

THOR INDUSTRIES INC  
Form 10-Q  
November 26, 2007

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**FOR QUARTER ENDED October 31, 2007 COMMISSION FILE NUMBER 1-9235  
THOR INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware

93-0768752

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

419 West Pike Street, Jackson Center, OH

45334-0629

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (937) 596-6849

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                                      | Outstanding at 10/31/2007 |
|--|---------------------------|
| Common stock, par value<br>\$.10 per share | 55,870,663 shares         |

**TABLE OF CONTENTS**

PART I Financial Information

Unless otherwise indicated, all amounts presented in thousands of dollars except unit, share and per share data.

ITEM 1. Financial Statements

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

ITEM 4. Controls and Procedures

PART II Other Information

ITEM 1. LEGAL PROCEEDINGS

ITEM 6. Exhibits

SIGNATURES

EX-31.1

EX-31.2

EX-32.1

EX-32.2

---

**Table of Contents****PART I Financial Information**

Unless otherwise indicated, all amounts presented in thousands of dollars except unit, share and per share data.

**ITEM 1. Financial Statements**

**THOR INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| <b>ASSETS</b>                              | <b>October 31,<br/>2007</b> | <b>July 31, 2007</b> |
|--|-----------------------------|----------------------|
| Current assets:                            |                             |                      |
| Cash and cash equivalents                  | \$ 104,451                  | \$ 171,889           |
| Investments short term                     | 160,550                     | 174,575              |
| Accounts receivable:                       |                             |                      |
| Trade                                      | 169,412                     | 171,596              |
| Other                                      | 9,805                       | 5,799                |
| Inventories                                | 187,879                     | 168,980              |
| Deferred income taxes and other            | 31,079                      | 12,689               |
| Total current assets                       | 663,176                     | 705,528              |
| Property:                                  |                             |                      |
| Land                                       | 21,816                      | 21,795               |
| Buildings and improvements                 | 135,569                     | 134,352              |
| Machinery and equipment                    | 66,786                      | 64,572               |
| Total cost                                 | 224,171                     | 220,719              |
| Accumulated depreciation                   | 67,080                      | 63,477               |
| Property, net                              | 157,091                     | 157,242              |
| Investment in Joint ventures               | 3,119                       | 2,671                |
| Other assets:                              |                             |                      |
| Goodwill                                   | 165,663                     | 165,663              |
| Non-compete agreements                     | 1,693                       | 1,906                |
| Trademarks                                 | 13,900                      | 13,900               |
| Other                                      | 13,429                      | 12,387               |
| Total other assets                         | 194,685                     | 193,856              |
| <b>TOTAL ASSETS</b>                        | <b>\$ 1,018,071</b>         | <b>\$ 1,059,297</b>  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                             |                      |
| Current liabilities:                       |                             |                      |
| Accounts payable                           | \$ 127,487                  | \$ 123,433           |
| Accrued liabilities:                       |                             |                      |
| Taxes                                      | 30,763                      | 17,991               |
| Compensation and related items             | 34,359                      | 39,242               |
| Product warranties                         | 66,011                      | 64,310               |

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

|   |                     |                     |
|---|---------------------|---------------------|
| Promotions and rebates  | 16,020              | 11,697              |
| Product/property liability and related  | 11,100              | 11,691              |
| Other   | 9,988               | 8,835               |
| Total current liabilities   | 295,728             | 277,199             |
| Long Term Liabilities:  |                     |                     |
| Unrecognized tax benefits   | 24,673              |                     |
| Other   | 21,547              | 15,767              |
| Total long term liabilities   | 46,220              | 15,767              |
| Stockholders' equity:   |                     |                     |
| Common stock - authorized 250,000,000 shares; issued 57,312,263 shares @ 10/31/07 and 57,222,404 shares @ 7/31/07; par value of \$.10 per share | 5,731               | 5,722               |
| Additional paid-in capital  | 92,632              | 90,247              |
| Retained earnings   | 633,108             | 727,729             |
| Accumulated other comprehensive income  | 4,775               | 2,756               |
| Less Treasury shares of 1,441,600 @ 10/31/07 & 7/31/07  | (60,123)            | (60,123)            |
| Total stockholders' equity  | 676,123             | 766,331             |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 1,018,071</b> | <b>\$ 1,059,297</b> |

See notes to condensed consolidated financial statements

**Table of Contents**

**THOR INDUSTRIES, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CONDENSED CONSOLIDATED INCOME**  
**FOR THE THREE MONTHS ENDED OCTOBER 31, 2007 AND 2006**

