Worlds of Fun LLC
Form 424B3
April 24, 2015

Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-202695

PROSPECTUS

Cedar Fair, L.P. (Cedar Fair), Canada s Wonderland Company (Cedar Canada), and Magnum Management Corporation (Magnum and, collectively with Cedar Fair and Cedar Canada, the Issuers) offer to exchange all outstanding $450,000,000 aggregate principal amount of their 5.375% Senior Notes due 2024 (the outstanding notes) for an equal amount of 5.375% Senior Notes due 2024 (the exchange notes), which have been registered under the Securities Act of 1933, as amended (the Securities Act) (such transaction, the exchange offer).

We are conducting the exchange offer in order to provide you with an opportunity to exchange your unregistered notes for freely tradable notes that have been registered under the Securities Act.

The Exchange Offer

We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradable.

You may withdraw tenders of outstanding notes at any time prior to the close of business, New York City time, on the last business day on which the exchange offer remains open.

The exchange offer expires at 11:59 p.m., New York City time, on May 21, 2015, unless extended. We do not currently intend to extend the expiration date.

The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for United States federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The Exchange Notes

The exchange notes are being offered in order to satisfy certain of our obligations under the registration rights agreement entered into in connection with the placement of the outstanding notes.

The terms of the exchange notes to be issued in the exchange offer are substantially identical to the outstanding notes, except that the exchange notes will be freely tradable.

Each of Cedar Fair s wholly owned subsidiaries (other than Cedar Canada and Magnum) jointly and severally, irrevocably and fully and unconditionally guarantee, on a senior basis, the performance and full and punctual payment when due, whether at maturity, by acceleration or otherwise, of all obligations of the Issuers under the outstanding notes, exchange notes and the indenture governing the notes.

Resales of Exchange Notes

The exchange notes may be sold in the over-the-counter market, in negotiated transactions or through a combination of such methods. We do not plan to list the exchange notes on a national securities exchange.

All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, we do not currently anticipate that we will register resales of the outstanding notes under the Securities Act.

See Risk factors beginning on page 19 of this prospectus for a discussion of certain risks that you should consider before participating in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the exchange notes to be distributed in the exchange offer or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 24, 2015.

Table of Contents

You should rely only on the information contained in, or incorporated by reference into, this prospectus. We have not authorized anyone to provide you with different information from that contained in, or incorporated by reference into, this prospectus. The prospectus may be used only for the purposes for which it has been published, and no person has been authorized to give any information not contained or incorporated by reference herein. If you receive any other information, you should not rely on it. We are not making an offer of these securities in any state where the offer is not permitted.

TABLE OF CONTENTS

ENFORCEMENT OF CIVIL LIABILITIES

Cedar Canada is organized under the laws of the Province of Nova Scotia, Canada. Certain assets of Cedar Canada are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon Cedar Canada or to enforce against Cedar Canada judgments obtained in the U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States.

THERE IS DOUBT WHETHER PROCEEDINGS CAN SUCCESSFULLY BE PURSUED IN CANADIAN COURTS BASED UPON VIOLATIONS OF UNITED STATES FEDERAL SECURITIES LAWS FOR WHICH NO EQUIVALENT OR SIMILAR CLAIMS ARE AVAILABLE IN CANADIAN LAW. MOREOVER, DEPENDING ON THE CIRCUMSTANCES AND NATURE OF RELIEF OBTAINED, THERE MAY ALSO BE DOUBT AS TO THE ENFORCEABILITY IN CANADIAN COURTS OF JUDGMENTS OF UNITED STATES COURTS OBTAINED IN ACTIONS BASED UPON THE CIVIL LIABILITY PROVISIONS OF THE UNITED STATES FEDERAL SECURITIES LAWS OR OTHER LAWS OF THE UNITED STATES OR ANY STATE THEREOF OR THE EQUIVALENT LAWS OF OTHER JURISDICTIONS. THEREFORE, IT MAY NOT BE POSSIBLE SUCCESSFULLY TO ASSERT CERTAIN CLAIMS, OR ENFORCE JUDGMENTS OBTAINED IN CERTAIN UNITED STATES PROCEEDINGS, AGAINST CEDAR CANADA, ITS DIRECTORS AND OFFICERS NAMED IN THE PROSPECTUS.

Table of Contents

MARKET AND INDUSTRY DATA

The market, industry and other similar data contained and incorporated by reference in this prospectus are generally estimates and are based on management s knowledge of our business and markets and independent industry publications or other published independent sources, including Amusement Today, an international publication that covers amusement and water park news, and A.C. Nielsen Media Research. While we believe that these estimates are reasonable, such data are subject to change and cannot always be verified due to the limits on the availability and reliability of raw data and uncertainties inherent in any statistical survey. We have not independently verified any of the data from third party sources nor have we ascertained the underlying economic assumptions relied on therein. As a result, you should be aware that any such market, industry and other similar data may not be reliable. While we are not aware of any misstatements regarding any industry data presented in this prospectus, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the section entitled Risk factors below. PEANUTS and Snoopy are registered trademarks of Peanuts Worldwide LLC. Other trademarks, service marks and trade names appearing and incorporated by reference in this prospectus and not mentioned as owned by us are the property of their respective owners.

Table of Contents

SUMMARY

This summary highlights information appearing elsewhere in this prospectus or incorporated by reference herein. This summary is not complete and does not contain all of the information that you should consider before participating in the exchange offer. You should carefully read the entire prospectus and the documents incorporated by reference herein, including the information presented under the heading Risk factors and the more detailed information in the historical financial statements and related notes included or incorporated by reference into this prospectus, before making an investment decision. Unless otherwise indicated or the context otherwise requires, references in this prospectus to we, our, us, and the Company refer to Cedar Fair and each of its consolidated subsidiaries and references to the Issuers refer to Cedar Fair, L.P., Canada s Wonderland Company and Magnum Management Corporation and not any of their subsidiaries.

Our company

We are one of the largest regional amusement park operators in the world, headquartered in Sandusky, Ohio. We own and operate 11 amusement parks, three separately gated outdoor water parks, one indoor water park and five hotels.

Our four largest parks by attendance are as follows:

Cedar Point. Cedar Point, located on Lake Erie between Cleveland and Toledo in Sandusky, Ohio, is believed by us to be the largest seasonal amusement park in the United States, measured by the number of rides and attractions and the hourly ride capacity. In addition to world-class thrill rides and family attractions, Cedar Point features four hotels, two marinas and an upscale campground.

Knott s Berry Farm. Knott s Berry Farm, located near Los Angeles in Buena Park, California, is a year-round park that is renowned for its seasonal events, including a special Christmas promotion, *Knott s Merry Farm*, and one of the top rated Halloween events in the country, *Knott s Scary Farm*. The park also features an adjacent full-service hotel.

Canada s Wonderland. Canada s Wonderland is a combination amusement and water park located near Toronto, Canada, and is one of the most attended regional amusement parks in North America. Canada s Wonderland contains more than 200 attractions, including 16 roller coasters, and hosts several cultural festivals per year.

Kings Island. Kings Island is a combination amusement and water park located near Cincinnati, Ohio, and is one of the largest seasonal amusement parks in the United States, measured by number of rides and attractions and the hourly ride capacity. Kings Island features a children s area that has been consistently named the Best Kids Area in the World by *Amusement Today*.

Our other seven amusement parks are California s Great America located in Santa Clara, California; Carowinds located in Charlotte, North Carolina; Dorney Park, located near Allentown in South Whitehall Township, Pennsylvania; Kings Dominion located near Richmond, Virginia; Michigan s Adventure located near Muskegon, Michigan; Valleyfair, located near Minneapolis/St. Paul in Shakopee, Minnesota; and Worlds of Fun/Oceans of Fun located in Kansas City, Missouri. Additionally, we have a management contract for Gilroy Gardens Family Theme Park in Gilroy, California.

We also own and operate the Castaway Bay Indoor Waterpark Resort in Sandusky, Ohio, and three separately gated outdoor water parks. Two of the outdoor water parks are located adjacent to Cedar Point and Knott s Berry Farm and the third one is Wildwater Kingdom located near Cleveland in Aurora, Ohio.

Our parks are family-oriented, with recreational facilities for guests of all ages, and provide clean and attractive environments with exciting rides and entertainment. Our amusement parks generally offer a broad selection of state-of-the-art and traditional thrill rides, themed areas, concerts and shows, restaurants, game venues and merchandise outlets. Our water parks feature a wide variety of attractions, including water slides, wave pools, raft rides and children s play areas. We hold a long-term license for theme park usage of the PEANUTS characters, including Snoopy, which we use to provide an enhanced family entertainment experience at the majority of our parks with limited exception; all rides and attractions at the amusement and water parks are owned and operated by us.

We believe families are attracted by a combination of rides and live entertainment and the clean, wholesome atmosphere we provide in our parks. We believe young people are attracted by our many action-packed thrill rides. During their operating seasons, our parks conduct active television, radio, newspaper and internet advertising campaigns geared toward these two demographic groups in nearby major markets. Each of our parks has strong regional name recognition and a leading market position in its geographical area based on attendance.

Our seasonal amusement parks are generally open during weekends beginning in April or May, and then daily from Memorial Day until Labor Day, after which they are open during weekends in September and, in most cases, October. The three outdoor water parks also operate seasonally, generally from Memorial Day to Labor Day, plus some additional weekends before and after this period. As a result, virtually all of the operating revenues of these parks are generated during an approximate 130- to 140-day operating season. Knott s Berry Farm is open daily on a year-round basis, and Castaway Bay s indoor water park is open daily generally from Memorial Day to Labor Day, with a limited daily schedule for the balance of the year. Each park charges a basic daily admission price, which allows unlimited use of most rides and attractions.

In 2014, more than 23 million people visited our amusement parks and outdoor water parks and in-park guest per capita spending averaged $45.54. For the twelve months ended December 31, 2014, we had net revenues of $1,159.6 million, operating income of $278.3 million, net income of $104.2 million and Adjusted EBITDA of $431.3 million. Adjusted EBITDA is not a measurement of operating performance computed in accordance with GAAP and should not be considered as a substitute for operating income, net income or cash flows from operating activities computed in accordance with GAAP. Adjusted EBITDA may not be comparable to similarly titled measures of other companies. For a reconciliation of net income to Adjusted EBITDA, see Summary Summary historical consolidated financial and other operating data included elsewhere in this prospectus.

Competitive strengths

We believe we have the following competitive strengths:

High quality, well-maintained parks. We believe that we are a leading operator of regional amusement parks because we have historically made substantial investments in our park and resort facilities. This has enabled us to provide a wholesome, exciting, quality experience with broad family appeal and, as a result, increase attendance levels and generate higher average in-park guest per capita spending and higher revenue from guest accommodations.

Marketable capital investments for new rides and attractions in our parks average approximately 9% of net revenues per annum, excluding annual maintenance expenses that are included in operating expenses on our income statement. Capital expenditures and maintenance expenses together represented approximately 21% of net revenues in each of the last three fiscal years.

We allocate capital to parks based on return parameters and aim to achieve cash-on-cash returns of more than 15%. To accomplish that goal, we invest in marketable attractions including an industry-leading portfolio of award-winning rollercoasters that help drive attendance and have long operating lives and evergreen themes

Table of Contents

that incur minimal royalty payments and do not require costly re-theming or other reinvestment to keep pace with changing third party intellectual property. As a result of these capital investments, our parks have a variety of award winning thrill rides.

Each of our parks has also maintained broad family appeal, with designated areas for young children. We continue to pursue additional opportunities for growth at our parks with attractions that have a broad family appeal. For example, in 2014, we enhanced the family experience at Cedar Point with the application of place making to the Gemini Midway and introduction of three new rides, including Pipe Scream, a family-oriented roller coaster. We are also renovating the Camp Snoopy Children s area at Knott s Berry Farm, adding three new rides and revitalizing the historic Calico Mine ride. We believe making our parks appealing to the whole family results in repeat visitation, higher attendance and greater per capita spending.

Favorable industry dynamics. Regional amusement parks provide an attractive and affordable alternative to large destination parks, particularly in a challenging economic environment. We believe that a leading position in the regional amusement park industry provides a distinct competitive advantage due to a price/value proposition that compares favorably to other local, out-of-home entertainment options.

Additionally, our regional amusement and water parks are primarily located near major cities with little or no direct competition from other theme parks within their core market area and draw approximately 75% of attendance from within a 150-mile radius.

Significant barriers to entry. We believe there are significant barriers to entry in the amusement park industry that help our parks maintain their strong regional market positions:

- Capital Costs. Construction of a quality regional theme park requires a substantial initial capital investment, and there is generally limited visibility on a newly-constructed park s return on capital at inception.

- Real Estate Requirements. Building a new theme park requires a significant plot of developable land, plus additional land for roads and local businesses, including lodging and restaurants, that will be complementary to the park.

- Zoning Restrictions. Local governments often believe the negative impact of increased traffic and environmental effects will outweigh the promise of increased tax revenue and job creation, and as a result generally show reluctance to approve zoning for a new theme park.

- Development Time. We estimate that it takes approximately three years to construct a regional amusement park, with the planning process taking approximately one year (including a feasibility analysis, public approval processes, design development and financing) and construction taking up to two years (including procurement and installation of rides, show facilities and other equipment).

Significant real estate holdings and other assets. We own approximately 4,900 acres of land, with only one park utilizing leased property under a long-term ground lease that renews at our option through 2074. Our theme parks comprise approximately 4,500 acres of our owned land, including approximately 1,900 acres of developable land, and we also own approximately 670 acres of land near Cleveland, Ohio. All of the rides and attractions at the amusement and water parks are owned and operated by us. We also own and operate a number of other complementary assets adjacent to some of our parks:

- We own and operate four hotel facilities at Cedar Point, including: Castaway Bay, which features tropical Caribbean theme hotel rooms centered around an indoor water park and is the park s only year-

Table of Contents

round hotel; Hotel Breakers, which has dining and lounge facilities, a private beach, lake swimming, a conference/meeting center, one indoor pool and two outdoor pools; Breakers Express, a limited-service hotel located near the Causeway entrance to the park; and Sandcastle Suites Hotel, which features suites, a courtyard pool, tennis courts and a waterfront restaurant.

We own and operate several other assets at Cedar Point that are complementary to the park s operations, including: Cedar Point Marina, which is one of the largest full-service marinas on the Great Lakes and provides dockage facilities (including floating docks and full guest amenities); Castaway Bay Marina, which is a full-service marina featuring full guest amenities; Camper Village, which has campsites for recreational vehicles; and Lighthouse Point, which offers lakefront cottages, cabins and full-service recreation vehicle campsites.

We own the Cedar Point Causeway across Sandusky Bay, which is a major access route to Cedar Point.

We own and operate the Knott s Berry Farm Resort Hotel, a full-service hotel that features a pool, tennis courts and meeting/banquet facilities and is located adjacent to Knott s Berry Farm.

We own Worlds of Fun Village, an upscale camping area that offers overnight guest accommodations next to our Worlds of Fun park with wood-side cottages, log cabins and deluxe RV sites, as well as owning campgrounds at both Kings Dominion and Carowinds.

