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THOR INDUSTRIES INC  
Form 10-Q  
March 07, 2013

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 January 31, 2013.

¨ 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)

419 West Pike Street, Jackson Center, OH  
(Address of principal executive offices)

93-0768752  
(I.R.S. Employer

Identification No.)

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 ¨

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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 ☒

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 2/28/2013 |
|---|--------------------------|
| Common stock, par value<br>\$ .10 per share | 53,041,992 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**

|  | <b>January 31, 2013</b> | <b>July 31, 2012</b> |
|--|-------------------------|----------------------|
| Current assets:  |                         |                      |
| Cash and cash equivalents  | \$ 108,140              | \$ 218,642           |
| Accounts receivable:   |                         |                      |
| Trade, less allowance for doubtful accounts of \$435 at 1/31/13 and \$527 at 7/31/12 | 241,007                 | 221,655              |
| Other  | 9,308                   | 10,430               |
| Inventories  | 235,116                 | 186,083              |
| Notes receivable   | 6,426                   | 1,000                |
| Prepaid income taxes, expenses and other   | 15,283                  | 6,179                |
| Deferred income taxes  | 42,252                  | 40,897               |
| Total current assets   | 657,532                 | 684,886              |
| Property, plant and equipment:   |                         |                      |
| Land   | 23,948                  | 23,704               |
| Buildings and improvements   | 172,785                 | 166,868              |
| Machinery and equipment  | 87,842                  | 84,863               |
| Total cost   | 284,575                 | 275,435              |
| Less accumulated depreciation  | 116,584                 | 111,041              |
| Net property, plant and equipment  | 167,991                 | 164,394              |
| Other assets:  |                         |                      |
| Goodwill   | 250,472                 | 245,209              |
| Amortizable intangible assets  | 111,665                 | 114,227              |
| Long-term notes receivable   | 9,766                   | 22,160               |
| Other  | 11,568                  | 12,178               |
| Total other assets   | 383,471                 | 393,774              |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,208,994</b>     | <b>\$ 1,243,054</b>  |

See Notes to the Condensed Consolidated Financial Statements.

| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  | <b>January 31, 2013</b> | <b>July 31, 2012</b> |
|---|-------------------------|----------------------|
| Current liabilities:  |                         |                      |
| Accounts payable  | \$ 165,084              | \$ 143,139           |
| Accrued liabilities:  |                         |                      |
| Compensation and related items  | 31,208                  | 41,295               |
| Product warranties  | 79,210                  | 73,280               |
| Income and other taxes  | 9,046                   | 16,129               |
| Promotions and rebates  | 13,505                  | 11,053               |
| Product/property liability and related liabilities  | 10,439                  | 11,044               |
| Other   | 15,829                  | 15,150               |
| Total current liabilities   | 324,321                 | 311,090              |
| Unrecognized income tax benefits  | 41,979                  | 44,516               |
| Deferred income taxes, net  | 22,093                  | 20,934               |
| Other long-term liabilities   | 16,689                  | 15,687               |
| Total long-term liabilities   | 80,761                  | 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 61,899,331 shares at 1/31/13 and 61,777,849 at 7/31/12 | 6,190                   | 6,178                |
| Additional paid-in capital  | 193,014                 | 192,248              |
| Retained earnings   | 870,855                 | 918,565              |
| Accumulated other comprehensive loss unrealized loss on available-for-sale investments  | (43)                    | (60)                 |
| Less treasury shares of 8,857,339 at 1/31/13 and 7/31/12, at cost   | (266,104)               | (266,104)            |
| Total stockholders equity   | 803,912                 | 850,827              |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>  | <b>\$ 1,208,994</b>     | <b>\$ 1,243,054</b>  |

See Notes to the Condensed Consolidated Financial Statements.

## THOR INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED JANUARY 31, 2013 AND 2012 (UNAUDITED)

|   | Three Months Ended January 31, |            | Six Months Ended January 31, |              |
|---|--------------------------------|------------|------------------------------|--------------|
|   | 2013                           | 2012       | 2013                         | 2012         |
| Net sales   | \$ 741,600                     | \$ 596,970 | \$ 1,617,212                 | \$ 1,269,970 |
| Cost of products sold   | 668,204                        | 537,590    | 1,443,224                    | 1,135,612    |
| Gross profit  | 73,396                         | 59,380     | 173,988                      | 134,358      |
| Selling, general and administrative expenses                      | 46,187                         | 36,245     | 97,652                       | 74,705       |
| Amortization of intangible assets                                 | 2,794                          | 2,777      | 5,562                        | 5,624        |
| Interest income   | 735                            | 991        | 1,514                        | 2,060        |
| Interest expense  | 87                             | 127        | 167                          | 270          |
| Other income, net   | 468                            | 274        | 1,021                        | 325          |
| Income before income taxes  | 25,531                         | 21,496     | 73,142                       | 56,144       |
| Income taxes  | 5,635                          | 7,816      | 22,258                       | 20,106       |
| Net income  | \$ 19,896                      | \$ 13,680  | \$ 50,884                    | \$ 36,038    |
| Weighted average common shares outstanding:                       |                                |            |                              |              |
| Basic   | 53,002,106                     | 54,587,293 | 52,965,286                   | 54,789,738   |
| Diluted   | 53,116,389                     | 54,625,747 | 53,075,985                   | 54,819,877   |
| Earnings per common share:  |                                |            |                              |              |
| Basic   | \$ 0.38                        | \$ 0.25    | \$ 0.96                      | \$ 0.66      |
| Diluted   | \$ 0.37                        | \$ 0.25    | \$ 0.96                      | \$ 0.66      |
| Regular dividends declared and paid per common share:             | \$ 0.18                        | \$ 0.15    | \$ 0.36                      | \$ 0.30      |
| Special dividends declared and paid per common share:             | \$ 1.50                        | \$ 1.50    | \$ 1.50                      | \$ 1.50      |
| Net income  | \$ 19,896                      | \$ 13,680  | \$ 50,884                    | \$ 36,038    |
| Unrealized appreciation (depreciation) on investments, net of tax | 16                             | 16         | 17                           | (15)         |
| Comprehensive income  | \$ 19,912                      | \$ 13,696  | \$ 50,901                    | \$ 36,023    |

See Notes to the Condensed Consolidated Financial Statements.

## THOR INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JANUARY 31, 2013 AND 2012 (UNAUDITED)

|   | Six Months Ended January 31, |                   |
|---|------------------------------|-------------------|
|   | 2013                         | 2012              |
| <b>Cash flows from operating activities:</b>  |                              |                   |
| Net income  | \$ 50,884                    | \$ 36,038         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                              |                   |
| Depreciation  | 6,892                        | 6,970             |
| Amortization of intangibles   | 5,562                        | 5,624             |
| Deferred income tax provision (benefit)   | (206)                        | 1,221             |
| (Gain) loss on disposition of property, plant and equipment                                 | (12)                         | 52                |
| Stock-based compensation  | 1,312                        | 323               |
| Excess tax benefits from stock-based awards   | (567)                        | (101)             |
| Changes in assets and liabilities (excluding acquisitions):                                 |                              |                   |
| Accounts receivable   | (18,230)                     | (5,197)           |
| Inventories   | (47,314)                     | (7,727)           |
| Notes receivable  |                              | 1,062             |
| Prepaid income taxes, expenses and other  | (9,047)                      | (5,080)           |
| Accounts payable  | 22,233                       | 12,115            |
| Accrued liabilities   | (8,555)                      | (10,912)          |
| Other liabilities   | (1,619)                      | 1,627             |
| Net cash provided by operating activities   | 1,333                        | 36,015            |
| <b>Cash flows from investing activities:</b>  |                              |                   |
| Purchases of property, plant and equipment  | (9,908)                      | (3,489)           |
| Proceeds from dispositions of property, plant and equipment                                 | 188                          | 11                |
| Proceeds from notes receivable  | 7,000                        | 500               |
| Proceeds from dispositions of investments   | 400                          | 400               |
| Acquisitions  | (10,718)                     | (170)             |
| Other   | 148                          | 600               |
| Net cash used in investing activities   | (12,890)                     | (2,148)           |
| <b>Cash flows from financing activities:</b>  |                              |                   |
| Regular cash dividends  | (19,069)                     | (16,454)          |
| Special cash dividends  | (79,525)                     |                   |
| Purchase of treasury stock  |                              | (77,000)          |
| Shares repurchased related to cashless exercises of stock options                           | (2,009)                      |                   |
| Excess tax benefits from stock-based awards   | 567                          | 101               |
| Proceeds from issuance of common stock  | 1,091                        | 257               |
| Net cash used in financing activities   | (98,945)                     | (93,096)          |
| <b>Net decrease in cash and equivalents</b>   | <b>(110,502)</b>             | <b>(59,229)</b>   |
| <b>Cash and cash equivalents, beginning of period</b>                                       | <b>218,642</b>               | <b>215,435</b>    |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 108,140</b>            | <b>\$ 156,206</b> |

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**Supplemental cash flow information:**

|                   |    |        |    |        |
|-------------------|----|--------|----|--------|
| Income taxes paid | \$ | 42,686 | \$ | 32,638 |
| Interest paid     | \$ | 167    | \$ | 270    |

**Non-cash transactions:**

|  |    |     |    |     |
|--|----|-----|----|-----|
| Capital expenditures in accounts payable | \$ | 564 | \$ | 177 |
|--|----|-----|----|-----|

See Notes to the Condensed Consolidated Financial Statements.

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**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 six months ended January 31, 2013 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 Condensed Consolidated Financial Statements.

*Acquisition of Bus Businesses* - 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 achieve cost efficiencies. The Krystal bus operation assets are utilized at the ElDorado Kansas facility to produce buses under the Krystal name.

On December 20, 2012, the Company acquired the Federal Coach (Federal Coach) bus operation assets from Forest River, Inc. for cash consideration of \$6,804. The fair value of the net assets acquired included inventory of \$804, property and equipment of \$630, certain liabilities of \$225, goodwill of \$4,495, and amortizable intangible assets consisting of trademarks of \$670, dealer network of \$410 and backlog of \$20. The Company purchased the Federal Coach bus operation assets to expand its bus business and achieve cost efficiencies. The Federal Coach bus operation assets are utilized at the Champion Bus facility to produce buses under the Federal Coach name.