|  | <b>Three Months Ended October</b> |             |
|--|-----------------------------------|-------------|
|  | <b>31</b>                         |             |
|  | <b>2007</b>                       | <b>2006</b> |
| Net sales  | \$ 763,736                        | \$ 727,716  |
| Cost of products sold                                    | 662,461                           | 638,548     |
| Gross profit   | 101,275                           | 89,168      |
| Selling, general and administrative expenses             | 45,410                            | 43,445      |
| Interest income  | 4,196                             | 2,910       |
| Interest expense   | 360                               | 187         |
| Other income   | 779                               | 550         |
| Income before income taxes                               | 60,480                            | 48,996      |
| Provision for income taxes                               | 22,271                            | 18,399      |
| Net income   | \$ 38,209                         | \$ 30,597   |
| Average common shares outstanding:                       |                                   |             |
| Basic  | 55,757,338                        | 55,613,302  |
| Diluted  | 55,966,614                        | 55,904,797  |
| Earnings per common share:                               |                                   |             |
| Basic  | \$ .69                            | \$ .55      |
| Diluted  | \$ .68                            | \$ .55      |
| Regular dividends declared per common share:             | \$ .07                            | \$ .07      |
| Special dividends declared per common share:             | \$ 2.00                           | \$ 1.00     |
| Regular dividends paid per common share:                 | \$ .07                            | \$ .07      |
| Special dividends paid per common share:                 | \$ 2.00                           | \$ 1.00     |
| See notes to condensed consolidated financial statements |                                   |             |



Table of Contents

**THOR INDUSTRIES, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS**  
**FOR THE THREE MONTHS ENDED OCTOBER 31, 2007 AND 2006**

|   | <b>Three Months Ended October</b> |             |
|---|-----------------------------------|-------------|
|   | <b>31</b>                         |             |
|   | <b>2007</b>                       | <b>2006</b> |
| <b>Cash flows from operating activities:</b>  |                                   |             |
| Net income  | \$ 38,209                         | \$ 30,597   |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                                   |             |
| Depreciation  | 3,353                             | 3,226       |
| Amortization  | 213                               | 237         |
| Deferred income taxes   | (7,026)                           | (7,700)     |
| Loss on disposition of assets   | 3                                 | 103         |
| Loss on disposition of trading investments  |                                   | 104         |
| Stock based compensation  | 84                                | 160         |
| <b>Changes in non cash assets and liabilities, net of effect from acquisitions:</b>         |                                   |             |
| Proceeds from disposition of trading investments  |                                   | 68,133      |
| Accounts receivable   | (1,822)                           | 34,480      |
| Inventories   | (18,899)                          | (23,999)    |
| Prepays and other   | (12,854)                          | (11,783)    |
| Accounts payable  | 4,029                             | (40,752)    |
| Accrued liabilities   | 22,071                            | 20,840      |
| Other liabilities   | 5,677                             | 943         |
| Net cash provided by operating activities   | 33,038                            | 74,589      |
| <b>Cash flows from investing activities:</b>  |                                   |             |
| Purchase of property, plant & equipment   | (3,087)                           | (4,076)     |
| Proceeds from disposition of assets   | 10                                | 171         |
| Purchases of available for sale investments   | (15,300)                          | (186,125)   |
| Proceeds from sale of available for sale investments  | 29,325                            | 75,567      |
| Net cash provided by (used in) investing activities   | 10,948                            | (114,463)   |
| <b>Cash flows from financing activities:</b>  |                                   |             |
| Cash dividends  | (115,601)                         | (59,616)    |
| Purchase of common stock held as treasury shares  |                                   | (1,630)     |
| Proceeds from issuance of common stock  | 2,158                             | 845         |
| Net cash used in financing activities   | (113,443)                         | (60,401)    |
| <b>Effect of exchange rate changes on cash</b>  | 2,019                             | 102         |
| Net (decrease) in cash and equivalents  | (67,438)                          | (100,173)   |



Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

|  |                   |                  |
|--|-------------------|------------------|
| Cash and equivalents, beginning of period                | 171,889           | 196,136          |
| <b>Cash and equivalents, end of period</b>               | <b>\$ 104,451</b> | <b>\$ 95,963</b> |
| <b>Supplemental cash flow information:</b>               |                   |                  |
| Income taxes paid  | \$ 9,495          | \$ 106           |
| Interest paid  | \$ 360            | \$ 187           |
| <b>Non cash transactions:</b>                            |                   |                  |
| Capital expenditures in accounts payable                 | \$ 228            | \$ 129           |
| See notes to condensed consolidated financial statements |                   |                  |

3

---

**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

1. The July 31, 2007 amounts are derived from the annual audited financial statements. The interim financial statements are unaudited. In the opinion of management, all adjustments (which consist of normal recurring adjustments) necessary to present fairly the financial position, results of operations and change in cash flows for the interim periods presented have been made. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended July 31, 2007. The results of operations for the three months ended October 31, 2007 are not necessarily indicative of the results for the full year.

