TORO CO
Form 10-Q
June 02, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended April 29, 2016

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

For the Transition Period from to

THE TORO COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**1-8649**	**41-0580470**
(State of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

8111 Lyndale Avenue South

Bloomington, Minnesota 55420

Telephone Number: (952) 888-8801

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the registrant s common stock outstanding as of May 27, 2016 was 55,032,963.

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THE TORO COMPANY

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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		Six Months Ended	
	April 29, 2016	**May 1, 2015**	**April 29, 2016**	**May 1, 2015**
Net sales	$ 836,441	$ 826,242	$ 1,322,839	$ 1,300,453
Cost of sales	533,254	544,270	836,998	849,482
Gross profit	303,187	281,972	485,841	450,971
Selling, general, and administrative expense	148,097	143,517	276,912	268,094
Operating earnings	155,090	138,455	208,929	182,877
Interest expense	(4,721)	(4,768)	(9,375)	(9,484)
Other income, net	3,873	2,450	8,385	4,717
Earnings before income taxes	154,242	136,137	207,939	178,110
Provision for income taxes	48,561	42,374	62,997	53,397
Net earnings	$ 105,681	$ 93,763	$ 144,942	$ 124,713
Basic net earnings per share of common stock	$ 1.92	$ 1.68	$ 2.64	$ 2.23
Diluted net earnings per share of common stock	$ 1.89	$ 1.64	$ 2.58	$ 2.18
Weighted-average number of shares of common stock outstanding Basic	54,904	55,864	54,959	55,954
Weighted-average number of shares of common stock outstanding Diluted	55,986	57,073	56,077	57,157

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		Six Months Ended	
	April 29, 2016	May 1, 2015	April 29, 2016	May 1, 2015
Net earnings	$ 105,681	$ 93,763	$ 144,942	$ 124,713
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	5,741	1,012	950	(7,114)
Derivative instruments, net of tax of $(2,042), $(2,598), $(1,653), and $(148), respectively	(1,533)	(4,117)	(2,592)	(1,339)
Other comprehensive (loss) income	4,208	(3,105)	(1,642)	(8,453)
Comprehensive income	$ 109,889	$ 90,658	$ 143,300	$ 116,260

See accompanying Notes to Condensed Consolidated Financial Statements.

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THE TORO COMPANY AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except per share data)

	April 29, 2016	May 1, 2015	October 31, 2015
ASSETS			
Cash and cash equivalents	$ 174,639	$ 109,295	$ 126,275
Receivables, net	329,837	351,602	177,013
Inventories, net	369,070	341,440	334,514
Prepaid expenses and other current assets	36,683	38,210	34,782
Deferred income taxes	39,878	43,202	38,095
Total current assets	950,107	883,749	710,679
Property, plant, and equipment, gross	824,214	790,568	804,598
Less accumulated depreciation	602,145	570,627	579,603
Property, plant, and equipment, net	222,069	219,941	224,995
Long-term deferred income taxes	28,535	26,416	28,568
Other assets	33,102	29,625	24,873
Goodwill	195,358	194,854	195,533
Other intangible assets, net	113,570	124,542	119,010
Total assets	$ 1,542,741	$ 1,479,127	$ 1,303,658
LIABILITIES AND STOCKHOLDERS EQUITY			
Current portion of long-term debt	$ 23,286	$ 23,444	$ 23,134
Short-term debt		24,900	222
Accounts payable	260,504	256,391	152,017
Accrued liabilities	316,811	314,505	268,361
Total current liabilities	600,601	619,240	443,734
Long-term debt, less current portion	337,909	361,428	354,818
Deferred revenue	11,565	11,244	11,365
Other long-term liabilities	30,058	24,211	31,576
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 54,759,683 shares as of April 29, 2016, 55,264,659 shares as of May 1, 2015, and 54,650,916 shares as of October 31, 2015	54,760	55,265	54,651
Retained earnings	539,333	431,897	437,357
Accumulated other comprehensive loss	(31,485)	(24,158)	(29,843)
Total stockholders equity	562,608	463,004	462,165
Total liabilities and stockholders equity	$ 1,542,741	$ 1,479,127	$ 1,303,658

See accompanying Notes to Condensed Consolidated Financial Statements.

