cause our actual results to differ materially from what we have anticipated in our forward-looking statements or otherwise could materially adversely affect our business, financial condition, or operating results, see our most recently filed Annual Report on Form 10-K, Part I, Item 1A, "Risk Factors;" Part II, Item 1A, "Risk Factors" of this report; and our subsequent filings with the SEC.

All forward-looking statements included in this report are expressly qualified in their entirety by the foregoing cautionary statements. We 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, the risks described in our most recent Annual Report on Form 10-K, Part I, Item 1A, "Risk Factors" and Part II, Item 1A, "Risk Factors" of this report, and our subsequent SEC filings, as well as others that we may consider immaterial or do not anticipate at this time. These 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 make no commitment to revise or update any forward-looking statements in order to reflect actual results, events or circumstances occurring or existing after the date any forward-looking statement is made, 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 Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K we file with or furnish to the SEC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings (Unaudited)
(Dollars and shares in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	July 29, 2022	July 30, 2021	July 29, 2022	July 30, 2021
Net sales	$ 1,160,550	$ 976,836	$ 3,342,678	$ 2,998,929
Cost of sales	760,644	645,719	2,236,927	1,949,823
Gross profit	399,906	331,117	1,105,751	1,049,106
Selling, general and administrative expense	236,858	209,178	680,500	604,986
Operating earnings	163,048	121,939	425,251	444,120
Interest expense	(9,182)	(7,016)	(24,219)	(21,662)
Other income, net	3,225	2,528	8,262	8,062
Earnings before income taxes	157,091	117,451	409,294	430,520
Provision for income taxes	31,941	21,131	83,509	80,748
Net earnings	$ 125,150	$ 96,320	$ 325,785	$ 349,772
Basic net earnings per share of common stock	$ 1.19	$ 0.90	$ 3.10	$ 3.25
Diluted net earnings per share of common stock	$ 1.19	$ 0.89	$ 3.08	$ 3.21
Weighted-average number of shares of common stock outstanding — Basic	104,827	107,130	104,931	107,667
Weighted-average number of shares of common stock outstanding — Diluted	105,448	108,363	105,754	108,818

See accompanying Notes to Condensed Consolidated Financial Statements.

THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(Dollars in thousands)

	Three Months Ended		Nine Months Ended	
	July 29, 2022	July 30, 2021	July 29, 2022	July 30, 2021
Net earnings	$ 125,150	$ 96,320	$ 325,785	$ 349,772
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(5,792)	(5,314)	(21,190)	6,685
Derivative instruments, net of tax of $863; $2,641; $4,895; and $140, respectively	2,472	8,035	16,043	886
Other comprehensive income (loss), net of tax	(3,320)	2,721	(5,147)	7,571
Comprehensive income	$ 121,830	$ 99,041	$ 320,638	$ 357,343

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)

	July 29, 2022	July 30, 2021	October 31, 2021
ASSETS			
Cash and cash equivalents	$ 231,564	$ 535,330	$ 405,612
Receivables, net	350,657	301,234	310,279
Inventories, net	939,274	665,648	738,170
Prepaid expenses and other current assets	82,861	43,577	35,124
Total current assets	1,604,356	1,545,789	1,489,185
Property, plant, and equipment, net	531,816	456,992	487,731
Goodwill	583,803	421,958	421,680
Other intangible assets, net	595,141	426,497	420,041
Right-of-use assets	73,349	72,236	66,990
Investment in finance affiliate	31,389	19,272	20,671
Deferred income taxes	961	6,362	5,800
Other assets	19,134	18,943	24,042
Total assets	$ 3,439,949	$ 2,968,049	$ 2,936,140
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of long-term debt	$ 65,000	$ 104,217	$ —
Accounts payable	487,030	411,413	503,116
Accrued liabilities	443,557	427,407	419,620
Short-term lease liabilities	15,675	15,403	14,283
Total current liabilities	1,011,262	958,440	937,019
Long-term debt, less current portion	990,616	587,345	691,242
Long-term lease liabilities	60,921	60,002	55,752
Deferred income taxes	50,332	74,381	50,397
Other long-term liabilities	40,216	50,703	50,598
Stockholders' equity:			
Preferred stock, par value $1.00 per share, authorized 1,000,000 voting and 850,000 non-voting shares, none issued and outstanding	—	—	—
Common stock, par value $1.00 per share, authorized 175,000,000 shares; issued and outstanding 104,193,673 shares as of July 29, 2022, 106,440,513 shares as of July 30, 2021, and 105,205,734 shares as of October 31, 2021	104,194	106,441	105,206
Retained earnings	1,213,551	1,157,428	1,071,922
Accumulated other comprehensive loss	(31,143)	(26,691)	(25,996)
Total stockholders' equity	1,286,602	1,237,178	1,151,132
Total liabilities and stockholders' equity	$ 3,439,949	$ 2,968,049	$ 2,936,140

See accompanying Notes to Condensed Consolidated Financial Statements.

THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Nine Months Ended	
	July 29, 2022	July 30, 2021
Cash flows from operating activities:		
Net earnings	$ 325,785	$ 349,772
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash income from finance affiliate	(5,814)	(4,694)
(Contributions to)/Distributions from finance affiliate, net	(4,905)	5,167
Depreciation of property, plant and equipment	54,269	55,301
Amortization of other intangible assets	24,760	17,493
Fair value step-up adjustment to acquired inventory	535	—
Compensation cost for stock-based compensation awards	17,105	16,176
Deferred income taxes	—	699
Other	3,358	(26)
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Receivables, net	(38,118)	(42,217)
Inventories, net	(173,000)	(20,080)
Prepaid expenses and other assets	(32,483)	(1,019)
Accounts payable, accrued liabilities, and other liabilities	(16,929)	100,563
Net cash provided by operating activities	154,563	477,135
Cash flows from investing activities:		
Purchases of property, plant and equipment	(75,772)	(47,961)
Business combinations, net of cash acquired	(402,386)	(14,874)
Asset acquisitions, net of cash acquired	(7,225)	(27,176)
Proceeds from asset disposals	197	588
Proceeds from sale of a business	4,605	18,732
Net cash used in investing activities	(480,581)	(70,691)
Cash flows from financing activities:		
Borrowings under debt arrangements	700,000	—
Repayments under debt arrangements	(335,000)	(100,000)
Proceeds from exercise of stock options	4,440	12,535
Payments of withholding taxes for stock awards	(2,308)	(1,875)
Purchases of TTC common stock	(110,004)	(177,152)
Dividends paid on TTC common stock	(94,401)	(84,677)
Net cash provided by (used in) financing activities	162,727	(351,169)
Effect of exchange rates on cash and cash equivalents	(10,757)	163
Net (decrease) increase in cash and cash equivalents	(174,048)	55,438
Cash and cash equivalents as of the beginning of the fiscal period	405,612	479,892
Cash and cash equivalents as of the end of the fiscal period	$ 231,564	$ 535,330

See accompanying Notes to Condensed Consolidated Financial Statements.

THE TORO COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
(Dollars in thousands, except per share data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance as of April 29, 2022	$ 104,568	$ 1,146,771	$ (27,823)	$ 1,223,516
Cash dividends paid on common stock - $0.30 per share	—	(31,447)	—	(31,447)
Issuance of 80,153 shares of common stock under stock-based compensation plans	81	2,112	—	2,193
Stock-based compensation expense	—	5,972	—	5,972
Purchase of 454,482 shares of common stock	(455)	(35,007)	—	(35,462)
Other comprehensive loss	—	—	(3,320)	(3,320)
Net earnings	—	125,150	—	125,150
Balance as of July 29, 2022	$ 104,194	$ 1,213,551	$ (31,143)	$ 1,286,602
Balance as of October 31, 2021	$ 105,206	$ 1,071,922	$ (25,996)	$ 1,151,132
Cash dividends paid on common stock - $0.90 per share	—	(94,401)	—	(94,401)
Issuance of 233,491 shares of common stock under stock-based compensation plans	234	4,239	—	4,473
Stock-based compensation expense	—	17,105	—	17,105
Contribution of 33,162 shares of common stock to a deferred compensation trust	(33)	—	—	(33)
Purchase of 1,212,390 shares of common stock	(1,213)	(111,099)	—	(112,312)
Other comprehensive loss	—	—	(5,147)	(5,147)
Net earnings	—	325,785	—	325,785
Balance as of July 29, 2022	$ 104,194	$ 1,213,551	$ (31,143)	$ 1,286,602
Balance as of April 30, 2021	$ 107,043	$ 1,151,786	$ (29,412)	$ 1,229,417
Cash dividends paid on common stock - $0.2625 per share	—	(28,075)	—	(28,075)
Issuance of 64,260 shares of common stock for exercised stock options and vested restricted stock units	65	1,605	—	1,670
Stock-based compensation expense	—	5,831	—	5,831
Purchase of 666,672 shares of common stock	(667)	(70,039)	—	(70,706)
Other comprehensive income	—	—	2,721	2,721
Net earnings	—	96,320	—	96,320
Balance as of July 30, 2021	$ 106,441	$ 1,157,428	$ (26,691)	$ 1,237,178
Balance as of October 31, 2020	$ 107,583	$ 1,041,507	$ (34,262)	$ 1,114,828
Cash dividends paid on common stock - $0.7875 per share	—	(84,677)	—	(84,677)
Issuance of 587,723 shares of common stock for exercised stock options and vested restricted stock units and performance share awards	588	10,462	—	11,050
Stock-based compensation expense	—	16,176	—	16,176
Contribution of 22,700 shares of common stock to a deferred compensation trust	23	1,462	—	1,485
Purchase of 1,752,579 shares of common stock	(1,753)	(177,274)	—	(179,027)
Other comprehensive income	—	—	7,571	7,571
Net earnings	—	349,772	—	349,772
Balance as of July 30, 2021	$ 106,441	$ 1,157,428	$ (26,691)	$ 1,237,178

See accompanying Notes to Condensed Consolidated Financial Statements.

1 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 United States ("U.S.") generally accepted accounting principles ("GAAP") for complete financial statements. Unless the context indicates otherwise, the terms "company," "TTC," "we," "our," or "us" refer to The Toro Company and its consolidated subsidiaries. All intercompany accounts and transactions have been eliminated from the unaudited Condensed Consolidated Financial Statements.

In the opinion of management, the unaudited Condensed Consolidated Financial Statements include all adjustments, consisting primarily of recurring accruals, considered necessary for the fair presentation of the company's consolidated financial position, results of operations, and cash flows for the periods presented. Due to seasonality within the industries in which the company's businesses operate, the effect of COVID-19 and the macroeconomic effects resulting therefrom on the Company's business and operating results, among other factors, operating results for the nine months ended July 29, 2022 cannot be annualized to determine the expected results for the fiscal year ending October 31, 2022.

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 calendar 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 calendar month end.

For further information regarding the company's basis of presentation, refer to the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in the company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2021. The policies described in that report are used for preparing the company's quarterly reports on Form 10-Q.

Impact of Russia's Invasion of Ukraine

Beginning in the second quarter of fiscal 2022, in response to Russia's invasion of Ukraine, the company discontinued sales into the Russian and Belarus markets. Prior sales in those markets did not represent a significant share of our overall international business, and the company does not expect this decision to have a material impact on our financial results.

Continuing Impact of COVID-19

COVID-19 is having lingering effects on public health and portions of the global economy. The company continues to see significant pressure on global supply chains rooted mainly in disruptions created by these effects. The continuing implications of COVID-19, including its variants, and the macroeconomic effects resulting therefrom, on the company remain uncertain and will depend on future developments, including any adverse impact due to additional variants of the virus; its impact on market demand for the company's products; its impact on the company's employees, customers, and suppliers; the range of government mandated restrictions and other measures; and the success of the COVID-19 vaccines and their effectiveness against the virus and related variants. This uncertainty could have a material impact on accounting estimates and assumptions utilized to prepare the Condensed Consolidated Financial Statements as of and for the nine months ended July 29, 2022 and in future reporting periods, which could result in a material adverse impact on the company's consolidated financial position, results of operations, and cash flows.

Accounting Policies and Estimates

In preparing the Condensed Consolidated Financial Statements in conformity with U.S. GAAP, management must make decisions that impact the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures, including disclosures of contingent assets and liabilities. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. Estimates are used in determining, among other items, sales promotion and incentive accruals, incentive compensation accruals, income tax accruals, inventory valuation, warranty accruals, allowances for current expected credit losses, pension accruals, self-insurance accruals, legal accruals, right-of-use assets and lease liabilities, useful lives for tangible and finite-lived intangible assets, future cash flows associated with impairment testing for goodwill, indefinite-lived intangible assets and other long-lived assets, and valuations of the assets acquired and liabilities assumed in a business combination or an asset acquisition, when applicable. These estimates and assumptions are based on management’s best estimates and judgments at the time they are made and are generally derived from management's understanding and analysis of the relevant and current circumstances, historical experience, and actuarial and other independent external third-party specialist valuations, when applicable. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances, including the economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with certainty, including those impacted by COVID-19 and Russia's invasion of Ukraine and the related sanctions and geopolitical tensions, actual amounts could differ significantly from those estimated at the time the Condensed Consolidated Financial Statements are prepared.

New Accounting Pronouncements Adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. The amended guidance also clarifies and simplifies other aspects of the accounting for income taxes under accounting standards codification Topic 740, *Income Taxes*. The amended guidance was adopted in the first quarter of fiscal 2022 and did not have a material impact on the company's Condensed Consolidated Financial Statements.

In January 2020, the FASB issued ASU No. 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*, which clarified that before applying or upon discontinuing the equity method of accounting for an investment in equity securities, an entity should consider observable transactions that require it to apply or discontinue the equity method of accounting for the purposes of applying the fair value measurement alternative. The amended guidance was adopted in the first quarter of fiscal 2022 and did not have a material impact on the company's Condensed Consolidated Financial Statements.

New Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional guidance to ease the potential burden of accounting for reference rate reform due to the cessation of the London Interbank Offered Rate, commonly referred to as "LIBOR." The temporary guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, relationships, and transactions affected by reference rate reform if certain criteria are met. The guidance was effective upon issuance on March 12, 2020 and the provisions of the temporary optional guidance provided by the ASU may be elected on a prospective basis from the beginning of an interim period that includes the issuance date of the ASU through December 31, 2022, when the reference rate reform activity is expected to be substantially complete. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, to provide supplemental guidance and to further clarify the scope of the amended guidance. At this time, the company does not have receivables, hedging relationships, or operating lease agreements that reference LIBOR or another reference rate expected to be discontinued; and therefore, the company has not applied the optional practical expedients under this ASU to these classes of assets. On October 5, 2021, the company entered into an amended and restated credit agreement and at such time, the company concluded that the optional practical expedients provided by the ASU would not be elected as the required criteria were not met. The amended and restated credit agreement includes a transition clause in the event LIBOR is discontinued and the company's other fixed-rate financing agreements do not reference LIBOR or another reference rate expected to be discontinued. On April 27, 2022, the company amended its October 5, 2021 amended and restated revolving credit agreement to transition the reference rate from LIBOR to Secured Overnight Financing Rate ("SOFR"). As of July 29, 2022, SOFR is the reference rate in effect for all outstanding variable interest borrowings of the company. The company does not expect the transition of LIBOR to have a material impact on the company's Condensed Consolidated Financial Statements; however, a review of other contracts and agreements is underway and is expected to be completed prior to December 31, 2022.

The company believes that all other recently issued accounting pronouncements from the FASB that the company has not noted above, will not have a material impact on its Condensed Consolidated Financial Statements or do not apply to its operations.

2 Business Combinations and Asset Acquisitions

Intimidator Group

On January 13, 2022 ("closing date"), pursuant to an equity interest purchase agreement ("equity agreement"), the company acquired the privately-held Intimidator Group ("Intimidator"). Intimidator primarily designs, manufactures, markets, and sells a commercial-grade line of zero-turn mowers under the Spartan Mowers brand, which are intended to provide innovative turf management solutions to landscape contractors and other customers who require a commercial-grade solution. The acquisition of Intimidator broadened the company's Professional reportable segment and expanded its manufacturing footprint and dealer network.

The Intimidator acquisition was structured as an equity purchase, pursuant to which the company acquired 100 percent of the equity interests of the legal entities that comprised Intimidator, with the legal entities continuing as surviving entities and wholly-owned subsidiaries of the company. As part of the acquisition, the company also acquired the real property used by Intimidator that was owned by an affiliate of Intimidator. As of the closing date, the aggregate purchase consideration was $398.9 million, subject to certain customary adjustments based on, among other things, the amount of actual cash, debt, and working capital in the business of Intimidator at the closing date. Such customary adjustments were finalized during the third quarter of fiscal 2022 and resulted in an aggregate purchase consideration of $399.8 million ("purchase price"). Additionally, the aggregate purchase consideration remains subject to contingent consideration through the end of calendar year 2022, in the event of certain qualifying tax changes. As a result, the company could be subject to additional cash purchase consideration for an amount not to exceed $15.0 million and remittance of such contingent consideration, if required, is due by March 15, 2023. As of July 29, 2022, no liability was recorded within the Condensed Consolidated Balance Sheets for the contingent consideration as the contingency is not probable or estimable. The company funded the purchase price with borrowings under its existing unsecured senior revolving credit facility and cash provided by operating activities. For additional information regarding the company's unsecured senior revolving credit facility utilized to fund the purchase price, refer to Note 6, *Indebtedness*.