2. Major classifications of inventories are:

|   | October 31,<br>2007 | July 31,<br>2007 |
|---|---------------------|------------------|
| Raw materials                             | \$ 96,048           | \$ 87,245        |
| Chassis                                   | 40,845              | 42,528           |
| Work in process                           | 53,920              | 52,102           |
| Finished goods                            | 23,226              | 12,326           |
| Total                                     | 214,039             | 194,201          |
| Less excess of FIFO costs over LIFO costs | 26,160              | 25,221           |
| Total inventories                         | \$ 187,879          | \$ 168,980       |

3. Earnings Per Share

|  | Three Months<br>Ended<br>October 31, 2007 | Three Months<br>Ended<br>October 31, 2006 |
|--|---|---|
| Weighted average shares outstanding for basic earnings per share | 55,757,338                                | 55,613,302                                |
| Stock options and restricted stock                               | 209,276                                   | 291,495                                   |
| Total For diluted shares   | 55,966,614                                | 55,904,797                                |

4. Comprehensive Income

|                                   | Three Months<br>Ended<br>October 31,<br>2007 | Three Months<br>Ended<br>October 31,<br>2006 |
|-----------------------------------|--|--|
| Net income                        | \$ 38,209                                    | \$ 30,597                                    |
| Foreign currency translation adj. | 2,019  | 102  |
| Comprehensive income              | \$ 40,228                                    | \$ 30,699                                    |

5. Segment Information

The Company has three reportable segments: (1) towable recreation vehicles, (2) motorized recreation vehicles, and (3) buses. The towable recreation vehicle segment consists of product lines from the following operating companies that have been aggregated: Airstream, Breckenridge, CrossRoads, Dutchmen, General Coach Hensall

and Oliver, Keystone, Komfort and Thor California. The motorized recreation vehicle segment consists of product lines from the following operating companies that have been aggregated: Airstream, Damon, Four Winds and Oliver. The bus segment consists of the following operating companies that have been aggregated: Champion Bus, ElDorado California, ElDorado Kansas and Goshen Coach.

**Table of Contents**

|                           | Three Months<br>Ended<br>October 31,<br>2007 | Three Months<br>Ended<br>October 31,<br>2006 |
|---------------------------|--|--|
| Net Sales:                |  |  |
| Recreation vehicles:      |  |  |
| Towables                  | \$ 523,711                                   | \$ 499,955                                   |
| Motorized                 | 140,500                                      | 135,923                                      |
| Total recreation vehicles | 664,211                                      | 635,878                                      |
| Buses                     | 99,525                                       | 91,838                                       |
| Total                     | \$ 763,736                                   | \$ 727,716                                   |

|                             | Three Months<br>Ended<br>October 31,<br>2007 | Three Months<br>Ended<br>October 31,<br>2006 |
|-----------------------------|--|--|
| Income Before Income Taxes: |  |  |
| Recreation vehicles:        |  |  |
| Towables                    | \$ 50,812                                    | \$ 40,400                                    |
| Motorized                   | 6,853  | 6,068  |
| Total recreation vehicles   | 57,665                                       | 46,468                                       |
| Buses                       | 4,139  | 3,020  |
| Corporate                   | (1,324)                                      | (492)  |
| Total                       | \$ 60,480                                    | \$ 48,996                                    |

|                           | October 31,<br>2007 | July 31, 2007 |
|---------------------------|---------------------|---------------|
| Identifiable Assets:      |                     |               |
| Recreation vehicles:      |                     |               |
| Towables                  | \$ 479,407          | \$ 449,276    |
| Motorized                 | 145,823             | 147,598       |
| Total recreation vehicles | 625,230             | 596,874       |
| Buses                     | 98,410              | 105,864       |
| Corporate                 | 294,431             | 356,559       |
| Total                     | \$ 1,018,071        | \$ 1,059,297  |

## 6. Treasury Shares

In the first quarter of fiscal 2007, the Company purchased 40,400 shares and held them as treasury stock at a cost of \$1,630, an average cost of \$40.33 per share.

7. Investments

Effective August 1, 2006, the Company began classifying all short-term investment purchases as available-for-sale. This change was based on the Company's decision to change its investment strategy from one of generating profits on short term differences in price to one of preserving capital.

At October 31, 2007 all Investments short term are comprised of auction rate securities that are classified as available-for-sale and are reported at fair value in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company purchases its auction rate securities at par, which either mature or reset at par, and generally there are no unrealized or realized gains or losses to report. Cost is determined on the specific identification basis. Interest income is accrued as earned. All of the available-for-sale securities held at October 31, 2007 mature within one year.

**Table of Contents**

## 8. Goodwill and Other Intangible Assets

The components of other intangible assets are as follows:

|   | October 31, 2007 |                             | July 31, 2007                                |  |
|---|------------------|-----------------------------|--|--|
|   | Cost             | Accumulated<br>Amortization | Cost   | Accumulated<br>Amortization                  |
| Amortized Intangible Assets:                    |                  |                             |  |  |
| Non-compete agreements                          | \$6,256          | \$4,563                     | \$6,256                                      | \$4,350                                      |
|   |                  |                             | Three Months<br>Ended<br>October 31,<br>2007 | Three Months<br>Ended<br>October 31,<br>2006 |
| Non-compete Agreements:<br>Amortization Expense |                  |                             | \$ 213                                       | \$ 237                                       |

Non-compete agreements are amortized on a straight-line basis.

## Estimated Amortization Expense:

|                               |       |
|-------------------------------|-------|
| For the year ending July 2008 | \$812 |
| For the year ending July 2009 | \$476 |
| For the year ending July 2010 | \$322 |
| For the year ending July 2011 | \$238 |
| For the year ending July 2012 | \$ 58 |

There was no change in the carrying amount of goodwill and trademarks for the three month period ended October 31, 2007.