We own dormitory facilities that house seasonal and part-time employees near or adjacent to several of our parks, including: Cedar Point, where we own dormitories that house up to 4,300 employees; Kings Dominion, where we own a dormitory that houses up to 300 employees; and Valleyfair, where we own a dormitory that houses up to 250 employees.

Stable and diversified cash flows. We have historically generated stable cash flow as a result of consistent attendance and long-term revenue trends. In addition to favorable industry dynamics historically driving organic attendance growth, we have opportunistically made acquisitions to further our diversity of revenue and market share. As a result, our park portfolio is broadly distributed across North America, establishing a geographic footprint that mitigates regional economic and weather risk, and our revenues and Adjusted EBITDA are diversified across our parks, so we are not dependent on any one park or region.

We have also used our highly successful holiday events to extend the operating season and generate additional revenue at our parks. In the last decade, Halloween events have been added to most of the Company s parks and have become meaningful financial contributors. These Halloween events follow in the tradition of Knott s Scary Farm, the original theme park Halloween event dating back to 1973 at Knott s Berry Farm. Knott s Scary Farm has consistently been named one of the Best Halloween Events in the World according to *Amusement Today*, and its immense popularity also paved the way for a Christmas event, Knott s Merry Farm.

We believe our stable and diversified cash flow will continue to give us the opportunity to grow, reinvest in our business and service our indebtedness.

Industry-leading operating metrics. We believe we have some of the highest EBITDA margins and cash conversion profiles in the theme park industry. We protect these margins by maintaining our pricing policies and abiding by strict cost controls. On the pricing side, we limit the use of complimentary and heavily-discounted tickets and focus on single-day ticket price integrity with a reasonable season-pass/single-day ratio. On the cost side, we carefully manage seasonal staffing levels, minimize corporate overhead and require senior management approval for pricing decisions, permanent hiring and corporate travel. Additionally, our management has consistently demonstrated the ability to enhance the performance of acquired assets by enforcing strict cost controls, optimizing pricing policies for tickets and redirecting spending away from intellectual property and towards thrill rides and family attractions.

Table of Contents

Our high operating margins are also aided by our lack of significant licensing fees, as compared to industry peers who incur licensing fees for certain entertainment-themed attractions. Our relatively low licensing fees allow us to redirect expenditures toward thrill rides that will increase attendance, such as Wonder Mountain s Guardian at Canada s Wonderland and Banshee at Kings Island. We believe this is an important reason that we have consistently outperformed our peers in periods of economic uncertainty.

Experienced management team. The members of our senior management team have an average of 20 years of experience in the leisure and hospitality industries. The management team is led by Matt Ouimet (President and Chief Executive Officer), Richard Zimmerman (Chief Operating Officer) and Brian Witherow (Executive Vice President and Chief Financial Officer) who have 24, 27 and 21 years of experience in the leisure and hospitality industries, respectively. We believe our experienced management team is a key component of our success and will enable us to continue to produce attractive operating results.

Our strategy

Our objective is to maximize our cash flow and operating profitability while providing our guests with high-value, high-quality entertainment through a focus on our cornerstones of safety, service, cleanliness, courtesy and integrity. Key elements of our business strategy are:

Pursuing growth in our existing parks. We have an industry-leading portfolio of regional amusements parks that are well capitalized and in excellent condition, along with significant real estate holdings. We believe there are continuing opportunities for us to leverage this high-quality asset base to generate growth in and around our existing parks.

We are constantly looking for ways to increase our revenues by increasing attendance and guest per capita spending, including pursuing the following strategies:

- We will continue to make prudent capital investments, adding marketable rides and attractions and improving the overall guest experience.

- We will continue to implement improved consumer messaging, dynamic pricing strategies and advanced purchase commitments to maximize admissions revenue, in-park spending and out-of-park spending on hotels, campgrounds and extra-charge attractions.

- We will continue to add premium product offerings and enhance dining, merchandise and other revenue outlets.

- We will continue to focus on opportunities to enhance strategic alliance and promotional leverage and host new seasonal events and other special events.

Because a large portion of our expenses are relatively fixed, incremental attendance gains and increases in guest per capita spending have historically resulted in significant increases in our operating profits.

Maintaining disciplined expense controls. Our management team focuses on fostering a strong culture of accountability that allows us to control operating costs and expenses in all aspects of our business while maintaining a high-quality guest experience. Full-time staff and corporate overhead are kept to a minimum, and seasonal staffing levels are adjusted daily based on expected park attendance. All other costs and expenses are carefully budgeted and controlled to the maximum extent practicable. As a result, we are able to maintain industry leading Adjusted EBITDA margins, even in the face of a challenging economic environment.

We believe that our disciplined approach to costs and expenses will continue to contribute to our industry leading margins and provide us with flexibility during downturns in the economy and in our business.

5

Table of Contents

Extending the traditional operating season. A majority of our amusement parks are seasonal, with virtually all of the operating revenues of these parks generated during an approximate 130- to 140-day operating season that lasts from Memorial Day to Labor Day. We have marketed a number of initiatives to generate business and extend the operating season. Our parks host several successful and popular holiday events which extend the operating season, including award winning Halloween events. Knott s Scary Farm at Knott s Berry Farm, for example, has consistently been named one of the Best Halloween Events in the World according to *Amusement Today*. Halloween and other special events at our parks have also become meaningful financial contributors.

We continuously consider and implement new concepts and initiatives that allow us to maximize the value of our assets through higher utilization.

Adding complementary facilities. Our industry-leading portfolio of regional amusement parks includes significant real estate holdings that we may develop in the future to maximize ancillary revenue at our parks. In the past, we have expanded several of our parks by adding complementary facilities such as campgrounds, lodging, marinas and water parks. Because a portion of visitors to our amusement parks include an overnight stay in their visits, particularly at Cedar Point, we continuously upgrade our resort facilities and other lodging options. We also add branded and non-branded restaurant offerings adjacent to our parks to better serve the desires of our guests and to drive incremental revenue.

We believe that adding and maintaining complementary facilities allows us to leverage the attendance base of our parks, which in turn will allow us to continue to benefit from increased revenues and operating profits.

Recent developments

Credit Agreement Amendment. On December 18, 2014, the credit agreement governing our senior secured credit facilities (the Credit Agreement) was amended to allow Cedar Fair to designate additional borrowers. On December 31, 2014, Cedar Fair, an Ohio general partnership and an existing guarantor of the notes and the Credit Agreement, converted into Millennium Operations LLC, a Delaware limited liability company, and was subsequently designated as a borrower under the Credit Agreement and guarantor under the Company s indentures governing its outstanding notes and its 5.25% Senior Notes due 2021 (the 2021 Senior Notes).

Table of Contents

Corporate structure

The following diagram illustrates our corporate structure:

Corporate information

Our principal executive offices are located at One Cedar Point Drive, Sandusky, Ohio 44870-5259. Our telephone number is (419) 626-0830. The address of our internet site is www.cedarfair.com. This internet address is provided for informational purposes only and is not intended to be a hyperlink. Accordingly, no information in this internet address is included or incorporated by reference into this prospectus and no such information should be relied upon in connection with making any investment decision with respect to the exchange offer.

Table of Contents

The exchange offer

On June 3, 2014, we completed the private offering of $450,000,000 aggregate principal amount of 5.375% Senior Notes due 2024 (the outstanding notes). In this prospectus, the term exchange notes refers to the 5.375% Senior Notes due 2024, as registered under the Securities Act. The term notes refers to both the outstanding notes and the exchange notes.

General	In connection with the private offering of the outstanding notes, the Issuers and the guarantors of the outstanding notes entered into a registration rights agreement with the initial purchasers, in which the Issuers and the guarantors agreed, among other things, to use their commercially reasonable efforts to complete the exchange offer for the outstanding notes within 360 days after the date of issuance of the outstanding notes. You are entitled to exchange in the exchange offer your outstanding notes for exchange notes, which are identical in all material respects to the outstanding notes except: the exchange notes have been registered under the Securities Act; the exchange notes are not entitled to any registration rights which are applicable to the outstanding notes under the registration rights agreement; certain additional interest rate provisions are not applicable to the exchange notes; and the initial interest payment date is different.
The Exchange Offer	We are offering to exchange up to $450,000,000 aggregate principal amount of 5.375% senior notes due 2024. You may only exchange outstanding notes in denominations of $2,000 and integral multiples of $1,000 in excess of $2,000.
Resale	Based on interpretations by the staff of the Securities and Exchange Commission, set forth in no-action letters issued to third parties, we believe that the exchange notes issued pursuant to the exchange offer in exchange for the outstanding notes may be offered for resale, resold and otherwise transferred by you (unless you are our affiliate within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that: you are acquiring the exchange notes in the ordinary course of your business; and you have not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes.

If you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a

8

Table of Contents

	result of market-making or other trading activities, you must acknowledge that you will deliver this prospectus, as required by law, in connection with any resale or other transfer of the exchange notes that you receive in the exchange offer. See Plan of Distribution.
	Any holder of outstanding notes who:
	is our affiliate;
	does not acquire exchange notes in the ordinary course of its business; or
	tenders its outstanding notes in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of exchange notes
	cannot rely on the position of the staff of the SEC enunciated in *Morgan Stanley & Co. Incorporated* (available June 5, 1991), *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in the SEC s letter to *Shearman & Sterling* (available July 2, 1993), or similar no-action letters and, in the absence of an exemption therefrom, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.
Expiration Date	The exchange offer will expire at 11:59 p.m., New York City time, on May 21, 2015, unless extended by the Issuers. The Issuers currently do not intend to extend the expiration date.
Withdrawal	You may withdraw the tender of your outstanding notes at any time prior to the close of business, New York City time, on May 21, 2015. The Issuers will return to you any of your outstanding notes that are not accepted for any reason for exchange, without expense to you, promptly after the expiration or termination of the exchange offer.
Conditions to the Exchange Offer	The exchange offer is subject to customary conditions, which the Issuers may waive. See The Exchange Offer Conditions to the exchange offer.
Procedures for Tendering Outstanding Notes	If you wish to participate in the exchange offer, you must complete, sign and date the accompanying letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must then mail or otherwise deliver the letter of transmittal, together with the outstanding notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal.
	If you hold outstanding notes through The Depository Trust Company, or DTC , and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures of DTC by which you will agree to be bound by the letter

Table of Contents

	of transmittal. By signing, or agreeing to be bound by, the letter of transmittal, you will represent to us that, among things: you are not our affiliate or an affiliate of any guarantor within the meaning of Rule 405 under the Securities Act; you have no arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of the exchange notes in violation of the provisions of the Securities Act; you are acquiring the exchange notes in the ordinary course of your business; and if you are a broker-dealer that will receive exchange notes for your own account in exchange for outstanding notes that were acquired as a result of market-making or other trading activities, you will deliver a prospectus, as required by law, in connection with any resale of such exchange notes.
Special Procedures for Beneficial Owners	If you are a beneficial owner of outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and you wish to tender those outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct the registered holder to tender those outstanding notes on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.
Guaranteed Delivery Procedures	If you wish to tender your outstanding notes and your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the letter of transmittal and any other required documents, or you cannot comply with the DTC Automated Tender Offer Program for transfer of book-entry interests prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under The Exchange Offer Guaranteed delivery procedures.
Effect on Holders of Outstanding Notes	As a result of the making of, and upon timely acceptance for exchange of all validly tendered outstanding notes pursuant to the terms of the exchange offer, the Issuers and the guarantors of the notes will have fulfilled a covenant under the registration rights agreement. Accordingly, there will be no increase in the applicable interest rate on the outstanding notes under the circumstances described in the registration rights agreement. If you do not tender your outstanding notes in the exchange offer, you will continue to be

Table of Contents

	entitled to all the rights and limitations applicable to the outstanding notes as set forth in the indenture governing the notes, except the Issuers and the guarantors of the notes will not have any further obligation to you to provide for the registration of untendered outstanding notes under the registration rights agreement. To the extent that outstanding notes are tendered and accepted in the exchange offer, the trading market for outstanding notes that are not so tendered and accepted could be adversely affected.
Consequence of Failure to Exchange	All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, the Issuers and the guarantors of the notes do not currently anticipate that they will register resales of the outstanding notes under the Securities Act.
Certain United States Federal Income Tax Consequences	The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for United States federal income tax purposes. See Certain United States Federal Tax Consequences.
Regulatory Approvals	Other than compliance with the Securities Act and qualification of the indenture governing the notes under the Trust Indenture Act, there are no federal or state regulatory requirements that must be complied with or approvals that must be obtained in connection with the exchange offer.
Use of Proceeds	We will not receive any cash proceeds from the issuance of the exchange notes in the exchange offer. See Use of Proceeds.
Exchange Agent	The Bank of New York Mellon is the exchange agent for the exchange offer. The contact information for the exchange agent is set forth in the section captioned The Exchange Offer exchange agent.

Table of Contents

The exchange notes

The summary below describes the principal terms of the exchange notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of Notes section of this prospectus contains more detailed descriptions of the terms and conditions of the outstanding notes and exchange notes. The exchange notes will have terms identical in all material respects to the outstanding notes, except that the exchange notes will not contain terms with respect to transfer restrictions, registration rights and additional interest for failure to observe certain obligations in the registration rights agreement.

Issuers	Cedar Fair, L.P., Canada s Wonderland Company and Magnum Management Corporation.
Securities Offered	$450,000,000 aggregate principal amount of 5.375% senior notes due 2024.
Maturity Date	June 1, 2024.
Interest Rate	Interest on the exchange notes will be payable in cash and will accrue from June 3, 2014 at a rate of 5.375% per annum.
Interest Payment Dates	June 1 and December 1 of each year, beginning on June 1, 2015.
Guarantees	The exchange notes will be jointly and severally, irrevocably and fully and unconditionally guaranteed by each wholly owned subsidiary of the Issuers that guarantees our senior secured credit facilities. Going forward, each of the Issuers new wholly owned domestic subsidiaries and each of the Issuers new wholly owned Canadian subsidiaries will be required to guarantee the exchange notes to the extent each such entity guarantees our senior secured credit facilities, provided that the guarantee would not result in adverse tax consequences to the Issuers.
Ranking	The exchange notes will be the joint and several senior unsecured obligations of the Issuers and will:

- rank senior in right of payment to all existing and future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the exchange notes;
- rank equally in right of payment to all of our existing and future senior debt and other obligations that are not, by their terms expressly subordinated in right of payment to the notes, including the 2021 Senior Notes;
- be effectively subordinated to all of our existing and future secured debt (including obligations under our senior secured credit facilities), to the extent of the value of the assets securing such debt; and

be structurally subordinated to all obligations of each of our subsidiaries that is not a guarantor of the exchange notes.

12

Table of Contents

The guarantees will be the senior unsecured obligations of the guarantors and will:

- rank senior in right of payment to all of the applicable guarantor s existing and future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the notes;

- rank equally in right of payment to all of the applicable guarantor s other existing and future senior debt and other obligations that are not, by their terms, expressly subordinated in right of payment to the notes (including obligations in respect of the 2021 Senior Notes);

- be effectively subordinated to all of the applicable guarantor s existing and future secured debt (including indebtedness secured by such guarantor s assets, such as our senior secured credit facilities), to the extent of the value of the assets securing such debt; and

- be structurally subordinated to all obligations of each of our subsidiaries that is not a guarantor of the notes.

