

THOR INDUSTRIES INC  
Form 10-Q  
November 27, 2006

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

**FOR QUARTER ENDED October 31, 2006**

**COMMISSION FILE NUMBER 1-9235**

**THOR INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware

93-0768752

(State or other jurisdiction of  
incorporation or organization)

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

419 West Pike Street, Jackson Center, OH

45334-0629

(Address of principal executive offices)

(Zip Code)

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

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

Class

Outstanding at 10/31/2006

Common stock, par value  
\$.10 per share

55,708,686 shares

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

**ITEM 1. Financial Statements**

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

<b>ASSETS</b>	<b>October 31, 2006</b>	<b>July 31, 2006</b>
Current assets:		
Cash and cash equivalents	\$ 95,963	\$ 196,136
Investments short term	110,815	68,237
Accounts receivable:		
Trade	159,951	191,299
Other	6,060	5,639
Inventories	215,155	187,091
Prepaid expenses	17,259	6,533
Deferred income taxes	12,311	4,898
Total current assets	617,514	659,833
Property:		
Land	21,309	21,323
Buildings and improvements	132,346	131,649
Machinery and equipment	58,470	55,656
Total cost	212,125	208,628
Accumulated depreciation	53,947	51,163
Property, net	158,178	157,465
Investment in Joint ventures	2,917	2,737
Other assets:		
Goodwill	165,663	165,663
Non-compete agreements	2,604	2,841
Trademarks	13,900	13,900
Other	10,310	9,403
Total other assets	192,477	191,807
<b>TOTAL ASSETS</b>	<b>\$ 971,086</b>	<b>\$ 1,011,842</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 95,399	\$ 131,606
Accrued liabilities:		
Taxes	53,363	26,574
Compensation and related items	31,290	37,161

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Product warranties	60,923	59,795
Promotions and rebates	12,612	12,953
Product/property liability and related	10,948	10,423
Other	7,126	7,315
Total current liabilities	271,661	285,827
Deferred income taxes and other liabilities	13,862	12,911
Stockholders' equity:		
Common stock - authorized 250,000,000 shares; issued 57,150,286 shares @ 10/31/06 and 57,100,286 shares @ 7/31/06; par value of \$.10 per share	5,715	5,710
Additional paid-in capital	87,538	86,538
Accumulated other comprehensive income	1,874	1,772
Retained earnings	650,559	677,577
Less Treasury shares of 1,441,600 @ 10/31/06 & 1,401,200 @ 7/31/06	(60,123)	(58,493)
Total stockholders' equity	685,563	713,104
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 971,086</b>	<b>\$ 1,011,842</b>

See notes to consolidated financial statements

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**THOR INDUSTRIES, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CONSOLIDATED INCOME**  
**FOR THE THREE MONTHS ENDED OCTOBER 31, 2006 AND 2005**

	<b>Three Months Ended October</b>	
	<b>31</b>	
	<b>2006</b>	<b>2005</b>
Net sales	\$ 727,716	\$ 761,323
Cost of products sold	635,346	649,681
Gross profit	92,370	111,642
Selling, general and administrative expenses	43,208	44,099
Amortization of intangibles	237	237
Interest income	2,910	1,680
Interest expense	187	347
Other income	550	799
Income before income taxes	52,198	69,438
Provision for income taxes	19,600	26,073
Net income	\$ 32,598	\$ 43,365
Average common shares outstanding:		
Basic	55,613,302	56,568,392
Diluted	55,904,797	56,916,818
Earnings per common share:		
Basic	\$ .59	\$ .77
Diluted	\$ .58	\$ .76
Regular dividends declared per common share:	\$ .07	\$ .00
Special dividends declared per common share:	\$ 1.00	\$ .00
Regular dividends paid per common share:	\$ .07	\$ .05
Special dividends paid per common share:	\$ 1.00	\$ .25
See notes to consolidated financial statements		

