THOR INDUSTRIES INC
Form 10-Q
November 26, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended October 31, 2012.

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from ______ to ______.

COMMISSION FILE NUMBER 1-9235

THOR INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	93-0768752 (I.R.S. Employer Identification No.)
419 West Pike Street, Jackson Center, OH (Address of principal executive offices)	45334-0629 (Zip Code)

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

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

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

Large accelerated filer	þ	Accelerated filer	¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

Yes ¨ No þ

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 10/31/2012
Common stock, par value $ .10 per share	52,964,049 shares

PART I - FINANCIAL INFORMATION

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

ITEM 1. FINANCIAL STATEMENTS

THOR INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS

Current assets:	October 31, 2012	July 31, 2012
Cash and cash equivalents	$ 214,498	$ 218,642
Accounts receivable:		
Trade, less allowance for doubtful accounts of $522 at 10/31/12 and $527 at 7/31/12	206,321	221,655
Other	9,447	10,430
Inventories	225,820	186,083
Notes receivable	1,000	1,000
Prepaid expenses and other	7,837	6,179
Deferred income taxes	42,274	40,897
Total current assets	707,197	684,886
Property, plant and equipment:		
Land	23,999	23,704
Buildings and improvements	169,752	166,868
Machinery and equipment	87,362	84,863
Total cost	281,113	275,435
Less accumulated depreciation	114,466	111,041
Net property, plant and equipment	166,647	164,394
Other assets:		
Goodwill	245,977	245,209
Amortizable intangible assets	113,360	114,227
Long-term notes receivable	22,160	22,160
Other	12,212	12,178
Total other assets	393,709	393,774
TOTAL ASSETS	$ 1,267,553	$ 1,243,054

See Notes to the Condensed Consolidated Financial Statements.

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:	October 31, 2012	July 31, 2012
Accounts payable	$ 143,958	$ 143,139
Accrued liabilities:		
Compensation and related items	38,800	41,295
Product warranties	77,963	73,280
Income and other taxes	10,624	16,129
Promotions and rebates	15,348	11,053
Product/property liability and related liabilities	11,236	11,044
Other	13,912	15,150
Total current liabilities	311,841	311,090
Unrecognized income tax benefits	45,517	44,516
Deferred income taxes, net	20,127	20,934
Other long-term liabilities	16,452	15,687
Total long-term liabilities	82,096	81,137
Stockholders equity:		
Preferred stock authorized 1,000,000 shares; none outstanding		
Common stock par value of $.10 per share; authorized 250,000,000 shares; issued 61,821,388 shares at 10/31/12 and 61,777,849 at 7/31/12	6,180	6,178
Additional paid-in capital	193,573	192,248
Retained earnings	940,026	918,565
Accumulated other comprehensive loss unrealized loss on available-for-sale investments	(59)	(60)
Less treasury shares of 8,857,339 at 10/31/12 and at 7/31/12, at cost	(266,104)	(266,104)
Total stockholders equity	873,616	850,827
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,267,553	$ 1,243,054

See Notes to the Condensed Consolidated Financial Statements.

THOR INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED OCTOBER 31, 2012 AND 2011 (UNAUDITED)

	Three Months Ended October 31,	
	2012	2011
Net sales	$ 875,612	$ 673,000
Cost of products sold	775,020	598,022
Gross profit	100,592	74,978
Selling, general and administrative expenses	51,465	38,460
Amortization of intangible assets	2,768	2,847
Interest income	779	1,069
Interest expense	80	143
Other income, net	553	51
Income before income taxes	47,611	34,648
Income taxes	16,623	12,290
Net income	$ 30,988	$ 22,358
Weighted average common shares outstanding:		
Basic	52,928,467	54,992,184
Diluted	53,035,582	55,014,007
Earnings per common share:		
Basic	$ 0.59	$ 0.41
Diluted	$ 0.58	$ 0.41
Regular dividends declared and paid per common share	$ 0.18	$ 0.15
Net income	$ 30,988	$ 22,358
Unrealized appreciation (depreciation) on investments, net of tax effects of $1 and $18	1	(31)
Comprehensive income	$ 30,989	$ 22,327

See Notes to the Condensed Consolidated Financial Statements.