Purchase Price Allocation

The company accounted for the acquisition in accordance with the accounting standards codification guidance for business combinations, whereby the aggregate purchase price was allocated to the acquired net tangible and intangible assets of Intimidator based on their fair values as of the closing date. As of July 29, 2022, the company has substantially completed its process for measuring the fair values of the assets acquired and liabilities assumed based on information available as of the closing date, with the exception of contingent consideration in the event of certain qualifying tax changes. The company expects to finalize its valuation and complete the allocation of the purchase price as soon as practicable but no later than one year from the closing date of the acquisition, as required.

The following table summarizes the allocation of the purchase price to the fair values assigned to the assets acquired and liabilities assumed. These fair values are based on internal company and independent external third-party valuations and are subject to change as certain asset and liability valuations are finalized:

(Dollars in thousands)	**January 13, 2022**
Cash and cash equivalents	$ 975
Receivables	6,954
Inventories	34,608
Prepaid expenses and other current assets	513
Property, plant and equipment	27,447
Right-of-use assets	344
Goodwill	163,731
Other intangible assets:	
Indefinite-lived trade name	99,100
Finite-lived trade names	3,260
Finite-lived customer-related	80,500
Finite-lived backlog	1,340
Accounts payable	(8,535)
Accrued liabilities	(9,152)
Short-term lease liabilities	(100)
Long-term lease liabilities	(244)
Total fair value of net assets acquired	400,741
Less: cash and cash equivalents acquired	(975)
Total purchase price	$ 399,766

The goodwill recognized is primarily attributable to the expected future cash flows, the value of the workforce, and expected synergies, including customer and dealer growth opportunities, expanding existing product lines, and cost reduction initiatives. Key areas of expected cost synergies include increased purchasing power for commodities, components, parts, and accessories and supply chain consolidation. The goodwill resulting from the acquisition of Intimidator was recognized within the company's Professional segment and is the primary driver for the increase in the company's Professional segment goodwill to $573.4 million as of July 29, 2022 as compared to $411.1 million as of October 31, 2021. The acquisition was considered an asset acquisition for income tax purposes and as a result, the goodwill arising from the transaction is deductible. As permitted under the accounting standards codification guidance for business combinations, the company recorded increases to the carrying value of goodwill of $2.9 million and $8.1 million for the three and nine months ended July 29, 2022, respectively, as a result of revising the Intimidator purchase price for certain customary adjustments. Such purchase accounting adjustment did not impact the company's Consolidated Statements of Earnings for the three and nine month periods ended July 29, 2022.

Other Intangible Assets Acquired

The allocation of the purchase price to the net assets acquired resulted in the recognition of $184.2 million of value for other intangible assets as of the closing date. The fair values of the acquired trade names, customer-related, and backlog intangible assets were determined using the income approach whereby an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. The useful lives of the other intangible assets were determined based on the period of expected cash flows used to measure the fair value of the intangible assets adjusted as appropriate for entity-specific factors including legal, regulatory, contractual, competitive, economic, and/or other factors that may limit the useful life of the respective intangible asset. As of the closing date, the acquired finite-lived intangible assets had a weighted average useful life of 9.5 years. The fair values of the trade names were determined using the relief from royalty method, which is based on the hypothetical royalty stream that would be received if the company were to license the respective trade name and were based on expected future revenues from the respective trade name. The weighted-average useful life of the finite-lived trade name intangible assets was determined to be 9.8 years as of the closing date. The fair values of the customer-related and backlog intangible assets were determined using the excess earnings method and were based on the expected operating cash flows attributable to the respective intangible asset, which were determined by deducting expected economic costs, including operating expenses and contributory asset charges, from the revenue expected to be generated from the respective intangible asset. As of the closing date of the acquisition, the weighted-average useful life of the customer-related and backlog intangible assets were determined to be 9.6 years and 9 months, respectively.

Results of Operations

Intimidator's results of operations are included within the company's Professional reportable segment in the company's Condensed Consolidated Financial Statements from the closing date. For the three and nine months ended July 29, 2022, the company recognized $54.4 million and $114.9 million of net sales from Intimidator's operations, respectively. Intimidator's operations had an immaterial impact on Professional segment earnings for the three and nine month periods ended July 29, 2022. Unaudited pro forma financial information is not disclosed as the Intimidator acquisition was not considered material to the company's consolidated results of operations.

Asset Acquisitions

Effective June 10, 2022, during the third quarter of fiscal 2022, the company completed the acquisition of certain assets of Voigt Smith Innovation LLC (“VSI”), a manufacturer of liquid deicing equipment, brine makers and applicators, related smart-connected technologies, and hydroseeding products. Effective June 20, 2022, during the third quarter of fiscal 2022, the company completed the acquisition of certain assets of Tornado Global Hydrovacs Ltd. (“Tornado”), a designer and manufacturer of hydrovac trucks. Effective June 21, 2022, during the third quarter of fiscal 2022, the company completed the acquisition of certain assets of River City Manufacturing, Inc. (“RCM”), a manufacturer of custom rock saws. Each of these acquisitions did not meet the definition of a business combination as substantially all of the fair value of the gross assets acquired in each acquisition was concentrated in the respective finite-lived developed technology intangible assets. As a result, the company accounted for each of these transactions as an asset acquisition. In an asset acquisition, goodwill is not recognized, but rather, any excess purchase consideration over the fair value of the net assets acquired is allocated on a relative fair value basis to the identifiable net assets as of the acquisition date and any direct acquisition-related transaction costs are capitalized as part of the purchase consideration. These asset acquisitions were immaterial in relation to the company's Consolidated Financial Condition and Results of Operations and as a result, additional purchase accounting disclosures have been omitted.

3 Segment Data

The company's businesses are organized, managed, and internally grouped into segments based on similarities in products and services. Segment selection is based on the manner in which the company's chief operating decision maker organizes segments for making operating and investment decisions and assessing performance. The company has identified twelve operating segments and has aggregated certain of those operating segments into two reportable segments: Professional and Residential. The aggregation of the company's segments is based on the segments having the following similarities: economic characteristics, types of products and services, types of production processes, type or class of customers, and method of distribution. The company's remaining activities are presented as "Other" due to their insignificance. The company's Other activities consist of the company's wholly-owned domestic distribution company, the company's corporate activities, and the elimination of intersegment revenues and expenses.

The following tables present summarized financial information concerning the company's reportable business segments and Other activities (in thousands):

Three Months Ended July 29, 2022	Professional	Residential	Other	Total
Net sales	$ 886,232	$ 269,962	$ 4,356	$ 1,160,550
Intersegment gross sales (eliminations)	10,436	15	(10,451)	—
Earnings (loss) before income taxes	$ 166,191	$ 26,348	$ (35,448)	$ 157,091

Nine Months Ended July 29, 2022	Professional	Residential	Other	Total
Net sales	$ 2,484,927	$ 845,039	$ 12,712	$ 3,342,678
Intersegment gross sales (eliminations)	23,201	50	(23,251)	—
Earnings (loss) before income taxes	424,833	95,203	(110,742)	409,294
Total assets	$ 2,625,481	$ 407,218	$ 407,250	$ 3,439,949

Three Months Ended July 30, 2021	Professional	Residential	Other	Total
Net sales	$ 718,477	$ 252,117	$ 6,242	$ 976,836
Intersegment gross sales (eliminations)	8,241	13	(8,254)	—
Earnings (loss) before income taxes	$ 122,331	$ 31,548	$ (36,428)	$ 117,451

Nine Months Ended July 30, 2021	Professional	Residential	Other	Total
Net sales	$ 2,197,058	$ 784,852	$ 17,019	$ 2,998,929
Intersegment gross sales (eliminations)	24,034	39	(24,073)	—
Earnings (loss) before income taxes	406,279	109,642	(85,401)	430,520
Total assets	$ 1,949,681	$ 327,064	$ 691,304	$ 2,968,049

The following table presents the details of operating loss before income taxes for the company's Other activities:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**July 29, 2022**	**July 30, 2021**
Corporate expenses	$ (30,816)	$ (33,797)	$ (94,359)	$ (78,814)
Interest expense	(9,182)	(7,016)	(24,219)	(21,662)
Earnings from wholly-owned domestic distribution companies and other income, net	4,550	4,385	7,836	15,075
Total operating loss	$ (35,448)	$ (36,428)	$ (110,742)	$ (85,401)

4 Revenue

The following tables disaggregate the company's reportable segment net sales by major product type and geographic market (in thousands):

Three Months Ended July 29, 2022	Professional	Residential	Other	Total
Revenue by product type:				
Equipment	$ 780,738	$ 265,469	$ 1,102	$ 1,047,309
Irrigation	105,494	4,493	3,254	113,241
Total net sales	$ 886,232	$ 269,962	$ 4,356	$ 1,160,550
Revenue by geographic market:				
United States	$ 710,386	$ 229,666	$ 4,356	$ 944,408
International countries	175,846	40,296	—	216,142
Total net sales	$ 886,232	$ 269,962	$ 4,356	$ 1,160,550

Nine Months Ended July 29, 2022	Professional	Residential	Other	Total
Revenue by product type:				
Equipment	$ 2,149,549	$ 823,536	$ 6,207	$ 2,979,292
Irrigation	335,378	21,503	6,505	363,386
Total net sales	$ 2,484,927	$ 845,039	$ 12,712	$ 3,342,678
Revenue by geographic market:				
United States	$ 1,969,933	$ 703,234	$ 12,712	$ 2,685,879
International countries	514,994	141,805	—	656,799
Total net sales	$ 2,484,927	$ 845,039	$ 12,712	$ 3,342,678

Three Months Ended July 30, 2021	Professional	Residential	Other	Total
Revenue by product type:				
Equipment	$ 609,022	$ 247,152	$ 3,164	$ 859,338
Irrigation	109,455	4,965	3,078	117,498
Total net sales	$ 718,477	$ 252,117	$ 6,242	$ 976,836
Revenue by geographic market:				
United States	$ 559,907	$ 219,022	$ 6,242	$ 785,171
International countries	158,570	33,095	—	191,665
Total net sales	$ 718,477	$ 252,117	$ 6,242	$ 976,836

Nine Months Ended July 30, 2021	Professional	Residential	Other	Total
Revenue by product type:				
Equipment	$ 1,891,138	$ 761,724	$ 11,436	$ 2,664,298
Irrigation	305,920	23,128	5,583	334,631
Total net sales	$ 2,197,058	$ 784,852	$ 17,019	$ 2,998,929
Revenue by geographic market:				
United States	$ 1,681,972	$ 661,017	$ 17,019	$ 2,360,008
International countries	515,086	123,835	—	638,921
Total net sales	$ 2,197,058	$ 784,852	$ 17,019	$ 2,998,929

Contract Liabilities

Contract liabilities relate to deferred revenue recognized for cash consideration received at contract inception in advance of the company's performance under the respective contract and generally relate to the sale of separately priced extended warranty contracts, service contracts, and non-refundable customer deposits. The company recognizes revenue over the term of the contract in proportion to the costs expected to be incurred in satisfying the performance obligations under the separately priced extended warranty and service contracts. For non-refundable customer deposits, the company recognizes revenue as of the point in time in which the performance obligation has been satisfied under the contract with the customer, which typically occurs upon change in control at the time a product is shipped. As of July 29, 2022 and October 31, 2021, $27.3 million and $24.1 million, respectively, of deferred revenue associated with outstanding separately priced extended warranty contracts, service contracts, and non-refundable customer deposits was reported within accrued liabilities and other long-term liabilities in the Condensed Consolidated Balance Sheets. For the three and nine months ended July 29, 2022, the company recognized $3.3 million and $8.8 million, respectively, of the October 31, 2021 deferred revenue balance within net sales in the Condensed Consolidated Statements of Earnings. The company expects to recognize approximately $2.3 million of the October 31, 2021 deferred revenue amount within net sales throughout the remainder of fiscal 2022, $7.7 million in fiscal 2023, and $5.3 million thereafter.

5 Goodwill and Other Intangible Assets, Net

The company's acquisition of Intimidator on January 13, 2022 resulted in the recognition of $163.7 million and $184.2 million of goodwill and other intangible assets, respectively. For additional information on the company's acquisition of Intimidator, refer to Note 2, *Business Combinations and Asset Acquisitions*.

Goodwill

The changes in the carrying amount of goodwill by reportable segment for the first nine months of fiscal 2022 were as follows:

(Dollars in thousands)	Professional	Residential	Other	Total
Balance as of October 31, 2021	$ 411,079	$ 10,601	$ —	$ 421,680
Goodwill acquired	163,731	—	—	163,731
Translation adjustments	(1,395)	(213)	—	(1,608)
Balance as of July 29, 2022	$ 573,415	$ 10,388	$ —	$ 583,803

Other Intangible Assets, Net

The components of other intangible assets, net as of July 29, 2022, July 30, 2021, and October 31, 2021 were as follows (in thousands):

July 29, 2022	Weighted-Average Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Net
Patents	9.9	$ 18,252	$ (15,178)	$ 3,074
Non-compete agreements	5.5	6,887	(6,861)	26
Customer-related	16.0	321,113	(78,017)	243,096
Developed technology	7.1	102,013	(50,412)	51,601
Trade names	13.7	10,689	(3,267)	7,422
Backlog and other	0.6	5,730	(5,280)	450
Total finite-lived	13.4	464,684	(159,015)	305,669
Indefinite-lived - trade names		289,472	—	289,472
Total other intangible assets, net		$ 754,156	$ (159,015)	$ 595,141

July 30, 2021	Weighted-Average Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Net
Patents	9.9	$ 18,275	$ (14,482)	$ 3,793
Non-compete agreements	5.5	6,908	(6,861)	47
Customer-related	18.2	239,762	(59,017)	180,745
Developed technology	7.0	87,512	(40,943)	46,569
Trade names	15.3	7,544	(2,882)	4,662
Backlog and other	0.6	4,390	(4,390)	—
Total finite-lived	14.6	364,391	(128,575)	235,816
Indefinite-lived - trade names		190,681	—	190,681
Total other intangible assets, net		$ 555,072	$ (128,575)	$ 426,497

October 31, 2021	Weighted-Average Useful Life in Years		Gross Carrying Amount		Accumulated Amortization		Net
Patents	9.9	$	18,283	$	(14,670)	$	3,613
Non-compete agreements	5.5		6,914		(6,872)		42
Customer-related	18.2		239,679		(62,617)		177,062
Developed technology	7.0		87,473		(43,348)		44,125
Trade names	15.4		7,524		(2,969)		4,555
Backlog and other	0.6		4,390		(4,390)		—
Total finite-lived	14.6		364,263		(134,866)		229,397
Indefinite-lived - trade names			190,644		—		190,644
Total other intangible assets, net		$	554,907	$	(134,866)	$	420,041

Amortization expense for finite-lived intangible assets for the three and nine months ended July 29, 2022 was $9.1 million and $24.8 million, respectively. Amortization expense for finite-lived intangible assets for the three and nine months ended July 30, 2021 was $6.4 million and $17.5 million, respectively. Estimated amortization expense for the remainder of fiscal 2022 and succeeding fiscal years is as follows: fiscal 2022 (remainder), $9.1 million; fiscal 2023, $34.9 million; fiscal 2024, $33.0 million; fiscal 2025, $30.1 million; fiscal 2026, $29.0 million; fiscal 2027, $24.0 million; and after fiscal 2027, $145.6 million.

6 Indebtedness

The following is a summary of the company's indebtedness:

(Dollars in thousands)		July 29, 2022		July 30, 2021		October 31, 2021
$600 million revolving credit facility, due October 2026	$	65,000	$	—	$	—
$200 million term loan, due April 2022		—		100,000		—
$300 million term loan, due April 2024		—		170,000		—
$270 million term loan, due October 2026		270,000		—		270,000
$200 million term loan, due April 2027		200,000		—		—
3.81% series A senior notes, due June 2029		100,000		100,000		100,000
3.91% series B senior notes, due June 2031		100,000		100,000		100,000
3.97% senior notes, due June 2032		100,000		—		—
7.8% debentures, due June 2027		100,000		100,000		100,000
6.625% senior notes, due May 2037		124,086		124,024		124,040
Less: unamortized discounts, debt issuance costs, and deferred charges		3,470		2,462		2,798
Total long-term debt		1,055,616		691,562		691,242
Less: current portion of long-term debt		65,000		104,217		—
Long-term debt, less current portion	$	990,616	$	587,345	$	691,242

Principal payments required on the company's outstanding indebtedness, based on the maturity dates defined within the company's debt arrangements, for the remainder of fiscal 2022 and succeeding fiscal years are as follows: fiscal 2022 (remainder), $0.0 million; fiscal 2023, $0.0 million; fiscal 2024, $0.0 million; fiscal 2025, $37.0 million; fiscal 2026, $328.0 million; fiscal 2027, $270.0 million; and after fiscal 2027, $425.0 million. Typically, the company's revolving credit facility is classified as long-term debt within the Condensed Consolidated Balance Sheets as the company has the ability to extend the outstanding borrowings under the revolving credit facility for the full-term of the facility. However, if the company intends to prepay a portion of the outstanding balance under the revolving credit facility within the next twelve months, the company reclassifies the portion of outstanding borrowings under the revolving credit facility that the company intends to repay within the next twelve months to current portion of long-term debt within the Condensed Consolidated Balance Sheets. As of July 29, 2022, the company reclassified $65.0 million of outstanding borrowings under the revolving credit facility to current portion of long-term debt within the Condensed Consolidated Balance Sheets as the company currently intends to repay this amount within the next twelve months.