As of October 31, 2007, Goodwill and Trademarks by segments totaled as follows:

|                           | Goodwill   | Trademarks |
|---------------------------|------------|------------|
| Recreation Vehicles:      |            |            |
| Towables                  | \$ 143,795 | \$ 10,237  |
| Motorized                 | 17,252     | 2,600      |
| Total Recreation Vehicles | 161,047    | 12,837     |
| Bus                       | 4,616      | 1,063      |
| Total                     | \$ 165,663 | \$ 13,900  |

## 9. Warranty

Thor provides customers of our products with a warranty covering defects in material or workmanship for periods generally ranging from one to two years, with longer warranties on certain structural components. We record a liability based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors we use in estimating the warranty liability include a history of units sold, existing dealer inventory, average cost incurred and a profile of the distribution of warranty expenditures over the warranty period. A significant increase in dealer shop rates, the cost of parts or the frequency of claims could have a material adverse impact on our operating results for the period or periods in which such claims or additional costs materialize. Management believes that the warranty reserve is adequate; however, actual claims incurred could

differ from estimates, requiring adjustments to the reserves. Warranty reserves are reviewed and adjusted as necessary on a quarterly basis.

**Table of Contents**

|                   | Three Months<br>Ended<br>October 31,<br>2007 | Three Months<br>Ended<br>October 31,<br>2006 |
|-------------------|--|--|
| Beginning Balance | \$ 64,310                                    | \$ 59,795                                    |
| Provision         | 18,550                                       | 17,951                                       |
| Payments          | (16,849)                                     | (16,823)                                     |
| Ending Balance    | \$ 66,011                                    | \$ 60,923                                    |

## 10. Commercial Commitments

Our principal commercial commitments at October 31, 2007 are summarized in the following chart:

| Commitment  | Total<br>Amount<br>Committed | Term of<br>Commitment<br>less than 1<br>year |
|---|------------------------------|--|
| Guarantee on dealer financing                     | \$ 1,956                     | less than 1<br>year                          |
| Standby repurchase obligation on dealer financing | \$ 921,272                   | less than 1<br>year                          |

The Company records repurchase and guarantee reserves based on prior experience and known current events. The combined repurchase and recourse reserve balances are approximately \$1,616 and \$1,293 as of October 31, 2007 and July 31, 2007, respectively.

|                             | Three Months<br>Ended<br>October 31,<br>2007 | Three Months<br>Ended<br>October 31,<br>2006 |
|-----------------------------|--|--|
| Cost of units repurchased   | \$ 5,187                                     | \$ 1,961                                     |
| Realization on units resold | 4,922  | 1,543  |
| Losses due to repurchase    | \$ 265                                       | \$ 418                                       |

## 11. Income Taxes

The Company adopted FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, on August 1, 2007. FIN 48 clarifies the accounting for uncertainties in income tax law by prescribing a minimum recognition threshold a tax position is required to meet before being recognized for financial accounting purposes. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, and disclosure. The implementation of FIN 48 did not have a significant impact on the Company's financial position or results of operations.

On August 1, 2007 the Company recognized a cumulative effect adjustment of \$17,200 as a reduction to the balance of retained earnings and an increase in tax liabilities of \$11,300 and an increase in liability for penalties



and interest of \$5,900. The amount of unrecognized tax benefits as of August 1, 2007 totaled \$25,900, all of which would increase income from continuing operations, and thus impact the Company's effective tax rate, if ultimately recognized into income. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit.

It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in income tax expense. As of August 1, 2007, \$6,500 in interest and penalties had been accrued.

**Table of Contents**

The Company and its corporate subsidiaries file a consolidated U.S. federal income tax return and multiple state income tax returns. The federal returns are subject to examination by taxing authorities for all years after 2005. We are currently under audit by various state Departments of Revenue for 2002 through 2005 tax years. The anticipated effect on unrecognized tax benefits resulting from these audits is not expected to have a material impact on the financial statements.

The Company anticipates a decrease of approximately \$2,800 in unrecognized tax benefits within the next 12 months from 1) expected settlements or payments of uncertain tax positions, and 2) lapses of the applicable statutes of limitations. Actual results may differ materially from this estimate.

## 12. Retained Earnings

The components of changes in retained earnings are as follows:

|                     |                |
|---------------------|----------------|
| Balance at 7/31/07  | \$ 727,729     |
| Net income          | 38,209         |
| Dividends paid      | (115,601)      |
| FIN 48 adjustment   | (17,229)       |
| <br>                |                |
| Balance at 10/31/07 | <br>\$ 633,108 |

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

**Unless otherwise indicated, all amounts presented in thousands of dollars except unit, share and per share data.**

**Executive Overview**

We were founded in 1980 and have grown to be the largest manufacturer of Recreation Vehicles (RVs) and a major manufacturer of commercial buses in North America. Our market share in the travel trailer and fifth wheel segment of the industry (towables), is approximately 31%. In the motorized segment of the industry we have a market share of approximately 14%. Our market share in small and mid-size buses is approximately 38%. We also manufacture and sell 40-foot buses at our facility in Southern California designed for that product as well as our existing 30-foot and 35-foot buses.