THOR INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED OCTOBER 31, 2012 AND 2011 (UNAUDITED)

	Three Months Ended October 31, 2012	2011
Cash flows from operating activities:		
Net income	$ 30,988	$ 22,358
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,444	3,514
Amortization of intangibles	2,768	2,847
Deferred income tax provision (benefit)	(2,185)	444
Loss on disposition of property, plant and equipment		2
Stock-based compensation	669	161
Excess tax benefits from stock-based awards	(60)	
Changes in assets and liabilities (excluding acquisitions):		
Accounts receivable	16,317	4,245
Inventories	(38,822)	1,373
Notes receivable		26
Prepaid expenses and other	(1,690)	(3,251)
Accounts payable	1,346	(2,437)
Accrued liabilities	(102)	(7,870)
Other liabilities	1,766	929
Net cash provided by operating activities	14,439	22,341
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,893)	(2,041)
Acquisitions	(3,914)	(170)
Other		200
Net cash used in investing activities	(9,807)	(2,011)
Cash flows from financing activities:		
Cash dividends	(9,527)	(8,227)
Purchases of treasury stock		(20,000)
Excess tax benefits from stock-based awards	60	
Proceeds from issuance of common stock	691	
Net cash used in financing activities	(8,776)	(28,227)
Net decrease in cash and equivalents	(4,144)	(7,897)
Cash and cash equivalents, beginning of period	218,642	215,435
Cash and cash equivalents, end of period	$ 214,498	$ 207,538
Supplemental cash flow information:		
Income taxes paid	$ 25,250	$ 23,217
Interest paid	$ 80	$ 143
Non-cash transactions:		
Capital expenditures in accounts payable	$ 325	$ 144

See Notes to the Condensed Consolidated Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Nature of Operations and Accounting Policies

Nature of Operations - Thor Industries, Inc. was founded in 1980 and, through its subsidiaries (the Company), manufactures a wide range of recreation vehicles (RVs) and small and mid-size buses at various manufacturing facilities across the United States. These products are sold to independent dealers and municipalities primarily throughout the United States and Canada. Unless the context otherwise requires or indicates, all references to Thor , the Company , we , our and us refer to Thor Industries, Inc. and its subsidiaries.

The Company s core business activities are comprised of three distinct operations, which include the design, manufacture and sale of towable recreation vehicles, motorized recreation vehicles and buses. Accordingly, the Company has presented segment financial information for these three segments in Note 3 to the Condensed Consolidated Financial Statements.

The July 31, 2012 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 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 fiscal year ended July 31, 2012. Due to seasonality within the recreation vehicle industry, the results of operations for the three months ended October 31, 2012 are not necessarily indicative of the results for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Key estimates include reserves for inventory, incurred but not reported medical claims, warranty claims, recalls, workers compensation claims, vehicle repurchases, uncertain tax positions, product and non-product litigation and assumptions made in asset impairment assessments. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. The Company believes that such estimates are made using consistent and appropriate methods. Actual results could differ from these estimates.

Accounting Pronouncements - In September 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2011-08, Testing Goodwill for Impairment , to simplify how entities test goodwill for impairment. This guidance permits an entity to assess qualitative factors to determine whether it is more likely than not (defined as more than fifty percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the current two-step goodwill impairment test. The two-step goodwill impairment test that begins with estimating the fair value of the reporting unit will only be required if the entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU No. 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance in fiscal 2013 is not expected to have a material impact on the Company s Consolidated Financial Statements.

Acquisition of Bus Business - On September 17, 2012, the Company entered into an Asset Purchase Agreement with Krystal Infinity, LLC dba Krystal Enterprises (Krystal) for the acquisition of Krystal s bus operation assets for cash consideration of $3,914. The acquisition was subject to certain pre-closing conditions and closed on October 3, 2012. The fair value of the net assets acquired included inventory of $915, property and equipment of $331, goodwill of $768 and amortizable intangible assets consisting of trademarks of $1,000 and dealer network of $900. The Company purchased the Krystal bus operation assets to expand its bus business and absorb the Company s fixed overhead costs across a larger revenue base. The Krystal bus operation assets will be utilized at the ElDorado Kansas facility to produce buses under the Krystal name.

2. Earnings Per Common Share

	Three Months Ended October 31, 2012	Three Months Ended October 31, 2011
Weighted average common shares outstanding for basic earnings per share	52,928,467	54,992,184
Stock options and unvested restricted stock and restricted stock units	107,115	21,823
Weighted average common shares outstanding for diluted earnings per share	53,035,582	55,014,007

The Company excludes stock options and unvested restricted stock and restricted stock units that have an antidilutive effect from its calculation of weighted average shares outstanding assuming dilution. At October 31, 2012 and 2011, the Company had 280,681 and 778,725, respectively, of antidilutive stock options and unvested restricted stock units outstanding which were excluded from this calculation.