3.97% Senior Notes

On June 30, 2022, the company issued $100.0 million of 3.97% Senior Notes due June 30, 2032 ("3.97% Senior Notes") pursuant to a private placement note purchase agreement ("2022 Note Purchase Agreement") with certain purchasers ("holders"). The proceeds were used pay down certain of its outstanding borrowings incurred in connection with the company's acquisition of Intimidator on January 13, 2022 and borrowed under its revolving credit facility provided under an amended and restated revolving credit agreement dated as of October 5, 2021. In connection with the 2022 Note Purchase Agreement, the company incurred immaterial debt issuance costs, which were capitalized as contra-debt on our Condensed Consolidated Balance Sheets and will be amortized over the life of the 3.97% Senior Notes. Interest on the 3.97% Senior Notes is payable semiannually on the 30th day of June and December in each year. The 3.97% Senior Notes are unsecured senior obligations of the company and mature on June 30, 2032.

The company has the right to prepay all or a portion of the 3.97% Senior Notes upon notice to the holders for 100% of the prepaid principal amount plus a make-whole premium, as set forth in the 2022 Note Purchase Agreement, plus accrued and unpaid interest, if any, to the date of prepayment. In addition, at any time during the 90 day period ending on the maturity date of the 3.97% Senior Notes, the company will have the right to prepay all of the 3.97% Senior Notes without any make-whole premium. Upon the occurrence of certain change of control events, holders of the 3.97% Senior Notes will have the right to require that the company purchase such holder's 3.97% Senior Notes in cash at a purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase.

The 2022 Note Purchase Agreement contains customary representations and warranties of the company, as well as certain customary covenants, including, without limitation, financial covenants generally consistent with those applicable under the company's revolving credit facility. The company was in compliance with all covenants as of July 29, 2022.

$200.0 Million Term Loan Credit Agreement

On April 27, 2022, the company entered into a term loan credit agreement ("$200.0 million term loan") with certain financial institutions for the purpose of paying down certain of its outstanding borrowings incurred in connection with the company's acquisition of Intimidator on January 13, 2022 and borrowed under its revolving credit facility provided under an amended and restated revolving credit agreement dated as of October 5, 2021. The entire $200.0 million available under the agreement was funded on April 27, 2022, and matures on April 27, 2027. In connection with the company's entry into the $200.0 million term loan, the company incurred immaterial debt issuance costs, which are being deferred and amortized over the life of the $200.0 million term loan and are netted against the outstanding borrowings under the $200.0 million term loan within the long-term debt, less current portion line item on the company's Condensed Consolidated Balance Sheets.

Outstanding borrowings under the $200.0 million term loan bear interest on the outstanding principal amount thereof for each interest period at a variable rate generally based on Term SOFR or an alternative variable rate based on the highest of the Bank of America prime rate, the federal funds rate or a rate generally based on Term SOFR, depending on the leverage ratio (as measured quarterly and defined as the ratio of (i) total indebtedness to (ii) consolidated EBIT (earnings before interest and taxes) plus depreciation and amortization expense) and our debt rating. Interest is payable quarterly in arrears.

Beginning with the last business day of June 2025, the company is required to make quarterly amortization payments on the $200.0 million term loan equal to 2.5% of the original aggregate principal amount reduced by any applicable prepayments. The $200.0 million term loan may be prepaid and terminated at the company's election at any time without penalty or premium. Amounts repaid or prepaid may not be reborrowed.

The $200.0 million term loan contains customary covenants, including, without limitation, financial covenants generally consistent with those applicable under the company's revolving credit facility. The company was in compliance with all covenants as of July 29, 2022.

Revolving Credit Facility

On April 27, 2022, the company amended its October 5, 2021 amended and restated revolving credit agreement to transition the reference rate from LIBOR to term SOFR. As of July 29, 2022, SOFR is the reference rate in effect for all outstanding variable interest borrowings of the company.

7 Inventories, Net

Inventories are valued at the lower of cost or net realizable value, with cost determined by the first-in, first-out ("FIFO") and average cost methods for a majority of the company's inventories. All remaining inventories are valued at the lower of cost or market, with cost determined under the last-in, first-out ("LIFO") method. As needed, the company records an inventory valuation adjustment for excess, slow-moving, and obsolete inventory that is equal to the excess of the cost of the inventory over the estimated net realizable value or market value for the inventory depending on the inventory costing method. Such inventory valuation adjustment is based on a review and comparison of current inventory levels to planned production, as well as planned and historical sales of the inventory. The inventory valuation adjustment to net realizable value or market value establishes a new cost basis of the inventory that cannot be subsequently reversed.

On January 13, 2022, with the acquisition of Intimidator, the company acquired $34.6 million of inventory. For additional information on the company's acquisition of Intimidator, refer to Note 2, *Business Combinations and Asset Acquisitions*.

Inventories, net were as follows:

(Dollars in thousands)	July 29, 2022	July 30, 2021	October 31, 2021
Raw materials and work in process	$ 402,719	$ 280,774	$ 335,325
Finished goods and service parts	672,042	466,961	538,332
Total FIFO and average cost value	1,074,761	747,735	873,657
Less: adjustment to LIFO value	135,487	82,087	135,487
Total inventories, net	$ 939,274	$ 665,648	$ 738,170

8 Property, Plant and Equipment, Net

Property, plant and equipment assets are carried at cost less accumulated depreciation. The company generally accounts for depreciation of property, plant, and equipment utilizing the straight-line method over the estimated useful lives of the assets. Buildings and leasehold improvements are generally depreciated over 10 to 40 years, machinery and equipment are generally depreciated over three to 15 years, tooling is generally depreciated over three to five years, and computer hardware and software and website development costs are generally depreciated over two to five years. Expenditures for major renewals and improvements, which substantially increase the useful lives of existing assets, are capitalized. Costs associated with general maintenance and repairs are expensed as incurred within cost of sales or selling, general and administrative expense in the Condensed Consolidated Statements of Earnings depending on the nature and use of the related asset. Interest is capitalized during the construction period for significant capital projects.

On January 13, 2022, with the acquisition of Intimidator, the company acquired $27.4 million of property, plant, and equipment. For additional information on the company's acquisition of Intimidator, refer to Note 2, *Business Combinations and Asset Acquisitions*.

Property, plant and equipment, net was as follows:

(Dollars in thousands)	July 29, 2022	July 30, 2021	October 31, 2021
Land and land improvements	$ 57,169	$ 56,004	$ 57,690
Buildings and leasehold improvements	326,111	299,484	308,217
Machinery and equipment	535,303	508,383	522,012
Tooling	221,290	233,171	220,966
Computer hardware and software	96,834	102,293	97,485
Construction in process	141,503	82,211	85,722
Property, plant, and equipment, gross	1,378,210	1,281,546	1,292,092
Less: accumulated depreciation	846,394	824,554	804,361
Property, plant, and equipment, net	$ 531,816	$ 456,992	$ 487,731

9 Product Warranty Guarantees

The company’s products are warranted to provide assurance that the product will function as expected and to ensure customer confidence in design, workmanship, and overall quality. Standard warranty coverage is generally provided for specified periods of time and on select products’ hours of usage, and generally covers parts, labor, and other expenses for non-maintenance repairs. In addition to the standard warranties offered by the company on its products, the company also sells separately priced extended warranty coverage on select products for a prescribed period after the original warranty period expires. For additional information on the contract liabilities associated with the company's separately priced extended warranties, refer to Note 4, *Revenue*.

At the time of sale, the company recognizes expense and records an accrual by product line for estimated costs in connection with forecasted future warranty claims. The company's estimate of the cost of future warranty claims 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. The company periodically assesses the adequacy of its warranty accruals based on changes in these factors and records any necessary adjustments if the cost of actual claims experience indicates that adjustments to the company's warranty accrual are necessary. Additionally, from time to time, the company may also establish warranty accruals for its estimate of the costs necessary to settle major rework campaigns on a product-specific basis during the period in which the circumstances giving rise to the major rework campaign become known and when the costs to satisfactorily address the situation are both probable and estimable. The warranty accrual for the cost of a major rework campaign is primarily based on an estimate of the cost to repair each affected unit and the number of affected units expected to be repaired.

The changes in accrued warranties were as follows:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**July 29, 2022**	**July 30, 2021**
Beginning balance	$ 126,830	$ 119,389	$ 116,783	$ 107,121
Provisions	21,824	17,686	62,917	56,204
Acquisitions	2,466	—	5,663	—
Claims	(20,829)	(20,300)	(54,601)	(51,104)
Changes in estimates	727	377	256	4,931
Ending balance	$ 131,018	$ 117,152	$ 131,018	$ 117,152

10 Investment in Finance Affiliate

The company and TCF Inventory Finance, Inc. ("TCFIF"), a subsidiary of The Huntington National Bank, are parties to the Red Iron joint venture ("Red Iron"), the primary purpose of which is to provide inventory financing to certain distributors and dealers of certain of the company's products in the U.S. These financing transactions are structured as an advance in the form of a payment by Red Iron to the company on behalf of a distributor or dealer with respect to invoices financed by Red Iron. These payments extinguish the obligation of the dealer or distributor to make payment to the company under the terms of the applicable invoice. The company has also entered into a limited inventory repurchase agreement with Red Iron, under which the company has agreed to repurchase certain repossessed products, up to a maximum aggregate amount of $7.5 million in a calendar year. The company's financial exposure under this limited inventory repurchase agreement is limited to the difference between the amount paid for repurchases of repossessed product and the amount received upon the subsequent resale of the repossessed product. The company has repurchased immaterial amounts of inventory under this limited inventory repurchase agreement for the nine months ended July 29, 2022 and July 30, 2021.

Under separate agreements between Red Iron and the dealers and distributors, Red Iron provides loans to the dealers and distributors for the advances paid by Red Iron to the company. The net amount of receivables financed for dealers and distributors under this arrangement for the nine months ended July 29, 2022 and July 30, 2021 were $1,886.1 million and $1,733.0 million, respectively. As of July 29, 2022, Red Iron's total assets were $641.6 million and total liabilities were $571.9 million. The total amount of receivables due from Red Iron to the company as of July 29, 2022, July 30, 2021, and October 31, 2021 were $14.4 million, $13.8 million and $31.0 million, respectively.

The company owns 45 percent of Red Iron and TCFIF owns 55 percent of Red Iron. The company accounts for its investment in Red Iron under the equity method of accounting. At inception, the company and TCFIF each contributed a specified amount of the estimated cash required to enable Red Iron to purchase the company's inventory financing receivables and to provide financial support for Red Iron's inventory financing programs. Red Iron borrows the remaining requisite estimated cash utilizing a $625.0 million secured revolving credit facility established under a credit agreement between Red Iron and TCFIF. The company's total investment in Red Iron as of July 29, 2022, July 30, 2021, and October 31, 2021 was $31.4 million, $19.3 million, and $20.7 million, respectively. The company has not guaranteed the outstanding indebtedness of Red Iron.

11 Stock-Based Compensation

Compensation costs related to stock-based compensation awards were as follows:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**July 29, 2022**	**July 30, 2021**
Stock option awards	$ 2,664	$ 2,614	$ 7,207	$ 7,271
Performance share awards	1,697	2,184	5,235	5,205
Restricted stock unit awards	1,611	1,033	4,034	3,029
Unrestricted common stock awards	—	—	629	671
Total compensation cost for stock-based compensation awards	$ 5,972	$ 5,831	$ 17,105	$ 16,176

On March 15, 2022, the company's shareholders approved The Toro Company 2022 Equity and Incentive Plan (the "2022 plan"), which became effective immediately and replaced The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended (the "2010 plan"). The 2022 plan is administered by the Compensation & Human Resources Committee of the Board and permits the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, annual performance awards, non-employee director awards and other cash-based and stock-based awards to eligible individuals. Subject to adjustment as provided in the 2022 plan, the maximum aggregate number of shares of the company's common stock authorized for issuance under the 2022 plan is equal to the sum of: (a) 1,250,000 shares, plus (b) the number of shares remaining available for grant under the 2010 plan but not subject to outstanding awards thereunder as of March 15, 2022, and plus (c) the number of shares subject to awards outstanding under the 2010 plan as of March 15, 2022 but only to the extent that such outstanding awards are forfeited, expire or otherwise terminate without the issuance of such shares.

Stock Option Awards

Stock options are granted with an exercise price equal to the closing price of the company's common stock on the date of grant, as reported by the New York Stock Exchange. Options are generally granted to executive officers, other employees, and non-employee members of the company's Board of Directors ("Board") on an annual basis in the first quarter of the company's fiscal year but may also be granted throughout the fiscal year in connection with hiring, mid-year promotions, leadership transition, or retention, as needed and applicable. Options generally vest one-third each year over a three-year period and have a ten-year term but in certain circumstances, the vesting requirement may be modified such that options granted to certain employees vest in full on the three-year anniversary of the date of grant and have a ten-year term. Compensation cost equal to the grant date fair value determined under the Black-Scholes valuation method is generally recognized for these awards over the vesting period. Compensation cost recognized for other employees not considered executive officers and non-employee Board members is net of estimated forfeitures, which are determined at the time of grant based on historical forfeiture experience. Stock options granted to executive officers and other employees are subject to accelerated expensing if the option holder meets the retirement definition set forth in the 2022 plan or 2010 plan, as applicable. In that case, the fair value of the options is expensed in the fiscal year of grant because generally, if the option holder is employed as of the end of the fiscal year in which the options are granted, such options will not be forfeited but continue to vest according to their schedule following retirement. Similarly, if a non-employee Board member has served on the company's Board for ten full fiscal years or more, the awards will not be forfeited but continue to vest according to their schedule following retirement. Therefore, the fair value of the options granted is fully expensed on the date of the grant.

The fair value of each stock option is estimated on the date of grant using various inputs and assumptions under the Black-Scholes valuation method. The expected life is a significant assumption as it determines the period for which the risk-free interest rate, stock price volatility, and dividend yield must be applied. The expected life is the average length of time in which executive officers, other employees, and non-employee Board members are expected to exercise their stock options, which is primarily based on historical exercise experience. The company groups executive officers and non-employee Board members for valuation purposes based on similar historical exercise behavior. Expected stock price volatility is based on the daily movement of the company's common stock over the most recent historical period equivalent to the expected life of the option. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate over the expected life at the time of grant. The expected dividend yield is estimated over the expected life based on the company's historical cash dividends paid, expected future cash dividends and dividend yield, and expected changes in the company's stock price.

The table below illustrates the weighted-average valuation assumptions used under the Black-Scholes valuation method for options granted in the first nine months of the following fiscal periods:

	Fiscal 2022	**Fiscal 2021**
Expected life of option in years	6.19	6.21
Expected stock price volatility	23.74%	23.26%
Risk-free interest rate	1.31%	0.55%
Expected dividend yield	0.94%	0.86%
Per share weighted-average fair value at date of grant	$22.55	$19.39

Performance Share Awards

The company grants performance share awards to executive officers and other employees under which they are entitled to receive shares of the company's common stock contingent on the achievement of performance goals of the company, which are generally measured over a three-year period. The number of shares of common stock a participant receives can be increased (up to 200 percent of target levels) or reduced (down to zero) based on the level of achievement of performance goals and will vest at the end of a three-year period. Performance share awards are generally granted on an annual basis in the first quarter of the company's fiscal year. Compensation cost is recognized for these awards on a straight-line basis over the vesting period based on the per share fair value, which is equal to the closing price of the company's common stock on the date of grant, and the probability of achieving each performance goal. The per share weighted-average fair value of performance share awards granted during the first quarter of fiscal 2022 and 2021 was $98.41 and $90.59, respectively. No performance share awards were granted during the second or third quarters of fiscal 2022 and 2021.

Restricted Stock Unit Awards

Restricted stock unit awards are generally granted to certain employees who are not executive officers. Occasionally, restricted stock unit awards may be granted, including to executive officers, in connection with hiring, mid-year promotions, leadership transition, or retention. Restricted stock unit awards generally vest one-third each year over a three-year period, or vest in full on the three-year anniversary of the date of grant. Compensation cost equal to the grant date fair value, net of estimated forfeitures, is recognized for these awards over the vesting period. The grant date fair value is equal to the closing price of the company's common stock on the date of grant multiplied by the number of shares subject to the restricted stock unit awards and estimated forfeitures are determined on the grant date based on historical forfeiture experience. The per share weighted-average fair value of restricted stock unit awards granted during the first nine months of fiscal 2022 and 2021 was $89.19 and $97.84, respectively.