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**THOR INDUSTRIES, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CONSOLIDATED CASH FLOWS**  
**FOR THE THREE MONTHS ENDED OCTOBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 32,598	\$ 43,365
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	3,226	2,781
Amortization	237	237
Deferred income taxes	(7,700)	
Loss on disposition of assets	103	2
Loss on disposition of trading investments	104	100
Unrealized loss on trading investments		116
Stock based compensation	160	
<b>Changes in non cash assets and liabilities, net of effect from acquisitions:</b>		
Purchases of trading investments		(64,387)
Proceeds from disposition of trading investments	68,133	33,361
Accounts receivable	30,927	(38,998)
Inventories	(28,064)	(25,278)
Prepays and other	(11,783)	(9,911)
Accounts payable	(36,336)	442
Accrued liabilities	22,041	35,430
Other liabilities	943	241
Net cash provided (used in) by operating activities	74,589	(22,499)
<b>Cash flows from investing activities:</b>		
Purchase of property, plant & equipment	(4,076)	(6,979)
Proceeds from disposition of assets	171	20
Purchases of available for sale investments	(186,125)	
Proceeds from sale of available for sale investments	75,567	
Net cash used in investing activities	(114,463)	(6,959)
<b>Cash flows from financing activities:</b>		
Cash dividends	(59,616)	(17,000)
Purchase of common stock held as treasury shares	(1,630)	
Proceeds from issuance of common stock	845	43
Net cash used in financing activities	(60,401)	(16,957)
<b>Effect of exchange rate changes on cash</b>	<b>102</b>	<b>411</b>

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Net decrease in cash and equivalents	(100,173)	(46,004)
Cash and equivalents, beginning of period	196,136	163,596
<b>Cash and equivalents, end of period</b>	<b>\$ 95,963</b>	<b>\$ 117,592</b>
<b>Supplemental cash flow information:</b>		
Income taxes paid	\$ 106	\$ 12
Interest paid	187	347
<b>Non cash transactions:</b>		
Capital expenditures in accounts payable	\$ 129	\$ 776
See notes to consolidated financial statements		



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- The July 31, 2006 amounts are from the annual audited financial statements. The interim financial statements are unaudited. In the opinion of management, all adjustments (which consist of normal recurring adjustments) necessary to present fairly the financial position, results of operations and change in cash flows for the interim periods presented have been made. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended July 31, 2006. The results of operations for the three months ended October 31, 2006 are not necessarily indicative of the results for the full year.
- Major classifications of inventories are:

	October 31, 2006	July 31, 2006
Raw materials	\$ 103,364	\$ 104,352
Chassis	52,621	39,772
Work in process	52,496	51,208
Finished goods	29,519	12,894
Total	238,000	208,226
Less excess of FIFO costs over LIFO costs	22,845	21,135
Total inventories	\$ 215,155	\$ 187,091

## 3. Earnings Per Share

	Three Months Ended October 31, 2006	Three Months Ended October 31, 2005
Weighted average shares outstanding for basic earnings per share	55,613,302	56,568,392
Stock options and restricted stock	291,495	348,426
Total For diluted shares	55,904,797	56,916,818

## 4. Comprehensive Income

	Three Months Ended October 31, 2006	Three Months Ended October 31, 2005
Net income	\$ 32,598	\$ 43,365
Foreign currency translation adjustment	102	411
Comprehensive income	\$ 32,700	\$ 43,776

## 5. Segment Information

The Company has three reportable segments: 1.) towable recreation vehicles, 2.) motorized recreation vehicles, and 3.) buses. The towable recreation vehicle segment consists of product lines from the following operating

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

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Three Months Ended October 31, 2006	Three Months Ended October 31, 2005
Net Sales:		
Recreation vehicles:		
Towables	\$ 499,955	\$ 533,236
Motorized	135,923	149,094
Total recreation vehicles	635,878	682,330
Buses	91,838	78,993
Total	\$ 727,716	\$ 761,323