## 2. Earnings Per Common Share

|   | Three Months Ended<br>January 31, |            | Six Months Ended<br>January 31, |            |
|---|-----------------------------------|------------|---------------------------------|------------|
|   | 2013                              | 2012       | 2013                            | 2012       |
| Weighted average common shares outstanding for basic earnings per share   | 53,002,106                        | 54,587,293 | 52,965,286                      | 54,789,738 |
| Stock options and unvested restricted stock and restricted stock units    | 114,283                           | 38,454     | 110,699                         | 30,139     |
| Weighted average common shares outstanding for diluted earnings per share | 53,116,389                        | 54,625,747 | 53,075,985                      | 54,819,877 |

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 January 31, 2013 and 2012, the Company had 13,506 and 666,388, 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<br>January 31, |            | Six Months Ended<br>January 31, |              |
|---------------------------|-----------------------------------|------------|---------------------------------|--------------|
|                           | 2013                              | 2012       | 2013                            | 2012         |
| <b>Net Sales:</b>         |                                   |            |                                 |              |
| Recreation vehicles:      |                                   |            |                                 |              |
| Towables                  | \$ 522,838                        | \$ 444,206 | \$ 1,162,020                    | \$ 943,310   |
| Motorized                 | 113,767                           | 56,788     | 236,009                         | 119,344      |
| Total recreation vehicles | 636,605                           | 500,994    | 1,398,029                       | 1,062,654    |
| Buses                     | 104,995                           | 95,976     | 219,183                         | 207,316      |
| Total                     | \$ 741,600                        | \$ 596,970 | \$ 1,617,212                    | \$ 1,269,970 |

|   | Three Months Ended<br>January 31, |           | Six Months Ended<br>January 31, |           |
|---|-----------------------------------|-----------|---------------------------------|-----------|
|   | 2013                              | 2012      | 2013                            | 2012      |
| <b>Income (Loss) Before Income Taxes:</b> |                                   |           |                                 |           |
| Recreation vehicles:                      |                                   |           |                                 |           |
| Towables                                  | \$ 24,085                         | \$ 21,169 | \$ 66,795                       | \$ 53,760 |
| Motorized                                 | 6,883                             | 1,755     | 15,321                          | 3,048     |
| Total recreation vehicles                 | 30,968                            | 22,924    | 82,116                          | 56,808    |
| Buses                                     | 1,321                             | 2,599     | 5,012                           | 7,865     |
| Corporate                                 | (6,758)                           | (4,027)   | (13,986)                        | (8,529)   |
| Total                                     | \$ 25,531                         | \$ 21,496 | \$ 73,142                       | \$ 56,144 |

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|                             | January 31, 2013 | July 31, 2012 |
|-----------------------------|------------------|---------------|
| <b>Identifiable Assets:</b> |                  |               |
| Recreation vehicles:        |                  |               |
| Towables                    | \$ 758,002       | \$ 734,439    |
| Motorized                   | 104,082          | 82,904        |
| Total recreation vehicles   | 862,084          | 817,343       |
| Buses                       | 160,383          | 143,324       |
| Corporate                   | 186,527          | 282,387       |
| Total                       | \$ 1,208,994     | \$ 1,243,054  |

#### 4. Inventories

Major classifications of inventories are:

|                                      | January 31, 2013  | July 31, 2012     |
|--------------------------------------|-------------------|-------------------|
| Raw materials                        | \$ 122,455        | \$ 104,446        |
| Chassis                              | 50,066            | 39,044            |
| Work in process                      | 72,189            | 59,803            |
| Finished goods                       | 24,786            | 16,570            |
| <b>Total</b>                         | <b>269,496</b>    | <b>219,863</b>    |
| Excess of FIFO costs over LIFO costs | (34,380)          | (33,780)          |
| <b>Total inventories</b>             | <b>\$ 235,116</b> | <b>\$ 186,083</b> |

Of the \$269,496 and \$219,863 of inventory at January 31, 2013 and July 31, 2012, all but \$40,887 and \$36,887, respectively, at certain subsidiaries were valued on a last-in, first-out basis. The \$40,887 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<br>Remaining Life<br>in Years at<br>January 31, 2013 | January 31, 2013<br>Cost | January 31, 2013<br>Accumulated<br>Amortization | July 31, 2012<br>Cost | July 31, 2012<br>Accumulated<br>Amortization |
|--|---|--------------------------|---|-----------------------|--|
| Dealer networks                            | 10  | \$ 73,540                | \$ 16,930                                       | \$ 72,230             | \$ 13,343                                    |
| Non-compete agreements                     | 3   | 4,250                    | 2,032   | 6,321                 | 3,678  |
| Trademarks                                 | 22  | 38,445                   | 3,306   | 36,775                | 2,522  |
| Design technology and other<br>intangibles | 12  | 21,320                   | 3,622   | 21,300                | 2,856  |
| <b>Total amortizable intangible assets</b> |   | <b>\$ 137,555</b>        | <b>\$ 25,890</b>                                | <b>\$ 136,626</b>     | <b>\$ 22,399</b>                             |

Dealer networks are primarily being amortized on an accelerated cash flow basis. Non-compete agreements, trademarks, 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                | \$ 11,145 |
| For the fiscal year ending July 31, 2014                | \$ 10,919 |
| For the fiscal year ending July 31, 2015                | \$ 10,560 |
| For the fiscal year ending July 31, 2016                | \$ 9,504  |
| For the fiscal year ending July 31, 2017                | \$ 9,117  |
| For the fiscal year ending July 31, 2018 and thereafter | \$ 65,982 |

The change in carrying value in goodwill from July 31, 2012 to January 31, 2013 is as follows:

**Goodwill**

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|                                |            |
|--------------------------------|------------|
| Balance at July 31, 2012       | \$ 245,209 |
| Acquisitions of bus businesses | 5,263      |
| Balance at January 31, 2013    | \$ 250,472 |

All but \$12,369 (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 six months ended January 31, 2013, 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 six months ended January 31, 2013 and 14% of its consolidated net sales for the six months ended January 31, 2013. This dealer also accounted for 19% of the Company's consolidated trade accounts receivable at January 31, 2013 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 11% of the Company's bus net sales for the six months ended January 31, 2013. 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.

An early payment of \$6,000 on the First Loan was received by the Company in the quarter ended January 31, 2013. The remaining principal amount of \$4,000 on 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 was capitalized as part of the long-term note receivable, and is payable in cash on a monthly basis thereafter. All principal and interest payments due to date have been paid in full and principal payments on the First Loan are classified as investing activities in the Condensed Consolidated Statements of Cash Flows.

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. As a result, principal payments received on the Second Loan are classified as operating activities in the Condensed Consolidated Statements of Cash Flows. The final principal and interest payments on the Second Loan 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.

On December 12, 2012, the Company, the First Loan Borrowers and the Third Loan Borrowers entered into an agreement to extend the maturity date of \$6,000 due under the Third Loan from December 22, 2014 to August 30, 2015, in exchange for early payment of \$6,000 on the First Loan on or before January 15, 2013. This early payment was received by the Company in the quarter ended January 31, 2013. The remaining original principal amount of the Third Loan, as amended, is payable on the following dates in the following amounts: December 31, 2013 - \$1,100; December 22, 2014 - \$1,400 and August 30, 2015 - \$6,000. 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 and principal payments received on the Third Loan are classified as investing activities in the Condensed Consolidated Statements of Cash Flows.

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's 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 \$1,032 and \$1,405 and deferred compensation plan asset balances of \$9,474 and \$8,970 were recorded as of January 31, 2013 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<br>Reporting Date Using<br>Significant<br>Unobservable<br>Inputs<br>(Level 3) |       |
|--|--|-------|
| Balance at July 31, 2012                 | \$   | 1,405 |
| Net change in other comprehensive income |  | 27    |
| Sales                                    |  | (400) |
| Balance at January 31, 2013              | \$   | 1,032 |



**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<br>January 31, |           | Six Months Ended<br>January 31, |           |
|-------------------|-----------------------------------|-----------|---------------------------------|-----------|
|                   | 2013                              | 2012      | 2013                            | 2012      |
| Beginning balance | \$ 77,963                         | \$ 66,322 | \$ 73,280                       | \$ 66,054 |
| Provision         | 20,897                            | 12,461    | 45,350                          | 29,533    |
| Payments          | (19,650)                          | (16,763)  | (39,420)                        | (33,567)  |
| Ending balance    | \$ 79,210                         | \$ 62,020 | \$ 79,210                       | \$ 62,020 |

**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 the Company 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 the probability of various possible outcomes must be determined. The uncertain tax positions are re-evaluated 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 six month period ended January 31, 2013, the Company released \$4,814 of gross uncertain tax benefit reserves and related interest and penalties recorded at July 31, 2012 related to the effective settlement of certain uncertain tax benefits and statute of limitation expirations, which resulted in a net income tax benefit of \$1,814. The Company accrued \$697 in interest and penalties related to the remaining uncertain tax benefits recorded at July 31, 2012, and accrued an additional uncertain tax benefit reserve of \$222 related to previous tax periods. For the three month period ended January 31, 2013, the Company released \$4,567 of gross uncertain tax benefit reserve recorded at July 31, 2012, which resulted in a net income tax benefit of \$1,675, recorded \$222 of additional uncertain tax benefit reserve related to previous tax periods, and accrued \$334 in interest and penalties.

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 January 31, 2013 was 22.1% compared with 36.4% for the three months ended January 31, 2012. The overall effective income tax rate for the six months ended January 31, 2013 was 30.4% compared with 35.8% for the six months ended January 31, 2012. The primary reason for the decrease in the overall effective income tax rates for the three months and six months ended January 31, 2013 was the effective favorable settlement of certain state uncertain tax benefits during the fiscal 2013 periods. The Company also recorded a tax benefit from the retroactive reinstatement of the Federal research and development credit and other credits that were enacted on January 2, 2013.