We had $1,558.9 million (book value) of total debt outstanding as of December 31, 2014, and the notes and related guarantees rank effectively junior to $608.9 million (book value) of senior secured indebtedness (excluding $16.3 million of outstanding letters of credit under our $255.0 million senior secured revolving credit facility). In addition, as of December 31, 2014, we had $238.7 million available to us for borrowing under our $255.0 million senior secured revolving credit facility.

In the event any subsidiary guarantor (other than Cedar Canada or Magnum, which are co-issuers of the exchange notes offered hereby) is released from its obligations under our senior secured credit facilities, such subsidiary guarantor (other than Cedar Canada or Magnum, which are co-issuers of the exchange notes offered hereby) will also be released from its obligations under the exchange notes. In the event Cedar Canada or Magnum is released from its obligations as a borrower and/or guarantor under our senior secured credit facilities, such entity will also be released from its obligations as a co-issuer of the exchange notes.

Optional Redemption

We may redeem the exchange notes, in whole or part, at any time prior to June 1, 2019 at a price equal to 100% of the principal amount of the exchange notes redeemed plus a make-whole premium, together with accrued and unpaid interest and additional interest, if any, to the redemption date as described in Description of Notes Optional redemption.

We may redeem the exchange notes, in whole or in part, on or after June 1, 2019, at the redemption prices set forth under Description of

Table of Contents

	Notes-Optional redemption together with accrued and unpaid interest and additional interest, if any, to the redemption date.
Optional Redemption After Certain Equity Offerings	At any time (which may be more than once) before June 1, 2017, we may choose to redeem up to 35% of the aggregate principal amount of the exchange notes at a redemption price equal to 105.375% of the face amount thereof, plus accrued and unpaid interest and additional interest, if any, to the redemption date, with the net proceeds of one or more equity offerings to the extent such net cash proceeds are received by or contributed to us. We may make the redemption only if, after the redemption, at least 65% of the aggregate principal amount of the notes remains outstanding. See Description of Notes Optional redemption.
Change of Control	If we experience a change of control (as defined in the indenture governing the notes), we will be required to make an offer to repurchase the exchange notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase. See Description of Notes Change of control.
Certain Covenants	The indenture governing the notes contains covenants limiting our ability and the ability of certain of our restricted subsidiaries to: incur additional debt or issue certain preferred equity; pay distributions on or make distributions in respect of capital stock or units or make other restricted payments; make certain investments; sell certain assets; create restrictions on distributions from restricted subsidiaries; create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; enter into certain transactions with our affiliates; and designate our subsidiaries as unrestricted subsidiaries.

	The covenants are subject to a number of important limitations and exceptions. See Description of Notes. Certain covenants will cease to apply to the notes in the event that and for so long as the notes have investment grade ratings from both Moody s Investors Service, Inc. (Moody s) and Standard & Poor s Financial Services LLC (Standard & Poor s).
No Prior Market	The exchange notes will be freely transferable but will be new securities for which there will not initially be a market. Accordingly,

Table of Contents

	we cannot assure you whether a market for the exchange notes will develop or as to the liquidity of any such market that may develop. The initial purchasers in the private offering of the outstanding notes have informed us that they currently intend to make a market in the exchange notes; however, they are not obligated to do so, and they may discontinue any such market-making activities at any time without notice.
Use of Proceeds	We will not receive any cash proceeds from the issuance of the exchange notes in the exchange offer. See Use of Proceeds.
Risk Factors	Investing in the exchange notes involves substantial risks. See Risk factors for a brief description of some of the risks you should consider before participating in the exchange offer.

Table of Contents

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL AND OTHER OPERATING DATA

The following table sets forth summary historical financial data for each of the years in the three-year period ended December 31, 2014, which have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The consolidated statement of operations data for the three years ended December 31, 2014 has been derived from, and should be read in conjunction with, our audited 2013 and 2014 consolidated financial statements and the accompanying notes incorporated by reference herein.

Our historical results are not necessarily indicative of our future results.

	For the years ended December 31,		
	2014	2013	2012
	(In millions, except per unit and per capita amounts)		
Statement of Operations Data			
Net revenues:			
Admissions	$ 661.5	$ 647.0	$ 612.1
Food, merchandise, and games	365.5	356.1	342.2
Accommodations and other	132.6	131.5	114.1
Total net revenues	1,159.6	1,134.6	1,068.4
Cost and operating expenses:			
Cost of food, merchandise and games revenue	95.2	91.8	95.0
Operating expenses	496.1	472.3	451.4
Selling, general and administrative	156.9	152.4	138.3
Loss on impairment/retirement of fixed assets, net	9.8	2.5	30.3
Gain on sale of other assets	(0.9)	(8.7)	(6.6)
Depreciation and amortization	124.3	122.5	126.3
Total costs and operating expenses	881.3	832.8	834.8
Operating income	278.4	301.8	233.7
Interest expense	96.3	103.1	110.6
Net effect of swaps	(2.1)	6.9	(1.5)
Loss on early debt extinguishment	29.3	34.6	
Unrealized/realized foreign currency loss (gain)	40.9	28.9	(9.0)
Other income	(0.1)	(0.1)	(0.1)
Income before taxes	114.1	128.4	133.6
Provision for taxes	9.9	20.2	31.7
Net income	$ 104.2	$ 108.2	$ 101.9
Balance Sheet Data			
Cash and cash equivalents	$ 131.8	$ 118.1	$ 78.8
Property and equipment, net	1,526.6	1,505.7	1,544.3
Total assets	2,038.3	2,014.6	2,019.9
Working capital(1)	5.5	27.7	2.9
Long-term debt	1,558.9	1,520.6	1,532.2
Partners equity	96.2	139.1	154.5
Distributions			
Declared per limited partner unit	$ 2.85	$ 2.58	$ 1.60
Paid per limited partner unit	2.85	2.58	1.60
Other Data			
EBITDA(2)	$ 334.5	$ 353.9	$ 370.4

Adjusted EBITDA(2)	431.3	425.4	391.0

16

Table of Contents

	For the years ended December 31, 2014	2013	2012
	(In millions, except per unit and per capita amounts)		
Cash interest expense (including revolver)	104.2	90.8	101.9
Capital expenditures	(166.7)	(120.4)	(96.2)
Combined attendance(3)	23.3	23.5	23.3
Combined in-park guest per capita spending(4)	$ 45.54	$ 44.15	$ 41.95
Total debt (excluding revolver) to Adjusted EBITDA	3.61x	3.57x	3.92x
Adjusted EBITDA to cash interest expense	4.14x	4.69x	3.84x
Net cash from operating activities	$ 337.1	$ 324.5	$ 285.9
Net cash for investing activities	(165.3)	(105.2)	(80.2)
Net cash for financing activities	(155.2)	(178.3)	(163.0)
Ratio of earnings to fixed charges(5)	2.0x	2.1x	2.1x

(1) Working capital is defined as current assets less current liabilities.

(2) EBITDA represents net income before provision for taxes, interest expense and depreciation and amortization. Adjusted EBITDA represents earnings before interest, taxes, depreciation, amortization, other non-cash items, and adjustments as defined in our current credit agreement. EBITDA and Adjusted EBITDA are not measurements of operating performance computed in accordance with GAAP and should not be considered as substitutes for operating income, net income or cash flows from operating activities computed in accordance with GAAP. We believe that Adjusted EBITDA is a meaningful measure of park-level operating profitability and we use it for measuring returns on capital investments, evaluating potential acquisitions, determining awards under incentive compensation plans, and calculating compliance with certain loan covenants. EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. A reconciliation of net income to EBITDA and Adjusted EBITDA is provided below.

Reconciliation of Net Income to EBITDA and Adjusted EBITDA:

	For the years ended December 31, 2014	2013	2012
		(In millions)	
Net income	$ 104.2	$ 108.2	$ 101.9
Interest expense	96.3	103.1	110.6
Interest income	(0.1)	(0.1)	(0.1)
Provision for taxes	9.9	20.2	31.7
Depreciation and amortization	124.3	122.5	126.3
EBITDA	334.5	353.9	370.4
Loss on early extinguishment of debt	29.3	34.6	
Net effect of swaps	(2.1)	6.9	(1.5)
Unrealized foreign currency loss (gain)	40.9	28.9	(9.0)
Equity-based compensation	12.5	5.5	3.3
Loss on impairment/retirement of fixed assets, net	9.8	2.5	30.3
Gain on sale of other assets	(0.9)	(8.7)	(6.6)
Class action settlement costs	5.0		
Other non-recurring costs(a)	2.2	1.8	4.1
Adjusted EBITDA	$ 431.3	$ 425.4	$ 391.0

(a) The credit agreements that the Company entered into in 2010 and 2011 and the Company s 2013 Credit Agreement reference certain costs as non-recurring or unusual. These items are excluded in the calculation

of Adjusted EBITDA and have included litigation expenses and costs for SEC compliance matters related to Special Meeting requests, costs associated with certain unusual ride abandonment and relocation expenses, and costs associated with the transition to a new advertising agency.

(3) Combined attendance includes attendance figures from the 11 amusement parks and all separately gated outdoor water parks.

(4) Combined in-park guest per capita spending (per capita spending) includes all amusement park, outdoor water park, causeway tolls and parking revenues for the amusement park and water park operating seasons. Revenues from indoor water park, hotel, campground, marina and other out-of-park operations are excluded from per capita statistics.

(5) For purposes of computing the ratio of earnings to fixed charges, earnings consist of income (loss) before income taxes plus fixed charges. Fixed charges consist of interest expense plus capitalized interest, amortization of capitalized debt costs and the interest component of rental costs. The ratio of earnings to fixed charges was 1.4x and 0.8x for the years ended December 31, 2011 and 2010, respectively.

Table of Contents

RISK FACTORS

You should carefully consider the risk factors set forth below, as well as the other information contained or incorporated by reference in this prospectus before deciding to tender your outstanding notes in the exchange offer. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition or results of operations. In such a case, you may lose all or a part of your original investment.

Risks related to the exchange offer

There may be adverse consequences to you if you do not exchange your outstanding notes.

If you do not exchange your outstanding notes for exchange notes in the exchange offer, you will continue to be subject to restrictions on the transfer of your outstanding notes as set forth in the offering memorandum dated May 29, 2014 distributed in connection with the private offering of the outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act. You should refer to Summary The exchange offer and The exchange offer for information about how to tender your outstanding notes.

The tender of outstanding notes under the exchange offer will reduce the outstanding amount of the outstanding notes, which may have an adverse effect upon, and increase the volatility of, the market prices of the outstanding notes due to a reduction in the liquidity of the market for the outstanding notes.

Your ability to transfer the exchange notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the exchange notes.

We are offering the exchange notes to the holders of the outstanding notes. The outstanding notes were offered and sold in June 2014 to qualified institutional investors in a private offering.

We do not intend to apply for a listing of the exchange notes on a securities exchange or on any automated dealer quotation system. There is currently no established market for the exchange notes, and we cannot assure you that any market may develop for the exchange notes, as to the liquidity of any such markets, of your ability to sell the exchange notes or as to the price at which you would be able to sell the exchange notes at any time. If such markets were to exist, the exchange notes could trade at prices that may be lower than their principal amount or your purchase price depending on many factors, including prevailing interest rates, the market for similar notes, our financial and operating performance and other factors. The initial purchasers in the private offering of the outstanding notes have advised us that they currently intend to make a market with respect to the exchange notes. However, these initial purchasers are not obligated to do so, and any such market making activity with respect to the exchange notes may be discontinued at any time without notice. In addition, such market making activity may be limited during the pendency of the exchange offer or the effectiveness of a shelf registration statement in lieu thereof. Therefore, we cannot assure you that an active market for the exchange notes will develop or, if developed, that it will continue. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. The market, if any, for the exchange notes may experience similar disruptions and any such disruptions may adversely affect the prices at which you may sell your exchange notes.

Certain persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes.

Based on interpretations of the staff of the SEC contained in *Exxon Capital Holdings Corp.*, SEC no-action letter (available April 13, 1988), *Morgan Stanley & Co. Inc.*, SEC no-action letter (available June 5, 1991) and

Table of Contents

Shearman & Sterling, SEC no-action letter (available July 2, 1993), we believe that you may offer for resale, resell *or otherwise transfer the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act. However, in some instances described in this prospectus under Plan of Distribution, certain holders of exchange notes will remain obligated to comply with the registration and prospectus delivery requirements of the Securities Act to transfer the exchange notes. If such a holder transfers any exchange notes without delivering a prospectus meeting the requirements of the Securities Act or without an applicable exemption from registration under the Securities Act, such a holder may incur liability under the Securities Act. We do not and will not assume, or indemnify such a holder against, this liability.*

Risks related to our indebtedness and this exchange offer

The amount of our indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from making debt service payments on the notes.

We are a highly leveraged company. We had $1,558.9 million (book value) of debt outstanding as of December 31, 2014, and the notes and related guarantees rank effectively junior to $608.9 million (book value) of senior secured indebtedness (excluding $16.3 million of outstanding letters of credit under our $255.0 million senior secured revolving credit facility). In addition, as of December 31, 2014, we had $238.7 million available to us for borrowing under our $255.0 million senior secured revolving credit facility.

Our substantial indebtedness could have important consequences for you as a holder of the notes. For example, it could:

- limit our ability to borrow money for our working capital, capital expenditures, debt service requirements, strategic initiatives or other purposes;
- limit our flexibility in planning or reacting to changes in business and future business operations;
- make it more difficult for us to satisfy our obligations with respect to our indebtedness, including the notes, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the indenture governing the notes and the agreements governing other indebtedness;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- make us more highly leveraged than some of our competitors, which may place us at a competitive disadvantage; and
- require us to dedicate a substantial portion of our cash flow from operations to the repayment of our indebtedness thereby reducing funds available to us for other purposes, such as making strategic acquisitions, introducing new rides and attractions and exploiting business opportunities.

Furthermore, our interest expense could increase if interest rates increase because all of the debt under our senior secured credit facilities is variable-rate debt. See Description of Other Indebtedness.

Despite the amount of our indebtedness, we may still be able to incur significantly more debt. This could intensify the risks described above.

We and our subsidiaries may be able to incur substantial indebtedness in the future. Although the terms of the indenture governing the notes, the indenture governing the 2021 Senior Notes and our senior secured credit facilities contain restrictions on the Issuers and our subsidiaries ability to incur additional indebtedness, including secured indebtedness that will be effectively senior to the notes, these restrictions are subject to a number of important qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. As of December 31, 2014, we had $1,558.9 million (book value) of total debt

20

outstanding, including $608.9 million (book value) of senior secured indebtedness under our senior secured credit facilities (excluding $16.3 million of letters of credit outstanding under our $255.0 million senior secured revolving credit facility as of December 31, 2014). Further, we had an additional $238.7 million of available borrowing capacity under our $255.0 million senior secured revolving credit facility, all of which, if drawn, would be effectively senior to the notes. In addition to the notes, the 2021 Senior Notes and our borrowings under our senior secured credit facilities, the covenants under any future debt instruments could allow us to incur a significant amount of additional indebtedness. In addition to the $238.7 million which is available to us for borrowing under our $255.0 million senior secured revolving credit facility, we have the option, subject to certain conditions, to add one or more incremental term loan facilities to our senior secured credit facilities in an aggregate amount not to exceed the greater of (x) $400.0 million and (y) any other amount that may be incurred for any purpose if such incurrence would not cause our senior secured leverage ratio to exceed 3.25 to 1.00 on a pro forma basis. See Description of Other Indebtedness Senior Secured Credit Facilities. The more leveraged we become, the more we, and in turn our noteholders, will be exposed to the certain risks described above under Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from making debt service payments on the notes

We may not be able to generate sufficient cash to service all of our indebtedness, including the notes, and may be forced to take other actions to satisfy our obligations under our indebtedness that may not be successful.