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THE TORO COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Six Months Ended	
	April 29, 2016	**May 1, 2015**
Cash flows from operating activities:		
Net earnings	$ 144,942	$ 124,713
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash income from finance affiliate	(4,551)	(3,709)
Provision for depreciation, amortization, and impairment loss	31,526	30,613
Stock-based compensation expense	5,197	5,090
Decrease/(increase) in deferred income taxes	253	(1,107)
Other	(464)	(47)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Receivables, net	(150,072)	(193,552)
Inventories, net	(37,418)	(56,099)
Prepaid expenses and other assets	(91)	(5,168)
Accounts payable, accrued liabilities, deferred revenue, and other long-term liabilities	147,832	194,514
Net cash provided by/(used in) operating activities	137,154	95,248
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(22,622)	(27,261)
Proceeds from asset disposals	203	57
Contributions to finance affiliate, net	(2,865)	(4,512)
Proceeds from sale of business	1,500	
Acquisition, net of cash acquired		(198,329)
Net cash provided by/(used in) investing activities	(23,784)	(230,045)
Cash flows from financing activities:		
Repayments of short-term debt	(1,161)	(1,283)
(Repayments of)/increase in long-term debt	(16,788)	(276)
Excess tax benefits from stock-based awards	11,285	5,057
Proceeds from exercise of stock options	14,684	5,168
Purchases of Toro common stock	(41,018)	(49,323)
Dividends paid on Toro common stock	(33,005)	(27,975)
Net cash provided by/(used in) financing activities	(66,003)	(68,632)
Effect of exchange rates on cash and cash equivalents	997	(2,149)
Net increase/(decrease) in cash and cash equivalents	48,364	(205,578)
Cash and cash equivalents as of the beginning of the fiscal period	126,275	314,873
Cash and cash equivalents as of the end of the fiscal period	$ 174,639	$ 109,295
Supplemental disclosure of cash flow information:		
Debt issued in connection with an acquisition	$	$ 31,161

See accompanying Notes to Condensed Consolidated Financial Statements.

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THE TORO COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

April 29, 2016

Note 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 U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. Unless the context indicates otherwise, the terms company and Toro refer to The Toro Company and its consolidated subsidiaries. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting primarily of recurring accruals, considered necessary for a fair presentation of the financial position and results of operations. Since the company s business is seasonal, operating results for the six months ended April 29, 2016 cannot be annualized to determine the expected results for the fiscal year ending October 31, 2016.

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

For further information, refer to the consolidated financial statements and notes included in the company s Annual Report on Form 10-K for the fiscal year ended October 31, 2015. The policies described in that report are used for preparing quarterly reports.

Accounting Policies

In preparing the 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 promotions and incentives accruals, incentive compensation accruals, inventory valuation, warranty reserves, earn-out liabilities, allowance for doubtful accounts, pension and postretirement accruals, self-insurance accruals, useful lives for tangible and intangible assets, and future cash flows associated with impairment testing for goodwill and other long-lived assets. These estimates and assumptions are based on management s best estimates and judgments at the time they are made. 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 current economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with certainty, actual amounts could differ significantly from those estimated at the time the consolidated financial statements are prepared. Changes in those estimates will be reflected in the consolidated financial statements in future periods.

Note 2 Divestiture

On November 27, 2015, in the first quarter of fiscal 2016, the company completed the sale of its Northwestern U.S. distribution company. The divestiture was not material based on the company s consolidated financial condition and results of operations.

Note 3 Investment in Joint Venture

In fiscal 2009, the company and TCF Inventory Finance, Inc. (TCFIF), a subsidiary of TCF National Bank, established Red Iron Acceptance, LLC (Red Iron), a joint venture in the form of a Delaware limited liability company that provides inventory financing, including floor plan and open account receivable financing, to distributors and dealers of the company s products in the U.S. and to select distributors of the company s products in Canada. The initial term of Red Iron will continue until October 31, 2017, subject to unlimited automatic two-year extensions thereafter. Either the company or TCFIF may elect not to extend the initial term or any subsequent term by giving one-year notice to the other party. Additionally, in connection with the joint venture, the company and an affiliate of TCFIF entered into an arrangement to provide inventory financing to dealers of the company s products in Canada.

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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. 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 $450 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 April 29, 2016 was $26.4 million. The company has not guaranteed the outstanding indebtedness of Red Iron. The company has agreed to repurchase products repossessed by Red Iron and the TCFIF Canadian affiliate, up to a maximum aggregate amount of $7.5 million in a calendar year. In addition, the company has provided recourse to Red Iron for certain outstanding receivables, which amounted to a maximum amount of $0.7 million as of April 29, 2016.