The Company anticipates a decrease of approximately \$3,500 in unrecognized tax benefits, and \$800 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 finalized in the next 12 months. If these settlements are finalized within the next 12 months, the gross unrecognized tax benefits may decrease between \$3,200 and \$9,400 and related accrued interest and penalties may decrease between \$1,800 and \$4,800. It is reasonably possible that some of these settlements will result in cash payments by the Company. 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. 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 January 31, 2013 are summarized in the following chart:

| Commitment   | Total Amount<br>Committed | Term of Commitments   |
|--|---------------------------|-----------------------|
| Guarantee on dealer inventory financing                      | \$ 821                    | Various               |
| Standby repurchase obligations on dealer inventory financing | \$ 1,109,305              | Up to eighteen months |

The Company accounts for the guarantee under repurchase agreements of 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 an estimate of the losses that will be incurred upon resale of any repurchases. This estimate is based on recent historical experience supplemented by the Company's assessment of current economic and other conditions affecting our dealers.

This deferred amount is included in the repurchase and guarantee reserve balances of \$4,248 and \$3,150 as of January 31, 2013 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. The Company 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<br>January 31, |        | Six Months Ended<br>January 31, |          |
|-----------------------------|-----------------------------------|--------|---------------------------------|----------|
|                             | 2013                              | 2012   | 2013                            | 2012     |
| Cost of units repurchased   | \$ 1,526                          | \$ 108 | \$ 2,128                        | \$ 1,808 |
| Realization of units resold | 1,264                             | 55     | 1,769                           | 1,582    |
| Losses due to repurchase    | \$ 262                            | \$ 53  | \$ 359                          | \$ 226   |

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 January 31, 2013, vendor supplied chassis on hand accounted for as consigned, unrecorded inventory was \$13,567. In addition to this consigned inventory, at January 31, 2013, an additional \$18,300 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 were 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 were 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 were 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 six months ended January 31, 2013 related to these awards and other stock-based compensation awards was \$1,312.

During the three month and six month periods ended January 31, 2013, 328,479 and 352,479 stock options were exercised at an aggregate exercise price of \$8,821 and \$9,513, respectively. Of the 328,479 and 352,479 options exercised, 314,000 were done so on a cashless basis under which 63,464 shares were issued. The shares withheld as a result of the cashless exercise included the number of shares necessary to cover the exercise price as well as the employee withholding tax related to the exercise, which was then paid by the Company on the employees' behalf in the aggregate amount of \$2,009.

**Retained Earnings**

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

|                                |            |
|--------------------------------|------------|
| Balance as of July 31, 2012    | \$ 918,565 |
| Net income                     | 50,884     |
| Dividends paid                 | (98,594)   |
| Balance as of January 31, 2013 | \$ 870,855 |

The dividends paid total of \$98,594 includes regular quarterly \$0.18 per share dividends in each of the first two quarters of fiscal 2013 for a combined total of \$19,069 and a special \$1.50 per share dividend in December 2012 of \$79,525.

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## **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.

### **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 (the Exchange Act). These forward looking statements involve uncertainties and risks. There can be no assurance that actual results will not differ from our expectations. Factors which could cause materially different results include, among others, price fluctuations, material or chassis supply restrictions, legislative and regulatory developments, the costs of compliance with increased governmental regulation, legal issues, the potential impact of increased tax burdens on our dealers and retail consumers, lower consumer confidence and the level of discretionary consumer spending, the level of state and federal funding available for transportation, interest rate increases, restrictive lending practices, recent management changes, the success of new product introductions, the pace of acquisitions, asset impairment charges, cost structure improvements, competition and general economic conditions and the other risks and uncertainties discussed more fully in Item 1A of our Annual Report on Form 10-K for the year ended July 31, 2012. We disclaim any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained in this report or to reflect any change in our expectations after the date hereof or any change in events, conditions or circumstances on which any statement is based, except as required by law.

### **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 39% for calendar year 2012. In the motorized segment of the RV industry, we have a U.S. market share of approximately 20% for calendar year 2012. Our U.S. and Canada market share in small and mid-size buses is approximately 34% for the nine months ended September 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 certain of 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 \$9,908 for the six months ended January 31, 2013 were made primarily for building and office additions and improvements and to replace machinery and equipment used in the ordinary course of business.

### **Recent Events**

On December 20, 2012, the Company acquired the Federal Coach (Federal Coach) bus operation assets from Forest River, Inc. for cash consideration of \$6,804. The Company purchased the assets to expand its bus business and achieve cost efficiencies. Federal Coach's product lines are more focused on the luxury bus market which is complementary to our existing product offerings.

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 achieve cost efficiencies. 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 2012 wholesale shipments of travel trailers, fifth wheels and motorized RVs combined have posted a 14.0% gain compared to calendar year 2011 according to RVIA, with travel trailers and fifth wheels posting a gain of 14.1% and motorized RVs posting a gain of 13.6%.

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 January 31, 2013 increased 49.4% to \$616,578 from \$412,780 as of January 31, 2012.

### **Industry Wholesale Statistics**

Key wholesale statistics for the RV industry, as reported by RVIA, are as follows:

|                    | U.S. and Canada Wholesale Shipments |         |          | %<br>Change |
|--------------------|-------------------------------------|---------|----------|-------------|
|                    | Calendar Year<br>2012               | 2011    | Increase |             |
| Towables Units (1) | 242,880                             | 212,932 | 29,948   | 14.1        |
| Motorized Units    | 28,198                              | 24,830  | 3,368    | 13.6        |
| Total              | 271,078                             | 237,762 | 33,316   | 14.0        |

(1) Excluding Folding Camping Trailers and Truck Campers, which the Company does not manufacture.

RVIA has forecasted that calendar year 2013 shipments for towables and motorized units will be 261,200 and 31,900 units, respectively, approximately 7.5% and 13.1% higher than the corresponding calendar year 2012 wholesale shipments noted above.

### **Industry Retail Statistics**

We believe that retail demand is the key to continued improvement in the RV industry. With appropriate levels of dealer inventory currently, we believe that RV industry wholesale shipments will generally be on a one-to-one replenishment ratio with retail sales going forward. We also believe that current levels of heightened discounting will continue in the near term due to competitive pressures and current economic conditions.

Key retail statistics for the RV industry, as reported by Stat Surveys, are as follows:

|                    | U.S. and Canada Retail Registrations |         |          | %<br>Change |
|--------------------|--------------------------------------|---------|----------|-------------|
|                    | Calendar Year<br>2012                | 2011    | Increase |             |
| Towables Units (1) | 225,453                              | 208,988 | 16,465   | 7.9         |



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|                 |                |                |               |            |
|-----------------|----------------|----------------|---------------|------------|
| Motorized Units | 25,748         | 23,982         | 1,766         | 7.4        |
| <b>Total</b>    | <b>251,201</b> | <b>232,970</b> | <b>18,231</b> | <b>7.8</b> |

(1) Excluding Folding Camping Trailers and Truck Campers, which the Company does not manufacture.

Note: Data reported by Stat Surveys is based on official state records. This information is subject to adjustment and is continuously updated.

**Company Wholesale and Retail Statistics**

The Company's wholesale RV shipments (using data to correspond to the industry periods denoted above) were as follows:

|                 | U.S. and Canada Wholesale Shipments |        |          |        |
|-----------------|-------------------------------------|--------|----------|--------|
|                 | Calendar Year                       |        |          | %      |
|                 | 2012                                | 2011   | Increase | Change |
| Towables Units  | 93,842                              | 84,089 | 9,753    | 11.6   |
| Motorized Units | 5,790                               | 4,620  | 1,170    | 25.3   |
| Total           | 99,632                              | 88,709 | 10,923   | 12.3   |

Retail statistics of the Company's RV products, as reported by Stat Surveys (using data to correspond to the industry periods denoted above), were as follows:

|                 | U.S. and Canada Retail Registrations |        |          |        |
|-----------------|--------------------------------------|--------|----------|--------|
|                 | Calendar Year                        |        |          | %      |
|                 | 2012                                 | 2011   | Increase | Change |
| Towables Units  | 86,076                               | 80,091 | 5,985    | 7.5    |
| Motorized Units | 5,097                                | 4,595  | 502      | 10.9   |
| Total           | 91,173                               | 84,686 | 6,487    | 7.7    |

Our outlook for future retail sales is tempered by the continuing uncertain economic conditions faced by consumers related to the rate of unemployment, the level of consumer confidence, the growth in disposable income of consumers, credit availability, the pace of recovery in the housing market, the impact of rising taxes and fuel prices, all of which could negatively impact the pace of RV sales. However, if consumer confidence improves, retail and wholesale credit remains available, interest rates remain low and economic uncertainties begin to dissipate, we would expect to see an incremental improvement in RV sales and expect to benefit from our ability to increase production. In recent years, the industry has benefited from growing retail sales to younger consumers with new product offerings targeted to younger, more active families. In addition, a positive longer-term outlook for the RV segment is supported by favorable demographics as more people reach the age brackets that historically have accounted for the bulk of retail RV sales. The number of consumers between the ages of 55 and 70 will total 56 million by 2020, 27% higher than in 2010 according to the RVIA.

Economic or industry-wide factors affecting our RV business include the costs of commodities used in the manufacture of our products. Material cost is the primary factor determining our cost of products sold. We have recently incurred increased costs in certain raw materials and components (wood and lumber products) and any future increases in raw material costs would impact our profit margins negatively if we were unable to raise prices for our products by corresponding amounts. Historically, we have been able to pass along those cost increases to customers.

Government entities are the primary purchasers or end users of our buses. Demand in this segment is subject to fluctuations in government spending on transit. In addition, hotel, rental car and parking lot operators, nursing and retirement homes and church organizations are also major users of our small and mid-sized buses and therefore travel is an important indicator for this market. The majority of our buses have useful lives of 5-7 years and are being continuously replaced by operators. According to the Mid Size Bus Manufacturers Association (MSBMA), unit sales of small and mid-sized buses increased 9.7% for the nine months ended September 30, 2012 compared with the same period in 2011. While municipal budgets have been reduced and transit agencies' operating costs have increased, we have recently started to see public agencies and private operators begin the process to replace their fleets. As of January 31, 2013, our buses reportable segment backlog decreased to \$205,440 as compared to \$234,135 as of January 31, 2012, a decrease of 12.3%. Longer term, we expect positive trends in our bus segment, which we believe will be supported by increased federal funding for transit, the replacement cycle for buses among public and private bus customers and the introduction of new bus products, including our new Krystal and Federal Coach units later in fiscal 2013.

