

THOR INDUSTRIES INC
Form 10-Q
June 19, 2007

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 January 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 5/31/2007
Common stock, par value \$.10 per share	55,767,304 shares

Explanatory Note

(All amounts presented in thousands)

In this Form 10-Q for the quarter ended January 31, 2007, Thor Industries, Inc. (we or the Company) is restating its condensed consolidated financial statements for the three and six months ended January 31, 2006. The effects of this restatement are reflected in the comparative amounts included in this Form 10-Q. We have restated 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 on June 11, 2007 filed an amendment to our Annual Report on Form 10-K/A for the year ended July 31, 2006. We have also restated our condensed consolidated financial statements as of October 31, 2006 and for the three months ended October 31, 2006 and 2005, and on June 12, 2007 filed an amendment to our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006.

On January 29, 2007, we announced that the Audit Committee of our Board of Directors (the Audit Committee) initiated an independent investigation regarding certain accounting issues at our Dutchmen Manufacturing, Inc. operating subsidiary (Dutchmen), primarily involving inventory, accounts receivable, accounts payable, and cost of products sold. We promptly and voluntarily informed the Securities and Exchange Commission (the SEC) of the Audit Committee s investigation, and have been responding to SEC staff requests for additional information in connection with the staff s investigation. The Audit Committee, assisted by independent outside legal counsel and accounting experts, thoroughly investigated the accounting issues raised at Dutchmen. The Audit Committee and its advisors also reviewed the internal controls at Dutchmen and other subsidiaries.

On April 9, 2007, we announced that on April 4, 2007 our Board of Directors, acting upon the recommendation of the Audit Committee and management, concluded that our previously issued consolidated financial statements relating to the fiscal years 2004, 2005 and 2006 and the three months ended October 31, 2006 contained in our filings with the SEC, including related reports of our independent registered public accounting firm, Deloitte & Touche LLP, and press releases, should no longer be relied upon.

The condensed consolidated financial statements and related financial information for the three and six months ended January 31, 2007 included in this Form 10-Q should be read only in conjunction with the information contained in our Annual Report on Form 10-K/A for the year ended July 31, 2006. See Note 2 to our condensed consolidated financial statements included in this Form 10-Q for further discussion.

The Audit Committee s investigation confirmed the Company s determination that income before income taxes recorded by Dutchmen was overstated in the amount of approximately \$26,000 in the aggregate from fiscal year 2004 to the second quarter of fiscal year 2007, as a result of misconduct by Dutchmen s former Vice President of Finance, the senior financial officer of Dutchmen in which he intentionally understated the cost of products sold. Dutchmen s Vice President of Finance manipulated accounts reflecting inventory, accounts receivable, accounts payable, and cost of products sold, by entering and approving his own inaccurate journal entries as well as reconciling the related accounts, and prepared fraudulent supporting documentation, with the net effect of overstating Dutchmen s income before income taxes by approximately \$26,000 during the relevant period. The Audit Committee s investigation found no evidence to conclude that anyone else, at Dutchmen or elsewhere in the Company, knew of or participated in this misconduct or that there was theft or misappropriation of company assets. The Audit Committee s investigation also identified issues with respect to internal controls at Dutchmen, certain of the Company s other operating subsidiaries, and the Company s corporate finance and accounting office. The Company s conclusions regarding internal controls issues are more fully detailed in Item 9A of our Annual Report on Form 10-K/A for the year ended July 31, 2006. The Company s decision to restate its previously issued financial statements follows the Company s evaluation, considering the results from the Audit Committee s investigation, of accounting practices

employed at Dutchmen during the periods restated. The effect of the restatement reported in this Quarterly Report on Form 10-Q is a reduction to income before income taxes of \$3,111, or \$1,969 in net income, for the three months ended January 31, 2006 and a reduction to income before income taxes of \$6,258, or \$3,961 in net income, for the six months ended January 31, 2006. The restated 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, are reported in our Annual Report on Form 10-K/A for the year ended July 31, 2006. The restated financial statements as of October 31, 2006 and for the three months ended October 31, 2006 and 2005 are reported in our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006.