3. Segment Information

The Company has three reportable segments: (1) towable recreation vehicles, (2) motorized recreation vehicles and (3) buses. The towable recreation vehicle reportable segment consists of product lines from the following operating segments that have been aggregated: Airstream, CrossRoads, Dutchmen, Keystone and Heartland. The motorized recreation vehicle reportable segment consists of product lines from the following operating segments that have been aggregated: Airstream and Thor Motor Coach. The bus reportable segment consists of the following operating segments that have been aggregated: Champion Bus, ElDorado California, ElDorado Kansas and Goshen Coach. Intersegment sales are not material.

	Three Months Ended October 31, 2012	Three Months Ended October 31, 2011
Net Sales:		
Recreation vehicles:		
Towables	$ 639,182	$ 499,104
Motorized	122,242	62,556
Total recreation vehicles	761,424	561,660
Buses	114,188	111,340
Total	$ 875,612	$ 673,000

	Three Months Ended October 31, 2012	Three Months Ended October 31, 2011
Income (Loss) Before Income Taxes:		
Recreation vehicles:		
Towables	$ 42,710	$ 32,591
Motorized	8,438	1,293
Total recreation vehicles	51,148	33,884
Buses	3,691	5,266
Corporate	(7,228)	(4,502)
Total	$ 47,611	$ 34,648

	October 31, 2012	July 31, 2012
Identifiable Assets:		
Recreation vehicles:		
Towables	$ 738,026	$ 734,439
Motorized	92,511	82,904
Total recreation vehicles	830,537	817,343
Buses	151,099	143,324
Corporate	285,917	282,387
Total	$ 1,267,553	$ 1,243,054

4. Inventories

Major classifications of inventories are:

	October 31, 2012	July 31, 2012
Raw materials	$ 119,516	$ 104,446
Chassis	45,640	39,044
Work in process	70,252	59,803
Finished goods	24,192	16,570
Total	259,600	219,863
Excess of FIFO costs over LIFO costs	(33,780)	(33,780)
Total inventories	$ 225,820	$ 186,083

Of the $259,600 and $219,863 of inventory at October 31, 2012 and July 31, 2012, all but $42,727 and $36,887, respectively, at certain subsidiaries were valued on a last-in, first-out basis. The $42,727 and $36,887 of inventory were valued on a first-in, first-out method.

5. Goodwill and Other Intangible Assets

The components of amortizable intangible assets are as follows:

	Weighted Average Remaining Life in Years	October 31, 2012 Cost	October 31, 2012 Accumulated Amortization	July 31, 2012 Cost	July 31, 2012 Accumulated Amortization
Dealer networks	10	$ 73,130	$ 15,132	$ 72,230	$ 13,343
Non-compete agreements	3	4,250	1,819	6,321	3,678
Trademarks	22	37,774	2,906	36,775	2,522
Design technology and other intangibles	12	21,300	3,237	21,300	2,856
Total amortizable intangible assets		$ 136,454	$ 23,094	$ 136,626	$ 22,399

Dealer networks are primarily being amortized on an accelerated cash flow basis. Trademarks, non-compete agreements and design technology and other intangibles are amortized on a straight-line basis.

Estimated annual amortization expense is as follows:

For the fiscal year ending July 31, 2013	$ 11,075
For the fiscal year ending July 31, 2014	$ 10,833
For the fiscal year ending July 31, 2015	$ 10,474
For the fiscal year ending July 31, 2016	$ 9,419
For the fiscal year ending July 31, 2017	$ 9,032
For the fiscal year ending July 31, 2018 and thereafter	$ 65,295

The change in carrying value in goodwill from July 31, 2012 to October 31, 2012 is as follows:

	Goodwill

Balance at July 31, 2012	$ 245,209
Acquisition of bus business	768
Balance at October 31, 2012	$ 245,977

All but $7,874 (bus reportable segment) of the goodwill resides in the towable recreation vehicles segment.

Goodwill is not subject to amortization, but instead is reviewed for impairment by applying a fair-value based test to the Company s reporting units on an annual basis as of April 30, or more frequently if events or circumstances indicate a potential impairment. The Company s reporting units are the same as its operating segments, which are identified in Note 3 to the Condensed Consolidated Financial Statements. Our assessment of whether any triggering events occurred during the first quarter ended October 31, 2012, for which we should further analyze whether an impairment exists through that date, did not result in the identification of such a triggering event.

6. Concentration of Risk

One dealer, FreedomRoads, LLC (FreedomRoads), accounted for 16% of the Company s consolidated recreation vehicle net sales for the three months ended October 31, 2012 and 14% of its consolidated net sales for the three months ended October 31, 2012. This dealer also accounted for 15% of the Company s consolidated trade accounts receivable at October 31, 2012 and 20% at July 31, 2012. The loss of this dealer could have a significant effect on the Company s business. One dealer accounted for 13% of the Company s bus net sales for the three months ended October 31, 2012. The loss of this dealer could have a significant effect on the Company s bus business.