To date, we have not experienced any unusual cost increases from our chassis suppliers. The recreation vehicle and bus industries have, from time to time, experienced shortages of chassis due to various causes such as component shortages at, or production delays or work stoppages at, the chassis manufacturers which has impacted our sales and earnings. The supply of chassis, used in both bus and motorized RV production, is adequate for current bus production levels. However, recent limitations in the availability of certain motorized RV chassis have hindered our ability to increase production levels and are anticipated to continue through the spring of calendar year 2013.



**Three Months Ended January 31, 2013 vs. Three Months Ended January 31, 2012**

|                           | Three Months<br>Ended<br>January<br>31, 2013 | Three Months<br>Ended<br>January<br>31, 2012 | Change<br>Amount | %<br>Change |
|---------------------------|--|--|------------------|-------------|
| <b>NET SALES:</b>         |  |  |                  |             |
| Recreation Vehicles       |  |  |                  |             |
| Towables                  | \$ 522,838                                   | \$ 444,206                                   | \$ 78,632        | 17.7        |
| Motorized                 | 113,767                                      | 56,788                                       | 56,979           | 100.3       |
| Total Recreation Vehicles | 636,605                                      | 500,994                                      | 135,611          | 27.1        |
| Buses                     | 104,995                                      | 95,976                                       | 9,019            | 9.4         |
| Total                     | \$ 741,600                                   | \$ 596,970                                   | \$ 144,630       | 24.2        |

**# OF UNITS:**

|                           |        |        |       |      |
|---------------------------|--------|--------|-------|------|
| Recreation Vehicles       |        |        |       |      |
| Towables                  | 19,488 | 17,010 | 2,478 | 14.6 |
| Motorized                 | 1,343  | 730    | 613   | 84.0 |
| Total Recreation Vehicles | 20,831 | 17,740 | 3,091 | 17.4 |
| Buses                     | 1,545  | 1,532  | 13    | 0.8  |
| Total                     | 22,376 | 19,272 | 3,104 | 16.1 |

|                           |           | % of<br>Segment<br>Net Sales |           | % of<br>Segment<br>Net Sales | Change<br>Amount | %<br>Change |
|---------------------------|-----------|------------------------------|-----------|------------------------------|------------------|-------------|
| <b>GROSS PROFIT:</b>      |           |                              |           |                              |                  |             |
| Recreation Vehicles       |           |                              |           |                              |                  |             |
| Towables                  | \$ 54,655 | 10.5                         | \$ 47,466 | 10.7                         | \$ 7,189         | 15.1        |
| Motorized                 | 12,863    | 11.3                         | 5,198     | 9.2                          | 7,665            | 147.5       |
| Total Recreation Vehicles | 67,518    | 10.6                         | 52,664    | 10.5                         | 14,854           | 28.2        |
| Buses                     | 5,878     | 5.6                          | 6,716     | 7.0                          | (838)            | (12.5)      |
| Total                     | \$ 73,396 | 9.9                          | \$ 59,380 | 9.9                          | \$ 14,016        | 23.6        |

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:**

|                           |           |     |           |     |          |      |
|---------------------------|-----------|-----|-----------|-----|----------|------|
| Recreation Vehicles       |           |     |           |     |          |      |
| Towables                  | \$ 28,069 | 5.4 | \$ 23,762 | 5.3 | \$ 4,307 | 18.1 |
| Motorized                 | 5,977     | 5.3 | 3,442     | 6.1 | 2,535    | 73.6 |
| Total Recreation Vehicles | 34,046    | 5.3 | 27,204    | 5.4 | 6,842    | 25.2 |
| Buses                     | 4,305     | 4.1 | 3,863     | 4.0 | 442      | 11.4 |
| Corporate                 | 7,836     |     | 5,178     |     | 2,658    | 51.3 |
| Total                     | \$ 46,187 | 6.2 | \$ 36,245 | 6.1 | \$ 9,942 | 27.4 |

**INCOME (LOSS) BEFORE INCOME TAXES:**

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Recreation Vehicles

|                           |    |         |     |    |         |     |    |         |        |
|---------------------------|----|---------|-----|----|---------|-----|----|---------|--------|
| Towables                  | \$ | 24,085  | 4.6 | \$ | 21,169  | 4.8 | \$ | 2,916   | 13.8   |
| Motorized                 |    | 6,883   | 6.1 |    | 1,755   | 3.1 |    | 5,128   | 292.2  |
| Total Recreation Vehicles |    | 30,968  | 4.9 |    | 22,924  | 4.6 |    | 8,044   | 35.1   |
| Buses                     |    | 1,321   | 1.3 |    | 2,599   | 2.7 |    | (1,278) | (49.2) |
| Corporate                 |    | (6,758) |     |    | (4,027) |     |    | (2,731) | (67.8) |
| Total                     | \$ | 25,531  | 3.4 | \$ | 21,496  | 3.6 | \$ | 4,035   | 18.8   |

|                           |    | As of<br>January 31,<br>2013 | As of<br>January 31,<br>2012 | Change<br>Amount | % Change |
|---------------------------|----|------------------------------|------------------------------|------------------|----------|
| <b>ORDER BACKLOG:</b>     |    |                              |                              |                  |          |
| Recreation Vehicles       |    |                              |                              |                  |          |
| Towables                  | \$ | 375,384                      | \$ 299,841                   | \$ 75,543        | 25.2     |
| Motorized                 |    | 241,194                      | 112,939                      | 128,255          | 113.6    |
| Total Recreation Vehicles |    | 616,578                      | 412,780                      | 203,798          | 49.4     |
| Buses                     |    | 205,440                      | 234,135                      | (28,695)         | (12.3)   |
| Total                     | \$ | 822,018                      | \$ 646,915                   | \$ 175,103       | 27.1     |

## **CONSOLIDATED**

Consolidated net sales for the three months ended January 31, 2013 increased \$144,630, or 24.2%, compared to the three months ended January 31, 2012. Consolidated gross profit increased \$14,016, or 23.6%, compared to the three months ended January 31, 2012. Consolidated gross profit was 9.9% of consolidated net sales for both the three months ended January 31, 2013 and the three months ended January 31, 2012. Selling, general and administrative expenses for the three months ended January 31, 2013 increased 27.4% compared to the three months ended January 31, 2012. Income before income taxes for the three months ended January 31, 2013 was \$25,531 as compared to the three months ended January 31, 2012 of \$21,496, an increase of 18.8%. The reasons for the changes in net sales, gross profit, selling, general and administrative expenses and income before income taxes are addressed in the segment reporting below.

Corporate costs included in selling, general and administrative expenses increased \$2,658 to \$7,836 for the three months ended January 31, 2013 compared to \$5,178 for the three months ended January 31, 2012. The increase is attributable to increased compensation related costs, including an increase of \$458 in bonus expenses due to the increase in consolidated income before income taxes and certain management changes, and an increase in stock-based compensation expenses of \$482. Deferred compensation plan expense also increased \$154. In addition, costs related to our Corporate repurchase reserve required for vehicle repurchase commitments increased \$580 primarily due to increased standby repurchase obligations in correlation with our increased sales. Employee related workers compensation and group insurance costs also increased \$589.

Corporate interest income and other income and expense was \$1,078 of income for the three months ended January 31, 2013 compared to \$1,151 of income for the three months ended January 31, 2012. The \$73 decrease is due to a decrease in overall interest income of \$244, primarily due to reduced interest income on our notes receivable due to lower note balances. This decrease was partially offset by an increase in other income of \$171, principally due to market value appreciation on the Company's deferred compensation plan assets of \$428 in the current year period as compared with \$274 in the prior year period, a favorable change of \$154.

The overall effective income tax rate for the three months ended January 31, 2013 was 22.1% compared with 36.4% for the three months ended January 31, 2012. The primary reason for the decrease in the overall effective income tax rate from January 31, 2012 to January 31, 2013 was the effective favorable settlement of certain state uncertain tax benefits that occurred in the three months ended January 31, 2013. The Company also recorded a tax benefit in the three months ended January 31, 2013 from the retroactive reinstatement of the Federal research and development credit and other credits that were enacted on January 2, 2013.

## **Segment Reporting**

### **TOWABLE RECREATION VEHICLES**

Analysis of change in net sales for the three months ended January 31, 2013 vs. the three months ended January 31, 2012:

|                   | Three Months     |                   | Three Months     |                   |           |        |
|-------------------|------------------|-------------------|------------------|-------------------|-----------|--------|
|                   | Ended            | % of              | Ended            | % of              | Change    | %      |
|                   | January 31, 2013 | Segment Net Sales | January 31, 2012 | Segment Net Sales | Amount    | Change |
| <b>NET SALES:</b> |                  |                   |                  |                   |           |        |
| Towables          |                  |                   |                  |                   |           |        |
| Travel Trailers   | \$ 248,091       | 47.5              | \$ 202,036       | 45.5              | \$ 46,055 | 22.8   |
| Fifth Wheels      | 270,182          | 51.7              | 237,789          | 53.5              | 32,393    | 13.6   |
| Other             | 4,565            | 0.8               | 4,381            | 1.0               | 184       | 4.2    |
| Total Towables    | \$ 522,838       | 100.0             | \$ 444,206       | 100.0             | \$ 78,632 | 17.7   |

|                    | Three Months     |                   | Three Months     |                   |        |        |
|--------------------|------------------|-------------------|------------------|-------------------|--------|--------|
|                    | Ended            | % of              | Ended            | % of              | Change | %      |
|                    | January 31, 2013 | Segment Shipments | January 31, 2012 | Segment Shipments | Amount | Change |
| <b># OF UNITS:</b> |                  |                   |                  |                   |        |        |

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Towables

|                 |        |       |        |       |       |       |
|-----------------|--------|-------|--------|-------|-------|-------|
| Travel Trailers | 12,855 | 66.0  | 10,656 | 62.6  | 2,199 | 20.6  |
| Fifth Wheels    | 6,504  | 33.4  | 6,220  | 36.6  | 284   | 4.6   |
| Other           | 129    | 0.6   | 134    | 0.8   | (5)   | (3.7) |
| Total Towables  | 19,488 | 100.0 | 17,010 | 100.0 | 2,478 | 14.6  |

**Impact of Change in Mix and Price on Net Sales:**

|                 | %<br>Increase |
|-----------------|---------------|
| Towables        |               |
| Travel Trailers | 2.2           |
| Fifth Wheels    | 9.0           |
| Other           | 7.9           |
| Total Towables  | 3.1           |

The increase in total towables net sales of 17.7% compared to the prior year quarter resulted from a 14.6% increase in unit shipments and a 3.1% increase in the impact of the change in the overall net price per unit.