Under the repurchase agreement between Red Iron and the company, Red Iron provides financing for certain dealers and distributors. These 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. 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 new receivables financed for dealers and distributors under this arrangement for the six months ended April 30, 2016 and April 30, 2015 was $932.7 million and $711.9 million, respectively.

As of April 30, 2016, Red Iron s total assets were $524.3 million and total liabilities were $465.1 million.

Note 4 Inventories

Inventories are valued at the lower of cost or net realizable value, with cost determined by the last-in, first-out (LIFO) method for most inventories and first-in, first-out (FIFO) method for all other inventories. The company establishes a reserve for excess, slow-moving, and obsolete inventory that is equal to the difference between the cost and estimated net realizable value for that inventory. These reserves are based on a review and comparison of current inventory levels to the planned production, as well as planned and historical sales of the inventory.

Inventories were as follows:

(Dollars in thousands)	**April 29, 2016**	**May 1, 2015**	**October 31, 2015**
Raw materials and work in process	$ 100,739	$ 117,451	$ 107,086
Finished goods and service parts	332,371	291,484	291,468
Total FIFO value	433,110	408,935	398,554
Less: adjustment to LIFO value	64,040	67,495	64,040
Total inventories, net	$ 369,070	$ 341,440	$ 334,514

Note 5 Goodwill and Other Intangible Assets

The changes in the net carrying amount of goodwill for the first six months of fiscal 2016 were as follows:

(Dollars in thousands)	Professional Segment	Residential Segment	Total
Balance as of October 31, 2015	$ 184,766	$ 10,767	$ 195,533
Translation adjustments	(110)	(65)	(175)
Balance as of April 29, 2016	$ 184,656	$ 10,702	$ 195,358

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The components of other intangible assets were as follows:

(Dollars in thousands) April 29, 2016	Weighted-average Life (Years)		Gross Carrying Amount		Accumulated Amortization		Net
Patents	9.9	$	15,175	$	(10,524)	$	4,651
Non-compete agreements	5.5		6,907		(6,474)		433
Customer-related	19.1		84,528		(12,482)		72,046
Developed technology	7.6		28,757		(22,152)		6,605
Trade names	19.2		28,715		(3,555)		25,160
Other			800		(800)		
Total amortizable			164,882		(55,987)		108,895
Non-amortizable - trade names			4,675				4,675
Total other intangible assets, net		$	169,557	$	(55,987)	$	113,570

(Dollars in thousands) October 31, 2015	Weighted-average Life (Years)		Gross Carrying Amount		Accumulated Amortization		Net
Patents	9.9	$	15,191	$	(10,175)	$	5,016
Non-compete agreements	5.5		6,922		(6,206)		716
Customer-related	19.1		84,599		(10,316)		74,283
Developed technology	7.6		28,804		(20,530)		8,274
Trade names	19.2		28,715		(2,825)		25,890
Other			800		(800)		
Total amortizable			165,031		(50,852)		114,179
Non-amortizable - trade names			4,831				4,831
Total other intangible assets, net		$	169,862	$	(50,852)	$	119,010

During the second quarter of fiscal 2015, the company determined certain amortizable intangible assets were impaired based on its assessment that the carrying amount may not be recovered. Based on the company s impairment analysis, the company wrote down $1.4 million of other intangible assets.

Amortization expense for intangible assets during the first six months of fiscal 2016 was $5.6 million, compared to $5.3 million for the same period last fiscal year. Estimated amortization expense for the remainder of fiscal 2016 and succeeding fiscal years is as follows: fiscal 2016 (remainder), $5.1 million; fiscal 2017, $9.4 million; fiscal 2018, $7.4 million; fiscal 2019, $6.6 million; fiscal 2020, $6.0 million; fiscal 2021, $5.6 million; and after fiscal 2021, $68.8 million.