Our growth has been internal and by acquisition. Our strategy has been to increase our profitability in North America in the recreation vehicle industry and in the bus business through product innovation, service to our customers, manufacturing quality products, improving our facilities and acquisitions. We have not entered unrelated businesses and have no plans to do so in the future.

We rely on internally generated cash flows from operations to finance our growth although we may borrow to make an acquisition if we believe the incremental cash flows will provide for rapid payback. We have invested significant capital to modernize and expand our plant facilities and expended \$13,105 for that purpose in fiscal 2007 and \$118,723 over the prior four fiscal years.

Our business model includes decentralized operating units and we compensate operating management primarily with cash based upon profitability of the unit which they manage. Our corporate staff provides financial management, centralized purchasing services, insurance, legal and human resources, risk management, and internal audit functions. Senior corporate management interacts regularly with operating management to assure that corporate objectives are understood clearly and are monitored appropriately.

**Table of Contents**

Our RV products are sold to dealers who, in turn, retail those products. Our buses are sold through dealers to municipalities and private purchasers such as rental car companies and hotels. We do not directly finance dealers but do provide repurchase agreements in order to facilitate the dealers obtaining floor plan financing. We have a joint venture, Thor Credit, operated by GE Consumer Finance, which provides retail credit to ultimate purchasers of any recreation vehicle purchased from a Thor dealer. This retail credit on recreation vehicles is not limited to Thor products only.

*Trends and Business Outlook*

The most important determinant of demand for recreation vehicles is demographics. The baby boomer population is now reaching retirement age and retirees are a large market for our products. The baby boomer retiree population in the United States is expected to grow five times as fast as the total United States population. We believe a primary indicator of the strength of the recreation vehicle industry is retail RV sales, which we closely monitor to determine industry trends. Recently, the towable segment of the RV industry has been stronger than the motorized segment. For the towable segment, retail sales as reported by Statistical Surveys, Inc. were up approximately 2.7% for the nine months ended September 30, 2007 compared with the same period last year. The motorized segment was down approximately 5.3%. Higher interest rates and fuel prices appear to affect the motorized segment more severely. Government entities are primary users of our buses. Demand in this segment is subject to fluctuations in government spending on transit. In addition, hotel and rental car companies are also major users of our small and mid-size buses and therefore airline travel is an important indicator for this market. The majority of our buses have a 5-year useful life and are being continuously replaced by operators. According to Mid Size Bus Manufacturers Association unit sales of small and mid-sized buses are up 17% for the nine months ended September 30, 2007 compared with the same period last year.

Economic or industry-wide factors affecting our recreation vehicle business include raw material costs of commodities used in the manufacture of our product. Material cost is the primary factor determining our cost of products sold. Additional increases in raw material costs would impact our profit margins negatively if we were unable to raise prices for our products by corresponding amounts.

**Table of Contents****THREE MONTHS ENDED OCTOBER 31, 2007 VS. THREE MONTHS ENDED OCTOBER 31, 2006**

|  |            | Three Months<br>Ended<br>October 31, 2007 | Three Months<br>Ended<br>October 31, 2006 | Change<br>Amount | %         |       |
|--|------------|---|---|------------------|-----------|-------|
| <b>NET SALES:</b>  |            |   |   |                  |           |       |
| Recreation Vehicles  |            |   |   |                  |           |       |
| Towables   | \$         | 523,711                                   | \$ 499,955                                | \$ 23,756        | 4.8       |       |
| Motorized  |            | 140,500                                   | 135,923                                   | 4,577            | 3.4       |       |
| Total Recreation Vehicles                                    |            | 664,211                                   | 635,878                                   | 28,333           | 4.5       |       |
| Buses  |            | 99,525                                    | 91,838                                    | 7,687            | 8.3       |       |
| Total  | \$         | 763,736                                   | \$ 727,716                                | \$ 36,020        | 4.9       |       |
| <b># OF UNITS:</b>   |            |   |   |                  |           |       |
| Recreation Vehicles  |            |   |   |                  |           |       |
| Towables   |            | 23,815                                    | 23,490                                    | 325              | 1.4       |       |
| Motorized  |            | 1,771                                     | 1,855                                     | (84)             | (4.5)     |       |
| Total Recreation Vehicles                                    |            | 25,586                                    | 25,345                                    | 241              | 1.0       |       |
| Buses  |            | 1,543                                     | 1,557                                     | (14)             | (.9)      |       |
| Total  |            | 27,129                                    | 26,902                                    | 227              | .8        |       |
|  |            | % of<br>Segment<br>Net<br>Sales           | % of<br>Segment<br>Net<br>Sales           | Change<br>Amount | %         |       |
| <b>GROSS PROFIT:</b>   |            |   |   |                  |           |       |
| Recreation Vehicles  |            |   |   |                  |           |       |
| Towables   | \$ 79,176  | 15.1                                      | \$ 69,822                                 | 14.0             | \$ 9,354  | 13.4  |
| Motorized  | 13,818     | 9.8                                       | 12,639                                    | 9.3              | 1,179     | 9.3   |
| Total Recreation Vehicles                                    | 92,994     | 14.0                                      | 82,461                                    | 13.0             | 10,533    | 12.8  |
| Buses  | 8,281      | 8.3                                       | 6,707                                     | 7.3              | 1,574     | 23.5  |
| Total  | \$ 101,275 | 13.3                                      | \$ 89,168                                 | 12.3             | \$ 12,107 | 13.6  |
| <b>SELLING, GENERAL AND<br/>ADMINISTRATIVE<br/>EXPENSES:</b> |            |   |   |                  |           |       |
| Recreation Vehicles  |            |   |   |                  |           |       |
| Towables   | \$ 28,519  | 5.4                                       | \$ 29,429                                 | 5.9              | \$ (910)  | (3.1) |
| Motorized  | 6,962      | 5.0                                       | 6,556                                     | 4.8              | 406       | 6.2   |
| Total Recreation Vehicles                                    | \$ 35,481  | 5.3                                       | \$ 35,985                                 | 5.7              | (504)     | (1.4) |
| Buses  | 3,796      | 3.8                                       | 3,493                                     | 3.8              | 303       | 8.7   |

Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

|                           |           |     |           |     |           |         |
|---------------------------|-----------|-----|-----------|-----|-----------|---------|
| Corporate                 | 6,133     |     | 3,967     |     | 2,166     | 54.6    |
| Total                     | \$ 45,410 | 5.9 | \$ 43,445 | 6.0 | \$ 1,965  | 4.5     |
| <b>INCOME BEFORE</b>      |           |     |           |     |           |         |
| <b>INCOME TAXES:</b>      |           |     |           |     |           |         |
| Recreation Vehicles       |           |     |           |     |           |         |
| Towables                  | \$ 50,812 | 9.7 | \$ 40,400 | 8.1 | \$ 10,412 | 25.8    |
| Motorized                 | 6,853     | 4.9 | 6,068     | 4.5 | 785       | 12.9    |
| Total Recreation Vehicles | \$ 57,665 | 8.7 | \$ 46,468 | 7.3 | 11,197    | 24.1    |
| Buses                     | 4,139     | 4.2 | 3,020     | 3.3 | 1,119     | 37.1    |
| Corporate                 | (1,324)   |     | (492)     |     | (832)     | (169.1) |
| Total                     | \$ 60,480 | 7.9 | \$ 48,996 | 6.7 | \$ 11,484 | 23.4    |

**ORDER BACKLOG**

|                           | As of<br>October 31,<br>2007 | As of<br>October 31,<br>2006 | Change    |      |
|---------------------------|------------------------------|------------------------------|-----------|------|
|                           |                              |                              | Amount    | %    |
| Recreation Vehicles       |                              |                              |           |      |
| Towables                  | \$ 179,948                   | \$ 120,627                   | \$ 59,321 | 49.2 |
| Motorized                 | 69,774                       | 67,799                       | 1,975     | 2.9  |
| Total Recreation Vehicles | 249,722                      | 188,426                      | 61,296    | 32.5 |
| Buses                     | 226,342                      | 217,864                      | 8,478     | 3.9  |
| Total                     | \$ 476,064                   | \$ 406,290                   | \$ 69,774 | 17.2 |

**Table of Contents****CONSOLIDATED**

Net sales and gross profit for the first quarter of fiscal 2008 were up 4.9 % and 13.6% respectively compared to the first quarter of fiscal 2007. Selling, general and administrative expenses for the first quarter of fiscal 2008 were up 4.5% compared to the first quarter of fiscal 2007. Income before income taxes for the first quarter of fiscal 2008 was up 23.4% compared to the first quarter of fiscal 2007. The specifics on changes in net sales, gross profit, general and administrative expense and income before income taxes are addressed in the segment reporting below.

Corporate costs in selling, general and administrative were \$6,133 for the first quarter of fiscal 2008 compared to \$3,967 in the first quarter of fiscal 2007. This \$2,166 increase is primarily the result of increased legal and audit fees. Corporate interest income and other income was \$4,975 for the first quarter of fiscal 2008 compared to \$3,460 for the first quarter of fiscal 2007.

The overall effective tax rate for the first quarter of fiscal 2008 and 2007 was 36.8% and 37.6% respectively.

**SEGMENT REPORTING****Recreation Vehicles**

Analysis of Percentage Change in Net Sales Versus Prior Year

|                     | Average<br>Price |        | Net<br>Change |
|---------------------|------------------|--------|---------------|
|                     | Per Unit         | Units  |               |
| Recreation Vehicles |                  |        |               |
| Towables            | 3.4%             | 1.4%   | 4.8%          |
| Motorized           | 7.9%             | (4.5%) | 3.4%          |

***Towable Recreation Vehicles***

The increase in towables net sales of 4.8% resulted primarily from increased average price per unit and mix of product. The overall industry decrease in towable units sold for August and September of 2007 compared to the same period last year was 4.7% according to statistics published by the Recreation Vehicle Industry Association.