The slight increase in the overall net price per unit within the travel trailer product lines of 2.2% is primarily due to selective price increases and changes in product mix, partially offset by increased discounting, which effectively reduces overall net price per unit. The increase in the overall net price per unit within the fifth wheel product lines of 9.0% is due to customer preference toward units with additional features and upgrades compared to a year ago, many of which were introduced at the Thor RV Open House in September 2012. Average fifth wheel selling prices have also increased due to the higher concentration of sales of luxury product lines and certain upscale toy hauler lines compared to the prior year. Selective price increases were also implemented since the comparable prior year period. These increases, however, were partially offset by increased discounting. The other category relates primarily to sales in the park model industry.

The overall industry increase in combined travel trailer and fifth wheel wholesale unit shipments for the three months ended January 31, 2013 was 20.7% compared to the same period last year according to statistics published by RVIA.

Cost of products sold increased \$71,443 to \$468,183, or 89.5% of towable net sales, for the three months ended January 31, 2013 compared to \$396,740, or 89.3% of towable net sales, for the three months ended January 31, 2012. The change in material, labor, freight-out and warranty comprised \$66,657 of the \$71,443 increase in cost of products sold due to increased sales volume. Material, labor, freight-out and warranty as a combined percentage of towable net sales increased to 82.8% for the three months ended January 31, 2013 compared to the 82.5% for the three months ended January 31, 2012. This increase in percentage is primarily due to an increase in discounting, which effectively decreases the net sales price per unit and therefore increases the unit material cost percentage to net sales. Total manufacturing overhead increased \$4,786 with the increase in sales, but total manufacturing overhead as a percentage of towable net sales decreased from 6.8% to 6.7% compared to the prior year period as the increase in production resulted in increased absorption of fixed overhead costs.

Towable gross profit increased \$7,189 to \$54,655, or 10.5% of towable net sales, for the three months ended January 31, 2013 compared to \$47,466, or 10.7% of towable net sales, for the three months ended January 31, 2012. The \$7,189 increase was primarily due to the increases in net sales as discussed above.

Selling, general and administrative expenses were \$28,069, or 5.4% of towable net sales, for the three months ended January 31, 2013 compared to \$23,762, or 5.3% of towable net sales, for the three months ended January 31, 2012. The primary reason for the \$4,307 increase was increased towable net sales and towable income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$2,957. Sales related travel, advertising, and promotional costs also increased \$282 in correlation with the increase in sales. Legal and professional fees and related settlement costs also increased \$330 in total.

Towable income before income taxes decreased to 4.6% of towable net sales for the three months ended January 31, 2013 from 4.8% of towable net sales for the three months ended January 31, 2012. The primary factor for this decrease in percentage was the impact of the increase in the cost of products sold noted above.



**MOTORIZED RECREATION VEHICLES**

Analysis of change in net sales for the three months ended January 31, 2013 vs. the three months ended January 31, 2012:

|                   | Three Months<br>Ended<br>January 31, 2013 | % of<br>Segment<br>Net<br>Sales | Three<br>Months<br>Ended<br>January 31,<br>2012 | % of<br>Segment<br>Net<br>Sales | Change<br>Amount | %<br>Change |
|-------------------|---|---------------------------------|---|---------------------------------|------------------|-------------|
| <b>NET SALES:</b> |   |                                 |   |                                 |                  |             |
| Motorized         |   |                                 |   |                                 |                  |             |
| Class A           | \$ 78,272                                 | 68.8                            | \$ 37,280                                       | 65.6                            | \$ 40,992        | 110.0       |
| Class C           | 25,883                                    | 22.8                            | 12,177  | 21.4                            | 13,706           | 112.6       |
| Class B           | 9,612                                     | 8.4                             | 7,331   | 13.0                            | 2,281            | 31.1        |
| Total Motorized   | \$ 113,767                                | 100.0                           | \$ 56,788                                       | 100.0                           | \$ 56,979        | 100.3       |

|                    | Three Months<br>Ended<br>January 31,<br>2013 | % of<br>Segment<br>Shipments | Three<br>Months<br>Ended<br>January 31,<br>2012 | % of<br>Segment<br>Shipments | Change<br>Amount | % Change |
|--------------------|--|------------------------------|---|------------------------------|------------------|----------|
| <b># OF UNITS:</b> |  |                              |   |                              |                  |          |
| Motorized          |  |                              |   |                              |                  |          |
| Class A            | 787  | 58.6                         | 425   | 58.2                         | 362              | 85.2     |
| Class C            | 465  | 34.6                         | 232   | 31.8                         | 233              | 100.4    |
| Class B            | 91   | 6.8                          | 73  | 10.0                         | 18               | 24.7     |
| Total Motorized    | 1,343  | 100.0                        | 730   | 100.0                        | 613              | 84.0     |

**Impact of Change in Mix and Price on Net Sales:**

|                 | %<br>Increase |
|-----------------|---------------|
| Motorized       |               |
| Class A         | 24.8          |
| Class C         | 12.2          |
| Class B         | 6.4           |
| Total Motorized | 16.3          |

The increase in total motorized net sales of 100.3% compared to the prior year quarter resulted from an 84.0% increase in unit shipments and a 16.3% increase in the impact of the change in the overall net price per unit. The overall market increase in wholesale unit shipments of motorhomes was 45.0% for the three months ended January 31, 2013 compared to the same period last year according to statistics published by RVIA.

The increase in the overall net price per unit within the Class A product line of 24.8% is primarily due to increased sales of the generally larger and more expensive diesel units rather than the more moderately priced gas units when compared to a year ago. The increase in the overall net price per unit within the Class C product line of 12.2% is primarily due to changes in product mix. Within the Class B product line, the increase in the overall net price per unit of 6.4% is due to a greater concentration of sales of higher priced models in the current year.

Cost of products sold increased \$49,314 to \$100,904, or 88.7% of motorized net sales, for the three months ended January 31, 2013 compared to \$51,590, or 90.8% of motorized net sales, for the three months ended January 31, 2012. The change in material, labor, freight-out and warranty comprised \$48,266 of the \$49,314 increase due to increased sales volume. Material, labor, freight-out and warranty as a combined percentage of

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motorized net sales increased to 84.1% compared to 83.6% for the prior year period. This increase as a percentage of motorized net sales is primarily due to an increase in the warranty cost percentage to net sales. Total manufacturing overhead increased \$1,048 with the increase in sales volume, but total manufacturing overhead as a percentage of motorized net sales decreased to 4.6% from 7.3% as the increase in unit production resulted in higher absorption of fixed overhead costs compared to the prior year period.

Motorized gross profit increased \$7,665 to \$12,863, or 11.3% of motorized net sales, for the three months ended January 31, 2013 compared to \$5,198, or 9.2% of motorized net sales, for the three months ended January 31, 2012. The \$7,665 increase in gross profit was due primarily to the impact of the 84.0% increase in unit sales volume noted above.

Selling, general and administrative expenses were \$5,977, or 5.3% of motorized net sales, for the three months ended January 31, 2013 compared to \$3,442, or 6.1% of motorized net sales, for the three months ended January 31, 2012. The primary reason for the \$2,535 increase was increased motorized net sales and motorized income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$2,197. Sales related travel, advertising, and promotion costs also increased \$280 in correlation with the increase in sales.

Motorized income before income taxes was 6.1% of motorized net sales for the three months ended January 31, 2013 and 3.1% of motorized net sales for the three months ended January 31, 2012. The primary reason for this increase in percentage was the impact of the increase in net sales noted above.

## **BUSES**

Analysis of change in net sales for the three months ended January 31, 2013 vs. the three months ended January 31, 2012:

|            | Three Months<br>Ended<br>January 31, 2013 | Three Months<br>Ended<br>January 31, 2012 | Change<br>Amount | %<br>Change |
|------------|---|---|------------------|-------------|
| Net Sales  | \$ 104,995                                | \$ 95,976                                 | \$ 9,019         | 9.4         |
| # of Units | 1,545                                     | 1,532                                     | 13               | 0.8         |

%

**Increase**

### **Impact of Change in Mix and Price on Net Sales**

**8.6**

The increase in buses net sales of 9.4% compared to the prior year quarter resulted from a 0.8% increase in unit shipments and an 8.6% increase in the impact of the change in the overall net price per unit.

The 8.6% increase in the impact of the change in the overall net price per unit is primarily due to a greater concentration of higher priced units in the current year period.

Cost of products sold increased \$9,857 to \$99,117, or 94.4% of buses net sales, for the three months ended January 31, 2013 compared to \$89,260 or 93.0% of buses net sales, for the three months ended January 31, 2012. The change in material, labor, freight-out and warranty represents \$9,147 of the \$9,857 increase in cost of products sold due to increased sales volume. Material, labor, freight-out and warranty as a combined percentage of buses net sales increased to 85.6% from 84.2% for the prior year period. This increase in percentage of cost of products sold was primarily due to lower margin product mix as compared to the prior year period. Total manufacturing overhead increased \$710, and manufacturing overhead remained constant at 8.8% as a percentage of buses net sales for both periods.

Buses gross profit decreased \$838 to \$5,878, or 5.6% of buses net sales, for the three months ended January 31, 2013 compared to \$6,716, or 7.0% of buses net sales, for the three months ended January 31, 2012. The \$838 decrease was mainly due to lower margin product mix and increased discounting in the current period as noted above.

Selling, general and administrative expenses were \$4,305, or 4.1% of buses net sales, for the three months ended January 31, 2013 compared to \$3,863, or 4.0% of buses net sales, for the three months ended January 31, 2012. The primary reason for the \$442 increase was an increase in product liability and legal and professional fees of \$547, partially offset by a decrease of \$204 in bonus expense due to the reduction in buses net income before income taxes.