7. Loan Transactions and Related Notes Receivable

On January 15, 2009, the Company entered into a Credit Agreement (the First Credit Agreement) with Stephen Adams, in his individual capacity, and Stephen Adams and his successors, as trustee under the Stephen Adams Living Trust (the Trust and together with each of the foregoing persons, the Borrowers), pursuant to which the Company loaned $10,000 to the Borrowers (the First Loan). The Borrowers own, directly or indirectly, a controlling interest in FreedomRoads Holding Company, LLC (FreedomRoads Holding), the parent company of FreedomRoads, the Company s largest dealer. Pursuant to the terms of the First Credit Agreement, the Borrowers agreed to use the proceeds of the First Loan solely to make an equity contribution to FreedomRoads Holding to enable FreedomRoads Holding or its subsidiaries to repay its principal obligations under floor plan financing arrangements with third parties in respect of products of the Company and its subsidiaries.

The principal amount of the First Loan is payable in full on January 15, 2014 and bears interest at a rate of 12% per annum. Interest was payable in kind for the first year and is payable in cash on a monthly basis thereafter, and all interest payments due to date have been paid in full.

On January 30, 2009, the Company entered into a second Credit Agreement (the Second Credit Agreement) with the Borrowers pursuant to which the Company loaned an additional $10,000 to the Borrowers (the Second Loan). Pursuant to the terms of the Second Credit Agreement, the Borrowers agreed to use the proceeds of the Second Loan solely to make an equity contribution to FreedomRoads Holding to be used by FreedomRoads Holding or its subsidiaries to purchase the Company s products.

The scheduled maturity date of the Second Loan was June 30, 2012. Principal was payable in semi-annual installments of $1,000 each, commencing on June 30, 2010, with a final payment of $6,000 due on June 30, 2012. Interest on the principal amount of the Second Loan was payable in cash on a quarterly basis at a rate of 12% per annum. The final principal and interest payments were received in fiscal 2012.

On December 22, 2009, the Company entered into a third Credit Agreement (the Third Credit Agreement) with Marcus Lemonis, Stephen Adams, in his individual capacity, and Stephen Adams and his successors, as trustee under the Trust (each of the foregoing persons, on a joint and several basis, the Third Loan Borrowers), pursuant to which the Company loaned $10,000 to the Third Loan Borrowers (the Third Loan). The Third Loan Borrowers own, directly or indirectly, a controlling interest in FreedomRoads Holding, the indirect parent company of FreedomRoads. Pursuant to the terms of the Third Credit Agreement, the Third Loan Borrowers agreed to use the proceeds of the Third Loan solely to provide a loan to one of FreedomRoads Holding s subsidiaries which would ultimately be contributed as equity to FreedomRoads to be used for working capital purposes.

The maturity date of the Third Loan is December 22, 2014. The principal amount of the Third Loan is payable on the following dates in the following amounts: December 31, 2011 - $500; December 31, 2012 - $1,000; December 31, 2013 - $1,100 and December 22, 2014 - $7,400. The principal amount of the Third Loan bears interest at a rate of 12% per annum. Interest is payable, at the option of the Third Loan Borrowers, either in cash or in-kind at each calendar quarter end from March 31, 2010 through September 30, 2011, and thereafter in cash quarterly in arrears from December 31, 2011 through the maturity date. The Third Loan Borrowers opted to pay the interest due at each quarter end from March 31, 2010 to September 30, 2011 in-kind and it was capitalized as part of the long-term note receivable. All payments of principal and interest due to date have been paid in full.

The First Credit Agreement, the Second Credit Agreement and the Third Credit Agreement each contain customary representations and warranties, affirmative and negative covenants, events of default and acceleration provisions for loans of this type. As required by the credit agreements, the Company receives on a quarterly basis financial information from the Borrowers and the Third Loan Borrowers and from the companies in which the Borrowers and the Third Loan Borrowers have significant ownership interests, including FreedomRoads Holding. This financial information is reviewed and evaluated as to any changes in the overall credit quality of the Borrowers and the Third Loan Borrowers. Based on the current credit review, the Company does not consider the receivables impaired or requiring an allowance for credit losses.

In connection with the First Loan, the Borrowers caused FreedomRoads Holding and its subsidiaries (collectively, the FR Dealers), to enter into an agreement pursuant to which the FR Dealers agreed to purchase additional recreation vehicles from the Company and its subsidiaries. The term of this agreement, as subsequently amended in connection with the Second Loan and the Third Loan, continues until December 22, 2029 unless earlier terminated in accordance with its terms.