Unrestricted Common Stock Awards

During the first nine months of fiscal 2022 and 2021, 6,453 and 8,070 shares, respectively, of fully vested unrestricted common stock awards were granted to certain Board members as a component of their compensation for their service on the Board and were recorded within selling, general and administrative expense in the Condensed Consolidated Statements of Earnings. Additionally, the Company's Board members may elect to convert a portion or all of their calendar year annual retainers otherwise payable in cash into shares of the company's common stock. No shares of fully vested unrestricted common stock awards were granted during the second or third quarters of fiscal 2022 and 2021.

12 Stockholders' Equity

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss ("AOCL"), net of tax, within the Condensed Consolidated Statements of Stockholders' Equity were as follows:

(Dollars in thousands)	July 29, 2022	July 30, 2021	October 31, 2021
Foreign currency translation adjustments	$ 40,725	$ 17,823	$ 19,535
Pension benefits	3,899	5,106	3,899
Cash flow derivative instruments	(13,481)	3,762	2,562
Total accumulated other comprehensive loss	$ 31,143	$ 26,691	$ 25,996

The components and activity of AOCL, net of tax, for the three and nine month periods ended July 29, 2022 and July 30, 2021 were as follows:

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of April 29, 2022	$ 34,933	$ 3,899	$ (11,009)	$ 27,823
Other comprehensive (income) loss before reclassifications	5,792	—	(632)	5,160
Amounts reclassified from AOCL	—	—	(1,840)	(1,840)
Net current period other comprehensive (income) loss	5,792	—	(2,472)	3,320
Balance as of July 29, 2022	$ 40,725	$ 3,899	$ (13,481)	$ 31,143

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2021	$ 19,535	$ 3,899	$ 2,562	$ 25,996
Other comprehensive (income) loss before reclassifications	21,190	—	(14,448)	6,742
Amounts reclassified from AOCL	—	—	(1,595)	(1,595)
Net current period other comprehensive (income) loss	21,190	—	(16,043)	5,147
Balance as of July 29, 2022	$ 40,725	$ 3,899	$ (13,481)	$ 31,143

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of April 30, 2021	$ 12,509	$ 5,106	$ 11,797	$ 29,412
Other comprehensive (income) loss before reclassifications	5,314	—	(11,117)	(5,803)
Amounts reclassified from AOCL	—	—	3,082	3,082
Net current period other comprehensive (income)	5,314	—	(8,035)	(2,721)
Balance as of July 30, 2021	$ 17,823	$ 5,106	$ 3,762	$ 26,691

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2020	$ 24,508	$ 5,106	$ 4,648	$ 34,262
Other comprehensive income before reclassifications	(6,685)	—	(10,151)	(16,836)
Amounts reclassified from AOCL	—	—	9,265	9,265
Net current period other comprehensive income	(6,685)	—	(886)	(7,571)
Balance as of July 30, 2021	$ 17,823	$ 5,106	$ 3,762	$ 26,691

For additional information on the components reclassified from AOCL to the respective line items in net earnings for derivative instruments refer to Note 16, *Derivative Instruments and Hedging Activities*.

13 Per Share Data

Reconciliations of basic and diluted weighted-average number of shares of common stock outstanding were as follows:

	Three Months Ended		Nine Months Ended	
(Shares in thousands)	July 29, 2022	July 30, 2021	July 29, 2022	July 30, 2021
Basic				
Weighted-average number of shares of common stock	104,827	107,130	104,924	107,661
Assumed issuance of contingent shares	—	—	7	6
Weighted-average number of shares of common stock outstanding - Basic	104,827	107,130	104,931	107,667
Diluted				
Weighted-average number of shares of common stock outstanding - Basic	104,827	107,130	104,931	107,667
Effect of dilutive shares	621	1,233	823	1,151
Weighted-average number of shares of common stock outstanding - Diluted	105,448	108,363	105,754	108,818

The effect of dilutive shares from stock option awards and restricted stock unit awards is computed under the treasury stock method. Stock option awards to purchase 1,066,621 and 2,109 shares of common stock during the third quarter of fiscal 2022 and 2021, respectively, and to purchase 896,184 and 425,748 shares of common stock during the first nine months of fiscal 2022 and 2021, respectively, were excluded from the computation of diluted net earnings per share of common stock because they were anti-dilutive.

14 Contingencies

Litigation

From time to time, the company is party to litigation in the ordinary course of business. Such matters are generally subject to uncertainties and to outcomes that are not predictable with assurance and that may not be known for extended periods of time. Litigation occasionally involves claims for punitive, as well as compensatory, damages arising out of the use of the company’s products. Although the company is self-insured to some extent, the company maintains insurance against certain product liability losses. The company is also subject to litigation and administrative and judicial proceedings with respect to claims involving asbestos and the discharge of hazardous substances into the environment. Some of these claims assert damages and liability for personal injury, remedial investigations or clean-up and other costs and damages. The company is also occasionally involved in commercial disputes, employment or employment-related disputes, and patent litigation cases in which it is asserting or defending against patent infringement claims. To prevent possible infringement of the company's patents by others, the company periodically reviews competitors' products. To avoid potential liability with respect to others' patents, the company reviews certain patents issued by the U.S. Patent and Trademark Office and foreign patent offices. The company believes these activities help minimize its risk of being a defendant in patent infringement litigation.

The company records a liability in its Condensed Consolidated Financial Statements for costs related to claims, including future legal costs, settlements, and judgments, where the company has assessed that a loss is probable and an amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range, the company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. The company discloses a contingent liability even if the liability is not probable or the amount is not estimable, or both, if there is a reasonable possibility that a material loss may have been incurred. In the opinion of management, the amount of liability, if any, with respect to these matters, individually or in the aggregate, will not materially affect the company's consolidated results of operations, financial position, or cash flows.

In situations where the company receives, or expects to receive, a favorable ruling related to a litigation settlement, the company follows the accounting standards codification guidance for gain contingencies. The company does not allow for the recognition of a gain contingency within its Condensed Consolidated Financial Statements prior to the settlement of the underlying events or contingencies associated with the gain contingency. As a result, the consideration related to a gain contingency is recorded in the Condensed Consolidated Financial Statements during the period in which all underlying events or contingencies are resolved and the gain is realized.

Litigation Settlement

On November 19, 2020, Exmark Manufacturing Company Incorporated ("Exmark"), a wholly-owned subsidiary of the company, and Briggs & Stratton Corporation ("BGG") entered into a settlement agreement ("Settlement Agreement") relating to the decade-long patent infringement litigation that Exmark originally filed in May 2010 against Briggs & Stratton Power Products Group, LLC ("BSPPG"), a former wholly-owned subsidiary of BGG (Case No. 8:10CV187, U.S. District Court for the District of Nebraska) (the "Infringement Action"). In the Infringement Action, Exmark alleged that certain mower decks manufactured by BSPPG infringed an Exmark mower deck patent. Despite favorable judgments in the Infringement Action in favor of Exmark, including with regard to awarded damages, actions by BGG during the second half of calendar year 2020 put in jeopardy the certainty and timing of the eventual receipt of the damages awarded to Exmark in the Infringement Action, including (i) the filing by BGG and certain of its subsidiaries for bankruptcy relief under chapter 11 of title 11 of the United States Bankruptcy Code ("BGG Bankruptcy"); (ii) the sale of substantially all the assets (but not certain liabilities, including the Infringement Action) of BGG and its subsidiaries to a third-party pursuant to Section 363 of the United States Bankruptcy Code; and (iii) a petition filed by BGG for a panel rehearing of the United States Court of Appeals for the Federal Circuit's decision in the Infringement Action ("Rehearing Petition").

As a result, on November 19, 2020, Exmark entered into the Settlement Agreement with BGG which provided, among other things, that (i) upon approval by the bankruptcy court, and such approval becoming final and nonappealable, BGG agreed to pay Exmark $33.65 million ("Settlement Amount"), (ii) BGG agreed to immediately withdraw the Rehearing Petition and otherwise not pursue additional appellate review regarding the Infringement Action, and (iii) after receipt of the Settlement Amount, Exmark agreed to release a supersedeas appeal bond that had been obtained by BGG to support payment of the damages awarded to Exmark in the Infringement Action. On November 20, 2020, BGG filed a motion to withdraw the Rehearing Petition and on December 16, 2020, the bankruptcy court approved the Settlement Agreement. During January 2021, the first quarter of fiscal 2021, the Settlement Amount was received by Exmark in connection with the settlement of the Infringement Action and at such time, the underlying events and contingencies associated with the gain contingency related to the Infringement Action were satisfied. As such, the company recognized in selling, general and administrative expense within the Condensed Consolidated Statements of Earnings during the first quarter of fiscal 2021 (i) the gain associated with the Infringement Action and (ii) a corresponding expense related to the contingent fee arrangement with the company's external legal counsel customary in patent infringement cases equal to approximately 50 percent of the Settlement Amount.

15 Leases

The company enters into contracts that are, or contain, operating lease agreements for certain property, plant, or equipment assets utilized in the normal course of business, such as buildings for manufacturing facilities, office space, distribution centers, and warehouse facilities; land for product testing sites; machinery and equipment for research and development activities, manufacturing and assembly processes, and administrative tasks; and vehicles for sales, service, marketing, and distribution activities. Contracts that explicitly or implicitly relate to property, plant, and equipment are assessed at inception to determine if the contract is, or contains, a lease. Such contracts for operating lease agreements convey the company's right to direct the use of, and obtain substantially all of the economic benefits from, an identified asset for a defined period of time in exchange for consideration. The lease term begins and is determined upon lease commencement, which is the point in time when the company takes possession of the identified asset, and generally includes all non-cancelable periods. Lease expense for the company's operating leases is recognized on a straight-line basis over the lease term and is recorded within cost of sales or selling, general and administrative expense within the Condensed Consolidated Statements of Earnings as dictated by the nature and use of the underlying asset. The company does not recognize right-of-use assets and lease liabilities, but does recognize expense on a straight-line basis, for short-term operating leases which have a lease term of 12 months or less and do not include an option to purchase the underlying asset.

Lease payments are determined at lease commencement and generally represent fixed lease payments as defined within the respective lease agreement or, in the case of certain lease agreements, variable lease payments that are measured as of the lease commencement date based on the prevailing index or market rate. Future adjustments to variable lease payments are defined and scheduled within the respective lease agreement and are determined based upon the prevailing market or index rate at the time of the adjustment relative to the market or index rate determined at lease commencement. Certain other lease agreements contain variable lease payments that are determined based upon actual utilization of the identified asset. Such future adjustments to variable lease payments and variable lease payments based upon actual utilization of the identified asset are not included within the determination of lease payments at commencement but rather, are recorded as variable lease expense in the period in which the variable lease cost is incurred.

Right-of-use assets represent the company's right to use an underlying asset throughout the lease term and lease liabilities represent the company's obligation to make lease payments arising from the lease agreement. The company accounts for operating lease liabilities at lease commencement and on an ongoing basis as the present value of the minimum remaining lease payments under the respective lease term. Minimum remaining lease payments are generally discounted to present value based the estimated incremental borrowing rate at lease commencement as the rate implicit in the lease is generally not readily determinable. Right-of-use assets are measured as the amount of the corresponding operating lease liability for the respective operating lease agreement, adjusted for prepaid or accrued lease payments, the remaining balance of any lease incentives received, unamortized initial direct costs, and impairment of the operating lease right-of-use asset, as applicable.

The following table presents the lease expense incurred on the company’s operating, short-term, and variable leases:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**July 29, 2022**	**July 30, 2021**
Operating lease expense	$ 3,833	$ 4,397	$ 16,304	$ 14,488
Short-term lease expense	303	256	3,445	1,693
Variable lease expense	12	22	12	72
Total lease expense	$ 4,148	$ 4,675	$ 19,761	$ 16,253

The following table presents supplemental cash flow information related to the company's operating leases:

	Nine Months Ended	
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**
Operating cash flows for amounts included in the measurement of lease liabilities	$ 14,129	$ 14,288
Right-of-use assets obtained in exchange for lease obligations	$ 18,236	$ 4,739

The following table presents other lease information related to the company's operating leases:

(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**October 31, 2021**
Weighted-average remaining lease term of operating leases in years	6.2	6.6	6.6
Weighted-average discount rate of operating leases	2.99 %	2.70 %	2.71 %

The following table reconciles the total undiscounted future cash flows based on the anticipated future minimum operating lease payments by fiscal year for the company's operating leases to the present value of operating lease liabilities recorded within the Condensed Consolidated Balance Sheets as of July 29, 2022:

(Dollars in thousands)	July 29, 2022
2022 (remaining)	$ 4,579
2023	17,540
2024	16,164
2025	14,001
2026	8,819
Thereafter	24,086
Total future minimum operating lease payments	85,189
Less: imputed interest	8,593
Present value of operating lease liabilities	$ 76,596

16 Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

The company is exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales to third-party customers, sales and loans to wholly-owned foreign subsidiaries, costs associated with foreign plant operations, and purchases from suppliers. The company's primary currency exchange rate exposures are with the Euro, the Australian dollar, the Canadian dollar, the British pound, the Mexican peso, the Japanese yen, the Chinese Renminbi, and the Romanian New Leu against the U.S. dollar, as well as the Romanian New Leu against the Euro.

To reduce its exposure to foreign currency exchange rate risk, the company enters into various derivative instruments to hedge against such risk, authorized under a company policy that places controls on these hedging activities, with counterparties that are highly rated financial institutions. The company's policy does not allow the use of derivative instruments for trading or speculative purposes. The company has also made an accounting policy election to use the portfolio exception with respect to measuring counterparty credit risk for derivative instruments and to measure the fair value of a portfolio of financial assets and financial liabilities on the basis of the net open risk position with each counterparty.

The company's hedging activities primarily involve the use of forward currency contracts to hedge most foreign currency transactions, including forecasted sales and purchases denominated in foreign currencies. The company uses derivative instruments only in an attempt to limit underlying exposure from foreign currency exchange rate fluctuations and to minimize earnings and cash flow volatility associated with foreign currency exchange rate fluctuations. Decisions on whether to use such derivative instruments are primarily based on the amount of exposure to the currency involved and an assessment of the near-term market value for each currency.

The company recognizes all derivative instruments at fair value on the Condensed Consolidated Balance Sheets as either assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as a cash flow hedging instrument.

Cash Flow Hedging Instruments

The company formally documents relationships between cash flow hedging instruments and the related hedged transactions, as well as its risk-management objective and strategy for undertaking cash flow hedging instruments. This process includes linking all cash flow hedging instruments to the forecasted transactions, such as sales to third-parties and costs associated with foreign plant operations, including purchases from suppliers. At the cash flow hedge's inception and on an ongoing basis, the company formally assesses whether the cash flow hedging instruments have been highly effective in offsetting changes in the cash flows of the hedged transactions and whether those cash flow hedging instruments may be expected to remain highly effective in future periods.

Changes in the fair values of the spot rate component of outstanding, highly effective cash flow hedging instruments included in the assessment of hedge effectiveness are recorded in other comprehensive income within AOCL on the Condensed Consolidated Balance Sheets and are subsequently reclassified to net earnings within the Condensed Consolidated Statements of Earnings during the same period in which the cash flows of the underlying hedged transaction affect net earnings. Changes in the fair values of hedge components excluded from the assessment of effectiveness are recognized immediately in net earnings under the mark-to-market approach. The classification of gains or losses recognized on cash flow hedging instruments and excluded components within the Condensed Consolidated Statements of Earnings is the same as that of the underlying exposure. Results of cash flow hedging instruments, and the related excluded components, of sales and costs associated with foreign plant operations, including purchases from suppliers, are recorded in net sales and cost of sales, respectively. The maximum amount of time the company hedges its exposure to the variability in future cash flows for forecasted trade sales and purchases is two years.

When it is determined that a derivative instrument is not, or has ceased to be, highly effective as a cash flow hedge, the company discontinues cash flow hedge accounting prospectively. The gain or loss on the dedesignated derivative instrument remains in AOCL and is reclassified to net earnings within the same Condensed Consolidated Statements of Earnings line item as the underlying exposure when the forecasted transaction affects net earnings. When the company discontinues cash flow hedge accounting because it is no longer probable, but it is still reasonably possible that the forecasted transaction will occur by the end of the originally expected period or within an additional two-month period of time thereafter, the gain or loss on the derivative instrument remains in AOCL and is reclassified to net earnings within the same Condensed Consolidated Statements of Earnings line item as the underlying exposure when the forecasted transaction affects net earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were in AOCL are immediately recognized in net earnings within other income, net in the Condensed Consolidated Statements of Earnings. In all situations in which cash flow hedge accounting is discontinued and the derivative instrument remains outstanding, the company carries the derivative instrument at its fair value on the Condensed Consolidated Balance Sheets, recognizing future changes in the fair value within other income, net in the Condensed Consolidated Statements of Earnings.

As of July 29, 2022, the notional amount outstanding of forward currency contracts designated as cash flow hedging instruments was $293.0 million.