Buses income before income taxes was 1.3% of buses net sales for the three months ended January 31, 2013 compared to 2.7% of buses net sales for the three months ended January 31, 2012. This decrease in percentage is primarily due to a greater concentration of sales with lower margins, including certain higher priced units, in the current year due to more aggressive pricing to secure new contracts and enter new markets.



**Six Months Ended January 31, 2013 vs. Six Months Ended January 31, 2012**

|                           | Six Months<br>Ended<br>January 31, 2013 | Six Months<br>Ended<br>January 31,<br>2012 | Change<br>Amount | %<br>Change |
|---------------------------|---|--|------------------|-------------|
| <b>NET SALES:</b>         |   |  |                  |             |
| Recreation Vehicles       |   |  |                  |             |
| Towables                  | \$ 1,162,020                            | \$ 943,310                                 | \$ 218,710       | 23.2        |
| Motorized                 | 236,009                                 | 119,344                                    | 116,665          | 97.8        |
| Total Recreation Vehicles | 1,398,029                               | 1,062,654                                  | 335,375          | 31.6        |
| Buses                     | 219,183                                 | 207,316                                    | 11,867           | 5.7         |
| Total                     | \$ 1,617,212                            | \$ 1,269,970                               | \$ 347,242       | 27.3        |

**# OF UNITS:**

|                           |        |        |       |      |
|---------------------------|--------|--------|-------|------|
| Recreation Vehicles       |        |        |       |      |
| Towables                  | 43,714 | 36,070 | 7,644 | 21.2 |
| Motorized                 | 2,776  | 1,534  | 1,242 | 81.0 |
| Total Recreation Vehicles | 46,490 | 37,604 | 8,886 | 23.6 |
| Buses                     | 3,293  | 3,219  | 74    | 2.3  |
| Total                     | 49,783 | 40,823 | 8,960 | 21.9 |

|                           |            | % of<br>Segment<br>Net Sales |            | % of<br>Segment<br>Net Sales | Change<br>Amount | %<br>Change |
|---------------------------|------------|------------------------------|------------|------------------------------|------------------|-------------|
| <b>GROSS PROFIT:</b>      |            |                              |            |                              |                  |             |
| Recreation Vehicles       |            |                              |            |                              |                  |             |
| Towables                  | \$ 131,750 | 11.3                         | \$ 107,364 | 11.4                         | \$ 24,386        | 22.7        |
| Motorized                 | 28,071     | 11.9                         | 10,096     | 8.5                          | 17,975           | 178.0       |
| Total Recreation Vehicles | 159,821    | 11.4                         | 117,460    | 11.1                         | 42,361           | 36.1        |
| Buses                     | 14,167     | 6.5                          | 16,898     | 8.2                          | (2,731)          | (16.2)      |
| Total                     | \$ 173,988 | 10.8                         | \$ 134,358 | 10.6                         | \$ 39,630        | 29.5        |

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:**

|                           |           |     |           |     |           |      |
|---------------------------|-----------|-----|-----------|-----|-----------|------|
| Recreation Vehicles       |           |     |           |     |           |      |
| Towables                  | \$ 59,886 | 5.2 | \$ 48,417 | 5.1 | \$ 11,469 | 23.7 |
| Motorized                 | 12,747    | 5.4 | 7,045     | 5.9 | 5,702     | 80.9 |
| Total Recreation Vehicles | 72,633    | 5.2 | 55,462    | 5.2 | 17,171    | 31.0 |
| Buses                     | 8,820     | 4.0 | 8,564     | 4.1 | 256       | 3.0  |
| Corporate                 | 16,199    |     | 10,679    |     | 5,520     | 51.7 |
| Total                     | \$ 97,652 | 6.0 | \$ 74,705 | 5.9 | \$ 22,947 | 30.7 |

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**INCOME (LOSS) BEFORE INCOME TAXES:**

Recreation Vehicles

|           |    |        |     |    |        |     |    |        |       |
|-----------|----|--------|-----|----|--------|-----|----|--------|-------|
| Towables  | \$ | 66,795 | 5.7 | \$ | 53,760 | 5.7 | \$ | 13,035 | 24.2  |
| Motorized |    | 15,321 | 6.5 |    | 3,048  | 2.6 |    | 12,273 | 402.7 |

|                           |  |          |     |  |         |     |  |         |        |
|---------------------------|--|----------|-----|--|---------|-----|--|---------|--------|
| Total Recreation Vehicles |  | 82,116   | 5.9 |  | 56,808  | 5.3 |  | 25,308  | 44.6   |
| Buses                     |  | 5,012    | 2.3 |  | 7,865   | 3.8 |  | (2,853) | (36.3) |
| Corporate                 |  | (13,986) |     |  | (8,529) |     |  | (5,457) | (64.0) |

|       |    |        |     |    |        |     |    |        |      |
|-------|----|--------|-----|----|--------|-----|----|--------|------|
| Total | \$ | 73,142 | 4.5 | \$ | 56,144 | 4.4 | \$ | 16,998 | 30.3 |
|-------|----|--------|-----|----|--------|-----|----|--------|------|

## **CONSOLIDATED**

Consolidated net sales for the six months ended January 31, 2013 increased \$347,242, or 27.3%, compared to the six months ended January 31, 2012. Consolidated gross profit increased \$39,630, or 29.5%, compared to the six months ended January 31, 2012. Consolidated gross profit was 10.8% of consolidated net sales for the six months ended January 31, 2013 compared to 10.6% of consolidated net sales for the six months ended January 31, 2012. Selling, general and administrative expenses for the six months ended January 31, 2013 increased 30.7% compared to the six months ended January 31, 2012. Income before income taxes for the six months ended January 31, 2013 was \$73,142 compared to the six months ended January 31, 2012 of \$56,144, an increase of 30.3%. The reasons for the changes in net sales, gross profit, selling, general and administrative expenses and income before income taxes are addressed in the segment reporting below.

Corporate costs included in selling, general and administrative expenses increased \$5,520 to \$16,199 for the six months ended January 31, 2013 compared to \$10,679 for the six months ended January 31, 2012. The increase is primarily attributable to increased compensation related costs, which included an increase of \$1,436 in bonus expenses due to the increase in consolidated income before income taxes and certain management changes. Other compensation costs and stock-based compensation expenses also increased \$1,010 and \$990, respectively, which included one-time separation costs of \$850 and \$256, respectively. Deferred compensation plan expense also increased \$632. Costs related to our Corporate repurchase reserve required for vehicle repurchase commitments increased \$880 primarily due to increased standby repurchase obligations in correlation with our increased sales. Employee related workers compensation and group insurance costs also increased \$705.

Corporate interest income and other income and expense was \$2,213 of income for the six months ended January 31, 2013 compared to \$2,150 of income for the six months ended January 31, 2012. The \$63 increase is primarily due to an increase of \$587 in other income, principally due to market value appreciation on the Company's deferred compensation plan assets of \$643 in the current year as compared with \$11 in the prior year, a favorable change of \$632. This increase was partially offset by a decrease in overall interest income of \$524, primarily due to reduced interest income on our notes receivable due to lower note balances.

The overall effective income tax rate for the six months ended January 31, 2013 was 30.4% compared with 35.8% for the six months ended January 31, 2012. The primary reason for the decrease in the overall effective income tax rate was the effective favorable settlement of certain state uncertain tax benefits that occurred in the six months ended January 31, 2013. The Company also recorded a tax benefit in the six months ended January 31, 2013 from the retroactive reinstatement of the Federal research and development credit and other credits that were enacted on January 2, 2013.

## **Segment Reporting**

### **TOWABLE RECREATION VEHICLES**

Analysis of change in net sales for the six months ended January 31, 2013 vs. the six months ended January 31, 2012:

|                   | Six Months<br>Ended<br>January 31, 2013 | % of<br>Segment<br>Net Sales | Six Months<br>Ended<br>January 31, 2012 | % of<br>Segment<br>Net Sales | Change<br>Amount | %<br>Change |
|-------------------|---|------------------------------|---|------------------------------|------------------|-------------|
| <b>NET SALES:</b> |   |                              |   |                              |                  |             |
| Towables          |   |                              |   |                              |                  |             |
| Travel Trailers   | \$ 550,471                              | 47.4                         | \$ 424,784                              | 45.0                         | \$ 125,687       | 29.6        |
| Fifth Wheels      | 601,509                                 | 51.8                         | 509,339                                 | 54.0                         | 92,170           | 18.1        |
| Other             | 10,040                                  | 0.8                          | 9,187                                   | 1.0                          | 853              | 9.3         |
| Total Towables    | \$ 1,162,020                            | 100.0                        | \$ 943,310                              | 100.0                        | \$ 218,710       | 23.2        |

|                    | Six Months<br>Ended<br>January 31, 2013 | % of<br>Segment<br>Shipments | Six Months<br>Ended<br>January 31, 2012 | % of<br>Segment<br>Shipments | Change<br>Amount | %<br>Change |
|--------------------|---|------------------------------|---|------------------------------|------------------|-------------|
| <b># OF UNITS:</b> |   |                              |   |                              |                  |             |
| Towables           |   |                              |   |                              |                  |             |
| Travel Trailers    | 28,411                                  | 65.0                         | 22,091                                  | 61.2                         | 6,320            | 28.6        |
| Fifth Wheels       | 15,013                                  | 34.3                         | 13,701                                  | 38.0                         | 1,312            | 9.6         |

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|                |        |       |        |       |       |      |
|----------------|--------|-------|--------|-------|-------|------|
| Other          | 290    | 0.7   | 278    | 0.8   | 12    | 4.3  |
| Total Towables | 43,714 | 100.0 | 36,070 | 100.0 | 7,644 | 21.2 |



**Impact of Change in Mix and Price on Net Sales:**

|                 | %<br>Increase |
|-----------------|---------------|
| Towables        |               |
| Travel Trailers | 1.0           |
| Fifth Wheels    | 8.5           |
| Other           | 5.0           |
| Total Towables  | 2.0           |

The increase in total towables net sales of 23.2% compared to the prior year period resulted from a 21.2% increase in unit shipments and a 2.0% increase in the impact of the change in the overall net price per unit.