Our ability to pay principal and interest on the notes and to satisfy our other debt obligations will depend upon, among other things:

- our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control; and

- our future ability to borrow under our $255.0 million senior secured revolving credit facility, the availability of which depends on, among other things, our compliance with the covenants in such credit facility.

We cannot assure you that our business will generate sufficient cash flow from operations, or that we will be able to draw under our $255.0 million senior secured revolving credit facility or otherwise, in an amount sufficient to fund our liquidity needs, including the payment of principal and interest on the notes.

If our cash flows and capital resources are insufficient to service our indebtedness, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness, including the notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of our existing or future debt agreements, including our senior secured credit facilities and the indentures governing the notes and the 2021 Senior Notes, may restrict us from adopting some of these alternatives. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such dispositions may not be adequate to meet our debt service obligations then due.

Your right to receive payments on the notes is effectively junior to those lenders who have a security interest in our assets.

The Issuers obligations under the notes and the guarantors obligations under their guarantees of the notes are unsecured. As a result, the notes and the related guarantees are effectively subordinated to all of our and the

Table of Contents

guarantors secured indebtedness to the extent of the value of the assets securing such indebtedness. Our obligations under our senior secured credit facilities are secured by a pledge of substantially all of our and our guarantors tangible and intangible assets. In the event that we or a guarantor are declared bankrupt, become insolvent or are liquidated or reorganized, our obligations under our senior secured credit facilities and any other secured obligations will be entitled to be paid in full from our assets or the assets of such guarantor, as the case may be, pledged as security for such obligation before any payment may be made with respect to the notes. Holders of the notes would participate ratably in our remaining assets or the remaining assets of the guarantor, as the case may be, with all holders of unsecured indebtedness that are deemed to rank equally with the notes, based upon the respective amount owed to each creditor. In addition, if we default under our senior secured credit facilities, the lenders could declare all of the funds borrowed thereunder, together with accrued interest, immediately due and payable. If we were unable to repay such indebtedness, the lenders could foreclose on the pledged assets to the exclusion of holders of the notes, even if an event of default exists under the indenture under which the notes will be issued at such time. Furthermore, if the lenders foreclose and sell the pledged equity interests in any subsidiary guarantor (other than Cedar Canada and Magnum which are co-issuers of the notes and 2021 Senior Notes) under the notes, then that subsidiary guarantor (other than Cedar Canada and Magnum which are co-issuers of the notes and 2021 Senior Notes) will be released from its guarantee of the notes automatically and immediately upon such sale. In any such event, because the notes are not be secured by any of our assets or the equity interests in subsidiary guarantors, it is possible that there would be no assets remaining from which your claims could be satisfied or, if any assets remained, they might be insufficient to satisfy your claims fully. See Description of Other Indebtedness.

As of December 31, 2014, we had $1,558.9 million (book value) of total debt outstanding and the notes and related guarantees rank effectively junior to $608.9 million (book value) of senior secured indebtedness (excluding $16.3 million of outstanding letters of credit under our $255.0 million senior secured revolving credit facility). In addition, as of December 31, 2014, we had $238.7 million available to us for borrowing under our $255.0 million senior secured revolving credit facility.

The indentures governing the notes and 2021 Senior Notes permit the incurrence of substantial additional indebtedness by Cedar Fair and its restricted subsidiaries in the future, including secured indebtedness. Any secured indebtedness incurred would rank senior to the notes to the extent of the value of the assets securing such indebtedness.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the notes.

Any default under the agreements governing our indebtedness, including a default under our senior secured credit facilities that is not waived by the required lenders or defaults under either the indenture governing the notes and/or the indenture governing the 2021 Senior Notes that is not waived by the holders of such notes, and the remedies sought by the holders of such indebtedness, could leave us unable to pay principal, premium, if any, or interest on the notes and could substantially decrease the market value of the notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, or interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and/or operating covenants, in the instruments governing our indebtedness (including our senior secured credit facilities, our 2021 Senior Notes and our notes), we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed or issued thereunder to be due and payable, together with accrued and unpaid interest, and institute foreclosure proceedings against our assets; the lenders under our $255.0 million senior secured revolving credit facility could elect to terminate their commitments and cease making further loans; and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future breach our covenants and need to seek waivers from the required lenders under our senior secured credit facilities to avoid being in default. If we are unable to obtain such a waiver, we would be in default and the lenders could exercise their rights as described above. If any of our indebtedness were to be

Table of Contents

accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full, and we could be forced into bankruptcy or liquidation. See Description of Other Indebtedness and Description of Notes.

Our debt agreements contain restrictions that will limit our flexibility in operating our business.

Our senior secured credit facilities and the indentures governing the notes and the 2021 Senior Notes contain, and any future indebtedness of ours will likely contain, a number of covenants that will impose significant operating and financial restrictions on us, including restrictions on our and our subsidiaries ability to, among other things:

- pay distributions on or make distributions in respect of our capital stock or units or make other restricted payments;
- incur additional debt or issue certain preferred equity;
- make certain investments;
- sell certain assets;
- create restrictions on distributions from restricted subsidiaries;
- create liens on certain assets to secure debt;
- consolidate, merge, amalgamate, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates; and
- designate our subsidiaries as unrestricted subsidiaries.

The Credit Agreement requires us to maintain specified financial ratios, which if breached for any reason could result in an event of default under the agreement. The most restrictive of these ratios is the Consolidated Leverage Ratio. This ratio was set at a maximum of 6.00x Consolidated Total Debt (excluding the revolving debt)-to-Consolidated EBITDA as of December 31, 2014 and at a maximum of 6.25x as of December 31, 2013. As of December 31, 2014 and 2013, our Consolidated Total Debt (excluding revolving debt)-to-Consolidated EBITDA (as defined) ratio was 3.61x and 3.59x, providing $171.5 million and $180.1 million of Consolidated EBITDA cushion on the Consolidated Leverage Ratios, respectively. We were in compliance with all other credit agreement covenants as of December 31, 2014 and 2013. The Credit Agreement allows restricted payments of up to $60 million annually so long as no default or event of default has occurred and is continuing and subject to compliance with certain financial ratios after giving effect to the payments. Additional restricted payments are allowed to be made based on an excess-cash-flow formula, should our pro-forma Consolidated Leverage Ratio be less than or equal to 5.00x.

The indentures governing our notes also include annual restricted payment limitations and additional permitted payment formulas. We can make restricted payments of $60 million annually so long as no default or event of default has occurred and is continuing. Our ability to make additional restricted payments is permitted should our pro forma trailing-twelve-month Total Indebtedness-to-Consolidated-Cash-Flow ratio be less than or equal to 5.00x. As of December 31, 2014 and 2013, our Total Indebtedness-to-Consolidated-Cash-Flow (as defined) ratio were both 3.65x, providing $116.0 million and $98.2 million of Consolidated Cash Flow cushion on the Consolidated-Cash-Flow ratios, respectively. We were in compliance with all other indenture covenants as of December 31, 2014 and 2013.

Variable rate indebtedness subjects us to the risk of higher interest rates, which could cause our future debt service obligations to increase significantly.

As of December 31, 2014, after giving consideration to our current outstanding interest-rate swap arrangements, we had no indebtedness under our senior secured term loan facility that accrues interest at a

Table of Contents

variable rate that is not swapped to a fixed rate. See Description of Other Indebtedness. After the expiration of our outstanding interest-rate swap arrangements, certain of our borrowings may be at variable rates of interest and may expose us to interest rate risk. If interest rates increase, our annual debt service obligations on any variable-rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease.

We may not be able to repurchase the notes upon a change of control.

Upon the occurrence of certain change of control events, we will be required to offer to repurchase the outstanding notes and the outstanding 2021 Senior Notes at 101% of the outstanding principal amount thereof plus, without duplication, accrued and unpaid interest and additional interest, if any, to the date of repurchase. However, it is possible that we will not have sufficient funds at the time of any such change of control to make the required repurchase of the notes or the 2021 Senior Notes or that restrictions in our senior secured credit facilities will not allow such repurchases. Our failure to repay holders tendering the notes or the 2021 Senior Notes upon a change of control would result in an event of default under the notes or the 2021 Senior Notes. A change of control, or an event of default under the notes or the 2021 Senior Notes, may also result in an event of default under our senior secured credit facilities, which may result in the acceleration of the indebtedness under those facilities requiring us to repay that indebtedness immediately. If a change of control were to occur, we cannot assure you that we would have sufficient funds to repay the indebtedness outstanding under our senior secured credit facilities or any other securities (including the 2021 Senior Notes) which we would be required to offer to purchase or that would become immediately due and payable as a result. We may require additional financing from third parties to fund any such purchases, and we cannot assure you that we would be able to obtain financing on satisfactory terms or at all. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a change of control under the indenture. See Description of Notes Change of control.

Holders of the notes may not be able to determine when a change of control giving rise to their right to have the notes repurchased has occurred following a sale of substantially all of our assets.

The definition of change of control in the indenture that governs the notes and in the indenture governing the 2021 Senior Notes includes a phrase relating to the sale of all or substantially all of our assets. There is no precise established definition of the phrase substantially all under applicable law. Accordingly, the ability of a holder of notes to require us to repurchase its notes as a result of a sale of less than all of our assets to another person may be uncertain.

Relevant local insolvency laws may not be as favorable to you as U.S. bankruptcy laws and may preclude holders of notes from recovering payments due.

-

Net cash used in investing activities
(33,065) (20,440)
Cash flows from financing activities:

Increase in short-term debt

998

24,191

Issuance of long-term debt, net of costs

121,465

-

Repayments of long-term debt	(75,000)	(34)
Excess tax benefits from stock-based awards	12,956	16,270
Proceeds from exercise of stock options	11,456	8,196
Purchases of Toro common stock	(70,382)	(97,388)
Dividends paid on Toro common stock	(14,729)	(11,700)
Net cash used in financing activities	(13,236)	(60,465)
Effect of exchange rates on cash	1,237	453
Net increase (decrease) in cash and cash equivalents	38,669	(16,587)
Cash and cash equivalents as of the beginning of the fiscal period	55,523	41,402
Cash and cash equivalents as of the end of the fiscal period	$ 94,192	$ 24,815

See accompanying notes to condensed consolidated financial statements.

5

THE TORO COMPANY AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
August 3, 2007

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. Unless the context indicates otherwise, the terms “company” and “Toro” refer to The Toro Company and its subsidiaries. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting primarily of recurring accruals, considered necessary for a fair presentation of the financial position and results of operations. Since the company’s business is seasonal, operating results for the nine months ended August 3, 2007 cannot be annualized to determine the expected results for the fiscal year ending October 31, 2007. Certain amounts from prior period’s financial statements have been reclassified to conform to this period’s presentation.

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

For further information, refer to the consolidated financial statements and notes included in the company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2006. 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. generally accepted accounting principles, management must make decisions that impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, management applies judgments based on its understanding and analysis of the relevant circumstances, historical experience, and actuarial valuations. Actual amounts could differ from those estimated at the time the consolidated financial statements are prepared. Note 1 to the consolidated financial statements in the company’s most recent Annual Report on Form 10-K provides a summary of the significant accounting policies followed in the preparation of the financial statements. Other footnotes to the consolidated financial statements in the company’s Annual Report on Form 10-K describe various elements of the financial statements and the assumptions made in determining specific amounts.

Comprehensive Income

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

(Dollars in thousands)	Three Months Ended August 3, 2007	Three Months Ended August 4, 2006	Nine Months Ended August 3, 2007	Nine Months Ended August 4, 2006
Net earnings	$ 42,486	$ 40,322	$ 135,902	$ 124,683
Other comprehensive income (loss):				
Cumulative translation adjustments	1,239	450	4,563	2,245
Unrealized (loss) gain on derivative instruments, net of taxes	(498)	828	(1,871)	(685)
Comprehensive income	$ 43,227	$ 41,600	$ 138,594	$ 126,243

6

Stock-Based Compensation

The company accounts for stock-based compensation awards in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), “Share-Based Payment.” During the first two quarters of fiscal 2007, option awards were granted with an exercise price equal to the market price of the company’s common stock as of the date of grant. For certain non-officer employees, the options vest after two years from the date of grant and have a five-year contractual term. Other options granted during the first quarter of fiscal 2007 vest one-third each year over a three-year period and have a ten-year contractual term. Compensation expense equal to the grant date fair value is recognized for these awards over the vesting period. The company also issues performance shares to key employees. The company determines the fair value of these performance shares as of the date of grant and recognizes the expense over the vesting period. Total compensation expense for option awards and performance shares for both the third quarter of fiscal 2007 and 2006 was $1.6 million. Year-to-date compensation expense for option awards and performance shares through the third quarter of fiscal 2007 and 2006 was $5.5 million and $5.6 million, respectively.

The fair value of each share-based option is estimated on the date of grant using a Black-Scholes valuation method that uses 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 over which the employee groups are expected to exercise their options, which is based on historical experience with similar grants. 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 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 dividend policy, historical dividends paid, expected increase in future cash dividends, and expected increase in the company’s stock price. The following table illustrates the assumptions for options granted in the following fiscal periods.

	Fiscal 2007	Fiscal 2006
Expected life of option in years	3 – 6.5	2.5 – 6.5
Expected volatility	24.96% - 26.44%	25.26% - 26.96%
Weighted-average volatility	25.65%	26.12%
Risk-free interest rate	4.420% - 4.528%	4.399% - 4.526%
Expected dividend yield	0.78%- 0.90%	0.65%- 0.70%
Weighted-average dividend yield	0.84%	0.67%

The weighted-average fair value of options granted during the first two quarters of fiscal 2007 was $12.32 per share and during the first quarter of fiscal 2006 was $10.90 per share. The fair value of performance shares granted during the first quarter of fiscal 2007 and fiscal 2006 was $44.90 per share and $41.44 per share, respectively. No options were granted during the third quarter of fiscal 2007 or the second and third quarters of fiscal 2006, and no performance shares were granted during the second and third quarters of fiscal 2007 and fiscal 2006.