Derivatives Not Designated as Cash Flow Hedging Instruments

The company also enters into foreign currency contracts that include forward currency contracts to mitigate the remeasurement of specific assets and liabilities on the Condensed Consolidated Balance Sheets. These contracts are not designated as cash flow hedging instruments. Accordingly, changes in the fair value of hedges of recorded balance sheet positions, such as cash, receivables, payables, intercompany notes, and other various contractual claims to pay or receive foreign currencies other than the functional currency, are recognized immediately in other income, net, on the Condensed Consolidated Statements of Earnings together with the transaction gain or loss from the hedged balance sheet position.

The following table presents the fair value and location of the company's derivative instruments on the Condensed Consolidated Balance Sheets:

(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**October 31, 2021**
Derivative assets:			
Derivatives designated as cash flow hedging instruments:			
Prepaid expenses and other current assets			
Forward currency contracts	$ 17,723	$ 1,235	$ 189
Derivatives not designated as cash flow hedging instruments:			
Prepaid expenses and other current assets			
Forward currency contracts	4,618	309	133
Total derivative assets	$ 22,341	$ 1,544	$ 322
Derivative liabilities:			
Derivatives designated as cash flow hedging instruments:			
Accrued liabilities			
Forward currency contracts	$ —	$ 3,682	$ 1,260
Derivatives not designated as cash flow hedging instruments:			
Accrued liabilities			
Forward currency contracts	18	1,554	872
Total derivative liabilities	$ 18	$ 5,236	$ 2,132

The company entered into an International Swap Dealers Association ("ISDA") Master Agreement with each counterparty that permits the net settlement of amounts owed under their respective contracts. The ISDA Master Agreement is an industry standardized contract that governs all derivative contracts entered into between the company and the respective counterparty. Under these master netting agreements, net settlement generally permits the company or the counterparty to determine the net amount payable or receivable for contracts due on the same date or in the same currency for similar types of derivative transactions. The company records the fair value of its derivative instruments at the net amount on its Condensed Consolidated Balance Sheets.

The following table presents the effects of the master netting arrangements on the fair value of the company's derivative instruments that are recorded on the Condensed Consolidated Balance Sheets:

(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**October 31, 2021**
Derivative assets:			
Forward currency contracts:			
Gross amount of derivative assets	$ 22,424	$ 1,544	$ 423
Derivative liabilities offsetting derivative assets	83	—	101
Net amount of derivative assets	$ 22,341	$ 1,544	$ 322
Derivative liabilities:			
Forward currency contracts:			
Gross amount of derivative liabilities	$ 18	$ 5,849	$ 4,853
Derivative assets offsetting derivative liabilities	—	613	2,721
Net amount of derivative liabilities	$ 18	$ 5,236	$ 2,132

The following table presents the impact and location of the amounts reclassified from AOCL into net earnings on the Condensed Consolidated Statements of Earnings and the impact of derivative instruments on the Condensed Consolidated Statements of Comprehensive Income for the company's derivatives designated as cash flow hedging instruments for the three and nine months ended July 29, 2022 and July 30, 2021:

	Three Months Ended			
	Gain (Loss) Reclassified from AOCL into Earnings		**Gain (Loss) Recognized in OCI on Derivatives**	
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**July 29, 2022**	**July 30, 2021**
Derivatives designated as cash flow hedging instruments:				
Forward currency contracts:				
Net sales	$ 1,640	$ (3,113)	$ 2,508	$ 7,350
Cost of sales	200	31	(36)	685
Total derivatives designated as cash flow hedging instruments	$ 1,840	$ (3,082)	$ 2,472	$ 8,035

	Nine Months Ended			
	Gain (Loss) Reclassified from AOCL into Earnings		**Gain Recognized in OCI on Derivatives**	
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**July 29, 2022**	**July 30, 2021**
Derivatives designated as cash flow hedging instruments:				
Forward currency contracts:				
Net sales	$ 1,431	$ (9,325)	$ 14,836	$ 620
Cost of sales	164	60	1,207	266
Total derivatives designated as cash flow hedging instruments	$ 1,595	$ (9,265)	$ 16,043	$ 886

The company recognized immaterial gains within other income, net in the Condensed Consolidated Statements of Earnings during the third quarter and first nine months of fiscal 2022, and recognized immaterial losses within other income, net in the Condensed Consolidated Statements of Earnings during third quarter and first nine months of fiscal 2021, respectively, due to the discontinuance of cash flow hedge accounting on certain forward currency contracts designated as cash flow hedging instruments. As of July 29, 2022, the company expects to reclassify approximately $12.4 million of gains from AOCL to earnings during the next twelve months.

The following tables present the impact and location of derivative instruments on the Condensed Consolidated Statements of Earnings for the company's derivatives designated as cash flow hedging instruments and the related components excluded from effectiveness testing:

(Dollars in thousands)	Gain (Loss) Recognized in Earnings on Cash Flow Hedging Instruments			
	July 29, 2022		July 30, 2021	
Three Months Ended	**Net Sales**	**Cost of Sales**	**Net Sales**	**Cost of Sales**
Condensed Consolidated Statements of Earnings income (expense) amounts in which the effects of cash flow hedging instruments are recorded	$ 1,160,550	$ (760,644)	$ 976,836	$ (645,719)
Gain (loss) on derivatives designated as cash flow hedging instruments:				
Forward currency contracts:				
Amount of gain (loss) reclassified from AOCL into earnings	1,640	200	(3,113)	31
Gain on components excluded from effectiveness testing recognized in earnings based on changes in fair value	$ 646	$ 627	$ 322	$ 70

(Dollars in thousands)	Gain (Loss) Recognized in Earnings on Cash Flow Hedging Instruments			
	July 29, 2022		July 30, 2021	
Nine Months Ended	**Net Sales**	**Cost of Sales**	**Net Sales**	**Cost of Sales**
Condensed Consolidated Statements of Earnings income (expense) amounts in which the effects of cash flow hedging instruments are recorded	$ 3,342,678	$ (2,236,927)	$ 2,998,929	$ (1,949,823)
Gain (loss) on derivatives designated as cash flow hedging instruments:				
Forward currency contracts:				
Amount of gain (loss) reclassified from AOCL into earnings	1,431	164	(9,325)	60
Gain (loss) on components excluded from effectiveness testing recognized in earnings based on changes in fair value	$ (930)	$ 1,180	$ 784	$ 366

The following table presents the impact and location of derivative instruments on the Condensed Consolidated Statements of Earnings for the company's derivatives not designated as cash flow hedging instruments:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**July 29, 2022**	**July 30, 2021**
Gain (loss) on derivatives not designated as cash flow hedging instruments				
Forward currency contracts:				
Other income, net	$ (344)	$ 1,972	$ 3,639	$ (4,511)
Total gain (loss) on derivatives not designated as cash flow hedging instruments	$ (344)	$ 1,972	$ 3,639	$ (4,511)

17 Fair Value Measurements

The company categorizes its assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Estimates of fair value for financial assets and financial liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value, and requires certain disclosures. The framework discusses valuation techniques such as the market approach (comparable market prices), the income approach (present value of future income or cash flows), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs reflecting management's assumptions about the inputs used in pricing the asset or liability.

Recurring Fair Value Measurements

The company's derivative instruments consist of forward currency contracts that are measured at fair value on a recurring basis. The fair value of such forward currency contracts is determined based on observable market transactions of forward currency prices and spot currency rates as of the reporting date.

The following tables present, by level within the fair value hierarchy, the company's financial assets and liabilities that are measured at fair value on a recurring basis as of July 29, 2022, July 30, 2021, and October 31, 2021, according to the valuation technique utilized to determine their fair values (in thousands):

		Fair Value Measurements Using Inputs Considered as:		
July 29, 2022	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Forward currency contracts	$ 22,341	$ —	$ 22,341	$ —
Total assets	$ 22,341	$ —	$ 22,341	$ —
Liabilities:				
Forward currency contracts	$ 18	$ —	$ 18	$ —
Total liabilities	$ 18	$ —	$ 18	$ —

		Fair Value Measurements Using Inputs Considered as:		
July 30, 2021	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Forward currency contracts	$ 1,544	$ —	$ 1,544	$ —
Total assets	$ 1,544	$ —	$ 1,544	$ —
Liabilities:				
Forward currency contracts	$ 5,236	$ —	$ 5,236	$ —
Total liabilities	$ 5,236	$ —	$ 5,236	$ —

		Fair Value Measurements Using Inputs Considered as:		
October 31, 2021	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Forward currency contracts	$ 322	$ —	$ 322	$ —
Total assets	$ 322	$ —	$ 322	$ —
Liabilities:				
Forward currency contracts	$ 2,132	$ —	$ 2,132	$ —
Total liabilities	$ 2,132	$ —	$ 2,132	$ —

Nonrecurring Fair Value Measurements

The company measures certain assets and liabilities at fair value on a non-recurring basis. Assets and liabilities that are measured at fair value on a nonrecurring basis include long-lived assets, goodwill, and indefinite-lived intangible assets, which would generally be recorded at fair value as a result of an impairment charge. Assets acquired and liabilities assumed as part of a business combination or asset acquisition are also measured at fair value on a non-recurring basis during the measurement period allowed by the accounting standards codification guidance for business combinations and asset acquisitions, when applicable. For additional information on the company's business combination and the related non-recurring fair value measurement of the assets acquired and liabilities assumed, refer to Note 2, *Business Combinations and Asset Acquisitions*.

Other Fair Value Disclosures

The carrying values of the company's short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term debt, including current maturities of long-term debt, when applicable, approximate their fair values due to their short-term nature. As of July 29, 2022, July 30, 2021 and October 31, 2021, the company's long-term debt included $524.1 million, $424.0 million and $424.0 million of gross fixed-rate debt that is not subject to variable interest rate fluctuations. The gross fair value of such long-term debt is determined using Level 2 inputs by discounting the projected cash flows based on quoted market rates at which similar amounts of debt could currently be borrowed. As of July 29, 2022, the estimated gross fair value of long-term debt with fixed interest rates was $541.0 million compared to its gross carrying amount of $524.1 million. As of July 30, 2021, the estimated gross fair value of long-term debt with fixed interest rates was $525.9 million compared to its gross carrying amount of $424.0 million. As of October 31, 2021, the estimated gross fair value of long-term debt with fixed interest rates was $517.9 million compared to its gross carrying amount of $424.0 million. For additional information regarding long-term debt with fixed interest rates, refer to Note 6, *Indebtedness.*

18 Subsequent Events

The company has evaluated all subsequent events and concluded that no subsequent events have occurred that would require recognition in the Condensed Consolidated Financial Statements or disclosure in the Notes to the Condensed Consolidated Financial Statements.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our Condensed Consolidated Financial Statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. Unless the context indicates otherwise, the terms "company," "TTC," "we," "our," or "us" refer to The Toro Company and its consolidated subsidiaries. This MD&A should be read in conjunction with the MD&A included in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2021. Unless expressly stated otherwise, the comparisons presented in this MD&A refer to the same period in the prior fiscal year. Our MD&A is presented as follows:

- Company Overview
- Results of Operations
- Business Segments
- Financial Position
- Non-GAAP Financial Measures
- Critical Accounting Policies and Estimates

This discussion contains various "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and we refer readers to the section titled "Cautionary Note Regarding Forward-Looking Statements" located at the beginning of this Quarterly Report on Form 10-Q for more information.

Non-GAAP Financial Measures

Throughout this MD&A, we have provided financial measures that are not calculated or presented in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") ("non-GAAP," "adjusted" financial measures), as information supplemental and in addition to the most directly comparable financial measures presented in this Quarterly Report on Form 10-Q that are calculated and presented in accordance with U.S. GAAP. We believe that these non-GAAP financial measures, when considered in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with U.S. GAAP, provide investors with useful supplemental financial information to better understand our core operational performance and cash flows. These non-GAAP financial measures, however, should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the most directly comparable U.S. GAAP financial measures. Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

COMPANY OVERVIEW

The Toro Company is in the business of designing, manufacturing, marketing, and selling professional turf maintenance equipment and services; turf irrigation systems; landscaping equipment and lighting products; snow and ice management products; agricultural irrigation systems; rental, specialty, and underground construction equipment; and residential yard and snow thrower products. Our purpose is to help our customers enrich the beauty, productivity, and sustainability of the land. Sustainability is a constant theme of our enterprise strategic priorities of accelerating profitable growth, driving productivity and operational excellence, and empowering our people. Our focus on alternative power, smart connected, and autonomous solutions, as well as our continued efforts to address sustainability-focused matters, including environmental, social, and governance priorities, are embedded as part of our "Sustainability Endures" initiative.

We sell our products worldwide through a network of distributors, dealers, mass retailers, hardware retailers, equipment rental centers, home centers, as well as online (direct to end-users). We strive to provide innovative, well-built, and dependable products supported by an extensive service network. A significant portion of our net sales has historically been, and we expect will continue to be, attributable to new and enhanced products. We define new products as those introduced in the current and previous two fiscal years. We classify our operations into two reportable business segments: Professional and Residential. Our remaining activities are presented as "Other" due to their insignificance, as described in greater detail within the section titled "Business Segments" in this MD&A.

Acquisition of Intimidator Group

On January 13, 2022, during the first quarter of fiscal 2022, we acquired the privately-held Intimidator Group ("Intimidator"). Intimidator primarily designs, manufactures, markets, and sells a commercial-grade line of zero-turn mowers under the Spartan Mowers brand, which are intended to provide innovative turf management solutions to landscape contractors and other customers who require a commercial-grade solution. The acquisition of Intimidator broadened our Professional reportable segment and expanded our manufacturing footprint and dealer network. The aggregate purchase consideration was $399.8 million ("purchase price"). The aggregate purchase consideration remains subject to contingent consideration through the end of calendar year 2022, in the event of certain qualifying tax changes. As a result, we could be subject to additional cash purchase consideration for an amount not to exceed $15.0 million and remittance of such contingent consideration, if required, is due by

March 15, 2023. As of July 29, 2022, no liability was recorded within the Condensed Consolidated Balance Sheets for the contingent consideration as the contingency is not probable or estimable. We funded the purchase price with borrowings under our existing unsecured senior revolving credit facility and cash provided by operating activities. Intimidator's results of operations are included within our Professional reportable segment in our Condensed Consolidated Financial Statements from the closing date. For the three and nine months ended July 29, 2022, we recognized $54.4 million and $114.9 million, respectively, of net sales from Intimidator's operations. Intimidator's operations had an immaterial impact on Professional segment earnings for the three and nine month periods ended July 29, 2022. For additional information regarding the acquisition, refer to Note 2, *Business Combinations and Asset Acquisitions*, in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Impact of Russia's Invasion of Ukraine

Beginning in the second quarter of fiscal 2022, in response to Russia's invasion of Ukraine, we discontinued sales into the Russian and Belarus markets. Prior sales in those markets did not represent a significant share of our overall international business, and we do not expect this decision to have a material impact on our financial results.

Continuing Impact of COVID-19

COVID-19 is having lingering effects on public health and portions of the global economy. We continue to see significant pressure on global supply chains rooted mainly in disruptions created by these effects. Our main focus has been, and will continue to be, the health, safety, and well-being of our employees, customers, suppliers and communities around the world as we work through these ongoing supply chain challenges. As always, we are maintaining focus on our responsibility to meet the needs of our customers as we supply products that are critical to maintaining essential global infrastructure and agricultural food production. Ongoing communication and prioritization continues with our suppliers in an attempt to identify and mitigate such risks and to proactively manage inventory levels of commodities, components, and parts to align with anticipated demand for our products.

The continuing implications of COVID-19, including its variants, and the macroeconomic effects resulting therefrom, on us remain uncertain and will depend on future developments, including any adverse impact due to additional variants of the virus; its impact on market demand for our products; its impact on our employees, customers, and suppliers; the range of government mandated restrictions and other measures; and the success of the COVID-19 vaccines and their effectiveness against the virus and related variants. As a result, the ultimate impact on our future business and manufacturing operations, as well as results of operations, financial position, and cash flows as a result of COVID-19 is unknown at this time. We continue to monitor the situation and the guidance from global government authorities, as well as federal, state, local and foreign public health authorities, and may take additional meaningful actions based on their requirements and recommendations in an attempt to protect the health and well-being of our employees, customers, suppliers, and communities. In these circumstances, there may be developments outside our control requiring us to adjust our operating plans and implement appropriate cost reduction measures. If the adverse impacts from COVID-19 continue or worsen beyond expectations, our business and related results of operations, financial position, or cash flows could be adversely impacted. Any sustained adverse impacts to our business, the industries in which we operate, market demand for our products, and/or certain suppliers or customers may also affect the future valuation of certain of our assets, and therefore, may increase the likelihood of a charge related to an impairment, write-off, valuation adjustment, allowance, or reserve associated with such assets, including, but not limited to, goodwill, indefinite and finite-lived intangible assets, inventories, accounts receivable, deferred income taxes, right-of-use assets, and property, plant and equipment. Such a charge could be material to our future results of operations, financial position, or cash flows. For additional information regarding risks associated with COVID-19, refer to the section titled "Cautionary Note Regarding Forward-Looking Statements" located at the beginning of this Quarterly Report on Form 10-Q and also refer to Part I, Item 1A, "Risk Factors", within our Annual Report on Form 10-K for the fiscal year ended October 31, 2021.