The slight increase in the overall net price per unit within the travel trailer product lines of 1.0% is primarily due to selective price increases and changes in product mix, partially offset by increased discounting, which effectively reduces the net price per unit. The increase in the overall net price per unit within the fifth wheel product lines of 8.5% is due to customer preference toward units with additional features and upgrades compared to a year ago, many of which were introduced at the Thor RV Open House in September 2012. Average fifth wheel selling prices have also increased due to the higher concentration of sales of luxury product lines and certain upscale toy hauler lines compared to the prior year. Selective price increases were also implemented since the comparable prior year period. These increases were partially offset by increased discounting. The other category relates primarily to sales in the park model industry.

The overall industry increase in combined travel trailer and fifth wheel wholesale unit shipments for the six months ended January 31, 2013 was 20.3% compared to the same period last year according to statistics published by RVIA.

Cost of products sold increased \$194,324 to \$1,030,270 or 88.7% of towable net sales, for the six months ended January 31, 2013 compared to \$835,946, or 88.6% of towable net sales, for the six months ended January 31, 2012. The change in material, labor, freight-out and warranty comprised \$183,181 of the \$194,324 increase in cost of products sold due to increased sales volume. Material, labor, freight-out and warranty as a percentage of towable net sales increased to 82.7% for the six months ended January 31, 2013 compared to the 82.4% for the six months ended January 31, 2012. This increase in percentage is primarily due to an increase in discounting, which effectively decreases the net sales price per unit and therefore increases the unit material cost percentage to net sales. Total manufacturing overhead increased \$11,143 with the increase in sales, but total manufacturing overhead as a percentage of towable net sales decreased from 6.2% to 6.0% compared to the prior year period as the increase in production resulted in increased absorption of fixed overhead costs.

Towable gross profit increased \$24,386 to \$131,750, or 11.3% of towable net sales, for the six months ended January 31, 2013 compared to \$107,364, or 11.4% of towable net sales, for the six months ended January 31, 2012. The \$24,386 increase was primarily due to the increases in net sales as discussed above.

Selling, general and administrative expenses were \$59,886, or 5.2% of towable net sales, for the six months ended January 31, 2013 compared to \$48,417, or 5.1% of towable net sales, for the six months ended January 31, 2012. The primary reason for the \$11,469 increase was increased towable net sales and towable income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$7,633. Sales related travel, advertising, and promotional costs increased \$1,095 in correlation with the increase in sales. Legal and professional fees and related settlement costs also increased \$1,535 in total.

Towable income before income taxes was 5.7% of towable net sales for both the six months ended January 31, 2013 and the six months ended January 31, 2012.

**MOTORIZED RECREATION VEHICLES**

Analysis of change in net sales for the six months ended January 31, 2013 vs. the six months ended January 31, 2012:

|                   | Six Months<br>Ended<br>January 31, 2013 | % of<br>Segment<br>Net Sales | Six Months<br>Ended<br>January 31, 2012 | % of<br>Segment<br>Net Sales | Change<br>Amount | %<br>Change |
|-------------------|---|------------------------------|---|------------------------------|------------------|-------------|
| <b>NET SALES:</b> |   |                              |   |                              |                  |             |
| Motorized         |   |                              |   |                              |                  |             |
| Class A           | \$ 161,341                              | 68.4                         | \$ 80,575                               | 67.5                         | \$ 80,766        | 100.2       |
| Class C           | 53,126                                  | 22.5                         | 24,579                                  | 20.6                         | 28,547           | 116.1       |
| Class B           | 21,542                                  | 9.1                          | 14,190                                  | 11.9                         | 7,352            | 51.8        |
| Total Motorized   | \$ 236,009                              | 100.0                        | \$ 119,344                              | 100.0                        | \$ 116,665       | 97.8        |

|                    | Six Months<br>Ended<br>January 31, 2013 | % of<br>Segment<br>Shipments | Six Months<br>Ended<br>January 31, 2012 | % of<br>Segment<br>Shipments | Change<br>Amount | %<br>Change |
|--------------------|---|------------------------------|---|------------------------------|------------------|-------------|
| <b># OF UNITS:</b> |   |                              |   |                              |                  |             |
| Motorized          |   |                              |   |                              |                  |             |
| Class A            | 1,624                                   | 58.5                         | 934                                     | 60.9                         | 690              | 73.9        |
| Class C            | 947                                     | 34.1                         | 455                                     | 29.7                         | 492              | 108.1       |
| Class B            | 205                                     | 7.4                          | 145                                     | 9.4                          | 60               | 41.4        |
| Total Motorized    | 2,776                                   | 100.0                        | 1,534                                   | 100.0                        | 1,242            | 81.0        |

**Impact of Change in Mix and Price on Net Sales:**

|                 | %<br>Increase |
|-----------------|---------------|
| Motorized       |               |
| Class A         | 26.3          |
| Class C         | 8.0           |
| Class B         | 10.4          |
| Total Motorized | 16.8          |

The increase in total motorized net sales of 97.8% compared to the prior year period resulted from an 81.0% increase in unit shipments and a 16.8% increase in the impact of the change in the overall net price per unit. The overall market increase in wholesale unit shipments of motorhomes was 37.4% for the six months ended January 31, 2013 compared to the same period last year according to statistics published by RVIA.

The increase in the overall net price per unit within the Class A product line of 26.3% is primarily due to increased sales of the generally larger and more expensive diesel units as compared to the more moderately priced gas units compared to a year ago. The increase in the overall net price per unit within the Class C product line of 8.0% is primarily due to changes in product mix. Within the Class B product line, the increase in the overall net price per unit of 10.4% is due to a greater concentration of sales of higher priced models in the current year.

Cost of products sold increased \$98,690 to \$207,938, or 88.1% of motorized net sales, for the six months ended January 31, 2013 compared to \$109,248, or 91.5% of motorized net sales, for the six months ended January 31, 2012. The change in material, labor, freight-out and warranty comprised \$96,890 of the \$98,690 increase due to increased sales volume. Material, labor, freight-out and warranty as a combined percentage of motorized net sales decreased to 83.8% compared to 84.5% for the prior year period. This decrease as a percentage of motorized net sales is primarily due to a decrease in the material cost percentage to net sales. Total manufacturing overhead increased \$1,800 with the increase in sales volume, but total manufacturing overhead as a percentage of motorized net sales decreased to 4.3% from 7.0% as the increase in unit production resulted in higher absorption of fixed overhead costs compared to the prior year period.

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Motorized gross profit increased \$17,975 to \$28,071, or 11.9% of motorized net sales, for the six months ended January 31, 2013 compared to \$10,096, or 8.5% of motorized net sales, for the six months ended January 31, 2012. The \$17,975 increase in gross profit was due primarily to the impact of the 81.0% increase in unit sales volume noted above.

Selling, general and administrative expenses were \$12,747, or 5.4% of motorized net sales, for the six months ended January 31, 2013 compared to \$7,045, or 5.9% of motorized net sales, for the six months ended January 31, 2012. The primary reason for the \$5,702 increase was increased motorized net sales and motorized income before income taxes, which caused related commissions, bonuses and other compensation to increase by \$4,885. Product liability and settlement related costs increased \$415. Sales related travel, advertising and promotion costs also increased \$374 in correlation with the increase in sales.

Motorized income before income taxes was 6.5% of motorized net sales for the six months ended January 31, 2013 and 2.6% of motorized net sales for the six months ended January 31, 2012. The primary reason for this increase in percentage was the impact of the increase in net sales noted above.

## **BUSES**

Analysis of change in net sales for the six months ended January 31, 2013 vs. the six months ended January 31, 2012:

|            | Six Months<br>Ended<br>January 31, 2013 | Six Months<br>Ended<br>January 31, 2012 | Change<br>Amount | %<br>Change |
|------------|---|---|------------------|-------------|
| Net Sales  | \$ 219,183                              | \$ 207,316                              | \$ 11,867        | 5.7         |
| # of Units | 3,293                                   | 3,219                                   | 74               | 2.3         |

|   | %<br>Increase |
|---|---------------|
| <b>Impact of Change in Mix and Price on Net Sales</b> | <b>3.4</b>    |

The increase in buses net sales of 5.7% compared to the prior year period resulted from a 2.3% increase in unit shipments and a 3.4% increase in the impact of the change in the overall net price per unit.

The 3.4% increase in the impact of the change in the overall net price per unit is primarily due to a greater concentration of higher priced units in the current year period.

Cost of products sold increased \$14,598 to \$205,016, or 93.5% of buses net sales, for the six months ended January 31, 2013 compared to \$190,418 or 91.8% of buses net sales, for the six months ended January 31, 2012. The increase in material, labor, freight-out and warranty represents \$13,935 of the \$14,598 increase in cost of products sold. Material, labor, freight-out and warranty as a combined percentage of buses net sales increased to 85.4% from 83.6% for the prior year period. This increase in percentage of cost of products sold was primarily due to lower margin product mix as compared to the prior year period. Total manufacturing overhead increased \$663, and manufacturing overhead decreased to 8.1% from 8.3% as a percentage of buses net sales.

Buses gross profit decreased \$2,731 to \$14,167, or 6.5% of buses net sales, for the six months ended January 31, 2013 compared to \$16,898, or 8.2% of buses net sales, for the six months ended January 31, 2012. The \$2,731 decrease was mainly due to lower margin product mix.

Selling, general and administrative expenses were \$8,820, or 4.0% of buses net sales, for the six months ended January 31, 2013 compared to \$8,564, or 4.1% of buses net sales, for the six months ended January 31, 2012. The primary reason for the \$256 increase was an increase in product liability and related legal and professional fees of \$736, partially offset by a decrease of \$505 in bonus expense due to the reduction in buses net income before income taxes.

Buses income before income taxes was 2.3% of buses net sales for the six months ended January 31, 2013 compared to 3.8% of buses net sales for the six months ended January 31, 2012. This decrease in percentage is primarily due to a greater concentration of sales with lower margins, including certain higher priced units, in the current year due to more aggressive pricing to secure new contracts and enter new markets.