8. Investments and Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

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

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The only Company assets or liabilities carried at fair value in the financial statements are its investments in auction rate securities (ARS) - measured with Level 3 inputs, and in other securities (primarily in mutual funds) held for the benefit of certain employees of the Company as part of a deferred compensation plan - measured with Level 1 inputs. ARS balances of $1,407 and $1,405 and deferred compensation plan asset balances of $9,380 and $8,970 were recorded as of October 31, 2012 and July 31, 2012, respectively, as components of Other Assets in the Condensed Consolidated Balance Sheets. An equal and offsetting accrued liability was also recorded in regards to the deferred compensation plan as a component of Other Accrued Liabilities in the Condensed Consolidated Balance Sheets. Changes in the fair value of the plan assets and the related deferred liability are both reflected in income.

The ARS underlying assets are primarily student loans which are substantially backed by the federal government. While the ARSs are subject to periodic settlements via open auctions, the Company may need to wait until the final maturity of the underlying loans to realize the full value of the ARS.

The following table provides a reconciliation of the beginning and ending balance for the assets measured at fair value using significant unobservable inputs (Level 3 financial assets):

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)	
Balance at July 31, 2012	$	1,405
Net change in other comprehensive income		2
Balance at October 31, 2012	$	1,407

9. Product Warranties

The Company generally provides retail customers of its products with a one-year warranty covering defects in material or workmanship, with longer warranties of up to five years on certain structural components. The Company records a liability based on its best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors used 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. Management believes that the warranty reserves are adequate. However, actual claims incurred could differ from estimates, requiring adjustments to the reserves. Warranty reserves are reviewed and adjusted as necessary on at least a quarterly basis.

Changes in our product warranty reserves are as follows:

	Three Months Ended October 31, 2012	Three Months Ended October 31, 2011
Beginning balance	$ 73,280	$ 66,054
Provision	24,453	17,072
Payments	(19,770)	(16,804)
Ending balance	$ 77,963	$ 66,322

10. Provision for Income Taxes

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current period 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. The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

It is the Company s policy to recognize interest and penalties accrued relative to unrecognized tax benefits in income tax expense. For the three month period ended October 31, 2012, the Company released $247 of gross uncertain tax benefit reserves and related interest recorded at July 31, 2012 as a result of statute of limitation expirations. The Company accrued $362 in interest and penalties during the three month period ended October 31, 2012 related to the remaining uncertain tax benefits recorded at July 31, 2012.

Generally, fiscal years 2009, 2010 and 2011 remain open for federal, state and foreign income tax purposes. The Company and its 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 fiscal 2008. The Company is currently being audited by the state of California for tax years ended July 31, 2007 and July 31, 2008 and by the state of Indiana for tax years ended July 31, 2008, 2009 and 2010. The Company believes it has fully reserved for its exposure to additional payments for uncertain tax positions related to its California and Indiana income tax returns in its liability for unrecognized tax benefits.

The overall effective income tax rate for the three months ended October 31, 2012 was 34.9% compared with 35.5% for the three months ended October 31, 2011. The primary reason for the decrease in the overall effective income tax rate from October 31, 2011 to October 31, 2012 was due to the release of uncertain tax benefit reserves discussed above.

The Company anticipates a decrease of $3,641 in unrecognized tax benefits and $901 in accrued interest and penalties related to these unrecognized tax benefits, within the next 12 months from expected settlements or payments of uncertain tax positions and lapses of the applicable statutes of limitations. In addition, the Company is currently in the process of pursuing a variety of settlement alternatives with taxing authorities. It is reasonably possible that some of these settlements could be successfully finalized in the next 12 months. If these settlements are successfully finalized within the next 12 months, the gross unrecognized tax benefits may decrease between approximately $3,200 and $12,900 and related accrued interest and penalties may decrease between approximately $1,800 and $5,800. It is reasonably possible that some of these settlements will result in cash payments being made by the Company to various taxing authorities. Actual results may differ materially from these estimates.

11. Contingent Liabilities and Commitments

The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for certain dealers of certain of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to dealers in the event of default by the dealer on the agreement to pay the financial institution. The repurchase price is generally determined by the original sales price of the product and pre-defined curtailment arrangements and the Company typically resells the repurchased product at a discount from its repurchase price. The risk of loss from these agreements is spread over numerous dealers. In addition to the guarantee under these repurchase agreements, the Company also provides limited dealer inventory financing guarantees to certain of its dealers.

The Company s principal commercial commitments under repurchase agreements and dealer inventory financing guarantees at October 31, 2012 are summarized in the following chart:

Commitment	Total Amount Committed		Term of Commitments
Guarantee on dealer inventory financing	$	900	Various
Standby repurchase obligations on dealer inventory financing	$	963,211	Up to eighteen months

We account for the guarantee under our repurchase agreements of our dealers financing by deferring a portion of the related product sale that represents the estimated fair value of the guarantee. The estimated fair value takes into account our estimate of the losses we will incur upon resale of any repurchases. This estimate is based on recent historical experience supplemented by management s assessment of current economic and other conditions affecting our dealers.