Note 6 Stockholders Equity

Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss (AOCL), net of tax, are as follows:

(Dollars in thousands)	April 29, 2016	May 1, 2015	October 31, 2015
Foreign currency translation adjustments	$ 23,581	$ 19,751	$ 24,328
Pension and post-retirement benefits	5,183	5,165	5,386
Derivative instruments	2,721	(758)	129
Total accumulated other comprehensive loss	$ 31,485	$ 24,158	$ 29,843

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The components and activity of AOCL for the first six months of fiscal 2016 are as follows:

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension and Postretirement Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2015	$ 24,328	$ 5,386	$ 129	$ 29,843
Other comprehensive loss (income) before reclassifications	(747)	(203)	1,684	734
Amounts reclassified from AOCL			908	908
Net current period other comprehensive (income) loss	(747)	(203)	2,592	1,642
Balance as of April 29, 2016	$ 23,581	$ 5,183	$ 2,721	$ 31,485

The components and activity of AOCL for the first six months of fiscal 2015 are as follows:

(Dollars in thousands)	Foreign Currency Translation Adjustments	Pension and Postretirement Benefits	Cash Flow Derivative Instruments	Total
Balance as of October 31, 2014	$ 12,536	$ 5,266	$ (2,097)	$ 15,705
Other comprehensive loss (income) before reclassifications	7,215	(101)	(5,393)	1,721
Amounts reclassified from AOCL			6,732	6,732
Net current period other comprehensive (income) loss	7,215	(101)	1,339	8,453
Balance as of May 1, 2015	$ 19,751	$ 5,165	$ (758)	$ 24,158

Note 7 Stock-Based Compensation

Stock Option Awards

Under The Toro Company Amended and Restated 2010 Equity and Incentive Plan, as amended (the 2010 plan), 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 on an annual basis in the first quarter of the company s fiscal year. Options generally vest one-third each year over a three-year period and have a ten-year term. Other 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 expense equal to the grant date fair value is generally recognized for these awards over the vesting period. 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 2010 plan. In that case, the fair value of the options is expensed in the fiscal year of grant because the option holder must be employed as of the end of the fiscal year in which the options are granted in order for the options to continue to vest following retirement. Similarly, if a non-employee director has served on the company s Board of Directors for ten full fiscal years or more, the awards vest immediately upon retirement, and 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 the Black-Scholes valuation method with the assumptions noted in the table below. The expected life is a significant assumption as it determines the period for which the risk-free interest rate, 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 directors are expected to exercise their stock options, which is primarily based on historical experience. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Expected volatilities are based on the 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. 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.

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The following table illustrates the assumptions for options granted in the following fiscal periods:

	Fiscal 2016	Fiscal 2015
Expected life of option in years	5.98	5.95
Expected stock price volatility	24.06%	29.67%
Risk-free interest rate	1.81%	1.61%
Expected dividend yield	1.24%	1.29%
Grant date per share weighted-average fair value	$17.58	$16.81

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 and businesses of the company, which are generally measured over a three-year period. The number of shares of common stock a participant receives will be increased (up to 200 percent of target levels) or reduced (down to zero) based on the level of achievement of performance goals and 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 expense is recognized for these awards on a straight-line basis over the vesting period based on the per share fair value as of the date of grant and the probability of achieving each performance goal. The per share fair value of performance share awards granted during the first quarter of each of fiscal 2016 and 2015 was $77.77 and $65.68, respectively. No performance share awards were granted during the second quarter of fiscal 2016 or 2015.

Restricted Stock and Restricted Stock Unit Awards

Under the 2010 plan, restricted stock and restricted stock unit awards are generally granted to certain employees that are not executive officers. Occasionally, restricted stock or restricted stock unit awards may be granted, including to executive officers, in connection with hiring, mid-year promotions, leadership transition, or retention. Restricted stock and 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. Such awards may have performance-based rather than time-based vesting requirements. Compensation expense equal to the grant date fair value, which 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 and restricted stock unit awards, is recognized for these awards over the vesting period. The per share weighted-average fair value of restricted stock and restricted stock unit awards granted during the first six months of fiscal 2016 and 2015 was $77.34 and $63.60, respectively.

Note 8 Per Share Data

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

	Three Months Ended		Six Months Ended	
	April 29,	May 1,	April 29,	May 1,

(Shares in thousands)	**2016**	**2015**	**2016**	**2015**
Basic				
Weighted-average number of shares of common stock	54,904	55,864	54,940	55,931
Assumed issuance of contingent shares			19	23
Weighted-average number of shares of common stock and assumed issuance of contingent shares	54,904	55,864	54,959	55,954
Diluted				
Weighted-average number of shares of common stock and assumed issuance of contingent shares	54,904	55,864	54,959	55,954
Effect of dilutive securities	1,082	1,209	1,118	1,203
Weighted-average number of shares of common stock, assumed issuance of contingent shares, and effect of dilutive securities	55,986	57,073	56,077	57,157

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Incremental shares from options, restricted stock, and restricted stock units are computed by the treasury stock method. Options to purchase 278,317 and 268,298 shares of common stock during the second quarter of fiscal 2016 and 2015, respectively, were excluded from the diluted net earnings per share because they were anti-dilutive. For the year-to-date periods through the second quarter of fiscal 2016 and 2015, options to purchase 245,752 and 247,379 shares of common stock, respectively, were excluded from the diluted net earnings per share because they were anti-dilutive.