The effects of these restatements are reflected in the financial statements and other supplemental data, including the unaudited quarterly data for fiscal years 2005 and 2006 and selected financial data for the fiscal years 2004, 2005 and 2006, included in our Annual Report on Form 10-K/A for the year ended July 31, 2006, our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006 and this Form 10-Q. We have not amended and do not intend to amend any of our previously filed Annual Reports on Form 10-K for the periods affected by the restatement or adjustments other than our Annual Report on Form 10-K/A for the year ended July 31, 2006 or any of our previously filed Quarterly Reports on Form 10-Q other than our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006.

We did not timely file our Quarterly Report on Form 10-Q for the quarter ended January 31, 2007 by the prescribed due date of March 12, 2007 because, at that time, the Audit Committee's investigation was ongoing. In addition, we did not timely file our Quarterly Report on Form 10-Q for the quarter ended April 30, 2007 by the prescribed due date of June 11, 2007. We expect to file our Quarterly Report on Form 10-Q for the quarter ended April 30, 2007 as soon as practicable after the filing of this report.

As a result of our failure to file quarterly reports on a timely basis, we are no longer eligible to use Form S-3 to register our securities with the SEC until all required reports under the Securities Exchange Act of 1934 have been timely filed for the 12 months prior to the filing of the registration statement for those securities.

The restatement, and the reasons for and events leading to the restatement, are also described in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 2 to our condensed consolidated financial statements contained elsewhere in this report.

PART I Financial Information

Unless otherwise indicated, all amounts presented in thousands except units, share and per share data.

ITEM 1. Financial Statements**THOR INDUSTRIES, INC. AND SUBSIDIARIES**
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	January 31, 2007	July 31, 2006
Current assets:		
Cash and cash equivalents	\$ 91,335	\$ 196,136
Investments short term	118,712	68,237
Accounts receivable:		
Trade	180,824	188,104
Other	5,485	5,639
Inventories	189,514	183,169
Prepaid expenses	12,310	6,533
Deferred income taxes	18,368	4,898
Total current assets	616,548	652,716
Property:		
Land	21,434	21,323
Buildings and improvements	134,129	131,649
Machinery and equipment	59,338	55,656
Total cost	214,901	208,628
Accumulated depreciation	56,896	51,163
Property, net	158,005	157,465
Investment in Joint ventures	2,657	2,737
Other assets:		
Goodwill	165,663	165,663
Non-compete agreements	2,387	2,841
Trademarks	13,900	13,900
Other	11,183	9,403
Total other assets	193,133	191,807
TOTAL ASSETS	\$ 970,343	\$ 1,004,725

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:		
Accounts payable	\$ 123,554	\$ 145,609
Accrued liabilities:		

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Taxes	24,734	18,709
Compensation and related items	31,227	37,161
Product warranties	59,061	59,795
Promotions and rebates	10,546	12,953
Product/property liability and related liabilities	11,840	10,423
Other	9,100	7,315
 Total current liabilities	 270,062	 291,965
 Deferred income taxes and other liabilities	 14,725	 12,911
Contingent liabilities and commitments		
Stockholders' equity:		
Common stock - authorized 250,000,000 shares; issued 57,210,404 shares @ 1/31/07 and 57,100,286 shares @ 7/31/06; par value of \$.10 per share	5,721	5,710
Additional paid-in capital	88,992	86,538
Accumulated other comprehensive income	1,311	1,772
Retained earnings	649,655	664,322
Less Treasury shares of 1,441,600 @ 1/31/07 & 1,401,200 @ 7/31/06	(60,123)	(58,493)
 Total stockholders' equity	 685,556	 699,849
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$ 970,343	 \$ 1,004,725

See notes to condensed consolidated financial statements

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

	Three Months Ended January		Six Months Ended January	
	31		31	
	2007	2006 (As restated, see Note 2)	2007	2006 (As restated, see Note 2)
Net sales	\$ 584,049	\$ 642,047	\$ 1,311,765	\$ 1,403,370
Cost of products sold	522,880	555,195	1,161,428	1,208,023
Gross profit	61,169	86,852	150,337	195,347
Selling, general and administrative expenses	37,424	41,237	80,869	85,573
Interest income	2,346	2,038	5,256	3,718
Interest expense	164	223	351	570
Other income	315	127	865	926
Income before income taxes	26,242	47,557	75,238	113,848
Provision for income taxes	7,990	17,652	26,389	42,570
Net income	\$ 18,252	\$ 29,905	\$ 48,849	\$ 71,278