This deferred amount is included in our repurchase and guarantee reserve balances of $3,459 and $3,150 as of October 31, 2012 and July 31, 2012, respectively, which are included in Other Current Liabilities on the Condensed Consolidated Balance Sheets. These reserves do not include any amounts for dealer inventory financing guarantees as the Company does not currently expect any losses from such guarantees and believes the fair value of these guarantees is immaterial.

The table below reflects losses incurred under repurchase agreements in the periods noted. Management believes that any future losses under these agreements will not have a significant effect on the Company s consolidated financial position, results of operations or cash flows.

	Three Months Ended October 31, 2012		Three Months Ended October 31, 2011	
Cost of units repurchased	$	602	$	1,700
Realization of units resold		505		1,527
Losses due to repurchase	$	97	$	173

The Company obtains certain vehicle chassis from automobile manufacturers under converter pool agreements. These agreements generally provide that the manufacturer will supply chassis at the Company s various production facilities under the terms and conditions set forth in the agreement. The manufacturer does not transfer the certificate of origin to the Company and, accordingly, the Company accounts for the chassis as consigned, unrecorded inventory. Upon being put into production, the Company becomes obligated to pay the manufacturer for the chassis. Chassis are typically converted and delivered to customers within 90 days of delivery. If the chassis are not converted within 90 days of delivery to the Company, the Company generally purchases the chassis and records the inventory. At October 31, 2012, vendor supplied chassis on hand accounted for as consigned, unrecorded inventory was $16,731. In addition to this consigned inventory, at October 31, 2012, an additional $10,021 of chassis provided by customers were located at the Company s production facilities pending further manufacturing. The Company never purchases these chassis and does not include their cost in its billings to the customer for the completed unit.

Legal Matters

In addition to the matter described below, the Company is involved in certain litigation arising out of its operations in the normal course of its business, most of which is based upon state lemon laws , warranty claims and vehicle accidents (for which the Company carries insurance above a specified self-insured retention or deductible amount). The outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. There is significant judgment required in assessing both the probability of an adverse outcome and the determination as to whether an exposure can be reasonably estimated. In management s opinion, the ultimate disposition of any current legal proceedings or claims against the Company will not have a material effect on the Company s financial condition, operating results or cash flows, except that an adverse outcome in a significant litigation matter could have a material effect on the operating results of a particular reporting period.

FEMA Trailer Formaldehyde Litigation

Beginning in 2006, a number of lawsuits were filed against numerous trailer and manufactured housing manufacturers, including complaints against the Company. The complaints were filed in various state and federal courts throughout Louisiana, Alabama, Texas and Mississippi on behalf of Gulf Coast residents who lived in travel trailers, park model trailers and manufactured homes provided by the Federal Emergency Management Agency (FEMA) following Hurricanes Katrina and Rita in 2005. The complaints generally alleged that residents who occupied FEMA supplied emergency housing units, such as travel trailers, were exposed to formaldehyde emitted from the trailers. The plaintiffs alleged various injuries from exposure, including health issues and emotional distress. Most of the initial cases were filed as class action suits. The Judicial Panel on Multidistrict Litigation (the MDL panel) had the authority to designate one court to coordinate and consolidate discovery and pretrial proceedings in a proceeding known as multidistrict litigation (MDL). The MDL panel transferred the actions to the United States District Court for the Eastern District of Louisiana (the MDL Court) because the actions in different jurisdictions involved common questions of fact. The MDL Court denied class certification in December 2008, and consequently, the cases have been administered as a mass joinder of claims (the MDL proceeding).

On December 21, 2011, the MDL Court issued an Order that, among other matters, mandated certain manufacturing defendants in the litigation, including the Company and several of its RV subsidiaries, to participate in mediation in January 2012. The Company s Heartland subsidiary participated in a mediation on January 27, 2012 and reached an agreement in principle to resolve the pending claims against it on February 2, 2012. The other Thor RV subsidiaries involved in the MDL proceeding collectively participated in a mediation on January 19, 2012 and during a second mediation session held on February 10, 2012 reached an agreement in principle to resolve the litigation. On March 27, 2012, Heartland and its insurance carriers entered into a Memorandum of Understanding (MOU) memorializing the February 2, 2012 settlement. On March 30, 2012, Thor Industries, Inc., for itself and on behalf of its other RV subsidiaries involved in the MDL proceeding, and its insurance carriers, entered into an MOU memorializing the settlement reached on February 10, 2012.