	Three Months Ended October 31, 2006	Three Months Ended October 31, 2005
Income Before Income Taxes:		
Recreation vehicles:		
Towables	\$ 43,602	\$ 61,424
Motorized	6,068	8,366
Total recreation vehicles	49,670	69,790
Buses	3,020	1,994
Corporate	(492)	(2,346)
Total	\$ 52,198	\$ 69,438

	October 31, 2006	July 31, 2006
Identifiable Assets:		
Recreation vehicles:		
Towables	\$ 473,568	\$ 490,441
Motorized	150,782	150,058
Total recreation vehicles	624,350	640,499
Buses	113,919	103,861
Corporate	232,817	267,482
Total	\$ 971,086	\$ 1,011,842

**6. Treasury Shares**

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

7. Investments

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

At October 31, 2006 all Investments short term are comprised of auction rate securities that are classified as available-for-sale and are reported at fair value in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company purchases its auction rate securities at par, which either mature or reset at par, and generally there are no unrealized or realized gains or losses to report. Cost is determined on the specific identification basis. Interest income is accrued as earned. All of the available-for-sale securities held at October 31, 2006 mature within one year.

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

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 8. Goodwill and Other Intangible Assets

The components of other intangible assets are as follows:

	October 31, 2006		July 31, 2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Amortized Intangible Assets:				
Non-compete agreements	\$15,889	\$13,285	\$15,889	\$13,048
			Three Months Ended October 31, 2006	Three Months Ended October 31, 2005
Non-compete Agreements: Amortization Expense			\$ 237	\$ 237

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

Estimated 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 three month period ended October 31, 2006.

As of October 31, 2006, Goodwill and Trademarks by segments totaled as follows:

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

## 9. Warranty

Thor provides customers of our products with a warranty covering defects in material or workmanship for periods generally ranging from one to two years, with longer warranties on certain structural components. We record a liability based on our best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors we use in estimating the warranty liability include a history of units sold, existing

dealer inventory, average cost incurred and a profile of the distribution of warranty expenditures over the warranty period. A significant increase in dealer shop rates, the cost of parts or the frequency of claims could have a material adverse impact on our operating results for the period or periods in which such claims or additional costs materialize. Management believes that the warranty reserve is adequate; however, actual claims incurred could differ from estimates, requiring adjustments to the reserves. Warranty reserves are reviewed and adjusted as necessary on a quarterly basis.

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	Three Months Ended October 31, 2006	Three Months Ended October 31, 2005
Beginning Balance	\$ 59,795	\$ 55,118
Provision	17,951	15,967
Payments	(16,823)	(14,973)
Ending Balance	\$ 60,923	\$ 56,112

## 10. Commercial Commitments

Our principal commercial commitments at October 31, 2006 are summarized in the following chart:

Commitment	Total Amount Committed	Term of Guarantee
Guarantee on dealer financing	\$ 2,521	less than 1 year
Standby repurchase obligation on dealer financing	\$ 846,754	less than 1 year

The Company records repurchase and guarantee reserves based on prior experience and known current events. The combined repurchase and recourse reserve balances are approximately \$1,772 and \$1,563 as of October 31, 2006 and July 31, 2006, respectively.

	Three Months Ended October 31, 2006	Three Months Ended October 31, 2005
Cost of units repurchased	\$ 1,961	\$ 1,350
Realization on units resold	1,543	1,272
Losses due to repurchase	\$ 418	\$ 78

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

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

### **Executive Overview**

We were founded in 1980 and have grown to be the largest manufacturer of Recreation Vehicles (RVs) and a major manufacturer of commercial buses in North America. Our position in the travel trailer and fifth wheel segment of the industry (towables), gives us an approximate 32% market share. In the motorized segment of the industry we have an approximate 14% market share. Our market share in small and mid-size buses is approximately 38%. 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.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

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 GE Consumer Finance, Thor Credit Corporation, that offers retail financing to customers of the dealer in their purchase of Thor and other manufacturer's products.