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)	August 3, 2007	August 4, 2006	October 31, 2006

Raw materials and work in process	$ 65,615	$ 65,005	$ 67,976
Finished goods and service parts	237,744	247,387	229,137
	303,359	312,392	297,113
Less: LIFO	40,860	40,011	40,860
Other reserves	19,062	17,350	17,709
Total	$ 243,437	$ 255,031	$ 238,544

7

Per Share Data

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

	Three Months Ended		Nine Months Ended	
(Shares in thousands)	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
Basic				
Weighted-average number of shares of common stock	40,569	42,852	40,910	43,232
Assumed issuance of contingent shares	-	-	28	51
Weighted-average number of shares of common stock and assumed issuance of contingent shares	40,569	42,852	40,938	43,283
Diluted				
Weighted-average number of shares of common stock and assumed issuance of contingent shares	40,569	42,852	40,938	43,283
Effect of dilutive securities	1,234	1,508	1,175	1,523
Weighted-average number of shares of common stock, assumed issuance of contingent shares, and effect of dilutive securities	41,803	44,360	42,113	44,806

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 two reportable business segments: Professional and Residential. The Other segment consists of company-owned distributor operations in the United States and corporate activities, including corporate financing activities and elimination of intersegment revenues and expenses.

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

(Dollars in thousands)				
Three months ended August 3, 2007	Professional	Residential	Other	Total
Net sales	$ 332,014	$ 132,981	$ 13,712	$ 478,707
Intersegment gross sales	11,972	1,655	(13,627)	-
Earnings (loss) before income taxes	70,887	8,246	(15,293)	63,840
Three months ended August 4, 2006	Professional	Residential	Other	Total
Net sales	$ 319,733	$ 145,308	$ 12,820	$ 477,861
Intersegment gross sales	12,580	1,945	(14,525)	-
Earnings (loss) before income taxes	62,474	8,752	(11,426)	59,800
Nine months ended August 3, 2007	Professional	Residential	Other	Total
Net sales	$ 1,052,013	$ 463,043	$ 29,392	$ 1,544,448
Intersegment gross sales	35,011	4,900	(39,911)	-
Earnings (loss) before income taxes	227,737	40,055	(63,704)	204,088
Total assets	522,963	210,660	326,483	1,060,106
Nine months ended August 4, 2006	Professional	Residential	Other	Total
Net sales	$ 1,012,436	$ 463,786	$ 30,283	$ 1,506,505
Intersegment gross sales	39,117	6,132	(45,249)	-
Earnings (loss) before income taxes	208,311	32,037	(56,020)	184,328
Total assets	511,953	217,037	274,478	1,003,468

8

The following table presents the details of the Other segment operating loss before income taxes:

(Dollars in thousands)	Three Months Ended August 3, 2007	Three Months Ended August 4, 2006	Nine Months Ended August 3, 2007	Nine Months Ended August 4, 2006
Corporate expenses	$ (18,408)	$ (15,145)	$ (66,701)	$ (63,071)
Finance charge revenue	590	806	1,451	2,046
Elimination of corporate financing expense	4,072	5,136	11,178	14,052
Interest expense, net	(4,959)	(4,677)	(15,235)	(14,097)
Other	3,412	2,454	5,603	5,050
Total	$ (15,293)	$ (11,426)	$ (63,704)	$ (56,020)

Goodwill

The changes in the net carrying amount of goodwill for the first nine months of fiscal 2007 were as follows:

(Dollars in thousands)	Professional Segment	Residential Segment	Total
Balance as of October 31, 2006	$ 70,948	$ 10,521	$ 81,469
Translation adjustment	148	151	299
Balance as of August 3, 2007	$ 71,096	$ 10,672	$ 81,768

Other Intangible Assets

The components of other amortizable intangible assets were as follows:

(Dollars in thousands)	August 3, 2007 Gross Carrying Amount	August 3, 2007 Accumulated Amortization	October 31, 2006 Gross Carrying Amount	October 31, 2006 Accumulated Amortization
Patents	$ 6,553	$ (6,119)	$ 6,553	$ (5,964)
Non-compete agreements	1,000	(904)	1,000	(885)
Customer related	1,422	(355)	1,336	(234)
Other	3,201	(2,116)	2,363	(1,615)
Total	$ 12,176	$ (9,494)	$ 11,252	$ (8,698)
Total other intangible assets, net	$ 2,682		$ 2,554	

Amortization expense for intangible assets during the first nine months of fiscal 2007 was $773,000. Estimated amortization expense for the remainder of fiscal 2007 and succeeding fiscal years is as follows: fiscal 2007 (remainder), $266,000; fiscal 2008, $864,000; fiscal 2009, $515,000; fiscal 2010, $241,000; fiscal 2011, $175,000; fiscal 2012, $175,000 and after fiscal 2012, $446,000.

The company also has $2.8 million of non-amortizable intangible assets related to the Hayter brand name.

Senior Notes

On April 26, 2007, the company issued $125.0 million in aggregate principal amount of 6.625% senior notes due May 1, 2037. The senior notes were priced at 98.513% of par value, and the resulting discount of $1.9 million associated with the issuance of these senior notes is being amortized over the term of the senior notes using the effective interest rate method. The underwriting fee and direct debt issue costs totaling $1.5 million will be amortized over the life of the senior notes. Although the coupon rate of the notes is 6.625%, the effective interest rate is 6.741% after taking into account the issuance discount. Interest on the senior notes is payable semi-annually, on May 1 and November 1 of each year. The notes are unsecured senior obligations of the company and rank equally with the company's other unsecured and unsubordinated indebtedness from time to time outstanding. The company may redeem some or all of the senior notes at any time at the greater of the full principal amount of the senior notes being redeemed, or the present value of the remaining scheduled payments of principal and interest discounted to the redemption date on a semi-annual basis at the treasury rate plus 30 basis points, plus, in both cases, accrued and unpaid interest. The company used the proceeds from the issuance of the senior notes to pay $75.0 million principal amount of 7.125% notes that were due June 15, 2007 as well as for general corporate uses.

Warranty Guarantees

The company's products are warranted to ensure customer confidence in design, workmanship, and overall quality. Warranty coverage ranges from a period of six months to seven years, 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 Toro distributor or dealer must perform warranty work. Distributors, dealers, and contractors 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 also 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 nine-month periods in fiscal 2007 and fiscal 2006 were as follows:

(Dollars in thousands) Nine Months Ended	Beginning Balance	Warranty Provisions	Warranty Claims	Changes in Estimates	Ending Balance
August 3, 2007	$ 65,235	$ 37,409	$ (30,539)	$ (2,271)	$ 69,834
August 4, 2006	$ 61,385	$ 34,668	$ (27,110)	$ 2,509	$ 71,452

Postretirement Benefit Plans

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

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
Service cost	$ 95	$ 95	$ 284	$ 285
Interest cost	124	128	371	384
Prior service cost	(49)	(48)	(145)	(144)
Amortization of losses	55	68	163	204
Net expense	$ 225	$ 243	$ 673	$ 729

As of August 3, 2007, approximately $375,000 of contributions had been made. The company presently expects to contribute a total of $500,000 to its postretirement health-care benefit plan in fiscal 2007, including contributions made through August 3, 2007.

The company maintains The Toro Company Investment, Savings and Employee Stock Ownership Plan for eligible employees. The company's expenses under this plan were $3.8 million and $13.7 million for the third quarter and year-to-date periods in fiscal 2007, respectively, and $3.8 million and $12.1 million for the third quarter and year-to-date periods in fiscal 2006, respectively.

During the first quarter of fiscal 2007, the company began to offer participants in the company's deferred compensation plans the option to invest their deferred compensation in multiple investment options. At the same time, the company elected to fund the majority of the deferred compensation plans, which amounted to $18 million. The fair value of the investment in the deferred compensation plans as of August 3, 2007 was $18.6 million, which reduced the company's deferred compensation liability reflected in accrued liabilities on the condensed consolidated balance sheet.

10

Derivative Instruments and Hedging Activities

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

The company enters into foreign currency exchange contracts to hedge the risk from forecasted settlements in local currencies of trade sales and purchases. These contracts are designated as cash flow hedges and are reported at fair value as a hedge asset or liability in prepaid expenses or accrued liabilities, as applicable. Changes in the fair value of these contracts are reported in accumulated other comprehensive loss until the hedged transaction occurs. Once the forecasted transaction has been recognized as a sale or inventory purchase and a related asset or liability recorded in the balance sheet, the related fair value of the derivative hedge contract is reclassified from accumulated other comprehensive loss into earnings. During the three and nine months ended August 3, 2007, the amount of losses reclassified to earnings for such cash flow hedges was $0.3 million and $0.6 million, respectively. For the nine months ended August 3, 2007, the losses treated as a reduction to net sales for contracts to hedge trade sales were $1.3 million and the gains treated as a reduction of cost of sales for contracts to hedge inventory purchases were $0.7 million. As of August 3, 2007, the notional amount of such contracts outstanding was $80.7 million. The unrecognized after-tax loss portion of the fair value of the contracts recorded in accumulated other comprehensive loss as of August 3, 2007 was $1.3 million.

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

During the second quarter of fiscal 2007, the company entered into three treasury lock agreements based on a 30-year US Treasury security with a principal balance of $30 million for two of the agreements and $40 million for the third agreement. These treasury lock agreements were entered into as hedges against changes in market interest rates in anticipation of our April 2007 senior note offering and provided for a single payment at their maturity, which was April 23, 2007, based on the change in value of the reference treasury security. These agreements were designated as cash flow hedges and resulted in a net settlement of $0.2 million. This loss is recorded in accumulated other comprehensive loss, which will be amortized to interest expense over the 30 year term of the debt.

Contingencies

On June 3, 2004, eight individuals who claim to have purchased lawnmowers in Illinois and Minnesota filed a lawsuit in Illinois state court against the company and eight other defendants alleging that the horsepower labels on the products the plaintiffs purchased were inaccurate. On May 17, 2006, the plaintiffs filed an amended complaint to add 84 additional plaintiffs and an engine manufacturer as an additional defendant. The amended complaint asserts violations of the federal Racketeer Influenced and Corrupt Organizations (RICO) Act and statutory and common law claims arising from the laws of 48 states. The plaintiffs seek certification of a class of all persons in the United States who, beginning January 1, 1994 through the present, purchased a lawnmower containing a two-stroke or four-stroke gas combustible engine up to 30 horsepower that was manufactured or sold by the defendants. The amended complaint seeks an injunction, unspecified compensatory and punitive damages, treble damages under the RICO Act and attorneys' fees. In late May 2006, the case was removed to Federal court in the Southern District of Illinois. On August 1, 2006, all of the defendants, except MTD Products Inc., filed motions to dismiss claims in the amended complaint. On August 4, 2006, the plaintiffs filed a motion for preliminary approval of a settlement agreement with MTD Products Inc. and certification of a settlement class. All remaining non-settling defendants have filed counterclaims against MTD Products Inc. for potential contribution amounts, and MTD Products Inc. has filed cross claims against the non-settling defendants. On December 21, 2006, another defendant, American Honda Motor

Company, notified us that it had reached an agreement of settlement with the plaintiffs. On March 30, 2007, the court entered an order dismissing plaintiffs' complaint, subject to the ability to re-plead certain claims pursuant to a detailed written order to follow. As of the date hereof, the court has not yet entered the detailed written order. We continue to evaluate this lawsuit and are unable to reasonably estimate the likelihood of loss or the amount or range of potential loss that could result from this litigation. Therefore, no accrual has been established for potential loss in connection with this lawsuit. We are also unable to assess at this time whether the lawsuit will have a material adverse effect on our annual consolidated operating results or financial condition, although an unfavorable resolution could be material to our consolidated operating results for a particular period.

In July 2005, Textron Innovations Inc., the patent holding company of Textron, Inc., filed a lawsuit in Delaware Federal District Court against the company for patent infringement. Textron alleges that we willfully infringe certain claims of three Textron patents by selling our Groundsmaster® commercial mowers. Textron seeks damages for our past sales and an injunction against future infringement. In August and November 2005, we answered the complaint, asserting defenses and counterclaims of non-infringement, invalidity and equitable estoppel. Following the Court's order in October 2006 construing the claims of Textron's patents, discovery in the case was closed in February 2007. In March 2007, following unsuccessful attempts to mediate the case, we filed with the United States Patent and Trademark Office (USPTO) to have Textron's patents reexamined. Our reexamination applications are pending in the USPTO. In April 2007, the Court granted our motion to stay the litigation and, in June 2007, denied Textron's motion for reconsideration of the Court's order staying the proceedings. We continue to evaluate this lawsuit and are unable to reasonably estimate the likelihood of loss or the amount or range of potential loss that could result from the litigation. Therefore, no accrual has been established for potential loss in connection with this lawsuit. While we do not believe that the lawsuit will have a material adverse effect on our consolidated financial condition, an unfavorable resolution could be material to our consolidated operating results for a particular period.

We are a party to litigation in the ordinary course of business. Litigation occasionally involves claims for punitive as well as compensatory damages arising out of use of our products. We are also subject to administrative proceedings with respect to claims involving the discharge of hazardous substances into the environment. Some of these claims assert damages and liability for remedial investigations and clean up costs. We are also typically involved in commercial disputes, employment disputes, and patent litigation cases in the ordinary course of business, both as a plaintiff and as a defendant. While the ultimate results of the current cases are unknown at this time, management believes that, except for the lawsuits discussed above, the outcomes of these cases are unlikely to have a material adverse effect on our consolidated operating results or financial position. Further, although we are self-insured to some extent, we maintain insurance against certain product liability losses.

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

Nature of Operations

The Toro Company is in the business of designing, manufacturing, and marketing professional turf maintenance equipment and services, turf and agricultural irrigation systems, landscaping equipment, and residential yard products worldwide. We sell our products through a network of distributors, dealers, hardware retailers, home centers, mass retailers, and over the Internet, mainly through Internet retailers. Our businesses are organized into two segments: professional and residential. A third segment called "other" consists of domestic distribution companies and corporate activities. Our emphasis is to provide well-built, dependable, and innovative products supported by an extensive service network. A significant portion of our revenues has historically been attributable to new and enhanced products. As part of our "GrowLean" initiative, we are focusing our efforts on revenue growth, profit improvement, and asset management, while maximizing our use of Lean methods to reduce costs and improve quality and efficiency in our manufacturing facilities and corporate offices. The goals of this initiative are to grow revenues at an average annual rate of 8 percent or more and achieve a consistent after-tax annual return on net sales of 7 percent or more over the three-year period ending October 31, 2009. We have added a long-term asset management goal to reduce average net working capital as a percent of net sales below 20 percent, or in the "teens." We define average net working capital as accounts receivable plus inventory less trade payables.

RESULTS OF OPERATIONS

Overview

Our results for the third quarter of fiscal 2007 were positive with net earnings growth of 5.4 percent on a slight increase in net sales of 0.2 percent compared to the third quarter of fiscal 2006. Fiscal 2007 year-to-date net earnings rose 9.0 percent compared to the same period last fiscal year on a year-to-date sales growth rate of 2.5 percent. Continued strong international performance and acceptance of new products in both the professional and residential segments more than offset a decline in sales of snow thrower products and landscape contractor equipment for the fiscal 2007 year-to-date period compared to the same period last fiscal year. International sales continued its growth momentum with an increase of 5.9 percent and 9.9 percent for the third quarter and year-to-date period of fiscal 2007, respectively, compared to the same periods last fiscal year. Net earnings as a percentage of net sales rose to 8.9 percent and 8.8 percent in the third quarter and year-to-date period of fiscal 2007, respectively, from 8.4 percent and 8.3 percent in the third quarter and year-to-date period of fiscal 2006, respectively. Higher gross margins contributed to the earnings improvement while a higher effective tax rate and increase in selling, general, and administrative expenses somewhat hampered the earnings growth rate. We also increased our third quarter cash dividend by 33 percent compared to the quarterly cash dividend paid in the third quarter of fiscal 2006.