RESULTS OF OPERATIONS

Overview

Consolidated net sales for the third quarter of fiscal 2022 were $1,160.6 million, up 18.8 percent compared to $976.8 million in the third quarter of fiscal 2021. For the first nine months of fiscal 2022, consolidated net sales were $3,342.7 million, up 11.5 percent compared to $2,998.9 million from the same period in the prior fiscal year.

Professional segment net sales for the third quarter of fiscal 2022 were $886.2 million, an increase of 23.3 percent compared to $718.5 million in the third quarter of the prior fiscal year. For the first nine months of fiscal 2022, Professional segment net sales were $2,484.9 million, an increase of 13.1 percent compared to $2,197.1 million in the prior fiscal year comparable period.

Residential segment net sales for the third quarter of fiscal 2022 were $270.0 million, an increase of 7.1 percent compared to $252.1 million in the third quarter of the prior fiscal year. For the first nine months of fiscal 2022, Residential segment net sales were $845.0 million, an increase of 7.7 percent compared to $784.9 million in the prior fiscal year comparable period.

Net earnings for the third quarter of fiscal 2022 were $125.2 million, or $1.19 per diluted share, compared to $96.3 million, or $0.89 per diluted share, for the third quarter of fiscal 2021. Net earnings for the first nine months of fiscal 2022 were $325.8 million, or $3.08 per diluted share, compared to $349.8 million, or $3.21 per diluted share, in the comparable fiscal 2021 period.

Adjusted net earnings for the third quarter of fiscal 2022 were $125.1 million, or $1.19 per diluted share, compared to $99.4 million, or $0.92 per diluted share, for the third quarter of fiscal 2021. Adjusted net earnings for the first nine months of fiscal 2022 were $327.0 million, or $3.09 per diluted share, compared to $333.0 million, or $3.06 per diluted share, in the comparable fiscal 2021 period. Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

We continued our history of paying quarterly cash dividends and increased our cash dividend for the third quarter of fiscal 2022 by 14.3 percent to $0.30 per share compared to $0.2625 per share paid in the third quarter of fiscal 2021. We also continued repurchasing shares of our common stock under our Board authorized repurchase plan. As a result of the combination of quarterly cash dividends and share repurchases, we returned $204.4 million of cash to our shareholders during the first nine months of fiscal 2022.

Field inventory levels were higher as of the end of the third quarter of fiscal 2022 compared to the end of the third quarter of fiscal 2021 primarily driven by increased inventory costs resulting from inflation and inventory buildup to offset longer lead times and meet expected future demand.

Net Sales

Consolidated net sales for the third quarter of fiscal 2022 were $1,160.6 million, up 18.8 percent compared to $976.8 million in the third quarter of fiscal 2021. For the year-to-date period of fiscal 2022, consolidated net sales were $3,342.7 million, up 11.5 percent compared to $2,998.9 million from the same period in the prior fiscal year. For both the third quarter and year-to-date periods of fiscal 2022, the increases to net sales were primarily driven by net price realization across both Professional and Residential segment product lines and the acquisition of Intimidator, partially offset by lower volumes in certain key product categories. For the third quarter and year-to-date periods of fiscal 2022, the acquisition of Intimidator contributed $54.4 million and $114.9 million of net sales, respectively.

Net sales in international markets increased by $24.5 million and $17.9 million for the third quarter and year-to-date periods of fiscal 2022, respectively. Changes in foreign currency exchange rates resulted in a decrease in our net sales of approximately $5.0 million and $2.8 million for the third quarter and year-to-date periods of fiscal 2022, respectively. The international net sales increases for both the third quarter and year-to-date periods of fiscal 2022 were mainly driven by net price realization.

The following table summarizes our results of operations as a percentage of consolidated net sales:

	Three Months Ended		Nine Months Ended	
	July 29, 2022	July 30, 2021	July 29, 2022	July 30, 2021
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	(65.5)	(66.1)	(66.9)	(65.0)
Gross profit	34.5	33.9	33.1	35.0
Selling, general and administrative expense	(20.5)	(21.4)	(20.4)	(20.2)
Operating earnings	14.0	12.5	12.7	14.8
Interest expense	(0.8)	(0.7)	(0.7)	(0.7)
Other income, net	0.3	0.2	0.2	0.3
Earnings before income taxes	13.5	12.0	12.2	14.4
Provision for income taxes	(2.7)	(2.1)	(2.5)	(2.7)
Net earnings	10.8 %	9.9 %	9.7 %	11.7 %

Gross Profit and Gross Margin

Gross profit for the third quarter of fiscal 2022 was $399.9 million, up 20.8 percent compared to $331.1 million in the third quarter of fiscal 2021. Adjusted gross profit for the third quarter of fiscal 2022 was $400.3 million, up 20.9 percent compared to $331.1 million for the third quarter of fiscal 2021. Gross margin was 34.5 percent for the third quarter of fiscal 2022 compared to 33.9 percent for the third quarter of fiscal 2021, an increase of 60 basis points. The increase in gross margin was primarily due to net price realization and productivity improvements, partially offset by higher material, freight and manufacturing costs, and the addition of the Intimidator Group at a lower initial gross margin than the company average.

Gross profit for the year-to-date period of fiscal 2022 was $1,105.8 million, up 5.4 percent compared to $1,049.1 million in the same period of fiscal 2021. Adjusted gross profit for the year-to-date period of fiscal 2022 was $1,107.2 million, up 5.5 percent compared to $1,049.1 million for the same period of fiscal 2021. Gross margin was 33.1 percent for the year-to-date period of fiscal 2022 compared to 35.0 percent for the prior year comparable period, a decrease of 190 basis points. The decrease in gross margin was primarily due to higher material, freight and manufacturing costs, and the addition of the Intimidator Group at a lower initial gross margin than the company average, partially offset by increased net price realization and productivity improvements.

Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

Selling, General, and Administrative ("SG&A") Expense

SG&A expense increased $27.7 million, or 13.2 percent, for the third quarter of fiscal 2022 and increased $75.5 million, or 12.5 percent, for the year-to-date period of fiscal 2022 compared to the same periods of fiscal 2021. As a percentage of net sales, SG&A expense decreased 90 basis points and increased 20 basis points for the third quarter and year-to-date periods of fiscal 2022, respectively, compared to the same periods of fiscal 2021. The decline in SG&A expense as a percentage of net sales for the third quarter comparison was primarily due to an unfavorable charge incurred in fiscal 2021 for a legal settlement related to a series of ongoing patent infringement disputes that did not recur in fiscal 2022 and increased net sales leverage, partially offset by higher indirect marketing expenses in the current-year period compared to the same period of fiscal 2021. The increase in SG&A expense as a percentage of net sales for the year-to-date comparison was primarily due to a favorable net legal settlement with Briggs & Stratton ("BGG") that was recognized in fiscal 2021 and did not repeat in fiscal 2022, partially offset by an unfavorable charge incurred in fiscal 2021 for a legal settlement related to a series of ongoing patent infringement disputes that did not recur in fiscal 2022.

Interest Expense

Interest expense increased $2.2 million and $2.6 million for the third quarter and year-to-date periods of fiscal 2022, respectively, compared to the same periods of fiscal 2021. These increases were driven by incremental borrowing during the current fiscal year periods to fund the Intimidator acquisition, as well as higher average interest rates.

Other Income, Net

Other income, net increased $0.7 million and $0.2 million for the third quarter and year-to-date periods of fiscal 2022, respectively, compared to the same periods of fiscal 2021. These increases were primarily due to higher income from our Red Iron joint venture, partially offset by the unfavorable impact of foreign currency exchange rate fluctuations.

Provision for Income Taxes

The effective tax rate for the third quarter of fiscal 2022 was 20.3 percent compared to 18.0 percent in the third quarter of fiscal 2021. The effective tax rate for the year-to-date period of fiscal 2022 was 20.4 percent compared to 18.8 percent in the same period of fiscal 2021. The increases in the effective tax rate for both the third quarter and year-to-date comparison periods were primarily due to less favorable one-time adjustments and lower tax benefits recorded as excess tax deductions for stock compensation in the current-year periods compared to the same periods of fiscal 2021.

The adjusted effective tax rate for the third quarter of fiscal 2022 was 20.7 percent, compared to an adjusted effective tax rate of 19.3 percent in the third quarter of fiscal 2021. The adjusted effective tax rate for the year-to-date period of fiscal 2022 was 20.8 percent compared to 20.6 percent in the same period of fiscal 2021.

Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures."

Net Earnings

Net earnings for the third quarter of fiscal 2022 were $125.2 million, or $1.19 per diluted share, compared to $96.3 million, or $0.89 per diluted share, for the third quarter of fiscal 2021, an increase of 33.7 percent per diluted share. Adjusted net earnings for the third quarter of fiscal 2022 were $125.1 million, or $1.19 per diluted share, compared to $99.4 million, or $0.92 per diluted share, for the third quarter of fiscal 2021, an increase of 29.3 percent per diluted share. The increase in net earnings per diluted share for the third quarter comparison was primarily due to improved net price realization, ongoing productivity improvements and lower weighted average shares outstanding due to ongoing share repurchases under our Board authorized repurchase program, partially offset by higher material, freight and manufacturing costs.

Net earnings for the first nine months of fiscal 2022 were $325.8 million, or $3.08 per diluted share, compared to $349.8 million, or $3.21 per diluted share, for the same period of fiscal 2021. Adjusted net earnings for the first nine months of fiscal 2022 were $327.0 million, or $3.09 per diluted share, compared to $333.0 million, or $3.06 per diluted share, for the same year-to-date period of fiscal 2021, an increase of 1.0 percent per diluted share. The decrease in net earnings per diluted share for the year-to-date comparison was primarily due to higher material, freight and manufacturing costs, a favorable net legal settlement with BGG that was recognized in fiscal 2021 and did not repeat in fiscal 2022, and lower tax benefits recorded as excess tax deductions for stock compensation, partially offset by improved net price realization, ongoing productivity improvements and lower weighted average shares outstanding due to ongoing share repurchases under our Board authorized repurchase program.

Reconciliations of non-GAAP financial measures to the most directly comparable reported U.S. GAAP financial measures are included in the section titled "Non-GAAP Financial Measures" within this MD&A.

BUSINESS SEGMENTS

We operate in two reportable business segments: Professional and Residential. Segment earnings for our Professional and Residential segments are defined as earnings from operations plus other income, net. Our remaining activities are presented as "Other" due to their insignificance. Operating loss for our Other activities included earnings (loss) from our wholly-owned domestic distribution company, Red Iron joint venture, corporate activities, other income, and interest expense. Corporate activities include general corporate expenditures, such as finance, human resources, legal, information services, public relations, and similar activities, as well as other unallocated corporate assets and liabilities, such as corporate facilities and deferred tax assets and liabilities. The following tables summarize net sales for our reportable business segments and Other activities:

	Three Months Ended			
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**Dollar Value Change**	**Percentage Change**
Professional	$ 886,232	$ 718,477	$ 167,755	23.3 %
Residential	269,962	252,117	17,845	7.1
Other	4,356	6,242	(1,886)	(30.2)
Total net sales*	$ 1,160,550	$ 976,836	$ 183,714	18.8 %
*Includes international net sales of:	$ 216,142	$ 191,665	$ 24,477	12.8 %

	Nine Months Ended			
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**Dollar Value Change**	**Percentage Change**
Professional	$ 2,484,927	$ 2,197,058	$ 287,869	13.1 %
Residential	845,039	784,852	60,187	7.7
Other	12,712	17,019	(4,307)	(25.3)
Total net sales*	$ 3,342,678	$ 2,998,929	$ 343,749	11.5 %
*Includes international net sales of:	$ 656,799	$ 638,921	$ 17,878	2.8 %

The following tables summarize segment earnings for our reportable business segments and operating (loss) for our Other activities:

	Three Months Ended			
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**Dollar Value Change**	**Percentage Change**
Professional	$ 166,191	$ 122,331	$ 43,860	35.9 %
Residential	26,348	31,548	(5,200)	(16.5)
Other	(35,448)	(36,428)	980	2.7
Total segment earnings	$ 157,091	$ 117,451	$ 39,640	33.8 %

	Nine Months Ended			
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**	**Dollar Value Change**	**Percentage Change**
Professional	$ 424,833	$ 406,279	$ 18,554	4.6 %
Residential	95,203	109,642	(14,439)	(13.2)
Other	(110,742)	(85,401)	(25,341)	(29.7)
Total segment earnings	$ 409,294	$ 430,520	$ (21,226)	(4.9)%

Professional Segment

Segment Net Sales

Worldwide net sales for our Professional segment for the third quarter of fiscal 2022 increased 23.3 percent compared to the third quarter of fiscal 2021. The increase was driven primarily by net price realization, increased shipments of zero-turn and stand-on mowers, and incremental revenue from our acquisition of Intimidator, partially offset by lower volume in certain key product categories due to product availability constraints. Worldwide net sales for our Professional segment for the year-to-date period of fiscal 2022 increased 13.1 percent compared to the same period of fiscal 2021. The increase was driven primarily by net price realization and incremental revenue from our acquisition of Intimidator, partially offset by lower volume in certain key product categories due to product availability constraints.

Segment Earnings

Professional segment earnings for the third quarter of fiscal 2022 increased 35.9 percent compared to the third quarter of fiscal 2021, and Professional segment earnings margin increased to 18.8 percent from 17.0 percent in the third quarter of fiscal 2021. The increase in Professional segment earnings margin was primarily due to net price realization, productivity improvements and net sales leverage, partially offset by higher material, freight and manufacturing costs, and the addition of the Intimidator Group at a lower initial earnings margin than the segment average. Professional segment earnings for the year-to-date period of fiscal 2022 increased 4.6 percent compared to the same period of fiscal 2021, and Professional segment earnings margin decreased to 17.1 percent from 18.5 percent in the year-to-date period of fiscal 2021. The decrease in Professional segment earnings margin was largely due to higher material, freight and manufacturing costs, and the addition of the Intimidator Group at a lower initial earnings margin than the segment average, partially offset by net price realization and productivity improvements.

Residential Segment

Segment Net Sales

Worldwide net sales for our Residential segment for the third quarter of fiscal 2022 increased 7.1 percent compared to the third quarter of fiscal 2021. Worldwide net sales for our Residential segment for the year-to-date period of fiscal 2022 increased 7.7 percent compared to the same period of fiscal 2021. The increases in Residential segment net sales for both the third quarter and year-to-date periods of 2022 were primarily driven by net price realization and higher shipments of zero-turn riding mowers and snow products, partially offset by lower sales of walk-power mowers and portable-power products.

Segment Earnings

Residential segment earnings for the third quarter of fiscal 2022 decreased 16.5 percent compared to the third quarter of fiscal 2021, and Residential segment earnings margin decreased to 9.8 percent from 12.5 percent in the third quarter of fiscal 2021. Residential segment earnings for the year-to-date period of fiscal 2022 decreased 13.2 percent compared to the same period of fiscal 2021, and Residential segment earnings margin decreased to 11.3 percent from 14.0 percent in the year-to-date period of fiscal 2021. The decreases in Residential segment earnings margin for both the third quarter and year-to-date periods of fiscal 2022 were largely driven by higher material, freight and manufacturing costs, partially offset by increased price realization, productivity improvements and favorable product mix.

Other Activities

Other Net Sales

Net sales for our Other activities included sales from our wholly-owned domestic distribution company less sales from the Professional and Residential segments to the distribution company. Net sales for our Other activities in the third quarter of fiscal 2022 decreased by $1.9 million compared to the same period in fiscal 2021. This decline was due to increased intercompany sales eliminations for sales from our Professional and Residential segments to our wholly-owned domestic distribution company.

Net sales for our Other activities in the year-to-date period of fiscal 2022 decreased by $4.3 million compared to the same period in fiscal 2021. This year-to-date decrease was due to lower sales from our wholly-owned domestic distribution company due to product availability limitations, partially offset by reduced intercompany sales eliminations for sales from our Professional and Residential segments to our wholly-owned domestic distribution company.

Other Operating Loss

The operating loss for our Other activities for the third quarter of fiscal 2022 decreased $1.0 million compared to the third quarter of fiscal 2021 and was primarily due to an unfavorable fiscal 2021 legal settlement related to a series of ongoing patent infringement disputes which did not recur in fiscal 2022, partially offset by higher interest expense driven by incremental borrowing to fund the Intimidator acquisition.

The operating loss for our Other activities for the year-to-date period of fiscal 2022 increased $25.3 million compared to the same period in fiscal 2021. The increased year-to-date operating loss was primarily due to a favorable net legal settlement with BGG that was recognized in fiscal 2021 and did not repeat in fiscal 2022, lower intercompany cost eliminations related to sales from our Professional and Residential segments to our wholly-owned domestic distribution company, and higher interest expense driven by incremental borrowing to fund the Intimidator acquisition, partially offset by an unfavorable fiscal 2021 legal settlement related to a series of ongoing patent infringement disputes which did not recur in fiscal 2022.