Towables gross profit percentage increased to 15.1% of net sales for the first quarter of fiscal 2008 from 14.0% of net sales for the first quarter of fiscal 2007. The primary factor for the \$9,354 increase in gross profit was increased sales of \$23,756. Selling, general and administrative expenses were 5.4% of net sales for the first quarter of fiscal 2008 and 5.9% of net sales for the first quarter of fiscal 2007.

Towables income before income taxes increased to 9.7% of net sales for the first quarter of fiscal 2008 from 8.1% of net sales for the first quarter of fiscal 2007. The primary factor for this was increased sales.

***Motorized Recreation Vehicles***

The increase in motorized net sales of 3.4% resulted primarily from increased average price and mix of product. The decrease in units sold of approximately 4.5% was slightly higher than the overall market unit decrease in motorhomes of 3.1% for the two month period ended August 2007 compared to the same period last year according to statistics published by the Recreation Vehicle Industry Association.

Motorized gross profit percentage increased to 9.8% of net sales in the first quarter of fiscal 2008 from 9.3% of net sales for the first quarter of fiscal 2007. The primary factor for the increase in gross profit in 2008 was increased sales.

**Table of Contents**

Selling, general and administrative expenses were 5.0% of net sales for the first quarter of fiscal 2008 and 4.8% of net sales for the first quarter of fiscal 2007.

Motorized income before income taxes increased to 4.9% of net sales for the first quarter of fiscal 2008 from 4.5% of net sales for the first quarter of fiscal 2007 due primarily to increased sales.

**Buses**

Analysis of Percentage Change in Net Sales Versus Prior Year

|       | Average<br>Price Per<br>Unit | Units | Net<br>Change |
|-------|------------------------------|-------|---------------|
| Buses | 9.2%                         | (.9%) | 8.3%          |

The increase in buses net sales of 8.3% resulted primarily from increased average price per unit and product mix.

Buses gross profit percentage increased to 8.3% of net sales for the first quarter of fiscal 2008 from 7.3% of net sales for the first quarter of fiscal 2007 due primarily to increased sales. Selling, general and administrative expenses were 3.8% of net sales for the first quarter of fiscal 2008 and the first quarter of fiscal 2007.

Buses income before income taxes increased to 4.2% of net sales for the first quarter of fiscal 2008 from 3.3% for the first quarter of fiscal 2007 due primarily to increased sales.

**Financial Condition and Liquidity**

As of October 31, 2007, we had \$265,001 in cash, cash equivalents and short-term investments, compared to \$346,464 on July 31, 2007. The decrease is primarily due to a \$2.07 per share dividend payment that totaled \$115,601.

Working capital at October 31, 2007 was \$367,448 compared to \$428,329 on July 31, 2007. We have no long-term debt. We currently have a \$30,000 revolving line of credit which bears interest at negotiated rates below prime and expires on November 30, 2008. There were no borrowings on this line of credit during the period ended October 31, 2007. The loan agreement executed in connection with the line of credit contains certain covenants, including restrictions on additional indebtedness, and requires us to maintain certain financial ratios. We believe that internally generated funds and the line of credit will be sufficient to meet our current needs and any additional capital requirements for the foreseeable future. Capital expenditures of approximately \$3,112 for the three months ended October 31, 2007 were primarily for planned expansions and improvements.

The Company anticipates additional capital expenditures in fiscal 2008 of approximately \$9,888. These expenditures will be made primarily to expand our RV companies and for replacement of machinery and equipment to be used in the ordinary course of business.

**Critical Accounting Principles**

The consolidated financial statements of Thor are prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We believe that of our accounting policies, the following may involve a higher degree of judgments, estimates, and complexity:

*Impairment of Goodwill, Trademarks and Long-Lived Assets*

**Table of Contents**

We at least annually review the carrying value of goodwill and trademarks with indefinite useful lives. Long-lived assets, identifiable intangibles that are amortized, goodwill and trademarks with indefinite useful lives are also reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Management believes that the estimates of future cash flows and fair values are reasonable; however changes in estimates of such cash flows and fair values could affect the evaluations.

*Insurance Reserves*

Generally, we are self-insured for workers' compensation and group medical insurance. Under these plans, liabilities are recognized for claims incurred, including those incurred but not reported, and changes in the reserves. The liability for workers' compensation claims is determined by the Company with the assistance of a third party administrator using various state statutes and reserve requirements and historical claims' experience. Group medical reserves are funded through a trust and are estimated using historical claims' experience. We have a self-insured retention for products liability and personal injury matters of \$5,000 per occurrence. We have established a reserve on our balance sheet for such occurrences based on historical data and actuarial information. We maintain excess liability insurance aggregating \$25,000 with outside insurance carriers to minimize our risks related to catastrophic claims in excess of all our self-insured positions. Any material change in the aforementioned factors could have an adverse impact on our operating results.

*Warranty*

We provide customers of our products with a warranty covering defects in material or workmanship for periods generally ranging from one to two years, with longer warranties on certain structural components. We record a liability based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors we use in estimating the warranty liability include a history of units sold, existing dealer inventory, average cost incurred and a profile of the distribution of warranty expenditures over the warranty period. A significant increase in dealer shop rates, the cost of parts or the frequency of claims could have a material adverse impact on our operating results for the period or periods in which such claims or additional costs materialize. Management believes that the warranty reserve is adequate; however actual claims incurred could differ from estimates, requiring adjustments to the reserves. Warranty reserves are reviewed and adjusted as necessary on a quarterly basis.