Our fiscal 2007 third quarter financial results were not as strong as the financial results for the first half of fiscal 2007. However, we are optimistic that our results for the full fiscal year of 2007 will be positive. We continue to keep a cautionary eye on world economies, retail demand, field inventory levels, commodity prices, weather, competitive actions, and other factors identified below under the heading "Forward-Looking Information," which could cause our actual results to differ from our anticipated outlook.

Net Earnings

Net earnings for the third quarter of fiscal 2007 were $42.5 million or $1.02 per diluted share compared to $40.3 million or $0.91 per diluted share for the third quarter of fiscal 2006, a net earnings per diluted share increase of 12.1 percent. Year-to-date net earnings in fiscal 2007 were $135.9 million or $3.23 per diluted share compared to $124.7 million or $2.78 per diluted share last fiscal year, a net earnings per diluted share increase of 16.2 percent. The primary factors contributing to these increases were higher sales volumes and an increase in gross margins, somewhat offset by higher selling, general, and administrative costs, a higher effective tax rate, and an increase in interest expense. In addition, third quarter and year-to-date fiscal 2007 net earnings per diluted share were benefited by approximately $0.06 per share and $0.20 per share, respectively, compared to the same periods in fiscal 2006 as a result of reduced shares outstanding from the repurchase of our common stock.

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

	Three Months Ended		Nine Months Ended	
	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	62.9	64.4	63.6	64.7
Gross profit	37.1	35.6	36.4	35.3
Selling, general, and administrative expense	(23.1)	(22.7)	(22.6)	(22.6)
Interest expense	(1.0)	(1.0)	(1.0)	(0.9)
Other income, net	0.4	0.6	0.4	0.4
Provision for income taxes	(4.5)	(4.1)	(4.4)	(3.9)
Net earnings	8.9%	8.4%	8.8%	8.3%

Net Sales

Worldwide consolidated net sales for the third quarter and year-to-date period of fiscal 2007 were up slightly by 0.2 percent and 2.5 percent, respectively, from the same periods in the prior fiscal year. Favorable currency exchange rates accounted for approximately $4 million and $18 million of the sales growth for the third quarter and year-to-date period of fiscal 2007, respectively. Disregarding currency exchange effects, international sales for the third quarter and year-to-date period of fiscal 2007 increased 2.0 percent and 5.4 percent, respectively, compared to the same periods in fiscal 2006. Professional segment products worldwide were strong as a result of continued demand in international markets, particularly in the golf market, and the successful introduction of new products. Landscape contractor equipment sales also increased for the third quarter comparison due to strong retail demand; however, sales of landscape contractor equipment were down for the year-to-date period comparison due to efforts to reduce field inventory levels, which were down as of the end of the third quarter of fiscal 2007 compared to same period last year. Residential segment net sales were down for the third quarter and year-to-date periods of fiscal 2007 compared to the same periods in fiscal 2006 as a result of lower worldwide shipments of snow thrower products due to the lack of snowfall during the winter season of 2006-2007 in key markets, somewhat offset by the introduction of our new innovative riding and walk power mower products. Other segment net sales were up for the third quarter of fiscal 2007 compared to the third quarter of fiscal 2006 but were down for the year-to-date period of fiscal 2007 compared to the year-to-date period of fiscal 2006 due to lower sales at a company-owned distributorship.

Gross Profit

Gross profit for the third quarter and year-to-date period of fiscal 2007 increased 4.2 percent and 5.6 percent, respectively, compared to the same periods in the prior fiscal year due to increased sales. As a percentage of net sales, gross profit for the third quarter and year-to-date period of fiscal 2007 increased to 37.1 percent and 36.4 percent, respectively, compared to 35.6 percent and 35.3 percent for the third quarter and year-to-date period of fiscal 2006, respectively. The increase in gross profit as a percentage of net sales was the result of the following factors: (i) increased sales of higher-margin products; (ii) cost reduction efforts, including benefits from past and continuing profit improvement initiatives; (iii) a weaker US dollar compared to the other worldwide currencies in which we transact business; and (iv) price increases on some products. Somewhat offsetting those positive factors were: (i) higher manufacturing costs from lower plant utilization as we curtailed production levels in an effort to lower inventory levels and (ii) higher commodity costs.

Selling, General, and Administrative Expense

Selling, general, and administrative expense (SG&A) increased for the third quarter and year-to-date period of fiscal 2007 by 1.8 percent and 2.5 percent, respectively, from the same periods in the prior fiscal year. SG&A as a percentage of net sales for the third quarter of fiscal 2007 increased to 23.1 percent compared to 22.7 percent for the third quarter of fiscal 2006, and was even as a percentage of net sales for the year-to-date period of both fiscal 2007 and fiscal 2006 at 22.6 percent. The increase in SG&A expense as a percentage of net sales for the third quarter comparison was due primarily to lower self-insurance costs last year as a result of favorable claims experience, somewhat offset by a decline in warranty expense due to the reversal of a special warranty provision.

Interest Expense

Interest expense for the third quarter and year-to-date period of fiscal 2007 increased by 6.0 percent and 8.1 percent, respectively, from the same periods in the prior fiscal year. These increases were due primarily to higher average debt levels and slightly higher average interest rates.

Other Income, Net

Other income, net for the third quarter of fiscal 2007 decreased $0.8 million compared to the third quarter of fiscal 2006. This decline was due mainly to lower financing revenue. Other income, net for the year-to-date period of fiscal 2007 was down $0.3 million compared to the same period last fiscal year. This decrease was due mainly to a litigation settlement recovery we received last fiscal year and lower financing revenue, somewhat offset by higher interest income and lower losses on investments in fiscal 2007 compared to fiscal 2006.

Provision for Income Taxes

The effective tax rate for the third quarter of fiscal 2007 was 33.4 percent compared to 32.6 percent in the third quarter of fiscal 2006. The effective tax rate for the year-to-date period of fiscal 2007 was 33.4 percent compared to 32.4 percent for the same period in the prior fiscal year. The increase in the effective tax rate was due to a favorable resolution of tax matters from prior years' tax returns last fiscal year as well as the accelerated phase-out of benefits for foreign export incentives as compared to the phase-in benefit for the domestic manufacturing credit.

BUSINESS SEGMENTS

As described previously, we operate in two reportable business segments: professional and residential. A third reportable segment called "other" consists of company-owned distributorships in the United States, corporate activities, and financing functions. Operating earnings for each of our two business segments is defined as earnings from operations plus other income, net. Operating loss for our third "other" segment includes earnings (loss) from operations, corporate activities, including corporate financing activities, other income, net, and interest expense.

The following table summarizes net sales by segment:

	Three Months Ended			
(Dollars in thousands)	August 3, 2007	August 4, 2006	$ Change	% Change
Professional	$ 332,014	$ 319,733	$ 12,281	3.8%
Residential	132,981	145,308	(12,327)	(8.5)
Other	13,712	12,820	892	7.0
Total *	$ 478,707	$ 477,861	$ 846	0.2%
* Includes international sales of:	$ 120,319	$ 113,651	$ 6,668	5.9%

	Nine Months Ended			
(Dollars in thousands)	August 3, 2007	August 4, 2006	$ Change	% Change
Professional	$ 1,052,013	$ 1,012,436	$ 39,577	3.9%
Residential	463,043	463,786	(743)	(0.2)
Other	29,392	30,283	(891)	(2.9)
Total *	$ 1,544,448	$ 1,506,505	$ 37,943	2.5%
* Includes international sales of:	$ 441,793	$ 402,000	$ 39,793	9.9%

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

	Three Months Ended			
(Dollars in thousands)	August 3, 2007	August 4, 2006	$ Change	% Change
Professional	$ 70,887	$ 62,474	$ 8,413	13.5%
Residential	8,246	8,752	(506)	(5.8)
Other	(15,293)	(11,426)	(3,867)	(33.8)
Total *	$ 63,840	$ 59,800	$ 4,040	6.8%

	Nine Months Ended			
(Dollars in thousands)	August 3, 2007	August 4, 2006	$ Change	% Change
Professional	$ 227,737	$ 208,311	$ 19,426	9.3%
Residential	40,055	32,037	8,018	25.0
Other	(63,704)	(56,020)	(7,684)	(13.7)
Total *	$ 204,088	$ 184,328	$ 19,760	10.7%

Professional

Net Sales. Worldwide net sales for the professional segment in the third quarter and year-to-date period of fiscal 2007 were up 3.8 percent and 3.9 percent, respectively, compared to the same periods last fiscal year. This increase was due primarily to strong international professional segment net sales, which were up 12.4 percent and 14.1 percent in the third quarter and year-to-date period of fiscal 2007, respectively, compared to the same periods last fiscal year due to continued demand and growth in international markets, particularly in the golf market, the success of new products introduced within the past two years, and a weaker US dollar compared to the other worldwide currencies in which we transact business. However, sales of domestic golf irrigation systems were down for the third quarter and year-to-date period comparisons due to a delay in golf course projects to later in the fiscal year and softness in golf community developments. Sales of domestic golf and sports field and grounds equipment were also down for the third quarter of fiscal 2007 compared to the third quarter of fiscal 2006 as a result of customers' efforts to lower field inventory levels, which are lower as of the end of the third quarter of fiscal 2007 compared to the same period last fiscal year. On a positive note, sales of domestic golf and sports field and grounds equipment were up for the year-to-date period of fiscal 2007 compared to the year-to-date period of fiscal 2006, due to new product introductions and higher retail demand. Shipments of landscape contractor equipment increased in the third quarter of fiscal 2007 compared to the third quarter of fiscal 2006 due to strong retail demand. However, sales of landscape contractor equipment were down for the year-to-date period comparison due mainly to efforts to reduce field inventory levels, which are lower as of the end of the third quarter of fiscal 2007 compared to the same period last year.

Operating Earnings. Operating earnings for the professional segment in the third quarter and year-to-date period of fiscal 2007 increased 13.5 percent and 9.3 percent, respectively, compared to the same periods last fiscal year. Expressed as a percentage of net sales, professional segment operating margins increased to 21.4 percent compared to 19.5 percent in the third quarter of fiscal 2006, and the fiscal 2007 year-to-date professional segment operating margins increased to 21.6 percent compared to 20.6 percent last fiscal year. This profit improvement was the result of higher gross margins in the fiscal 2007 periods compared to the fiscal 2006 periods due to the same factors discussed previously in the Gross Profit section above. SG&A expense as a percentage of net sales was down for the third quarter comparison due mainly to a decline in warranty expense as a result of a one-time reversal of a special warranty provision in the third quarter of fiscal 2007 compared to a one-time charge for a warranty special provision in the third quarter of the prior fiscal year. However, SG&A expense as a percentage of net sales increased for the year-to-date comparison, which was due mainly to increased warranty expense and engineering spending.

Residential

Net Sales. Worldwide net sales for the residential segment in the third quarter and year-to-date period of fiscal 2007 were down 8.5 percent and 0.2 percent, respectively, compared to the same periods last fiscal year. This decrease was due primarily to lower worldwide shipments of snow thrower products as the result of the lack of snowfall during the winter season of 2006-2007 in key markets, which has resulted in customers ordering product closer to retail demand. Therefore, we anticipate sales of snow thrower products to be higher in the fourth quarter of fiscal 2007 compared to the fourth quarter of fiscal 2006 as well as from the introduction of a new line of single-stage snow thrower products. Sales of electric trimmers were also down due to lost placement at a key retailer, and shipments of retail irrigation products declined due to unfavorable weather conditions in key markets. Somewhat offsetting the sales decline was strong worldwide demand for our new generation zero-turn radius riding mowers and the successful introduction of a new line of walk power mowers.

Operating Earnings. Operating earnings for the residential segment in the third quarter of fiscal 2007 decreased 5.8 percent compared to the third quarter of fiscal 2006; however, fiscal 2007 year-to-date operating earnings were up by 25.0 percent compared to the same period last fiscal year. Expressed as a percentage of net sales, residential segment operating margin increased to 6.2 percent in the third quarter of fiscal 2007 compared to 6.0 percent in the third quarter of fiscal 2006, and fiscal 2007 year-to-date residential segment operating margin increased to 8.7 percent compared to 6.9 percent in the same period last fiscal year. The operating earnings increase for the third quarter comparison was due to higher gross margins, somewhat offset by slightly higher SG&A expense as a percentage of net sales. Operating earnings for the year-to-date period of fiscal 2007 compared to the year-to-date period of fiscal 2006 also increased due to lower SG&A expense as a percentage of net sales due primarily to lower warranty costs as a result of the reversal of a special warranty provision, and lower spending for marketing.

Other

Net Sales. Net sales for the other segment include sales from our wholly owned domestic distribution companies less sales from the professional and residential segments to those distribution companies. In addition, elimination of the professional and residential segments' floor plan interest costs from Toro Credit Company are also included in this segment. Net sales for the other segment were up 7.0 percent for the third quarter of fiscal 2007 compared to the third quarter of fiscal 2006 due to increased sales at our company-owned distributorships. However, net sales for the year-to-date period of fiscal 2007 compared to the same period last fiscal year were down by 2.9 percent due mainly to lower sales at a company-owned distributorship.

Operating Losses. Operating losses for the other segment were up for the third quarter and year-to-date period of fiscal 2007 by $3.9 million or 33.8 percent and $7.7 million or 13.7 percent, respectively, compared to the same periods last fiscal year. The increased losses were due primarily to: (i) lower self-insurance costs last fiscal year as a result of favorable claims experience; (ii) higher legal expenses; (iii) lower financing revenue; and (iv) increased interest expense.

16

FINANCIAL POSITION

Working Capital

As part of our GrowLean initiative, we have placed additional emphasis on asset management, with a focus on: (i) ensuring strong profitability of our products and services all the way through the retail sale; (ii) minimizing the amount of working capital in the supply chain; and (iii) maintaining or improving order replenishment and service levels to end users. Our long-term goal is to reduce average net working capital (accounts receivable plus inventory minus trade payables) as a percentage of net sales to below 20 percent, or "in the teens."

Average receivables for the first nine months of fiscal 2007 increased 2.8 percent compared to the first nine months of fiscal 2006 on a sales increase of 2.5 percent. Our average days sales outstanding for receivables were slightly up to 74.9 days based on sales for the last twelve months ended August 3, 2007, compared to 74.0 days for the twelve months ended August 4, 2006. This increase was due mainly to a higher proportion of international sales that have longer payment terms. Average inventory levels also increased by 4.9 percent for the first nine months of fiscal 2007 compared to the first nine months of fiscal 2006; however, inventory levels were down by 4.5 percent as of August 3, 2007 compared to August 4, 2006, as we curtailed production levels in an effort to lower inventory levels. As a result of these increases, the average net working capital for the twelve months ended August 3, 2007 was 29.7 percent compared to 29.1 percent for the twelve months ended August 4, 2006, an unfavorable change of 0.6 percentage points.