FINANCIAL POSITION

Working Capital

Given the challenging macroeconomic environment that has created supply chain disruption and more specifically, resulted in challenging conditions for sourcing adequate amounts of certain commodity and component parts inventory and, in certain cases, the inability of our suppliers to meet our commodity and component parts demand requirements, our working capital strategy continues to place primary emphasis on procuring key commodities and components when available in an attempt to maintain requisite inventory levels to meet our anticipated production requirements, avoid manufacturing delays, and meet the anticipated continued strong demand for our products, as well as attempting to ensure service parts availability for our customers. Accounts receivable as of the end of the third quarter of fiscal 2022 increased $49.4 million, or 16.4 percent, compared to the end of the third quarter of fiscal 2021, primarily driven by higher International sales, as well as a higher receivable from our Red Iron joint venture as a result of increased sales financed under the joint venture near quarter-end. Inventory levels were up $273.6 million, or 41.1 percent, as of the third quarter of fiscal 2022 compared to the third quarter of fiscal 2021, primarily due to higher finished goods, work-in-process and parts inventory driven by increased costs resulting from inflation, constrained component supply which limited finished product assembly, and incremental inventories as a result of our acquisition of Intimidator. Accounts payable increased $75.6 million, or 18.4 percent, as of the end of the third quarter of fiscal 2022 compared to the end of the third quarter of fiscal 2021, mainly due to higher purchases and the impact of inflation on the cost of commodities, component parts, and other purchased goods and services.

Cash Flow

Cash Flows from Operating Activities

Cash provided by operating activities for the first nine months of fiscal 2022 was $154.6 million compared to cash provided by operating activities for the first nine months of fiscal 2021 of $477.1 million. This decrease in cash provided by operating activities was primarily due to more cash consumed within inventory due to increased costs resulting from inflation and constrained component supply which limited finished product assembly, in addition to more cash used to satisfy accounts payable and accrued liabilities that remained outstanding as of October 31, 2021 as a result of normalized spending patterns and timing of invoice payments near the end of fiscal 2021.

Cash Flows from Investing Activities

Cash used in investing activities increased $409.9 million during the first nine months of fiscal 2022 compared to the first nine months of fiscal 2021. This increase was primarily due to more cash used for the acquisition of Intimidator and higher purchases of property, plant and equipment.

Cash Flows from Financing Activities

Cash provided by financing activities for the first nine months of fiscal 2022 was $162.7 million compared to cash used in financing activities for the first nine months of fiscal 2021 of $351.2 million. This increase in cash provided by financing activities was mainly due to higher net borrowings.

Liquidity and Capital Resources

Our businesses are seasonally working capital intensive and require funding for purchases of raw materials used in production, replacement parts inventory, payroll and other administrative costs, capital expenditures, establishment of new facilities, expansion and renovation of existing facilities, as well as for financing receivables from customers that are not financed with Red Iron or other third-party financial institutions. Because of this seasonality, our accounts receivable balance has historically increased between January and April as a result of typically higher sales volumes and extended payment terms made available to our customers, and have typically decreased between May and December when payments are received. However, as a result of COVID-19 and the challenging macroeconomic environment that has created supply chain disruption, our accounts receivable pattern has not followed historical patterns during fiscal 2022 and fiscal 2021 because our sales cadence has been driven more by our ability to produce product than historical demand patterns and seasonality. We currently expect this trend to continue throughout the remainder of fiscal 2022.

We generally fund cash requirements for working capital needs, capital expenditures, contractual obligations, acquisitions, investments, debt repayments, interest payments, quarterly cash dividend payments, and common stock repurchases, all as applicable, through cash provided by operating activities, availability under our revolving credit facility, and in certain instances, other forms of financing arrangements. Our revolving credit facility has been adequate for these purposes, although we have negotiated and completed additional financing arrangements as needed to allow us to complete acquisitions or for other corporate purposes. We currently believe that our existing liquidity position, including the funds available through existing, and potential future, financing arrangements and forecasted cash flows from operations will be sufficient to provide the necessary capital resources for our anticipated working capital needs, capital expenditures, investments, contingent consideration payments, debt repayments, interest payments, quarterly cash dividend payments, and common stock repurchases, all as applicable, for at least the next twelve months. As of July 29, 2022, we had available liquidity of $763.3 million, consisting of cash and cash equivalents of $231.6 million, of which $121.5 million was held by our foreign subsidiaries, and availability under our revolving credit facility of $531.7 million.

Indebtedness

Our debt arrangements are described in further detail within our most recently filed Annual Report on Form 10-K for the fiscal year ended October 31, 2021. The following is a summary of our indebtedness:

(Dollars in thousands)	July 29, 2022	July 30, 2021	October 31, 2021
$600 million revolving credit facility, due October 2026	$ 65,000	$ —	$ —
$200 million term loan, due April 2022	—	100,000	—
$300 million term loan, due April 2024	—	170,000	—
$270 million term loan, due October 2026	270,000	—	270,000
$200 million term loan, due April 2027	200,000	—	—
3.81% series A senior notes, due June 2029	100,000	100,000	100,000
3.91% series B senior notes, due June 2031	100,000	100,000	100,000
3.97% senior notes, due June 2032	100,000	—	—
7.8% debentures, due June 2027	100,000	100,000	100,000
6.625% senior notes, due May 2037	124,086	124,024	124,040
Less: unamortized discounts, debt issuance costs, and deferred charges	3,470	2,462	2,798
Total long-term debt	1,055,616	691,562	691,242
Less: current portion of long-term debt	65,000	104,217	—
Long-term debt, less current portion	$ 990,616	$ 587,345	$ 691,242

On June 30, 2022, we issued $100.0 million of 3.97% senior notes pursuant to a private placement note purchase agreement and used the proceeds to pay down certain of our outstanding borrowings incurred in connection with our January 2022 acquisition of Intimidator and borrowed under our revolving credit facility. These senior notes mature on June 30, 2032.

On April 27, 2022, we entered into a $200.0 million term loan agreement for the purpose of paying down certain of our outstanding borrowings incurred in connection with our January 2022 acquisition of Intimidator and borrowed under our revolving credit facility. The entire $200.0 million available under the agreement was funded on April 27, 2022, and matures on April 27, 2027.

As of July 29, 2022, we had $65.0 million of outstanding borrowings under our revolving credit facility, primarily as a result of the amount drawn to fund the purchase price of our acquisition of Intimidator, and $3.3 million outstanding under the sublimit for standby letters of credit, which resulted in $531.7 million of unutilized availability under the revolving credit facility. Typically, our revolving credit facility is classified as long-term debt within the Condensed Consolidated Balance Sheets as we have the ability to extend the outstanding borrowings under the revolving credit facility for the full-term of the facility. However, if we intend to prepay a portion of the outstanding balance under the revolving credit facility within the next twelve months, we reclassify the portion of outstanding borrowings under the revolving credit facility that we intend to repay within the next twelve months to current portion of long-term debt within the Condensed Consolidated Balance Sheets. As of July 29, 2022, we reclassified $65.0 million of outstanding borrowings under the revolving credit facility to current portion of long-term debt within the Condensed Consolidated Balance Sheets as we currently intend to repay this amount within the next twelve months.

As of July 29, 2022, we were in compliance with all covenants related to our financing arrangements and were not limited in the amount for payments of cash dividends and common stock repurchases. We expect to be in compliance with all covenants related to our financing arrangements during the remainder of fiscal 2022. If we were out of compliance with any covenant required by our financing arrangements following the applicable cure period, our term loan facility, long-term senior notes, debentures, and any amounts outstanding under the revolving credit facility could become due and payable if we were unable to obtain a covenant waiver or refinance our borrowings under our financing arrangements.

Cash Dividends

Our Board of Directors approved a cash dividend of $0.30 per share for the third quarter of fiscal 2022 that was paid on July 13, 2022. This was an increase of 14.3 percent over our cash dividend of $0.2625 per share for the third quarter of fiscal 2021. We currently expect to continue paying our quarterly cash dividend to shareholders for the remainder of fiscal 2022.

Share Repurchases

During the first nine months of fiscal 2022, we repurchased 1,187,304 shares of our common stock in the open market under our Board authorized repurchase program, thereby reducing our total shares outstanding. As of July 29, 2022, 2,865,158 shares remained available for repurchase under our Board authorized repurchase program. We currently expect to continue repurchasing shares of our common stock throughout the remainder of fiscal 2022, depending on our cash balance, debt repayments, market conditions, our anticipated working capital needs, the price of our common stock, and/or other factors.

Customer Financing Arrangements

Our customer financing arrangements, including both wholesale financing and end-user financing arrangements, are described in further detail within our most recently filed Annual Report on Form 10-K for the fiscal year ended October 31, 2021. There have been no material changes to our end-user customer financing arrangements during the first nine months of fiscal 2022.

Wholesale Financing

We are party to a joint venture with a subsidiary of The Huntington National Bank, established as Red Iron, the primary purpose of which is to provide inventory financing to certain distributors and dealers of certain of our products in the U.S. that enables them to carry representative inventories of certain of our products. The net amount of receivables financed for dealers and distributors under this arrangement for the nine month periods ended July 29, 2022 and July 30, 2021 was $1,886.1 million and $1,733.0 million, respectively.

Under a separate agreement, TCF Commercial Finance Canada, Inc. ("TCFCFC") provides inventory financing to dealers of certain of our products in Canada. We also have floor plan financing agreements with other third-party financial institutions to provide floor plan financing to certain dealers and distributors not financed through Red Iron or TCFCFC, which include agreements with third-party financial institutions in the U.S. and internationally. These third-party financial institutions and TCFCFC financed $458.9 million and $323.2 million of receivables for such dealers and distributors during the nine month periods ended July 29, 2022 and July 30, 2021, respectively. As of July 29, 2022 and July 30, 2021, $205.1 million and $129.7 million, respectively, of receivables financed by the third-party financing companies and TCFCFC, excluding Red Iron, were outstanding.

We entered into a limited inventory repurchase agreement with Red Iron and TCFCFC. Under such limited inventory repurchase agreement, we have agreed to repurchase products repossessed by Red Iron and TCFCFC, up to a maximum aggregate amount of $7.5 million in a calendar year. Additionally, as a result of our floor plan financing agreements with the separate third-party financial institutions, we have also entered into inventory repurchase agreements with the separate third-party financial institutions. Under such inventory repurchase agreements, we have agreed to repurchase products repossessed by the separate third-party financial institutions. As of July 29, 2022 and July 30, 2021, we were contingently liable to repurchase up to a maximum amount of $79.9 million and $93.8 million, respectively, of inventory related to receivables under these inventory repurchase agreements. Our financial exposure under these inventory repurchase agreements is limited to the difference between the amount paid to Red Iron or other third-party financing institutions for repurchases of inventory and the amount received upon subsequent resale of the repossessed product. We have repurchased immaterial amounts of inventory pursuant to such arrangements during the nine month periods ended July 29, 2022 and July 30, 2021. However, a decline in retail sales or financial difficulties of our distributors or dealers could cause this situation to change and thereby require us to repurchase financed product, which could have an adverse effect on our results of operations, financial position, or cash flows.

NON-GAAP FINANCIAL MEASURES

We have provided non-GAAP financial measures, which are not calculated or presented in accordance with U.S. GAAP, as information supplemental and in addition to the most directly comparable financial measures presented in this Quarterly Report on Form 10-Q that are calculated and presented in accordance with U.S. GAAP. We use these non-GAAP financial measures in making operating decisions and assessing liquidity because we believe they provide meaningful supplemental information regarding our core operational performance and cash flows, as a measure of our liquidity, and provide us with a better understanding of how to allocate resources to both ongoing and prospective business initiatives. Additionally, these non-GAAP financial measures facilitate our internal comparisons to both our historical operating results and to our competitors' operating results by factoring out potential differences caused by charges and benefits not related to our regular, ongoing business, including, without limitation, certain non-cash, large, and/or unpredictable charges and benefits; acquisitions and dispositions; legal judgments, settlements, or other matters; and tax positions. We believe that these non-GAAP financial measures, when considered in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with U.S. GAAP, provide investors with useful supplemental financial information to better understand our core operational performance and cash flows. These non-GAAP financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the most directly comparable U.S. GAAP financial measures. The non-GAAP financial measures may differ from similar measures used by other companies.

Reconciliation of Non-GAAP Financial Performance Measures

The following table provides a reconciliation of the non-GAAP financial performance measures used in this report to the most directly comparable measures calculated and reported in accordance with U.S. GAAP for the three and nine month periods ended July 29, 2022 and July 30, 2021:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands, except per share data)	**July 29, 2022**	**July 30, 2021**	**July 29, 2022**	**July 30, 2021**
Gross profit	$ 399,906	$ 331,117	$ 1,105,751	$ 1,049,106
Acquisition-related costs[1]	401	—	1,425	—
Adjusted gross profit	$ 400,307	$ 331,117	$ 1,107,176	$ 1,049,106
Operating earnings	$ 163,048	$ 121,939	$ 425,251	$ 444,120
Acquisition-related costs[1]	704	—	3,456	—
Litigation settlement, net[2]	—	5,750	—	(11,325)
Adjusted operating earnings	$ 163,752	$ 127,689	$ 428,707	$ 432,795
Earnings before income taxes	$ 157,091	$ 117,451	$ 409,294	$ 430,520
Acquisition-related costs[1]	704	—	3,456	—
Litigation settlement, net[2]	—	5,750	—	(11,325)
Adjusted earnings before income taxes	$ 157,795	$ 123,201	$ 412,750	$ 419,195
Net earnings	$ 125,150	$ 96,320	$ 325,785	$ 349,772
Acquisition-related costs[1]	561	—	2,740	—
Litigation settlement, net[2]	—	4,525	—	(8,947)
Tax impact of stock-based compensation[3]	(581)	(1,397)	(1,568)	(7,846)
Adjusted net earnings	$ 125,130	$ 99,448	$ 326,957	$ 332,979
Net earnings per diluted share	$ 1.19	$ 0.89	$ 3.08	$ 3.21
Acquisition-related costs[1]	0.01	—	0.03	—
Litigation settlement, net[2]	—	0.04	—	(0.08)
Tax impact of stock-based compensation[3]	(0.01)	(0.01)	(0.02)	(0.07)
Adjusted net earnings per diluted share	$ 1.19	$ 0.92	$ 3.09	$ 3.06
Effective tax rate	20.3 %	18.0 %	20.4 %	18.8 %
Tax impact of stock-based compensation[3]	0.4 %	1.3 %	0.4 %	1.8 %
Adjusted effective tax rate	20.7 %	19.3 %	20.8 %	20.6 %

[1] On January 13, 2022, we completed our acquisition of Intimidator. Acquisition-related costs for the three month period ended July 29, 2022 represent integration costs and acquisition-related costs for the nine month period ended July 29, 2022 represent transaction and integration costs incurred in connection with the acquisition. No acquisition-related costs were incurred during the three and nine month periods ended July 30, 2021. For additional information regarding the acquisition of Intimidator, refer to Note 2, *Business Combinations and Asset Acquisitions*, within the Notes to Condensed Consolidated Financial Statements included within Part I, Item 1 of this Quarterly Report on Form 10-Q.

[2] On November 19, 2020, Exmark Manufacturing Company Incorporated ("Exmark"), a wholly-owned subsidiary of TTC, and Briggs & Stratton Corporation ("BGG") entered into a settlement agreement ("Settlement Agreement") relating to the decade-long patent infringement litigation that Exmark originally filed in May 2010 against Briggs & Stratton Power Products Group, LLC ("BSPPG"), a former wholly-owned subsidiary of BGG (Case No. 8:10CV187, U.S. District Court for the District of Nebraska) (the "Infringement Action"). The Settlement Agreement provided, among other things, that upon approval by the bankruptcy court, and such approval becoming final and nonappealable, BGG agreed to pay Exmark $33.65 million ("Settlement Amount"). During January 2021, the first quarter of fiscal 2021, the Settlement Amount was received by Exmark in connection with the settlement of the Infringement Action and at such time, the underlying events and contingencies associated with the gain contingency related to the Infringement Action were satisfied. As such, we recognized in selling, general and administrative expense within the Condensed Consolidated Statements of Earnings during the first quarter of fiscal 2021 (i) the gain associated with the Infringement Action and (ii) a corresponding expense related to the contingent fee arrangement with our external legal counsel customary in patent infringement cases equal to approximately 50 percent of the Settlement Amount. Additionally, during the third quarter of fiscal 2021, we recorded a charge related to a legal settlement for a series of ongoing patent infringement disputes within selling, general and administrative expense in the Condensed Consolidated Statements of Earnings. Accordingly, litigation settlements, net represents the charge incurred for the settlement of the patent infringement disputes for the three month period ended July 30, 2021. Litigation settlements, net for the nine month period ended July 30, 2021 represents the net amount recorded for the settlement of the Infringement Action, as well as the charge incurred for the settlement of the patent infringement disputes. No amounts were recorded for litigation settlement, net during the three and nine month periods ended July 29, 2022. Refer to Note 14, *Contingencies*, within the Notes to Condensed Consolidated Financial Statements included within Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information regarding the settlement of the Infringement Action.