As previously reported on April 19, 2012 by the Company on its Form 8-K, the Company and its RV subsidiaries involved in the MDL proceeding, their respective insurance carriers, several unaffiliated manufacturers of RVs and their insurers, and legal representatives of the plaintiffs each executed a Stipulation of Settlement in April 2012 (the Stipulation of Settlement).

On June 1, 2012, the Company paid $4,700 into the Registry of the United States District of Louisiana. This payment represents full payment of the Company and its subsidiaries obligation under the Stipulation of Settlement.

On September 27, 2012, after counsel for the plaintiffs produced the list of members of the class who requested exclusion from the proposed settlement, the MDL Court conducted a Fairness Hearing during which final approval of the proposed settlement was evaluated. On that same date, the Court approved the settlement and entered a final, appealable order dismissing all of the claims pending in the MDL litigation. Because no plaintiffs with claims against the Company or any of its subsidiaries opted out of the settlement, this order, assuming no appeal is taken, effectively ends the litigation against the Company and its subsidiaries.

12. Stockholders Equity

Treasury Stock

The Company entered into a repurchase agreement, dated as of August 12, 2011 (the August 2011 Repurchase Agreement), to purchase shares of its common stock from the Estate of Wade F. B. Thompson (the Estate) in a private transaction. Pursuant to the terms of the August 2011 Repurchase Agreement, on August 15, 2011, the Company purchased from the Estate 1,000,000 shares of its common stock at a price of $20.00 per share, and held them as treasury stock, representing an aggregate purchase price of $20,000. The closing price of Thor common stock on August 12, 2011 was $20.62. The Estate held shares of common stock of the Company previously owned by the late Wade F. B. Thompson, the Company s co-founder and former Chief Executive Officer. At the time of the repurchase transaction, Alan Siegel, a member of the board of directors of the Company (the Board), served as a co-executor of the Estate. The repurchase transaction was evaluated and approved by members of the Board who are not affiliated with the Estate. The Company used available cash to purchase the shares. The number of shares repurchased by the Company represented 1.8% of the Company s issued and outstanding common stock prior to the repurchase.

The Company entered into a repurchase agreement, dated as of January 18, 2012 (the January 2012 Repurchase Agreement), to purchase shares of its common stock from the Estate in a private transaction. Pursuant to the terms of the January 2012 Repurchase Agreement, on January 20, 2012, the Company purchased from the Estate 1,000,000 shares of its common stock at a price of $28.50 per share, and held them as treasury stock, representing an aggregate purchase price of $28,500. The closing price of Thor common stock on January 18, 2012 was $29.34. The repurchase transaction was evaluated and approved by members of the Board who are not affiliated with the Estate. The Company used available cash to purchase the shares. The number of shares repurchased by the Company represented 1.8% of the Company s issued and outstanding common stock prior to the repurchase.

The Company also entered into separate repurchase agreements (collectively, the Catterton Repurchase Agreements) with each of Catterton Partners VI, L.P., Catterton Partners VI Offshore, L.P., CP6 Interest Holdings, L.L.C., and CPVI Coinvest, L.L.C. (collectively, Catterton), each dated as of January 18, 2012, to purchase shares of its common stock from Catterton in a private transaction. Pursuant to the terms of the Catterton Repurchase Agreements, on January 20, 2012, the Company purchased from Catterton an aggregate of 1,000,000 shares of its common stock at a price of $28.50 per share, and held them as treasury stock, representing an aggregate purchase price of $28,500. The closing price of Thor common stock on January 18, 2012 was $29.34. The Company used available cash to purchase the shares. The number of shares repurchased by the Company represented 1.8% of the Company s issued and outstanding common stock prior to the repurchase.

Stock-Based Compensation

In the first quarter of fiscal 2013, the Compensation and Development Committee of the Board (the Committee) approved a program to award restricted stock units to Board members and certain employees at the operating subsidiary and corporate levels. The first awards under this program were granted in the first quarter of fiscal 2013 based on fiscal year 2012 performance. In addition, the Committee approved certain awards related to fiscal year 2013 performance. The restricted stock units will vest, and shares of common stock will be issued, in equal installments on the first, second and third anniversaries of the date of grant. Total non-cash compensation expense recognized in the quarter ended October 31, 2012 related to these items was not material.

Retained Earnings

The components of the change in retained earnings are as follows:

Balance as of July 31, 2012	$	918,565
Net income		30,988
Dividends paid		(9,527)
Balance as of October 31, 2012	$	940,026

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

Unless otherwise indicated, all dollar amounts are presented in thousands except per share data.