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, capital expenditures, expansion and upgrading of existing facilities, as well as for financing receivables from customers. We believe that cash generated from operations, together with our fixed rate long-term debt, bank credit lines, and cash on hand, will provide us with adequate liquidity to meet our operating requirements. We believe that the funds available through existing or anticipated financing arrangements and forecasted cash flows will be sufficient to provide the necessary capital resources for our anticipated working capital, capital expenditures, investments, acquisitions, debt repayments, dividend payments, and stock repurchases for at least the next twelve months.

On May 22, 2007, the company's Board of Directors authorized the repurchase of an additional 3,000,000 shares of the company's common stock in open-market or in privately negotiated transactions.

Our Board of Directors approved a cash dividend of $0.12 per share for the third quarter of fiscal 2007 paid on July 12, 2007, which was an increase over our cash dividend of $0.09 per share for the third quarter of fiscal 2006.

Cash Flow. Cash provided by operating activities for the first nine months of fiscal 2007 was 31.1 percent higher than the first nine months of fiscal 2006 due primarily to lower receivables and inventory levels and higher net earnings, somewhat offset by a decrease of accounts payable and accrued liabilities for the first nine months of fiscal 2007 compared to the first nine months of fiscal 2006. Cash used in investing activities increased by $12.6 million compared to the first nine months of fiscal 2006, due mainly to an increase of purchases of property, plant, and equipment as well as cash received last fiscal year for payments of note receivables. Cash used in financing activities for the first nine months of fiscal 2007 was lower by $47.2 million compared to the first nine months of fiscal 2006 due to proceeds received from the issuance of 30-year senior notes in April 2007 and lower levels of our common stock repurchased in the first nine months of fiscal 2007 compared to the first nine months of fiscal 2006, somewhat offset by repayments of short-term and long-term debt. Cash and cash equivalents increased $69.4 million as of August 3, 2007 compared to August 4, 2006 as a result of additional net proceeds from the issuance of the senior notes in April 2007 less the payment of the $75 million long-term notes paid in June 2007 plus an increase of cash provided by operations.

Credit Lines and Other Capital Resources. Our business is seasonal, with accounts receivable balances historically increasing between January and April as a result of higher sales volumes and extended payment terms made available to our customers, and decreasing between May and December when payments are received. The seasonality of production and shipments causes our working capital requirements to fluctuate during the year. Our peak borrowing usually occurs between February and May. Seasonal cash requirements are financed from operations and with short- and medium-term financing arrangements, including a $175.0 million unsecured senior five-year revolving credit facility, which expires in January 2012. Interest expense on these credit lines is determined based on a LIBOR rate plus a basis point spread defined in the credit agreements. In addition, our non-U.S. operations and a domestic subsidiary also maintain unsecured short-term lines of credit of approximately $15 million. These facilities bear interest at various rates depending on the rates in their respective countries of operation. We also have a letter of credit subfacility as part of our credit agreements. Average short-term debt was $65.2 million in the first nine months of fiscal 2007 compared to $56.7 million in the first nine months of fiscal 2006, an increase of 14.9 percent. This increase was primarily due to funding a majority of our deferred compensation plans during the first quarter of fiscal 2007 and additional working capital requirements as a result of higher average receivable and inventory levels in the first half of fiscal 2007 compared to the first half of fiscal 2006. As of August 3, 2007, we had $188.3 million of unutilized availability under our credit agreements.

On April 26, 2007, we issued $125.0 million in aggregate principal amount of 6.625% senior notes due May 1, 2037. The senior notes were priced at 98.513% of par value, and the resulting discount of $1.9 million associated with the issuance of these senior notes is being amortized over the term of the notes using the effective interest rate method. The underwriting fee and direct debt issue costs totaling $1.5 million will be amortized over the life of the notes. Although the coupon rate of the senior notes is 6.625%, the effective interest rate is 6.741% after taking into account the issuance discount. Interest on the senior notes is payable semi-annually, on May 1 and November 1 of each year. The senior notes are unsecured senior obligations of the company and rank equally with our other unsecured and unsubordinated indebtedness from time to time outstanding. The indentures under which the senior notes were issued contain customary covenants and event of default provisions. We may redeem some or all of the senior notes at any time at the greater of the full principal amount of the senior notes being redeemed, or the present value of the remaining scheduled payments of principal and interest discounted to the redemption date on a semi-annual basis at the treasury rate plus 30 basis points, plus, in both cases, accrued and unpaid interest. In the event of the occurrence of both (i) a change of control of our company and (ii) a downgrade of the notes below an investment grade rating by both Moody's Investors Service, Inc. and Standard & Poor's Ratings Services within a specified period, we would be required to make an offer to purchase the senior notes at a price equal to 101% of the principal amount of the senior notes, plus accrued and unpaid interest to the date of repurchase. We used the proceeds from the issuance of the senior notes to pay $75.0 million outstanding principal amount of 7.125% notes that were due on June 15, 2007 as well as for general corporate uses.

Significant financial covenants in our credit agreements are interest coverage and debt to capitalization ratios. We were in compliance with all covenants related to our credit agreements as of August 3, 2007, and expect to be in compliance with all covenants during the remainder of fiscal 2007. If we were out of compliance with any covenant required by our credit agreements following the applicable period, the banks could terminate their commitments unless we could negotiate a covenant waiver from the banks. In addition, our long-term public notes and debentures could become due and payable if we were unable to obtain a covenant waiver or refinance our medium-term debt under our credit agreements. If our credit rating falls below investment grade, the interest rate we currently pay on outstanding debt under the credit agreements could increase, but the credit commitments could not be cancelled by the banks based only on a ratings downgrade. Our debt rating for long-term unsecured senior, non-credit enhanced debt has been unchanged for the third quarter of fiscal 2007 by Standard and Poor's Ratings Group at BBB- and by Moody's Investors Service at Baa3.

Off-Balance Sheet Arrangements and Contractual Obligations

Our off-balance sheet arrangements generally relate to customer financing activities, inventory purchase commitments, operating lease commitments, and currency contracts. See our most recently filed Annual Report on Form 10-K for further details regarding our off-balance sheet arrangements and contractual obligations. There has been no material change in this information, except for changes to long-term debt and interest payments resulting from our senior note issuance. Contractual obligations for long-term debt and interest payments as of August 3, 2007 are as follows: less than 1 year, $16.1 million; 1-3 years, $32.2 million; 3-5 years, $32.2 million; more than 5 years, $634.2 million.

Inflation

We are subject to the effects of inflation and changing prices. In the first nine months of fiscal 2007, average prices paid for most commodities were slightly higher compared to the first nine months of fiscal 2006, which resulted in a slight negative impact on our gross profit and net earnings. We expect average commodity prices to continue to trend slightly higher for the remainder of fiscal 2007 compared to fiscal 2006. We will continue to attempt to mitigate the impact of commodity prices and other inflationary pressures through proactive vendor negotiations, by actively pursuing internal cost reduction efforts, and introducing moderate price increases on some products.

Critical Accounting Policies and Estimates

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

Our significant accounting policies are described in Note 1 to the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006. Some of those significant accounting policies require us to make difficult subjective or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (i) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (ii) different estimates reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. Our critical accounting estimates include the following:

Warranty Reserve. Warranty coverage on our products ranges from a period of six months to seven years, and covers parts, labor, and other expenses for non-maintenance repairs. Warranty coverage generally does not cover operator abuse and improper use. At the time of sale, we accrue a warranty reserve by product line for estimated costs in connection with future warranty claims. We also establish reserves for major rework campaigns. The amount of our warranty reserves is based primarily on the estimated number of products under warranty, historical average costs incurred to service warranty claims, the trend in the historical ratio of claims to sales, and the historical length of time between the sale and resulting warranty claim. We periodically assess the adequacy of our warranty reserves based on changes in these factors and record any necessary adjustments if actual claim experience indicates that adjustments are necessary. Actual claims could be higher or lower than amounts estimated, as the amount and value of warranty claims are subject to variation due to such factors as performance of new products, significant manufacturing or design defects not discovered until after the product is delivered to customers, product failure rates, and higher or lower than expected service costs for a repair. We believe that analysis of historical trends and knowledge of potential manufacturing or design problems provide sufficient information to establish a reasonable estimate for warranty claims at the time of sale. However, since we cannot predict with certainty future warranty claims or costs associated with servicing those claims, our actual warranty costs may differ from our estimates. An unexpected increase in warranty claims or in the costs associated with servicing those claims would result in an increase in our warranty accrual and a decrease in our net earnings.

Sales Promotions and Incentives. At the time of sale to a customer, we record an estimate for sales promotion and incentive costs, which are classified as a reduction from gross sales or as a component of SG&A. Examples of sales promotion and incentive programs include rebate programs on certain professional products sold to distributors, volume discounts, retail financing support, floor planning, cooperative advertising, commissions, and other sales discounts and promotional programs. The estimates for sales promotion and incentive costs are based on the terms of the arrangements with customers, historical payment experience, field inventory levels, volume purchases, and expectations for changes in relevant trends in the future. Actual results may differ from these estimates if competitive factors dictate the need to enhance or reduce sales promotion and incentive accruals or if the customer usage and field inventory levels vary from historical trends. Adjustments to sales promotions and incentive accruals are made from time to time as actual usage becomes known in order to properly estimate the amounts necessary to generate consumer demand based on market conditions as of the balance sheet date.

Inventory Valuation. We value our inventories at the lower of the cost of inventory or net realizable value, with cost determined by either the last-in, first-out (LIFO) method for most U.S. inventories or the first-in, first-out (FIFO) method for all other inventories. We establish reserves for excess, slow moving, and obsolete inventory based on inventory levels, expected product lives, and forecasted sales demand. Valuation of inventory can also be affected by significant redesign of existing products or replacement of an existing product by an entirely new generation product. In assessing the ultimate realization of inventories, we are required to make judgments as to future demand requirements compared with inventory levels. Reserve requirements are developed according to our projected demand requirements based on historical demand, competitive factors, and technological and product life cycle changes. It is possible that an increase in our reserve may be required in the future if there is a significant decline in demand for our products and we do not adjust our manufacturing production accordingly.

We also record a reserve for inventory shrinkage. Our inventory shrinkage reserve represents anticipated physical inventory losses that are recorded based on historical loss trends, ongoing cycle-count and periodic testing adjustments, and inventory levels. Though management considers reserve balances adequate and proper, changes in economic conditions in specific markets in which we operate could have an effect on the reserve balances required.

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

Subsequent Event

Subsequent to the last day of our fiscal 2007 third quarter on August 16, 2007, the company completed the acquisition of Rain Master Irrigation Systems, Inc., a manufacturer of irrigation central controllers and other products for the commercial landscape market with annual sales of approximately $10 million.

New Accounting Pronouncements to be Adopted

In October 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.” SFAS No. 158 requires employers to recognize on their balance sheets the funded status of pension and other postretirement benefit plans. In addition, employers will recognize, as a component of other comprehensive income, changes in the funded status of pension and other postretirement benefit plans, such as actuarial gains and losses and prior service costs that arise during the year but are not recognized as components of net periodic benefit cost. SFAS No. 158 will require the measurement date of plan assets and benefit obligations to be as of the end of the employer’s fiscal year. We will adopt the provisions of SFAS No. 158, which requires the funded status of pension and other postretirement benefit plans to be recorded on the balance sheet as of October 31, 2007, as required, and we will adopt the provisions that require the measurement date of plan assets and benefit obligations to be the same as our fiscal year end as of October 31, 2009, as required. This new pronouncement is not expected to have a material impact on our financial condition, and will have no impact on our consolidated results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures concerning fair value. We will adopt the provisions of SFAS No. 157 during the first quarter of fiscal 2009, as required. We are currently evaluating the requirements of SFAS No. 157 and, we do not expect this new pronouncement will have a material impact on our consolidated financial condition or results of operations.

In August 2006, the FASB issued Staff Position No. AUG AIR-1, “Accounting for Planned Major Maintenance Activities.” This Staff Position prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. We will adopt the provisions of this Staff Position as of November 1, 2007, as required. We are currently evaluating the requirements of Staff Position No. AUG AIR-1 and do not expect that the adoption of this Staff Position will have a material impact on our consolidated results of operations or financial condition.

In July 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN No. 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” It prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. We will adopt the provisions of this interpretation as of November 1, 2007, as required. We are currently evaluating the requirements of FIN No. 48, and we do not expect this new pronouncement will have a material impact on our consolidated financial condition or results of operations.

Forward-Looking Information

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

Forward-looking statements involve risks and uncertainties. These risks and uncertainties include factors that affect all businesses operating in a global market as well as matters specific to Toro. The following are some of the factors known to us that could cause our actual results to differ materially from what we have anticipated in our forward-looking statements:

- Changes in economic conditions in the United States and around the world, including but not limited to worldwide economic growth rates; slow downs or reductions in home ownership, construction, and home sales; consumer spending levels; employment rates; interest rates; inflation; and consumer confidence in the United States and the foreign countries in which we conduct business.
  - Weather conditions may reduce demand for some of our products and adversely affect our net sales.
- Increases in the cost and availability of raw materials and components that we purchase and increases in our other costs of doing business, such as transportation costs, may adversely affect our profit margins and business.
- Our professional segment net sales are dependent upon the level of growth in the residential and commercial construction markets, growth of homeowners who outsource lawn care, the amount of investment in golf course renovations and improvements, new golf course development, and the amount of government spending.
- Our residential segment net sales are dependent upon the amount of product placement at retailers, changing buying patterns of customers, and The Home Depot, Inc. as a major customer.
- If we are unable to continue to enhance existing products and develop and market new products that respond to customer needs and achieve market acceptance, we may experience a decrease in demand for our products, and our business could suffer.
- We face intense competition in all of our product lines, including some competitors that have greater operations and financial resources than us. We may not be able to compete effectively against competitors' actions, which could harm our business and operating results.
- A significant percentage of our consolidated net sales is generated outside of the United States, and we intend to continue to expand our international business. Our international operations require significant management attention and financial resources, expose us to difficulties presented by international economic, political, legal, accounting, and business factors, and may not be successful or produce desired levels of net sales.
- Fluctuations in foreign currency exchange rates could result in declines in our reported net sales and net earnings.
- We manufacture and purchase our products at and distribute our products from several locations in the United States and internationally. Any disruption at any of these facilities could adversely affect our business and operating results.
- We intend to grow our business in part through additional acquisitions, alliances, and joint venture arrangements, which are risky and could harm our business, particularly if we are not able to successfully integrate such acquisitions, alliances, and joint ventures.
- We rely on our management information systems for inventory management, distribution, and other functions. If our information systems fail to adequately perform these functions or if we experience an interruption in their operation, our business and operating results could be adversely affected.
- A significant portion of our net sales are financed by third parties. Some Toro dealers and Exmark distributors and dealers finance their inventories with third party financing sources. The termination of our agreements with these third parties, any material change to the terms of our agreements with these third parties or in the availability or terms of credit offered to our customers by these third parties, or any delay in securing replacement credit sources, could adversely affect our sales and operating results.
- Our reliance upon patents, trademark laws, and contractual provisions to protect our proprietary rights may not be sufficient to protect our intellectual property from others who may sell similar products.
- Our business, properties, and products are subject to governmental regulation with which compliance may require us to incur expenses or modify our products or operations and may expose us to penalties for non-compliance. Governmental regulation may also adversely affect the demand for some of our products and our operating results.
- We are subject to product liability claims, product quality issues, and other litigation from time to time that could adversely affect our operating results or financial condition, including without limitation the pending litigation against the company and other defendants that challenges the horsepower ratings of lawnmowers, of which the company is currently unable to assess whether the litigation would have a material adverse effect on the company's consolidated operating results or financial condition, although an adverse result might be material to operating results in a particular period.
- If we are unable to retain our key employees, and attract and retain other qualified personnel, we may not be able to meet strategic objectives and our business could suffer.