*Income Taxes*

The Company accounts for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact the Company's financial position or its results of operations.

*Revenue Recognition*

Revenue from the sale of recreation vehicles and buses are recorded when all of the following conditions have been met:

- 1) An order for a product has been received from a dealer;
- 2) Written or oral approval for payment has been received from the dealer's financing institution;



**Table of Contents**

3) A common carrier signs the delivery ticket accepting responsibility for the product as agent for the dealer; and

4) The product is removed from the Company's property for delivery to the dealer who placed the order.

Certain shipments are sold to customers under cash on delivery ( COD ) terms. The Company recognizes revenue on COD sales upon payment and delivery. Most sales are made by dealers financing their purchases under flooring arrangements with banks or finance companies. Products are not sold on consignment, dealers do not have the right to return products, and dealers are typically responsible for interest costs to floorplan lenders. On average, the Company receives payments from floorplan lenders on products sold to dealers within 15 days of the invoice date.

*Repurchase Commitments*

It is customary practice for companies in the recreational vehicle industry to enter into repurchase agreements with financing institutions to provide financing to their dealers. Generally, these agreements provide for the repurchase of products from the financing institution in the event of a dealer's default. The risk of loss under these agreements is spread over numerous dealers and further reduced by the resale value of the units which the Company would be required to repurchase. Losses under these agreements have not been significant in the periods presented in the consolidated financial statements, and management believes that any future losses under these agreements will not have a significant effect on the Company's consolidated financial position or results of operations. The Company records repurchase and guarantee reserves based on prior experience and known current events.

**Forward Looking Statements**

This report includes certain statements that are 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. These forward looking statements involve uncertainties and risks. There can be no assurance that actual results will not differ from the Company's expectations. Factors which could cause materially different results include, among others, additional issues that may arise in connection with the findings of the completed investigation of the Audit Committee of the Board of Directors and the SEC's requests for additional information, fuel prices, fuel availability, interest rate increases, increased material costs, the success of new product introductions, the pace of acquisitions, cost structure improvements, competition and general economic conditions and the other risks and uncertainties discussed more fully in Item 1A of our Annual Report on Form 10-K for the year ended July 31, 2007. The Company disclaims any obligation or undertaking to disseminate any updates or revisions to any change in expectation of the Company after the date hereof or any change in events, conditions or circumstances on which any statement is based except as required by law.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to market risk from changes in foreign currency related to its operations in Canada. However, because of the size of Canadian operations, a hypothetical 10% change in the Canadian dollar as compared to the U.S. dollar would not have a significant impact on the Company's financial position or results of operations. The Company is also exposed to market risks related to interest rates because of its investments in corporate debt securities. A hypothetical 10% change in interest rates would not have a significant impact on the Company's financial position or results of operations.

**ITEM 4. Controls and Procedures**

Thor Industries, Inc. (the Company) maintains disclosure controls and procedures, as such term is defined under Securities Exchange Act Rule 13a-15(e), that are designed to ensure that information

**Table of Contents**

required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, the Company's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and the Company's management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company has carried out an evaluation, as of the end of the period covered by this report, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

During the first quarter of fiscal 2008 and through the date of this report, there have been no material changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II Other Information**

**ITEM 1. LEGAL PROCEEDINGS**

The SEC is reviewing the facts and circumstances giving rise to the restatement of our previously issued financial statements as of July 31, 2006 and 2005, and for each of the years in the three-year period ended July 31, 2006, and the financial results in each of the quarterly periods in 2006 and 2005, and our financial statements as of and for the three months ended October 31, 2006 and related matters. We intend to cooperate fully with the SEC. The investigation by the SEC staff could result in the SEC seeking various penalties and relief, including, without limitation, civil injunctive relief and/or civil monetary penalties or administrative relief. The nature of the relief or remedies the SEC may seek, if any, cannot be predicted at this time.

In addition, we are involved in certain litigation arising out of our operations in the normal course of our business most of which are based upon state lemon laws, warranty claims, other claims and accidents (for which we carry insurance above a specified deductible amount). We do not believe that any one of these claims is material.

**ITEM 6. Exhibits**

a.) Exhibits

31.1 Chief Executive Officer's Certification, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Chief Financial Officer's Certification, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Chief Executive Officer's Certification, furnished pursuant to Section 906 of the Sarbanes-Oxley Act 2002.

32.2 Chief Financial Officer's Certification, furnished pursuant to Section 906 of the Sarbanes-Oxley Act 2002.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**THOR INDUSTRIES, INC.**

(Registrant)

DATE: November 26, 2007

/s/ Wade F. B. Thompson  
Wade F. B. Thompson  
Chairman of the Board, President  
and Chief Executive Officer

DATE: November 26, 2007

/s/ Walter L. Bennett  
Walter L. Bennett  
Executive Vice President,  
Secretary and Chief Financial Officer