Average common shares outstanding:

Basic	55,654,744	56,593,434	55,634,023	56,580,913
Diluted	55,927,479	56,982,007	55,909,970	56,942,738

Earnings per common share:

Basic	\$.33	\$.53	\$.88	\$ 1.26
Diluted	\$.33	\$.52	\$.87	\$ 1.25
Regular dividends declared per common share:	\$.07	\$.05	\$.14	\$.05
Special dividends declared per common share:	\$	\$	\$ 1.00	\$
Regular dividends paid per common share:	\$.07	\$.05	\$.14	\$.10
Special dividends paid per common share:	\$	\$	\$ 1.00	\$.25

See notes to condensed consolidated financial statements

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

	2007	2006 (As restated, see Note 2)
Cash flows from operating activities:		
Net income	\$ 48,849	\$ 71,278
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	6,393	6,968
Amortization	454	475
Deferred income taxes	(7,699)	(12,396)
Loss on disposition of assets	86	12
Loss on disposition of trading investments	104	255
Unrealized loss on trading investments		15
Stock based compensation	319	540
Changes in non cash assets and liabilities, net of effect from acquisitions:		
Purchases of trading investments		(152,062)
Proceeds from disposition of trading investments	68,133	84,274
Accounts receivable	7,434	(29,159)
Inventories	(6,345)	(26,445)
Prepays and other	(13,537)	(5,514)
Accounts payable	(22,221)	9,139
Accrued liabilities	152	36,901
Other liabilities	1,838	1,314
Net cash (used in) provided by operating activities	83,960	(14,405)
Cash flows from investing activities:		
Purchase of property, plant & equipment	(7,101)	(14,244)
Proceeds from disposition of assets	224	49
Purchase of available for sale investments	(202,320)	
Proceeds from sale of available for sale investments	83,897	
Net cash used in investing activities	(125,300)	(14,195)
Cash flows from financing activities:		
Cash dividends	(63,516)	(19,834)
Purchase of common stock held as treasury shares	(1,630)	
Proceeds from issuance of common stock	2,146	1,256
Net cash used in financing activities	(63,000)	(18,578)

Effect of exchange rate changes on cash	(461)	840
Net decrease in cash and equivalents	(104,801)	(46,338)
Cash and equivalents, beginning of period	196,136	163,596
Cash and equivalents, end of period	\$ 91,335	\$ 117,258
Supplemental cash flow information:		
Income taxes paid	\$ 25,846	\$ 23,343
Interest paid	351	570
Non cash transactions:		
Capital expenditures in accounts payable	\$ 166	\$ 894
See notes to condensed consolidated financial statements		

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- The July 31, 2006 amounts are derived from the annual audited financial statements, as restated. 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/A for the year ended July 31, 2006. The results of operations for the six months ended January 31, 2007 are not necessarily indicative of the results for the full year.
- Restatement of Financial Statements

On January 29, 2007, we announced that the Audit Committee of our Board of Directors (the "Audit Committee") initiated an independent investigation regarding certain accounting issues at our Dutchmen Manufacturing, Inc. operating subsidiary ("Dutchmen"). The Vice President of Finance at Dutchmen was intentionally understating the cost of products sold during the periods restated, primarily by overstating inventory and accounts receivable and understating accounts payable. We promptly and voluntarily informed the SEC of the Audit Committee's investigation, and have been responding to SEC staff requests for additional information in connection with the staff's investigation. The Audit Committee, assisted by independent outside legal counsel and accounting experts, thoroughly investigated the accounting issues raised at Dutchmen. The Audit Committee and its advisors also reviewed the internal controls at Dutchmen and other subsidiaries.

The Audit Committee's investigation confirmed the Company's determination that the income before income taxes recorded by Dutchmen was overstated during the periods that we subsequently restated, as a result of misconduct by Dutchmen's former Vice President of Finance, the senior financial officer of Dutchmen.