- Our business is subject to a number of other factors that may adversely affect our operating results, financial condition, or business, such as natural disasters that may result in shortages of raw materials, higher fuel costs, and an increase in insurance premiums; financial viability of some distributors and dealers, changes in distributor ownership, our success in partnering with new dealers, and our customers’ ability to pay amounts owed to us; and continued threat of terrorist acts and war that may result in heightened security and higher costs for import and export shipments of components or finished goods, reduced leisure travel, and contraction of the U.S. and world economies.

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 recent filed Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the quarter ended May 4, 2007.

All forward-looking statements included in this report are expressly qualified in their entirety by the foregoing cautionary statements. We wish to caution readers not to place undue reliance on any forward-looking statement which speaks only as of the date made and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others that we may consider immaterial or do not anticipate at this time. The foregoing risks and uncertainties are not exclusive and further information concerning the company and our businesses, including factors that potentially could materially affect our financial results or condition, may emerge from time to time. We assume no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. We advise you, however, to consult any further disclosures we make on related subjects in our future 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 Securities and Exchange Commission.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk stemming from changes in foreign currency exchange rates, interest rates, and commodity prices. Changes in these factors could cause fluctuations in our net earnings and cash flows. See further discussions on these market risks below.

Foreign Currency Exchange Rate Risk. In the normal course of business, we actively manage the exposure of our foreign currency market risk by entering into various hedging instruments, authorized under company policies that place controls on these activities, with counterparties that are highly rated financial institutions. Our hedging activities involve the primary use of forward currency contracts. We use derivative instruments only in an attempt to limit underlying exposure from currency fluctuations and to minimize earnings and cash flow volatility associated with foreign currency exchange rate changes, and not for trading purposes. We are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as sales and loans to wholly owned subsidiaries as well as sales to third party customers, and purchases from suppliers. Because our products are manufactured or sourced primarily from the United States, a stronger U.S. dollar generally has a negative impact on results from operations outside the United States while a weaker dollar generally has a positive effect. Our primary currency exchange rate exposures are with the Euro, the Japanese yen, the Australian dollar, the Canadian dollar, the British pound, and the Mexican peso against the U.S. dollar.

We enter into various contracts, principally forward contracts that change in value as foreign currency exchange rates change, to protect the value of existing foreign currency assets, liabilities, anticipated sales, and probable commitments. Decisions on whether to use such contracts are made based on the amount of exposures to the currency involved, and an assessment of the near-term market value for each currency. Worldwide foreign currency exchange rate exposures are reviewed monthly. The gains and losses on these contracts offset changes in the value of the related exposures. Therefore, changes in market values of these hedge instruments are highly correlated with changes in market values of underlying hedged items both at inception of the hedge and over the life of the hedge contract. During the three and nine months ended August 3, 2007, the amount of losses reclassified to earnings for such cash flow hedges was $0.3 million and $0.6 million, respectively. For the nine months ended August 3, 2007, the losses treated as a reduction to net sales for contracts to hedge trade sales were $1.3 million and the gains treated as a reduction of cost of sales for contracts to hedge inventory purchases were $0.7 million.

The following foreign currency exchange contracts held by us have maturity dates in fiscal 2007 and fiscal 2008. All items are non-trading and stated in U.S. dollars. Some derivative instruments we enter into do not meet the hedging criteria of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities;" therefore, changes in their fair value are recorded in other income, net. The average contracted rate, notional amount, pre-tax value of derivative instruments in accumulated other comprehensive loss (AOCL), and fair value impact of derivative instruments in other income, net for the nine months ended August 3, 2007 were as follows:

Dollars in thousands (except average contracted rate)	**Average Contracted Rate**	**Notional Amount**	**Value in Accumulated Other Comprehensive Income (Loss)**	**Fair Value Impact Gain (Loss)**
Buy US dollar/Sell Australian dollar	0.8251	$ 39,980.3	$ (1,210.7)	$ (899.7)
Buy US dollar/Sell Canadian dollar	0.9364	5,103.4	(64.6)	132.0
Buy US dollar/Sell Euro	1.3548	90,803.8	(993.6)	(910.3)
Buy US dollar/Sell British pound	2.0300	9,540.9	-	(3.0)
Buy Australian dollar /Sell US dollar	0.8366	1,171.2	-	22.7
Buy Japanese yen /Sell US dollar	119.0000	42.0	-	0.1
Buy Mexican peso/Sell US dollar	11.2957	13,810.6	250.4	722.7

Interest Rate Risk. We are exposed to interest rate risk arising from transactions that are entered into during the normal course of business. Our short-term debt rates are dependent upon LIBOR plus a basis point spread defined in our credit agreements. See our most recently filed Annual Report on Form 10-K (Item 7A). There has been no material change in this information.

During the second quarter of fiscal 2007, the company entered into three treasury lock agreements based on a 30-year US Treasury security with a principal balance of $30 million for two of the agreements and $40 million for the third agreement. These treasury lock agreements provided for a single payment at maturity, which was April 23, 2007, based on the change in value of the reference treasury security. These agreements were designated as cash flow hedges and resulted in a net settlement of $0.2 million. This loss is recorded in accumulated other comprehensive loss, which will be amortized to interest expense over the 30 year term of the senior notes.

Commodity Price Risk. Some raw materials used in our products are exposed to commodity price changes. The primary commodity price exposures are with steel, aluminum, fuel, petroleum-based resin, and linerboard. Further information regarding rising prices for commodities is presented in Item 2, section entitled "Inflation."

We enter into fixed-price contracts for future purchases of natural gas in the normal course of operations as a means to manage natural gas price risks. These contracts meet the definition of "normal purchases and normal sales" and, therefore, are not considered derivative instruments for accounting purposes.

Item 4. 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 reasonably ensure 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 Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered in this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and 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 material information relating to our company and our consolidated subsidiaries is made known to management, including our Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared. There was no change in our internal control over financial reporting that occurred during our fiscal third quarter ended August 3, 2007 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

On June 3, 2004, eight individuals who claim to have purchased lawnmowers in Illinois and Minnesota filed a lawsuit in Illinois state court against the company and eight other defendants alleging that the horsepower labels on the products the plaintiffs purchased were inaccurate. On May 17, 2006, the plaintiffs filed an amended complaint to add 84 additional plaintiffs and an engine manufacturer as an additional defendant. The amended complaint asserts violations of the federal Racketeer Influenced and Corrupt Organizations (RICO) Act and statutory and common law claims arising from the laws of 48 states. The plaintiffs seek certification of a class of all persons in the United States who, beginning January 1, 1994 through the present, purchased a lawnmower containing a two-stroke or four-stroke gas combustible engine up to 30 horsepower that was manufactured or sold by the defendants. The amended complaint seeks an injunction, unspecified compensatory and punitive damages, treble damages under the RICO Act and attorneys' fees. In late May 2006, the case was removed to Federal court in the Southern District of Illinois. On August 1, 2006, all of the defendants, except MTD Products Inc., filed motions to dismiss claims in the amended complaint. On August 4, 2006, the plaintiffs filed a motion for preliminary approval of a settlement agreement with MTD Products Inc. and certification of a settlement class. All remaining non-settling defendants have filed counterclaims against MTD Products Inc. for potential contribution amounts, and MTD Products Inc. has filed cross claims against the non-settling defendants. On December 21, 2006, another defendant, American Honda Motor Company, notified us that it had reached an agreement of settlement with the plaintiffs. On March 30, 2007, the court entered an order dismissing plaintiffs' complaint, subject to the ability to re-plead certain claims pursuant to a detailed written order to follow. As of the date hereof, the court has not yet entered the detailed written order. We continue to evaluate this lawsuit and are unable to reasonably estimate the likelihood of loss or the amount or range of potential loss that could result from this litigation. Therefore, no accrual has been established for potential loss in connection with this lawsuit. We are also unable to assess at this time whether the lawsuit will have a material adverse effect on our annual consolidated operating results or financial condition, although an unfavorable resolution could be material to our consolidated operating results for a particular period.

In July 2005, Textron Innovations Inc., the patent holding company of Textron, Inc., filed a lawsuit in Delaware Federal District Court against the company for patent infringement. Textron alleges that we willfully infringe certain claims of three Textron patents by selling our Groundsmaster® commercial mowers. Textron seeks damages for our past sales and an injunction against future infringement. In August and November 2005, we answered the complaint, asserting defenses and counterclaims of non-infringement, invalidity and equitable estoppel. Following the Court's order in October 2006 construing the claims of Textron's patents, discovery in the case was closed in February 2007. In March 2007, following unsuccessful attempts to mediate the case, we filed with the United States Patent and Trademark Office (USPTO) to have Textron's patents reexamined. Our reexamination applications are pending in the USPTO. In April 2007, the Court granted our motion to stay the litigation and, in June 2007, denied Textron's motion for reconsideration of the Court's order staying the proceedings. We continue to evaluate this lawsuit and are unable to reasonably estimate the likelihood of loss or the amount or range of potential loss that could result from the litigation. Therefore, no accrual has been established for potential loss in connection with this lawsuit. While we do not believe that the lawsuit will have a material adverse effect on our consolidated financial condition, an unfavorable resolution could be material to our consolidated operating results for a particular period.

We are a party to litigation in the ordinary course of business. Litigation occasionally involves claims for punitive as well as compensatory damages arising out of use of our products. We are also subject to administrative proceedings with respect to claims involving the discharge of hazardous substances into the environment. Some of these claims assert damages and liability for remedial investigations and clean up costs. We are also typically involved in commercial disputes, employment disputes, and patent litigation cases in the ordinary course of business, both as a plaintiff and as a defendant. While the ultimate results of the current cases are unknown at this time, management believes that, except for the lawsuits discussed above, the outcomes of these cases are unlikely to have a material adverse effect on our consolidated operating results or financial position. Further, although we are self-insured to some extent, we maintain insurance against certain product liability losses.

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 significant factors known to us that could materially adversely affect our business, financial condition, or operating results are described in our most recently filed Annual Report on Form 10-K for the fiscal year ended October 31, 2006 (Part I, Item 1A) and our Quarterly Report on Form 10-Q for the quarter ended May 4, 2007 (Part II, Item 1A). There has been no material change in those risk factors.

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

The following table shows our third quarter of fiscal 2007 stock repurchase activity.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) (2)
May 5, 2007 through June 1, 2007	544,834	$ 52.26	544,834	3,046,563
June 2, 2007 through June 29, 2007	-	-	-	3,046,563
June 30, 2007 through August 3, 2007	1,551(3)	61.82	-	3,046,563
Total	546,385	$ 52.28	544,834	3,046,563

(1) On July 18, 2006, the company's Board of Directors authorized the repurchase of 3,000,000 shares of the company's common stock in open-market or in privately negotiated transactions. This program has no expiration date but may be terminated by the company's Board of Directors at any time. The company purchased an aggregate of 544,834 shares during the periods indicated above under this program. There are 46,563 shares remaining for repurchase under this program.

(2) On May 22, 2007, the company's Board of Directors authorized the repurchase of an additional 3,000,000 shares of the company's common stock in open-market or in privately negotiated transactions. This program has no expiration date but may be terminated by the company's Board of Directors at any time. No shares were purchased during the periods indicated above under this program.

(3) Includes 1,551 units (shares) of the company's common stock purchased in open-market transactions at an average price of $61.82 per share on behalf of a rabbi trust formed to pay benefit obligations of the company to participants in deferred compensation plans. These 1,551 shares were not repurchased under the company's repurchase programs described in footnotes (1) and (2) above.

Item 6. EXHIBITS

(a) Exhibits

3(i) and 4(a) The Toro Company Amended and Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3(i) and 4(a) to Registrant's Current Report on Form 8-K dated March 15, 2005, Commission File No. 1-8649).

3(ii) and 4(b)

	Bylaws of Registrant (incorporated by reference to Exhibit 3 to Registrant's Current Report on Form 8-K dated November 30, 2005, Commission File No. 1-8649).
4(c)	Specimen Form of Common Stock Certificate (incorporated by reference to Exhibit 4(c) to Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 2006).
4(d)	Rights Agreement dated as of May 20, 1998, between Registrant and Wells Fargo Bank Minnesota, National Association relating to rights to purchase Series B Junior Participating Voting Preferred Stock, as amended (incorporated by reference to Registrant's Current Report on Form 8-K dated May 27, 1998, Commission File No. 1-8649).

4(e)	Certificate of Adjusted Purchase Price or Number of Shares dated April 14, 2003 filed by Registrant with Wells Fargo Bank Minnesota, N.A., as Rights Agent, in connection with Rights Agreement dated as of May 20, 1998 (incorporated by reference to Exhibit 2 to Registrant's Amendment No. 1 to Registration Statement on Form 8-A/A as filed with the Securities and Exchange Commission on April 14, 2003, Commission File No. 1-8649).
4(f)	Certificate of Adjusted Purchase Price or Number of Shares dated April 12, 2005 filed by Registrant with Wells Fargo Bank Minnesota, N.A., as Rights Agent, in connection with Rights Agreement dated as of May 20, 1998 (incorporated by reference to Exhibit 2 to Registrant's Amendment No. 2 to Registration Statement on Form 8-A/A as filed with the Securities and Exchange Commission on March 21, 2005, Commission File No. 1-8649).
4(g)	Indenture dated as of January 31, 1997, between Registrant and First National Trust Association, as Trustee, relating to the Registrant's 7.125% Notes due June 15, 2007 and its 7.80% Debentures due June 15, 2027 (incorporated by reference to Exhibit 4(a) to Registrant's Current Report on Form 8-K dated June 24, 1997, Commission File No. 1-8649).
4(h)	Indenture dated as of April 20, 2007, between Registrant and The Bank of New York Trust Company, N.A., as Trustee, relating to the Registrant's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.3 to Registrant's Registration Statement on Form S-3 as filed with the Securities and Exchange Commission on April 23, 2007, Registration No. 333-142282).
4(i)	First Supplemental Indenture dated as of April 26, 2007, between Registrant and The Bank of New York Trust Company, N.A., as Trustee, relating to the Registrant's 6.625% Notes due May 1, 2037 (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K dated April 23, 2007, Commission File No. 1-8649).
4(j)	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 dated April 23, 2007, Commission File No. 1-8649).
31(a)	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002) (filed herewith).
31(b)	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).

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 10, 2007

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