**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 population in the United States is expected to grow five times as fast as the expected growth in 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. According to Statistical Surveys, Inc., our travel trailer and fifth wheel market share for the nine months ended September 30, 2006 was 32.1% up from 30.9% last year. In motorhomes, our market share increased to 14.2% for the nine months ended September 30, 2006 up from 12.7% last year. For the nine months ended September 30, 2006 Statistical Surveys, Inc. reported that travel trailers and fifth wheel unit sales were down 1.1% and that motorhome sales were down 12.2%. Higher interest rates and fuel prices appear to affect the motorized segment more severely.

Government entities are primary users of our buses. Demand in this segment is subject to fluctuations in government spending on transit. In addition, hotel and rental car companies are also major users of our small and mid-size buses and therefore airline travel is an important indicator for this market. The majority of our buses have a 5-year useful life, so many of the buses are being replaced. According to Mid Size Bus Manufacturers Association unit sales of small and mid-sized buses are up 9.3% in the nine months ended September 30, 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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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**  
**THREE MONTHS ENDED OCTOBER 31, 2006 VS. THREE MONTHS ENDED OCTOBER 31, 2005**

	Three Months Ended October 31, 2006		Three Months Ended October 31, 2005		Change Amount	%
<b>NET SALES:</b>						
Recreation Vehicles						
Towables	\$ 499,955		\$ 533,236		\$ (33,281)	(6.2)
Motorized	135,923		149,094		(13,171)	(8.8)
Total Recreation Vehicles	635,878		682,330		(46,452)	(6.8)
Buses	91,838		78,993		12,845	16.3
Total	\$ 727,716		\$ 761,323		\$ (33,607)	(4.4)
<b># OF UNITS:</b>						
Recreation Vehicles						
Towables	23,490		27,518		(4,028)	(14.6)
Motorized	1,855		2,019		(164)	(8.1)
Total Recreation Vehicles	25,345		29,537		(4,192)	(14.2)
Buses	1,557		1,468		89	6.1
Total	26,902		31,005		(4,103)	(13.2)
		% of Segment Net Sales		% of Segment Net Sales		
<b>GROSS PROFIT:</b>						
Recreation Vehicles						
Towables	\$ 73,024	14.6	\$ 90,764	17.0	\$ (17,740)	(19.5)
Motorized	12,639	9.3	15,301	10.3	(2,662)	(17.4)
Total Recreation Vehicles	85,663	13.5	106,065	15.5	(20,402)	(19.2)
Buses	6,707	7.3	5,577	7.1	1,130	20.3
Total	\$ 92,370	12.7	\$ 111,642	14.7	\$ (19,272)	(17.3)
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:</b>						
Recreation Vehicles						
Towables	\$ 29,429	5.9	\$ 29,372	5.5	\$ 57	0.2
Motorized	6,556	4.8	6,933	4.7	(377)	(5.4)
Total Recreation Vehicles	35,985	5.7	36,305	5.3	(320)	(0.9)
Buses	3,493	3.8	3,463	4.4	30	0.9

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Corporate	3,967		4,568		(601)	(13.2)
Total	\$ 43,445	6.0	\$ 44,336	5.8	\$ (891)	(2.0)
<b>INCOME BEFORE</b>						
<b>INCOME TAXES:</b>						
Recreation Vehicles						
Towables	\$ 43,602	8.7	\$ 61,424	11.5	\$ (17,822)	(29.0)
Motorized	6,068	4.5	8,366	5.6	(2,298)	(27.5)
Total Recreation Vehicles	49,670	7.8	69,790	10.2	(20,120)	(28.8)
Buses	3,020	3.3	1,994	2.5	1,026	51.5
Corporate	(492)		(2,346)		1,854	79.0
Total	\$ 52,198	7.2	\$ 69,438	9.1	\$ (17,240)	(24.8)