The Company has restated its previously issued financial statements as of July 31, 2006, in conjunction with the Company's Annual Report on Form 10-K/A, and for the three and six month periods ended January 31, 2006. The restatement followed the Company's evaluation, considering the results from the Audit Committee's investigation, of accounting practices employed at Dutchmen during these periods.

The following tables show the previously reported, restatement adjustment and restated amounts for those accounts in the Statements of Condensed Consolidated Income for the three months ended January 31, 2006 and the six months ended January 31, 2006 and the Statement of Condensed Consolidated Cash Flows for the six months ended January 31, 2006, affected by the restatements.

	Previously reported	Restatement adjustment	Restated
Statement of Condensed Consolidated Income			
Three months ended January 31, 2006			
Cost of products sold	\$552,084	\$ 3,111	\$555,195
Gross profit	89,963	(3,111)	86,852
Income before income taxes	50,668	(3,111)	47,557
Provision for income taxes	18,794	(1,142)	17,652
Net income	31,874	(1,969)	29,905
Earnings per common share			
Three months ended January 31, 2006			
Basic	\$.56	\$ (.03)	\$.53
Diluted	\$.56	\$ (.04)	\$.52

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Previously reported	Restatement adjustment	Restated
Statement of Condensed Consolidated Income			
Six months ended January 31, 2006			
Cost of products sold	\$1,201,765	\$ 6,258	\$1,208,023
Gross profit	201,605	(6,258)	195,347
Income before income taxes	120,106	(6,258)	113,848
Provision for income taxes	44,867	(2,297)	42,570
Net income	75,239	(3,961)	71,278

Statement of Condensed Consolidated Cash Flows
Six months ended January 31, 2006

	Previously reported	Restatement adjustment	Restated
Cash flows from operating activities			
Net income	\$ 75,239	\$(3,961)	\$ 71,278
Accounts receivable	(32,284)	3,125	(29,159)
Inventories	(29,089)	2,644	(26,445)
Accounts payable	8,650	489	9,139
Accrued liabilities	39,198	(2,297)	36,901

Earnings per common share**Six months ended January 31, 2006**

Basic	\$ 1.33	\$ (.07)	\$ 1.26
Diluted	\$ 1.32	\$ (.07)	\$ 1.25

3. Major classifications of inventories are:

	January 31, 2007	July 31, 2006
Raw materials	\$ 89,826	\$ 99,807
Chassis	49,495	39,772
Work in process	50,837	51,208
Finished goods	23,827	13,416
Total	213,985	204,203
Less excess of FIFO costs over LIFO costs	24,471	21,034
Total inventories	\$ 189,514	\$ 183,169

4. Earnings Per Share

	Three Months Ended January 31, 2007	Three Months Ended January 31, 2006	Six Months Ended January 31, 2007	Six Months Ended January 31, 2006
Weighted average shares outstanding for basic earnings per share	55,654,744	56,593,434	55,634,023	56,580,913

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Stock options and restricted stock	272,735	388,573	275,947	361,825
Total For diluted shares	55,927,479	56,982,007	55,909,970	56,942,738

7

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Comprehensive Income

	Three Months Ended January 31, 2007	Three Months Ended January 31, 2006	Six Months Ended January 31, 2007	Six Months Ended January 31, 2006
Net income	\$ 18,252	\$ 29,905	\$ 48,849	\$ 71,278
Foreign currency translation adjustment	(562)	430	(461)	840
Comprehensive income	\$ 17,690	\$ 30,335	\$ 48,388	\$ 72,118

6. 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. During the quarter ended January 31, 2006, the Company made the decision not to produce a planned motorized product line. The impairment charge associated with the decision was \$1,360 and is included in cost of products sold.