Note 9 Segment Data

The presentation of segment information reflects the manner in which management organizes segments for making operating decisions and assessing performance. On this basis, the company has determined it has three reportable business segments: Professional, Residential, and Distribution. The Distribution segment, which consists of our company-owned domestic distributorship, has been combined with the company s corporate activities and elimination of intersegment revenues and expenses that is shown as Other in the following tables due to the insignificance of the segment.

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

(Dollars in thousands)								
Three months ended April 29, 2016		**Professional**		**Residential**		**Other**		**Total**
Net sales	$	595,209	$	238,231	$	3,001	$	836,441
Intersegment gross sales		12,249		129		(12,378)		
Earnings (loss) before income taxes		141,623		34,988		(22,369)		154,242
Three months ended May 1, 2015		**Professional**		**Residential**		**Other**		**Total**
Net sales	$	552,774	$	267,867	$	5,601	$	826,242
Intersegment gross sales		17,766		104		(17,870)		
Earnings (loss) before income taxes		120,815		34,838		(19,516)		136,137
Six months ended April 29, 2016		**Professional**		**Residential**		**Other**		**Total**
Net sales	$	934,045	$	382,515	$	6,279	$	1,322,839
Intersegment gross sales		17,966		197		(18,163)		
Earnings (loss) before income taxes		203,215		51,727		(47,003)		207,939
Total assets		890,577		301,907		350,257		1,542,741
Six months ended May 1, 2015		**Professional**		**Residential**		**Other**		**Total**
Net sales	$	892,480	$	402,610	$	5,363	$	1,300,453
Intersegment gross sales		28,286		188		(28,474)		
Earnings (loss) before income taxes		176,474		48,565		(46,929)		178,110
Total assets		919,135		261,835		298,157		1,479,127

The following table summarizes the components of the loss before income taxes included in Other shown above:

	Three Months Ended		**Six Months Ended**	
	April 29,	**May 1,**	**April 29,**	**May 1,**

(Dollars in thousands)	2016	2015	2016	2015
Corporate expenses	$ (23,584)	$ (19,475)	$ (48,367)	$ (41,445)
Interest expense, net	(4,721)	(4,768)	(9,375)	(9,484)
Other	5,936	4,727	10,739	4,000
Total	$ (22,369)	$ (19,516)	$ (47,003)	$ (46,929)

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Note 10 Contingencies Litigation

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 typically involved in commercial disputes, employment 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 regularly reviews certain patents issued by the United States Patent and Trademark Office and foreign patent offices. Management believes these activities help minimize its risk of being a defendant in patent infringement litigation. The company is currently involved in patent litigation cases, including cases by or against competitors, where it is asserting and defending against claims of patent infringement. Such cases are at varying stages in the litigation process. The company records a liability in its 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 its consolidated results of operations, financial position, or cash flows.

Note 11 Warranty Guarantees

The company s products are warranted to ensure customer confidence in design, workmanship, and overall quality. Warranty coverage is for specified periods of time and on select products hours of usage, and generally covers parts, labor, and other expenses for non-maintenance repairs. Warranty coverage generally does not cover operator abuse or improper use. An authorized company distributor or dealer must perform warranty work. Distributors and dealers submit claims for warranty reimbursement and are credited for the cost of repairs, labor, and other expenses as long as the repairs meet prescribed standards. Warranty expense is accrued at the time of sale based on the estimated number of products under warranty, historical average costs incurred to service warranty claims, the trend in the historical ratio of claims to sales, the historical length of time between the sale and resulting warranty claim, and other minor factors. Special warranty reserves are also accrued for major rework campaigns. The company sells extended warranty coverage on select products for a prescribed period after the factory warranty period expires.