Executive Overview

We were founded in 1980 and through our operating subsidiaries have grown to be the largest manufacturer of Recreation Vehicles (RVs) and a major manufacturer of commercial buses in North America. Our U.S. RV industry market share in the travel trailer and fifth wheel portion of the towable segment is approximately 38% for the calendar year to date period ended September 30, 2012. In the motorized segment of the RV industry, we have a U.S. market share of approximately 20% for the calendar year to date period ended September 30, 2012. Our U.S. and Canada market share in small and mid-size buses is approximately 35% for the calendar year to date period ended June 30, 2012. We also manufacture and sell 40-foot buses at our facility in Southern California and manufacture and sell ambulances at our Goshen Coach facility in Elkhart, Indiana.

Our business model includes decentralized operating units and we compensate operating management primarily with a combination of cash and restricted stock units, based upon the profitability of the business unit which they manage. Our corporate staff provides financial management, insurance, legal, human resource, risk management and internal audit functions. Senior corporate management interacts regularly with operating management to assure that corporate objectives are understood 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 generally do not finance dealers directly, but do provide repurchase agreements to the dealers floor plan lenders.

Our growth has been internal and by acquisition. Our strategy has been to increase our profitability in North America in the RV industry and in the bus business through product innovation, service to our customers, manufacturing quality products, improving efficiencies of 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. Capital expenditures of $5,893 for the three months ended October 31, 2012 were made primarily for building improvements and to replace machinery and equipment used in the ordinary course of business.

Recent Events

On September 17, 2012, the Company entered into an Asset Purchase Agreement with Krystal Infinity, LLC dba Krystal Enterprises (Krystal) for the acquisition of Krystal s bus operation assets for cash consideration of $3,914. The acquisition was subject to certain pre-closing conditions and closed on October 3, 2012. The Company purchased the assets to expand its bus business and absorb the Company s fixed overhead costs across a larger revenue base. In addition, Krystal s product lines are more focused on the luxury bus market which is complementary to our existing product offerings.

During fiscal 2012, the Company purchased a combined total of 3,000,000 shares of the Company s common stock and held them as treasury stock at a total cost of $77,000. Of the 3,000,000 shares, 2,000,000 were repurchased from the Estate of Wade F.B. Thompson (the Estate) in two separate private transactions at a total cost of $48,500. Both of these transactions were evaluated and approved by members of our board of directors who are not affiliated with the Estate. In a third separate private transaction, the Company repurchased 1,000,000 shares from Catterton Partners VI, L.P., Catterton Partners VI Offshore, L.P., CP6 Interest Holdings, L.L.C., and CPVI Coinvest, L.L.C. at a total cost of $28,500. The Company used available cash to purchase all of these shares, which collectively represented 5.4% of the Company s issued and outstanding common stock prior to the repurchases. Each of these transactions is more fully discussed in Note 12 to the Condensed Consolidated Financial Statements.

Industry Outlook

The Company monitors the industry conditions in the RV market through the use of monthly wholesale shipment data as reported by the Recreation Vehicle Industry Association (RVIA) which is typically issued on a one month lag and represents manufacturers RV production and delivery to dealers. In addition, we also monitor monthly retail sales trends as reported by Statistical Surveys, Inc. (Stat Surveys). Stat Surveys data is typically issued on a month and a half lag. The Company believes that monthly RV retail sales data is important as consumer purchases impact future dealer orders and ultimately our production.

Calendar year 2010 RV wholesale shipments of travel trailers, fifth wheels and motorized RVs increased from the prior year by 48.1% primarily due to RV dealers restocking of depleted lot inventories, improved floor plan financing availability to RV dealers and improved retail sales to consumers. Calendar year 2011 wholesale shipments slowed to a year over year increase of 5.9% as a result of the restocking that was completed in calendar year 2010, coupled with continuing lower consumer confidence and uncertain economic conditions. Calendar year 2012 wholesale shipments of travel trailers, fifth wheels and motorized RVs have posted an 11.5% gain through September 30, 2012 compared to the same period of 2011 according to RVIA, with travel trailers and fifth wheels posting a gain of 12.2% and motorized RVs posting a gain of 6.1%.

We believe our dealer inventory is at appropriate levels for seasonal consumer demand, with dealers optimistic yet cautious given continuing economic uncertainties. Thor s RV backlog as of October 31, 2012 increased 73% to $516,657 from $299,472 as of October 31, 2011.

Industry Wholesale Statistics

Key wholesale statistics for the RV industry, as reported by RVIA (using the most current information available) are as follows:

	U.S. and Canada Wholesale Shipments			
	Calendar Year to Date through September 30,			
	2012	2011	Increase	% Change
Towables Units (1)	188,098	167,666	20,432	12.2
Motorized Units	21,254	20,023	1,231	6.1