	Three Months Ended January 31, 2007	Three Months Ended January 31, 2006	Six Months Ended January 31, 2007	Six Months Ended January 31, 2006
Net Sales:				
Recreation vehicles:				
Towables	\$ 373,940	\$ 457,861	\$ 873,895	\$ 991,097
Motorized	116,694	113,841	252,617	262,935
Total recreation vehicles	490,634	571,702	1,126,512	1,254,032
Buses	93,415	70,345	185,253	149,338
Total	\$ 584,049	\$ 642,047	\$ 1,311,765	\$ 1,403,370

	Three Months Ended January 31, 2007	Three Months Ended January 31, 2006	Six Months Ended January 31, 2007	Six Months Ended January 31, 2006
Income Before Income Taxes:				
Recreation vehicles:				

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Towables	\$	21,804	\$	46,891	\$	62,204	\$	105,168
Motorized		3,468		2,171		9,536		10,537
Total recreation vehicles		25,272		49,062		71,740		115,705
Buses		3,154		1,985		6,174		3,979
Corporate		(2,184)		(3,490)		(2,676)		(5,836)
Total	\$	26,242	\$	47,557	\$	75,238	\$	113,848

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	January 31, 2007	July 31, 2006
Identifiable Assets:		
Recreation vehicles:		
Towables	\$ 472,589	\$ 483,324
Motorized	147,370	150,058
Total recreation vehicles	619,959	633,382
Buses	110,338	103,861
Corporate	240,046	267,482
Total	\$ 970,343	\$ 1,004,725

7. 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.

8. Investments – Short Term

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 January 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 January 31, 2007 mature within one year.

As of July 31, 2006, the Company held short-term debt and equity investments classified as trading securities. These trading securities were all sold or matured during the three months ended October 31, 2006 and were recorded as trading securities activity. Realized and unrealized gains and losses on trading securities are included in earnings. Dividend and interest income were recognized when earned.

9. Goodwill and Other Intangible Assets

The components of other intangible assets are as follows:

	January 31, 2007		July 31, 2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Amortized Intangible Assets:				
Non-compete agreements	\$15,889	\$13,502	\$15,889	\$13,048

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	Three Months Ended January 31, 2007	Three Months Ended January 31, 2006	Six Months Ended January 31, 2007	Six Months Ended January 31, 2006
Non-compete Agreements: Amortization Expense	\$ 217	\$ 238	\$ 454	\$ 475

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

9

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization Expense:

For the year ending July 2007	\$887
For the year ending July 2008	\$828
For the year ending July 2009	\$492
For the year ending July 2010	\$337
For the year ending July 2011	\$239

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

As of January 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

10. 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.

	Three Months Ended January 31, 2007	Three Months Ended January 31, 2006	Six Months Ended January 31, 2007	Six Months Ended January 31, 2006
Beginning Balance	\$ 60,923	\$ 56,112	\$ 59,795	\$ 55,118
Provision	15,243	11,886	33,194	27,853
Payments	17,105	14,116	33,928	29,089
Ending Balance	\$ 59,061	\$ 53,882	\$ 59,061	\$ 53,882

11. Commercial Commitments

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

Commitment	Total Amount Committed	Term of Guarantee less than 1 year less than 1 year
Guarantee on dealer financing	\$ 3,504	
Standby repurchase obligation on dealer financing	\$ 912,276	

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company records repurchase and guarantee reserves based on prior experience and known current events. The combined repurchase and recourse reserve balances are approximately \$2,241 and \$1,563 as of January 31, 2007 and July 31, 2006, respectively.

	Three Months Ended January 31, 2007	Three Months Ended January 31, 2006	Six Months Ended January 31, 2007	Six Months Ended January 31, 2006
Cost of units repurchased	\$ 6,128	\$ 753	\$ 8,089	\$ 2,103
Realization on units resold	5,474	534	7,017	1,806
Losses due to repurchase	\$ 654	\$ 219	\$ 1,072	\$ 297

12. Subsequent Events

In April 2007, the Company reached an agreement in principle to settle a tax dispute with the State of Indiana regarding filing positions taken on its Indiana state income tax returns. It is anticipated that when the agreement is finalized, tax reserves of approximately \$6,000 will be reversed by the Company, decreasing the provision for income taxes.

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

(\$ in thousands)

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 position in the travel trailer and fifth wheel segment of the industry (towables), gives us a market share of approximately 32%. In the motorized segment of the industry we have a market share of approximately 13%. Our market share in small and mid-size buses is approximately 40%. We entered the 40-foot bus market with a new 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 invested significant capital to modernize and expand our plant facilities and have expended approximately \$31,008 for that purpose in fiscal 2006.

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.