Warranty provisions, claims, and changes in estimates for the first six months of fiscal 2016 and 2015 were as follows:

	Six Months Ended	
(Dollars in thousands)	**April 29, 2016**	**May 1, 2015**
Beginning balance	$ 70,734	$ 71,080
Warranty provisions	25,804	23,763
Warranty claims	(16,702)	(14,992)
Changes in estimates	(178)	549
Ending balance	$ 79,658	$ 80,400

Note 12 Derivative Instruments and Hedging Activities

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, foreign plant operations, and purchases from suppliers. The company actively manages the exposure of its foreign currency exchange rate market risk by entering into various hedging instruments, authorized under company policies that place controls on these activities, with counterparties that are highly rated financial institutions. The company s hedging activities primarily involve the use of forward currency contracts,

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as well as cross currency swaps that are intended to offset intercompany loan exposures. 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 changes. Decisions on whether to use such contracts 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 s policy does not allow the use of derivatives for trading or speculative purposes. The company 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 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.

Cash flow hedges. The company recognizes all derivative instruments as either assets or liabilities at fair value on the consolidated balance sheet and formally documents relationships between cash flow hedging instruments and hedged transactions, as well as its risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives to the forecasted transactions, such as sales to third parties, foreign plant operations, and purchases from suppliers. Changes in fair values of outstanding cash flow hedge derivatives, except the ineffective portion, are recorded in other comprehensive income (OCI), until net earnings is affected by the variability of cash flows of the hedged transaction. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in net earnings. The consolidated statements of earnings classification of effective hedge results is the same as that of the underlying exposure. Results of hedges of sales and foreign plant operations are recorded in net sales and cost of sales, respectively, when the underlying hedged transaction affects net earnings. 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. Results of hedges of intercompany loans are recorded in other income, net as an offset to the remeasurement of the foreign loan balance.

The company formally assesses, at a hedge s inception and on an ongoing basis, whether the derivatives that are designated as hedges have been highly effective in offsetting changes in the cash flows of the hedged transactions and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the company discontinues hedge accounting prospectively. When the company discontinues 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 remains in AOCL and is reclassified to net earnings 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 recognized immediately in net earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the company carries the derivative at its fair value on the consolidated balance sheets, recognizing future changes in the fair value in other income, net. For the second quarter and year-to-date periods of fiscal 2016, there were immaterial losses on forward contracts reclassified into earnings as a result of the discontinuance of cash flow hedges. During the second quarter of fiscal 2016, the company accelerated the reclassification of a cross currency interest rate swap loss of $0.2 million in AOCL to earnings as a result of hedged forecasted transactions becoming probable not to occur. As of April 29, 2016 and May 1, 2015, the notional amount outstanding of forward contracts designated as cash flow hedges was $60.5 million and $101.8 million, respectively. Additionally, as of April 29, 2016 and May 1, 2015, the company had one cross currency interest rate swap instrument outstanding for a fixed pay notional of 36.6 million Romanian New Leu and receive floating notional of 8.5 million Euros.

Derivatives not designated as hedging instruments. The company also enters into foreign currency contracts that include forward currency contracts and cross currency swaps to mitigate the remeasurement of specific assets and liabilities on the consolidated balance sheet. These contracts are not designated as 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 consolidated statements of earnings together with the transaction gain or loss from the hedged balance sheet position.

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The following table presents the fair value of the company s derivatives and consolidated balance sheet location.

(Dollars in thousands)	Fair Value at April 29, 2016	Fair Value at May 1, 2015	Fair Value at October 31, 2015
Asset Derivatives			
Derivatives Designated as Hedging Instruments			
Prepaid expenses and other current assets			
Forward currency contracts	$ (154)	$ 2,865	$ 2,102
Cross currency contract	88		
Derivatives Not Designated as Hedging Instruments			
Prepaid expenses and other current assets			
Forward currency contracts	194	4,965	1,071
Cross currency contract	1,847	2,070	2,136
Total Assets	$ 1,975	$ 9,900	$ 5,309
Liability Derivatives			
Derivatives Designated as Hedging Instruments			
Accrued liabilities			
Forward currency contracts	$ 3,070	$ 1,427	$ 1,363
Cross currency contract		319	134
Derivatives Not Designated as Hedging Instruments			
Accrued liabilities			
Forward currency contracts	683	(442)	348
Cross currency contract			
Total Liabilities	$ 3,753	$ 1,304	$ 1,845

The following table presents the impact of derivative instruments on the consolidated statements of earnings for the company s derivatives designated as cash flow hedging instruments for the three and six months ended April 29, 2016 and May 1, 2015, respectively.