	As of October 31, 2006	As of October 31, 2005	Change	
			Amount	%
<b>ORDER BACKLOG</b>				
Recreation Vehicles				
Towables	\$ 120,627	\$ 252,301	\$ (131,674)	(52.2)
Motorized	67,799	80,627	(12,828)	(15.9)
Total Recreation Vehicles	188,426	332,928	(144,502)	(43.4)
Buses	217,864	140,421	77,443	55.2
Total	\$ 406,290	\$ 473,349	\$ (67,059)	(14.2)

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(\$ in 000)

Net sales and gross profit for the first quarter of fiscal 2007 were down 4.4% and 17.3% respectively compared to the first quarter of fiscal 2006. We estimate that in fiscal 2006 approximately \$75,000 or 14.1% 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 first quarter of fiscal 2007 decreased 2.0% compared to the first quarter of fiscal 2006. Income before income taxes for the first quarter of fiscal 2007 was down 24.8% compared to the first quarter of fiscal 2006. The specifics on changes in net sales, gross profit, general and administrative expense and income before income taxes are addressed in the segment reporting below.

Corporate costs in selling, general and administrative were \$3,967 for fiscal 2007 compared to \$4,568 in fiscal 2006. This \$601 decrease is primarily the result of reduced insurance costs. Corporate interest income and other income was \$3,456 for fiscal 2007 compared to \$2,230 for fiscal 2006.

The overall effective tax rate for the first quarter of fiscal 2007 and 2006 was 37.5%.

**Segment Reporting****RECREATION VEHICLES**

Analysis of Percentage Change in Net Sales Versus Prior Year

	Average Price		Net Change
	Per Unit	Units	
Recreation Vehicles			
Towables	8.4%	(14.6)%	(6.2)%
Motorized	(.7)%	(8.1)%	(8.8)%

**TOWABLE RECREATION VEHICLES**

The decrease in towables net sales of 6.2% resulted primarily from reduced unit sales, primarily Hurricane relief units. We estimate that in fiscal 2006 approximately \$75,000 or 14.1% of towable net sales, (approximately 5,400 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 August and September of 2006 was 10.1% 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 14.6% of net sales for the first quarter of fiscal 2007 from 17.0% of net sales for fiscal 2006. The primary factor for the decrease in gross profit was the 6.2% decrease in net sales and increased discount and allowances due to a soft market. Selling, general and administrative expenses were 5.9% of net sales for fiscal 2007 and 5.5% of net sales for fiscal 2006.

Towables income before income taxes decreased to 8.7% of net sales for fiscal 2007 from 11.5% of net sales for fiscal 2006. The primary factors for this were the reduction in unit sales and corresponding margins.

**MOTORIZED RECREATION VEHICLES**

The decrease in motorized net sales of 8.8% resulted from an 8.1% decrease in unit shipments. The decrease in units sold of approximately 8.1% outperformed the overall market unit decrease in motorhomes of 10.2% for the two month period August and September 2006 according to statistics published by the Recreation Vehicle Industry Association. Decreases in the average price per unit resulted from the product mix.

**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Motorized gross profit percentage decreased to 9.3% of net sales in 2007 from 10.3% of net sales for fiscal 2006. The primary factor for the decrease in gross profit in 2007 was decreased unit sales. Selling, general and administrative expenses were 4.8% of net sales for fiscal 2007 and 4.7% of net sales for fiscal 2006.

Motorized income before income taxes was 4.5% of net sales for fiscal 2007 and 5.6% of net sales for fiscal 2006.

**BUSES****Analysis of Percentage Change in Net Sales Versus Prior Year**

	Average Price Per Unit	Units	Net Change
Buses	10.2%	6.1%	16.3%

The increase in buses net sales of 16.3% resulted from a combination of an increase in both average price per unit and unit shipments.

Buses gross profit percentage increased to 7.3% of net sales for fiscal 2007 from 7.1% of net sales for fiscal 2006.

Selling, general and administrative expenses were 3.8% of net sales for fiscal 2007 and 4.4% for fiscal 2006.