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 finance dealers. In support of our RV dealer financing needs, however, we enter into agreements with providers of inventory financing whereby we repurchase new inventory (on agreed terms) located at dealer facilities should the lender foreclose. In another dealer support activity, we have a 50-50 joint venture with G.E. Consumer Finance, Thor Credit Corporation, that offers retail financing to customers of the dealer in their purchase of Thor and other manufacturer's products.

Restatement

As further described in the Explanatory Note on page 1 of this report, Note 2 to our condensed consolidated financial statements contained elsewhere in this report and our Annual Report on Form 10-K/A for the year ended July 31, 2006, we have restated our 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 the financial statements as of October 31, 2006 and for the three months ended October 31, 2006 and 2005. The restatement follows the Company's evaluation, considering the results from the independent investigation of the Audit Committee of our Board of Directors, of accounting practices employed at our Dutchmen Manufacturing, Inc. operating subsidiary (Dutchmen) during these periods. The effect of the restatement reported in this Quarterly Report on Form 10-Q is a reduction to income before income taxes of \$3,111, or \$1,969 in net income, for the three months ended January 31, 2006 and a reduction to income before income taxes of \$6,258, or \$3,961 in net income, for the six months ended January 31, 2006. The restated 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, are reported in our Annual Report on Form 10-K/A for the year ended July 31, 2006. The restated financial statements as of October 31, 2006 and for the three months ended October 31, 2006 and 2005 are reported in our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006. The accompanying management's discussion and analysis of financial condition and results of operations gives effect to the restatement described in Note 2 to our condensed consolidated financial statements contained elsewhere in this report.

We have incurred material expenses in 2007 as a direct result of the Audit Committee's investigation and the Company's review of the accounting practices at Dutchmen and certain of our other operating subsidiaries. These costs primarily relate to professional services for legal, accounting and tax guidance. In addition, we have incurred costs related to the preparation, review and audit of our restated consolidated financial statements. We expect that we will continue to incur costs associated with these matters.

Information on our accounting controls and procedures, including our internal controls, is described in Item 4 Controls and Procedures.

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. For the three months ended March 31, 2007, Statistical Surveys, Inc. reported that travel trailers and fifth wheel unit sales were down 1.6% and that motorhome sales were down 10.0%, compared to the three months ended March 31, 2006. Higher interest rates and fuel prices appear to affect the motorized segment more severely. According to Statistical Surveys, Inc., our travel trailer and fifth wheel market share for the three months ended March 31, 2007 was 31.9%, down from 32.1% for the three months ended March 31, 2006. In motorhomes, our market share increased to 13.2% for the three months ended March 31, 2007, up from 13.0% for the three months ended March 31, 2006.

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, so many of the buses are being replaced. Management estimates that industry unit sales of small and mid-sized buses are up 14.7% in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. 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.

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Three Months Ended January 31, 2007 vs.
Three Months Ended January 31, 2006

	Three Months Ended January 31, 2007		Three Months Ended January 31, 2006		Change Amount	%
NET SALES:						
Recreation Vehicles						
Towables	\$ 373,940		\$ 457,861		\$ (83,921)	(18.3)
Motorized	116,694		113,841		2,853	2.5
Total Recreation Vehicles	490,634		571,702		(81,068)	(14.2)
Buses	93,415		70,345		23,070	32.8
Total	\$ 584,049		\$ 642,047		\$ (57,998)	(9.0)
# OF UNITS:						
Recreation Vehicles						
Towables	17,436		24,042		(6,606)	(27.5)
Motorized	1,521		1,486		35	2.4
Total Recreation Vehicles	18,957		25,528		(6,571)	(25.7)
Buses	1,531		1,321		210	15.9
Total	20,488		26,849		(6,361)	(23.7)
		% of Segment Net Sales		% of Segment Net Sales		
GROSS PROFIT:						
Recreation Vehicles						
Towables	\$ 44,576	11.9	\$ 73,647	16.1	\$ (29,071)	(39.5)
Motorized	9,854	8.4	7,876	6.9	1,978	25.1
Total Recreation Vehicles	54,430	11.1	81,523	14.3	(27,093)	(33.2)
Buses	6,739	7.2	5,329	7.6	1,410	26.5
Total	\$ 61,169	10.5	\$ 86,852	13.5	\$ (25,683)	(29.6)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:						
Recreation Vehicles						
Towables	\$ 22,954	6.1	\$ 26,881	5.9	\$ (3,927)	(14.6)