[3] The accounting standards codification guidance governing employee stock-based compensation requires that any excess tax deduction for stock-based compensation be immediately recorded within income tax expense. Employee stock-based compensation activity, including the exercise of stock options, can be unpredictable and can significantly impact our net earnings, net earnings per diluted share, and effective tax rate. These amounts represent the discrete tax benefits recorded as excess tax deductions for stock-based compensation during the three and nine month periods ended July 29, 2022 and July 30, 2021.

Reconciliation of Non-GAAP Liquidity Measures

We define free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. Free cash flow conversion percentage represents free cash flow as a percentage of net earnings. We consider free cash flow and free cash flow conversion percentage to be non-GAAP liquidity measures that provide useful information to management and investors about our ability to convert net earnings into cash resources that can be used to pursue opportunities to enhance shareholder value, fund ongoing and prospective business initiatives, and strengthen our Condensed Consolidated Balance Sheets, after reinvesting in necessary capital expenditures required to maintain and grow our business. The following table provides a reconciliation of non-GAAP free cash flow and free cash flow conversion percentage to net cash provided by operating activities, which is the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP, for the nine month periods ended July 29, 2022 and July 30, 2021:

	Nine Months Ended	
(Dollars in thousands)	**July 29, 2022**	**July 30, 2021**
Net cash provided by operating activities	$ 154,563	$ 477,135
Less: Purchases of property, plant and equipment	75,772	47,961
Free cash flow	78,791	429,174
Net earnings	$ 325,785	$ 349,772
Free cash flow conversion percentage	24.2 %	122.7 %

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to our critical accounting policies and estimates since our most recent Annual Report on Form 10-K for the fiscal year ended October 31, 2021. Refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and Part II, Item 8, Note 1, *Summary of Significant Accounting Policies and Related Data*, within our Annual Report on Form 10-K for the fiscal year ended October 31, 2021 for a discussion of our critical accounting policies and estimates.

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 costs. We are also exposed to equity market risk pertaining to the trading price of our common stock. Changes in these factors could cause fluctuations in our earnings and cash flows. There have been no material changes to the market risk information regarding equity market risk included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2021. Refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk", within our Annual Report on Form 10-K for the fiscal year ended October 31, 2021 for a complete discussion of our market risk. Refer below for further discussion on foreign currency exchange rate risk, interest rate risk, and commodity cost risk.

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 to third-party customers, sales and loans to wholly-owned foreign subsidiaries, costs associated with foreign plant operations, and purchases from suppliers. Our primary foreign currency exchange rate exposures are with the Euro, the Australian dollar, the Canadian dollar, the British pound, the Mexican peso, the Japanese yen, the Chinese Renminbi, and the Romanian New Leu against the U.S. dollar, as well as the Romanian New Leu against the Euro. Because our products are manufactured or sourced primarily from the U.S. and Mexico, a stronger U.S. dollar and Mexican peso generally have a negative impact on our results from operations, while a weaker U.S. dollar and Mexican peso generally have a positive effect.

To reduce our exposure to foreign currency exchange rate risk, we enter into various derivative instruments to hedge against such risk, authorized under a company policy that places controls on these hedging activities, with counterparties that are highly rated financial institutions. Decisions on whether to use such derivative instruments are primarily based on the amount of exposure to the currency involved and an assessment of the near-term market value for each currency. Our worldwide foreign currency exchange rate exposures are reviewed monthly. The gains and losses on our derivative instruments offset the changes in values of the related underlying exposures. Therefore, changes in the values of our derivative instruments are highly correlated with changes in the market values of underlying hedged items both at inception and over the life of the derivative instrument. For additional information regarding our derivative instruments, see Note 16, *Derivative Instruments and Hedging Activities*, in our Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The foreign currency exchange contracts in the table below have maturity dates in fiscal 2022 through fiscal 2024. All items are non-trading and stated in U.S. dollars. As of July 29, 2022, the average contracted rate, notional amount, fair value, and the gain at fair value of outstanding derivative instruments were as follows:

(Dollars in thousands, except average contracted rate)	Average Contracted Rate	Notional Amount	Fair Value	Gain at Fair Value
Buy U.S. dollar/Sell Australian dollar	0.7256	$ 107,346	$ 111,413	$ 4,067
Buy U.S. dollar/Sell Canadian dollar	1.2690	39,630	40,019	389
Buy U.S. dollar/Sell Euro	1.1520	148,624	162,606	13,982
Buy U.S. dollar/Sell British pound	1.3037	41,419	44,009	2,590
Buy Mexican peso/Sell U.S. dollar	22.3550	$ 41,644	$ 42,939	$ 1,295

Our net investment in foreign subsidiaries translated into U.S. dollars is not hedged. Any changes in foreign currency exchange rates would be reflected as a foreign currency translation adjustment, a component of accumulated other comprehensive loss in stockholders' equity on the Condensed Consolidated Balance Sheets, and would not impact net earnings.

Interest Rate Risk

Our interest rate risk relates primarily to fluctuations in variable interest rates on our revolving credit facility and term loan credit agreements, as well as the potential increase in the fair value of our fixed-rate long-term debt resulting from a potential decrease in interest rates. We generally do not use interest rate swaps to mitigate the impact of fluctuations in interest rates. We have no earnings or cash flow exposure due to interest rate risks on our fixed-rate long-term debt obligations. Our indebtedness as of July 29, 2022 includes $524.1 million of gross fixed-rate long-term debt that is not subject to variable interest rate fluctuations, $470.0 million of gross variable rate debt under our term loan credit agreements, and $65.0 million outstanding on our variable rate revolving credit facility.

Commodity Cost Risk

Most of the commodities, components, parts, and accessories used in our manufacturing process and end-products, or to be sold as standalone end-products, are exposed to commodity cost changes. These changes may be affected by several factors, including, for example, as a result of inflation; deflation; changing prices; foreign currency fluctuations; tariffs; duties; trade regulatory actions; industry actions; the inability of suppliers to absorb incremental costs resulting from COVID-19 related inefficiencies, continue operations or otherwise remain in business as a result of COVID-19, financial difficulties, or otherwise; and changes to international trade policies, agreements, and/or regulation and competitor activity, including antidumping and countervailing duties on certain products imported from foreign countries, including certain engines imported into the U.S. from China.

Our primary cost exposures for commodities, components, parts, and accessories used in our products are with steel, aluminum, petroleum and natural gas-based resins, linerboard, copper, lead, rubber, engines, transmissions, transaxles, hydraulics, electrification components, and others. Our largest spend for commodities, components, parts, and accessories are generally for steel, engines, hydraulic components, transmissions, resin, aluminum, and electrification components, all of which we purchase from several suppliers around the world. We generally purchase commodities, components, parts, and accessories based upon market prices that are established with suppliers as part of the purchase process and generally attempt to obtain firm pricing from most of our suppliers for volumes consistent with planned production and estimates of wholesale and retail demand for our products.

In any given period, we strategically work to mitigate any potential unfavorable impact as a result of changes to the cost of commodities, components, parts, and accessories that affect our product lines through our productivity initiatives; however, our productivity initiatives may not be as effective as anticipated depending on macroeconomic cost trends for commodities, components, parts, and accessories costs and/or other factors. Our productivity initiatives include, but are not limited to, collaborating with suppliers, reviewing alternative sourcing options, substituting materials, utilizing Lean methods, engaging in internal cost reduction efforts, and utilizing tariff exclusions and duty drawback mechanisms, all as appropriate. When appropriate, we may also increase prices on some of our products to offset changes in the cost of commodities, components, parts, and accessories. To the extent that commodity or component costs increase and we do not have firm pricing from our suppliers, or our suppliers are not able to honor such prices, and/or our productivity initiatives and/or product price increases are less effective than anticipated and/or do not fully offset cost increases, we may experience a decline in our gross margins. In the first nine months of fiscal 2022, the average cost of commodities, components, parts, and accessories purchased, including the impact of inflation and tariff costs, was higher compared to the average cost of commodities, components, parts, and accessories purchased in the first nine months of fiscal 2021. We anticipate that the average cost of commodities, components, parts, and accessories purchased, including the impact of inflation and tariff costs, for the remainder of fiscal 2022 will continue to be higher than the average costs experienced during the comparable period of fiscal 2021.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit 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 our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we are required to apply our judgment in evaluating the cost-benefit relationship of possible internal controls.

Our management evaluated, with the participation of our Chairman of the Board, President and Chief Executive Officer and our Vice President, Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chairman of the Board, President and Chief Executive Officer and our Vice President, Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chairman of the Board, President and Chief Executive Officer and Vice President, Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

On January 13, 2022, during the first quarter of fiscal 2022, we completed the acquisition of Intimidator. Prior to this acquisition, Intimidator was a privately-held company not subject to the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC, or other corporate governance requirements to which public companies may be subject. In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting during the year of acquisition. As part of our ongoing integration activities, we are in the process of incorporating internal controls over significant processes specific to Intimidator that we believe are appropriate and necessary to account for the acquisition and to consolidate and report our financial results. We expect to complete our integration activities related to internal control over financial reporting for Intimidator during fiscal 2023. Accordingly, we do not expect to include Intimidator within our assessment of internal control over financial reporting as of October 31, 2022.

With the exception of internal control related integration activities associated with our acquisition of Intimidator, there was no change in our internal control over financial reporting that occurred during the three month period ended July 29, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to litigation in the ordinary course of business, including claims for punitive, as well as compensatory, damages arising out of the use of our products; litigation and administrative and judicial proceedings with respect to claims involving asbestos and the discharge of hazardous substances into the environment; and commercial disputes, employment and employment-related disputes, and patent litigation cases. For a description of our material legal proceedings, see Note 14, *Contingencies*, in our Notes to Condensed Consolidated Financial Statements under the headings titled "Litigation" and "Litigation Settlement" included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated into this Part II, Item 1 by reference.

ITEM 1A. RISK FACTORS

We are affected by risks specific to us, as well as factors that affect all businesses operating in a global market. The material risk factors known to us that could materially adversely affect our business, reputation, industry, operating results, or financial position or could cause our actual results to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statement made in this report, are described in our most recently filed Annual Report on Form 10-K, Part I, Item 1A. "Risk Factors." There has been no material change in those risk factors, with the exception of the addition of the following risk factor:

Our acquisition of Intimidator involves a number of risks, the occurrence of which could adversely affect our business, financial condition, and results of operations.

On January 13, 2022, we acquired privately-held Intimidator. The acquisition involves certain risks, the occurrence of which could adversely affect our business, financial condition, and results of operations, including:

- Intimidator may have undisclosed, contingent, or other liabilities and we may not be able to recover some of the costs and expenses associated with these liabilities from insurance we obtained to cover breaches of representations and warranties or from indemnities in the equity agreement;
- unexpected events occurring after the acquisition could result in costs and expenses that we cannot recover from the sellers or third-party sources;
- implementing our policies and procedures at Intimidator could be more costly than we anticipated and may be disruptive to Intimidator's operations;
- diversion of management's attention to integrate Intimidator's business and operations and/or reallocation of amounts of capital from our other strategic initiatives;
- disruption to our existing operations and plans or inability to effectively manage our expanded operations;
- failure, difficulties, or delays in securing, integrating, and assimilating information, financial systems, internal controls, operations, manufacturing processes, products, or the distribution channel for Intimidator's businesses and product lines;
- potential loss of key Intimidator employees, suppliers, customers, or dealers or other adverse effects on existing business relationships with suppliers, customers, and dealers;
- adverse impact on overall profitability if our expanded operations do not achieve the growth prospects, net sales, earnings, cost or revenue synergies, or other financial results projected in our valuation models, or delays in the realization thereof;
- incorrect estimates made in the accounting for the acquisition or the potential write-off of significant amounts of goodwill, intangible assets, and/or other tangible assets if the Intimidator business does not perform in the future as expected;
- reduction of our borrowing capacity under our existing unsecured senior revolving credit facility and the increase in our leverage and debt service requirements could restrict our ability to access additional capital when needed or to pursue other important elements of our business strategy because we financed a portion of the acquisition and related transaction expenses with borrowings under our existing unsecured senior revolving credit facility; and
- other factors mentioned in our most recently filed Annual Report on Form 10-K, Part 1, Item 1A, "Risk Factors".

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information with respect to shares of the company's common stock purchased by the company during each of the three fiscal months in the company's third quarter ended July 29, 2022:

Period	Total Number of Shares (or Units) Purchased[1,2]	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[1]
April 30, 2022 through June 3, 2022	—	$ —	—	3,313,830
June 4, 2022 through July 1, 2022	191,772	78.24	191,772	3,122,058
July 2, 2022 through July 29, 2022	258,366	77.85	256,900	2,865,158
Total	450,138	$ 78.02	448,672	

[1] On December 4, 2018, the company’s Board of Directors authorized the repurchase of 5,000,000 shares of the company’s common stock in open-market or privately negotiated transactions. This authorized stock repurchase program has no expiration date but may be terminated by the company’s Board of Directors at any time. The company repurchased 448,672 shares under this authorized stock repurchase program during the period indicated above and 2,865,158 shares remained available to repurchase under this authorized stock repurchase program as of July 29, 2022.

[2] Includes 1,466 shares of the company’s common stock purchased in open-market transactions at an average price of $77.95 per share on behalf of a rabbi trust formed to pay benefit obligations of the company to participants in the company's deferred compensation plans. These 1,466 shares were not repurchased under the company’s authorized stock repurchase program described in note 1 above.

ITEM 6. EXHIBITS

(a)

Exhibit No.	Description
3.1 and 4.1	Restated Certificate of Incorporation of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 18, 2008, Commission File No. 1-8649).
3.2 and 4.2	Certificate of Amendment to Restated Certificate of Incorporation of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on March 13, 2013, Commission File No. 1-8649).
3.3 and 4.3	Amended and Restated Bylaws of The Toro Company (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 19, 2016, Commission File No. 1-8649).
4.4	Indenture dated as of January 31, 1997, between The Toro Company and First National Trust Association, as Trustee, relating to The Toro Company's 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 27, 1997, Commission File No. 1-8649). (Filed on paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T).
4.5	Indenture dated as of April 20, 2007, between The Toro Company and The Bank of New York Trust Company, N.A., as Trustee, relating to The Toro Company's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.3 to Registrant's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on April 23, 2007, Registration No. 333-142282).
4.6	First Supplemental Indenture dated as of April 26, 2007, between The Toro Company and The Bank of New York Trust Company, N.A., as Trustee, relating to The Toro Company's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 26, 2007, Commission File No. 1-8649).
4.7	Form of The Toro Company 6.625% Note due May 1, 2037 (incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 26, 2007, Commission File No. 1-8649).
10.1	Note Purchase Agreement, dated as of June 30, 2022, by and among The Toro Company and the Purchasers Listed on the Purchaser Schedule Thereto (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 30, 2022, Commission File No. 1-8649).
10.2	Form of 3.97% Senior Note due June 30, 2032 (included in Exhibit 10.1).
10.3	Second Amendment, dated as of June 30, 2022, to Note Purchase Agreement, dated as of April 30, 2019, by and among The Toro Company and each of the Institutions a Signatory Thereto (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 30, 2022, Commission File No. 1-8649).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).
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 (furnished herewith).
101	The following financial information from The Toro Company's Quarterly Report on Form 10-Q for the quarterly period ended July 29, 2022, filed with the SEC on September 1, 2022, formatted in Inline eXtensible Business Reporting Language (Inline XBRL): (i) Condensed Consolidated Statements of Earnings for the three and nine month periods ended July 29, 2022 and July 30, 2021, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended July 29, 2022 and July 30, 2021, (iii) Condensed Consolidated Balance Sheets as of July 29, 2022, July 30, 2021, and October 31, 2021, (iv) Condensed Consolidated Statement of Cash Flows for the nine month periods ended July 29, 2022 and July 30, 2021, (v) Condensed Consolidated Statements of Stockholders' Equity for the three and nine month periods ended July 29, 2022 and July 30, 2021, and (vi) Notes to Condensed Consolidated Financial Statements (filed herewith).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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: September 1, 2022

By: /s/ Renee J. Peterson
Renee J. Peterson
Vice President, Chief Financial Officer
(duly authorized officer, principal financial officer, and principal accounting officer)

Exhibit 31.1

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

I, Richard M. Olson, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. 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
   d. 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: September 1, 2022

/s/ Richard M. Olson
Richard M. Olson
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Renee J. Peterson, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. 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
    d. 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: September 1, 2022

/s/ Renee J. Peterson
Renee J. Peterson
Vice President, Chief Financial Officer
(Principal Financial and Accounting 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 July 29, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Richard M. Olson, Chairman of the Board, President and Chief Executive Officer of the Company, and Renee J. Peterson, Vice President, 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 to our knowledge:

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/ Richard M. Olson
Richard M. Olson
Chairman of the Board, President and Chief Executive Officer
Date: September 1, 2022

/s/ Renee J. Peterson
Renee J. Peterson
Vice President, Chief Financial Officer
Date: September 1, 2022

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.