Buses income before income taxes increased to 3.3% of net sales for fiscal 2007 from 2.5% for fiscal 2006 due to increased sales volume.

**Financial Condition and Liquidity****\$ (in 000)**

As of October 31, 2006, we had \$206,778 in cash, cash equivalents and short-term investments, compared to \$264,373 on July 31, 2006. Effective August 1, 2006, the Company made the decision to change its investment strategy from one of generating profits on short-term differences in price to one of preserving capital.

Working capital at October 31, 2006 was \$345,853 compared to \$374,006 on July 31, 2006. We have no long-term debt. We currently have a \$30,000 revolving line of credit which bears interest at negotiated rates below prime and expires on November 30, 2006. We anticipate renewing the line of credit. There were no borrowings on this line of credit during the period ended October 31, 2006. The loan agreement executed in connection with the line of credit contains certain covenants, including restrictions on additional indebtedness, and requires us to maintain certain financial ratios. We believe that internally generated funds and the line of credit will be sufficient to meet our current needs and any additional capital requirements for the foreseeable future. Capital expenditures of approximately \$4,076 for the three months ended October 31, 2006 were primarily for planned expansions and improvements of our recreation vehicle segments.

The Company anticipates additional capital expenditures in fiscal 2007 of approximately \$16,000. These expenditures will be made primarily to expand our RV companies and for replacement of machinery and equipment to be used in the ordinary course of business.

**Critical Accounting Principles**

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

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

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

*Insurance Reserves*

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

*Warranty*

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

*Income Taxes*

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

*Revenue Recognition*

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

- 1) An order for a product has been received from a dealer;
- 2) Written or oral approval for payment has been received from the dealer's financing institution;
- 3) A common carrier signs the delivery ticket accepting responsibility for the product as agent for the dealer; and
- 4) The product is removed from the Company's property for delivery to the dealer who placed the order.

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

*Repurchase Commitments*

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

**Forward Looking Statements**

This report includes certain statements that are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 as amended. These forward-looking statements involve uncertainties and risks. There can be no assurance that actual results will not differ from the Company's expectations. Factors which could cause materially different results include, among others, fuel prices, fuel availability, interest rate increases, increased material costs, the success of new product introductions, the pace of acquisitions, cost structure improvements, competition and general economic conditions. The Company disclaims any obligation or undertaking to disseminate any updates or revisions to any change in expectation of the Company after the date hereof or any change in events, conditions or circumstances on which any statement is based except as required by law.

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

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

**ITEM 4. Controls and Procedures**

As of the end of the period covered by this report, the Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as required by Exchange Act Rule 13a-15(e). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company's disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In connection with the evaluation of internal control over financial reporting described above, no changes in the Company's internal control over financial reporting were identified that occurred during the first quarter of fiscal 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)****PART II Other Information****ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds*****(c) ISSUER PURCHASES OF EQUITY SECURITIES***

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
August 2006				1,987,600
September 2006	20,100	\$39.94	20,100	1,967,500
October 2006	20,300	\$40.72	20,300	1,947,200

(1) On March 11, 2003, we announced that our Board of Directors had approved a share repurchase program, pursuant to which up to 1,000,000 shares of our common stock may be repurchased. In the second quarter of fiscal 2004, we effected a two-for-one stock split, resulting in 2,000,000 shares authorized for repurchase under the

program. On June 26, 2006 our Board of Directors authorized the repurchase of an additional 2,000,000 shares extending over a 24-month period before expiring. At October 31, 2006, 1,947,200 shares of common stock remained authorized for repurchase under the repurchase program.

**ITEM 6. Exhibits**

a.) Exhibits

- 31.1 Chief Executive Officer's Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Chief Financial Officer's Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Chief Executive Officer's Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act 2002.
- 32.2 Chief Financial Officer's Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act 2002.

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**SIGNATURES**

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

**THOR INDUSTRIES, INC.**

(Registrant)

DATE: November 27, 2006

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

DATE: November 27, 2006

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