	Gain (Loss) Recognized in OCI on Derivatives		Effective Portion Location of Gain (Loss) Reclassified from AOCL into Income	Gain (Loss) Reclassified from AOCL into Income		Ineffective Portion and excluded from Effectiveness Testing Location of Gain (Loss) Recognized in Income on Derivatives	Gain (Loss) Recognized in Income on Derivatives	
(Dollars in thousands) **For the three months ended**	**April 29, 2016**	**May 1, 2015**		**April 29, 2016**	**May 1, 2015**		**April 29, 2016**	**May 1, 2015**
Forward currency contracts	$ (3,195)	$ (4,474)	Net sales	$ 921	$ 5,926	Other income, net	$ 243	$ 56
Forward currency contracts	1,439	202	Cost of sales	(685)	(678)			
Cross currency contracts	221	154	Other income, net	(222)	(194)			
Total derivatives designated as cash flow hedges	$ (1,535)	$ (4,118)	Total	$ 14	$ 5,054	Total	$ 243	$ 56
For the six months ended	**April 29, 2016**	**May 1, 2015**		**April 29, 2016**	**May 1, 2015**		**April 29, 2016**	**May 1, 2015**
Forward currency contracts	$ (2,630)	$ (296)	Net sales	$ 2,001	$ 7,930	Other income, net	$ 231	$ 283
Forward currency contracts	(220)	(1,182)	Cost of sales	(999)	(991)			
Cross currency contracts	255	136	Other income, net	(94)	(207)			
Total derivatives designated as cash flow hedges	$ (2,595)	$ (1,342)	Total	$ 908	$ 6,732	Total	$ 231	$ 283

As of April 29, 2016, the company expects to reclassify approximately $0.3 million of losses from AOCL to earnings during the next twelve months.

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The following table presents the impact of derivative instruments on the consolidated statements of earnings for the company s derivatives not designated as hedging instruments.

		Gain (Loss) Recognized in Net Earnings			
	Location of Gain (Loss) Recognized in	Three Months Ended		Six Months Ended	
(Dollars in thousands)	Net Earnings	April 29, 2016	May 1, 2015	April 29, 2016	May 1, 2015
Forward currency contracts	Other income, net	$ (2,678)	$ 3,089	$ (1,341)	$ 11,350
Cross currency contracts	Other income, net	(313)	167	(183)	1,302
Total derivatives not designated as hedges		$ (2,991)	$ 3,256	$ (1,524)	$ 12,652

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 contracts at the net amount in its consolidated balance sheets.

The following tables show the effects of the master netting arrangements on the fair value of the company s derivative contracts that are recorded in the consolidated balance sheets:

(Dollars in thousands)	April 29, 2016	May 1, 2015	October 31, 2015
Assets			
Forward currency contracts			
Gross Amounts of Recognized Assets	$ 194	$ 8,370	$ 3,380
Gross Liabilities Offset in the Balance Sheets	(154)	(540)	(207)
Net Amounts of Assets Presented in the Balance Sheets	40	7,830	3,173
Cross currency contracts			
Gross Amounts of Recognized Assets	1,935	2,070	2,136
Gross Liabilities Offset in the Balance Sheets			
Net Amounts of Assets Presented in the Balance Sheets	1,935	2,070	2,136
Total Assets	$ 1,975	$ 9,900	$ 5,309
Liabilities			
Forward currency contracts			
Gross Amounts of Recognized Liabilities	$ (3,807)	$ (1,741)	$ (1,711)
Gross Assets Offset in the Balance Sheets	54	756	
Net Amounts of Liabilities Presented in the Balance Sheets	(3,753)	(985)	(1,711)
Cross currency contracts			
Gross Amounts of Recognized Liabilities		(319)	(134)
Gross Assets Offset in the Balance Sheets			
Net Amounts of Liabilities Presented in the Balance Sheets		(319)	(134)
Total Liabilities	$ (3,753)	$ (1,304)	$ (1,845)

Note 13 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 flow), 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

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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.

Cash balances are valued at their carrying amounts in the consolidated balance sheets, which are reasonable estimates of their fair value due to their short-term nature. Forward currency contracts are valued based on observable market transactions of forward currency prices and spot currency rates as of the reporting date. The fair value of cross currency contracts is determined using discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs such as interest rates and foreign currency exchange rates. In addition, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, such as collateral postings, thresholds, mutual puts, and guarantees, are incorporated in the