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Motorized	6,388	5.5		5,704	5.0	684	12.0
Total Recreation Vehicles	29,342	6.0		32,585	5.7	(3,243)	(10.0)
Buses	3,510	3.8		3,154	4.5	356	11.3
Corporate	4,572			5,498		(926)	(16.8)
Total	\$ 37,424	6.4	\$	41,237	6.4	\$ (3,813)	(9.2)
INCOME BEFORE							
INCOME TAXES:							
Recreation Vehicles							
Towables	\$ 21,804	5.8	\$	46,891	10.2	\$ (25,087)	(53.5)
Motorized	3,468	3.0		2,171	1.9	1,297	59.7
Total Recreation Vehicles	25,272	5.2		49,062	8.6	(23,790)	(48.5)
Buses	3,154	3.4		1,985	2.8	1,169	58.9
Corporate	(2,184)			(3,490)		1,306	37.4
Total	\$ 26,242	4.5	\$	47,557	7.4	\$ (21,315)	(44.8)

ORDER BACKLOG

	As of	As of	Change	
	January 31, 2007	January 31, 2006	Amount	%
Recreation Vehicles				
Towables	\$ 238,658	\$ 376,069	\$ (137,411)	(36.5)
Motorized	99,756	122,416	(22,660)	(18.5)
Total Recreation Vehicles	338,414	498,485	(160,071)	(32.1)
Buses	206,820	173,697	33,123	19.1
Total	\$ 545,234	\$ 672,182	\$ (126,948)	(18.9)

CONSOLIDATED

Net sales and gross profit for the three months ended January 31, 2007 were down 9.0% and 29.6%, respectively, compared to the three months ended January 31, 2006. We estimate that in the three months ended January 31, 2006 approximately \$38,677, or 8.4%, of towable net sales were related to hurricane relief units sold through our dealer network. There have been no sales of hurricane relief units in fiscal 2007. Selling, general and administrative expenses for the three months ended January 31, 2007 decreased 9.2% compared to the three months ended January 31, 2006. Income before income taxes for the three months ended January 31, 2007 decreased 44.8% compared to the three months ended January 31, 2006. The specifics on changes in net sales, gross profit, selling, general and administrative expense and income before income taxes are addressed in the segment reporting below.

Corporate costs in selling, general and administrative were \$4,572 for the three months ended January 31, 2007 compared to \$5,498 for the three months ended January 31, 2006. This \$926 decrease is primarily the result of reduced compensation, primarily bonuses and legal expenses. Corporate interest income and other income was \$2,330 for the three months ended January 31, 2007 compared to \$2,008 for the three months ended January 31, 2006. The overall effective tax rate for the three months ended January 31, 2007 was 30.4% compared to 37.1% for the three months ended January 31, 2006. The primary reason for the reduction of taxes in 2007 was the Company recorded \$1.9 million of tax benefit in the three months ended January 31, 2007 related to its research and development credits. This tax benefit was recorded because the 2006 Tax Relief and Health Care Act retroactively reinstated the research and development credit to January 1, 2006 and the Company reached an agreement with the Internal Revenue Service regarding the amount of research and development credit for fiscal years 2003 through 2005 which was previously not recognized.

Segment Reporting**RECREATION VEHICLES**

Analysis of Percentage Change in Net Sales Versus Prior Year

	Average Price Per Unit	Units	Net Change
Recreation Vehicles			
Towables	9.2%	(27.5)%	(18.3)%
Motorized	.1%	2.4%	2.5%

TOWABLE RECREATION VEHICLES

The decrease in towables net sales of 18.3% resulted primarily from reduced unit sales, primarily hurricane relief units. We estimate that in the three months ended January 31, 2006 approximately \$38,677, or 8.4%, of towable net sales (approximately 2,880 units), were related to hurricane relief units sold through our dealer network. There have

been no sales of hurricane relief units in fiscal 2007. The

overall industry decrease in towables for November and December of 2006 was 27.3% according to statistics published by the Recreation Vehicle Industry Association. Increases in the average price per unit resulted from product mix and no hurricane unit sales in fiscal 2007. Hurricane unit pricing in fiscal 2006 was substantially lower than the average price per unit of other towables.

Towables gross profit percentage decreased to 11.9% of net sales for the three months ended January 31, 2007 from 16.1% of net sales for the three months ended January 31, 2006. The primary factor for the decrease in gross profit percentage was the 18.3% decrease in net sales and increased discount and allowances due to a soft market. Towable discounts and allowances increased by approximately \$5,000 in three months ended January 31, 2007 compared to the three months ended January 31, 2006. Selling, general and administrative expenses were 6.1% of net sales for the three months ended January 31, 2007 and 5.9% of net sales for the three months ended January 31, 2006.

Towables income before income taxes decreased to 5.8% of net sales for the three months ended January 31, 2007 from 10.2% of net sales for the three months ended January 31, 2006. The primary factor for this decrease was the reduction in unit sales and corresponding margins.

MOTORIZED RECREATION VEHICLES

The increase in motorized net sales of 2.5% resulted from a 2.4% increase in unit shipments. The increase in units sold of approximately 2.4% outperformed the overall market increase in motorhomes of 1.0% for the two month period November and December 2006 according to statistics published by the Recreation Vehicle Industry Association. The increase in the average price per unit resulted from the product mix.

Motorized gross profit percentage increased to 8.4% of net sales for the three months ended January 31, 2007 from 6.9% of net sales for the three months ended January 31, 2006. The primary factor for the increase in gross profit percentage in 2007 was increased unit sales and a \$1,360 impairment charge in the three months ended January 31, 2006 associated with the decision to not produce a planned motorized product line. Selling, general and administrative expenses were 5.5% of net sales for the three months ended January 31, 2007 and 5.0% of net sales for the three months ended January 31, 2006.

Motorized income before income taxes was 3.0% of net sales for the three months ended January 31, 2007 and 1.9% of net sales for the three months ended January 31, 2006. The increase in motorized income before income taxes for the three months ended January 31, 2007 compared to the three months ended January 31, 2006 was, as noted above, increased unit sales and the \$1,360 impairment charge in 2006.

BUSES

Analysis of Percentage Change in Net Sales Versus Prior Year

	Average Price Per Unit	Units	Net Change
Buses	17.0%	15.9%	32.8%

The increase in buses net sales of 32.8% resulted from a combination of an increase in both average price per unit and unit shipments. The increase in the average price per unit resulted primarily from the product mix.

Buses gross profit percentage decreased to 7.2% of net sales for the three months ended January 31, 2007 from 7.6% of net sales for the three months ended January 31, 2006. The primary reason for the decrease in gross profit percentage was the more competitive pricing for our bus products compared to the prior year period. Selling, general and administrative expenses were 3.8% of net sales for the three months ended January 31, 2007 and 4.5% for the three months ended January 31, 2006. The reduction

in selling, general and administrative expenses as a percentage of net sales is primarily due to increased sales volume in the three months ended January 31, 2007.

Buses income before income taxes increased to 3.4% of net sales for the three months ended January 31, 2007 from 2.8% for the three months ended January 31, 2006 due to increased sales volume.

Six Months Ended January 31, 2007 vs.

Six Months Ended January 31, 2006

	Six Months Ended January 31, 2007	Six Months Ended January 31, 2006	Change Amount	%
NET SALES:				
Recreation Vehicles				
Towables	\$ 873,895	\$ 991,097	\$ (117,202)	(11.8)
Motorized	252,617	262,935	(10,318)	(3.9)
Total Recreation Vehicles	1,126,512	1,254,032	(127,520)	(10.2)
Buses	185,253	149,338	35,915	24.0
Total	\$ 1,311,765	\$ 1,403,370	\$ (91,605)	(6.5)
# OF UNITS:				
Recreation Vehicles				
Towables	40,926	51,560	(10,634)	(20.6)
Motorized	3,376	3,505	(129)	(3.7)
Total Recreation Vehicles	44,302	55,065	(10,763)	(19.5)
Buses	3,088	2,789	299	10.7
Total	47,390	57,854	(10,464)	(18.1)