## **Financial Condition and Liquidity**

As of January 31, 2013, we had \$108,140 in cash and cash equivalents compared to \$218,642 on July 31, 2012. The decrease is primarily attributable to dividends paid of \$98,594, including a special dividend of \$1.50 per share and regular quarterly dividends of \$0.18 per share per quarter, and \$10,718 paid for the acquisitions of the Krystal and Federal Coach bus businesses.



Working capital at January 31, 2013 was \$333,211 compared to \$373,796 at July 31, 2012. Capital expenditures of \$9,908 for the six months ended January 31, 2013 were made primarily for building and office additions and improvements and to replace machinery and equipment used in the ordinary course of business.

We believe our on hand cash and cash equivalents and funds generated from operations will be sufficient to fund expected future operational requirements. 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.

The Company anticipates additional capital expenditures in fiscal 2013 of approximately \$9,700. These expenditures will be made primarily for expanding our recreation vehicle facilities and replacing and upgrading machinery, equipment and other assets to be used in the ordinary course of business. Anticipated capital expenditures will be funded by operations and/or cash on hand.

The Company's Board currently intends to continue quarterly cash dividend payments in the future. The declaration of future dividends and the establishment of the per share amounts, record dates and payment dates for any such future dividends are subject to the determination of the Board, and will be dependent upon future earnings, cash flows and other factors.

Future purchases of the Company's common stock may occur based upon market and business conditions, and excess cash availability, subject to applicable legal limitations.

#### *Operating Activities*

Net cash provided by operating activities for the six months ended January 31, 2013 was \$1,333 as compared to \$36,015 for the six months ended January 31, 2012. The combination of net income and non-cash items (primarily depreciation, amortization, deferred income tax provision (benefit) and stock-based compensation) provided \$63,865 of operating cash in fiscal 2013 compared to \$50,127 in the prior year period. However, the \$63,865 of operating cash provided in the six months ended January 31, 2013 was offset to a greater extent by increases in accounts receivable and inventories, which correlate with the increases in net sales and backlog, respectively.

#### *Investing Activities*

Net cash used in investing activities for the six months ended January 31, 2013 was \$12,890, primarily for capital expenditures of \$9,908 and \$10,718 for the acquisitions of the Krystal and Federal Coach bus businesses, partially offset by proceeds from notes receivable of \$7,000. During the six months ended January 31, 2012, net cash used in investing activities of \$2,148 was primarily due to capital expenditures of \$3,489.

#### *Financing Activities*

During the six months ended January 31, 2013, net cash used in financing activities of \$98,945 was primarily for cash dividend payments. The Company paid a regular quarterly \$0.18 per share dividend in each of the first two quarters of fiscal 2013 and a special \$1.50 per share dividend in December 2012, the combination of which totaled \$98,594. The Company increased its previous regular quarterly dividend of \$0.15 per share to \$0.18 per share in October 2012. In October 2011, the Company increased its previous regular quarterly dividend of \$0.10 per share to \$0.15 per share. Net cash used in financing activities of \$93,096 for the six months ended January 31, 2012 was primarily related to the repurchase of a total of 3,000,000 shares of common stock of the Company for \$77,000 and cash dividend payments of \$16,454. The Company repurchased the shares at a discount to the then current market price and did not incur brokerage fees.

The Company considered the special \$1.50 per share dividend and the repurchases of shares to be prudent uses of its cash and does not believe future liquidity will be negatively impacted. See Note 12 to our Condensed Consolidated Financial Statements contained elsewhere in this report for a description of the share repurchase transactions.

#### **Critical Accounting Principles**

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



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

We review our long-lived assets (individually or in a related group as appropriate) for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable from future cash flows attributable to the assets. Additionally, we review our goodwill for impairment annually as of April 30 of each year. Accordingly, we continually assess whether events or changes in circumstances represent a triggering event that would require us to complete an impairment assessment. Factors that we consider in determining whether a triggering event has occurred include, among other things, whether there has been a significant adverse change in legal factors, business climate or competition related to the operation of the asset, whether there has been a significant decrease in actual or expected operating results related to the asset and whether there are current plans to sell or dispose of the asset. The determination of whether a triggering event has occurred is subject to significant management judgment, including at which point or fiscal quarter a triggering event has occurred when the relevant adverse factors persist over extended periods.

Our assessment of whether any triggering events occurred during the six months ended January 31, 2013 for which we should further analyze whether an impairment exists through that date did not result in the identification of such a triggering event.

Should a triggering event be deemed to occur, and for each of the annual impairment assessments, management is required to estimate the expected net cash flows to be realized over the life of the asset and/or the asset's fair value. Fair values are often determined by a discounted cash flow model, although we also use a market approach in determining fair values when appropriate. These estimates are subject to significant management judgment including the determination of many factors such as sales growth rates, gross margin patterns, cost growth rates, terminal value assumptions, discount rates and comparable companies. Changes in these estimates can have a significant impact on the determination of cash flows and fair value and could potentially result in future material impairments. Management engages an independent valuation firm in many cases to assist in its impairment assessments.

As of our most recent annual assessment date of April 30, 2012, the Company had five individual reporting units that carried goodwill. One reporting unit carries 48% of our consolidated goodwill of \$250,472 and a second reporting unit carries another 38% of our consolidated goodwill. For these two reporting units, our estimate of their fair values exceeded their respective carrying values by 305% and 35%, respectively, as of our April 30, 2012 assessment. Fair values of our other three reporting units that carried goodwill as of April 30, 2012 exceeded their carrying values by 15%, 134% and 309%. The reporting unit that had fair value exceeding carrying value by 15% carries goodwill of \$6,810.

In regards to our April 2012 assessment for the reporting unit that had fair value exceeding carrying value by 15%, we used both a discounted cash flow model and a market approach to determine an estimate of its fair value. Assumptions which more significantly impact the discounted cash flows used in estimating the fair value of this unit included forecasted annual sales over the next five years, margin percentages over those years, terminal sales growth and weighted average cost of capital. Each of these estimates is subject to significant management judgment. Recent performance, in particular margin percentage, is below previous estimates. Continued actual results below forecast may result in a reduction of our five year forecast for this reporting unit. A reduction in the forecast would likely reduce the fair value of this reporting unit and future impairment assessments may indicate that the related goodwill of this reporting unit is partially or fully impaired.

In September 2011, the FASB issued 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 significant impact on the Company's Consolidated Financial Statements.



### *Insurance Reserves*

Generally, we are self-insured for workers' compensation, products liability and group medical insurance. Under these plans, liabilities are recognized for claims incurred, including those incurred but not reported. The liability for workers' compensation claims is determined by the Company with the assistance of a third party administrator and actuary using various state statutes and historical claims experience. Group medical reserves are estimated using historical claims experience. We have a self-insured retention ( SIR ) for products liability and personal injury matters of \$5,000 per occurrence. Beginning April 1, 2012, this SIR for bus related matters is \$7,500 per occurrence. We have established a liability on our balance sheet for such occurrences based on historical data, known cases and actuarial information. Amounts above the SIR, up to a certain dollar amount, are covered by our excess insurance policy. Currently, we maintain excess liability insurance aggregating \$50,000 with outside insurance carriers to minimize our risks related to catastrophic claims in excess of all our self-insured positions for product liability and personal injury matters. Any material change in the aforementioned factors could have an adverse impact on our operating results.

### *Product Warranties*

We generally provide customers of our products with a one-year warranty covering defects in material or workmanship, 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 liability is adequate; however, actual claims incurred could differ from estimates, requiring adjustments to the reserves. Warranty liabilities are reviewed and adjusted as necessary on a quarterly basis.

### *Income Taxes*

We account for income taxes under the provisions of Accounting Standards Codification ( ASC ) 740, 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 our financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our 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.

We recognize 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.

Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and valuation allowances recorded against our deferred tax assets, if any. Valuation allowances must be considered due to the uncertainty of realizing deferred tax assets. ASC 740 requires that companies assess whether valuation allowances should be established against their deferred tax assets on a tax jurisdictional basis based on the consideration of all available evidence, using a more likely than not standard. We have evaluated the sustainability of our deferred tax assets on the Condensed Consolidated Balance Sheet which includes the assessment of the cumulative income over recent prior periods. As of January 31, 2013, based on ASC guidelines, we determined a valuation allowance was not required to be recorded against deferred income tax assets in any of the tax jurisdictions in which we currently operate.

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*Revenue Recognition*

Revenues from the sale of recreation vehicles and buses are recorded primarily 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 on credit or cash on delivery ( COD ) terms. The Company recognizes revenue on credit sales upon shipment and COD sales upon payment and delivery. Most sales are made to dealers financing their purchases under flooring arrangements with banks or finance companies. Products are not sold on consignment, dealers do not have the right to return products and dealers are typically responsible for interest costs to floorplan lenders. Most of our sales to dealers are made on terms requiring cash on delivery or within 15 days of the invoice date.

*Repurchase Commitments*

We are contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for certain dealers of certain of our 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. The repurchase price is generally determined by the original sales price of the product and pre-defined curtailment arrangements and we typically resell the repurchased product at a discount from its repurchase price. We account for the guarantee under our repurchase agreements of our dealers' financing by estimating and deferring a portion of the related product sale that represents the estimated fair value of the repurchase obligation. The estimated fair value takes into account our estimate of the loss 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 the repurchase and guarantee reserve.

Our risk of loss under these repurchase agreements is reduced because (a) we sell our products to a large number of dealers under these arrangements, (b) the repurchase price we are obligated to pay declines over the period of the agreements (generally up to eighteen months) while the value of the related product may not decline ratably and (c) we have historically been able to readily resell any repurchased product. We believe that any future losses under these agreements will not have a significant effect on the Company's consolidated financial position or results of operations.

**Accounting Pronouncements**

Reference is made to Note 1 to our Condensed Consolidated Financial Statements contained in this report for a summary of our pending or recently adopted accounting pronouncements, which summary is hereby incorporated by reference.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

None

**ITEM 4. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company has carried out an evaluation, as of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and accumulated and communicated to our management as appropriate to allow for timely decisions regarding required disclosures.

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During the quarter ended January 31, 2013, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - Other Information**

### **ITEM 1. LEGAL PROCEEDINGS**

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 were 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.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2012, except as noted below.

Recently, the SEC adopted new rules pursuant to Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act setting forth new disclosure requirements concerning the use or potential use of certain minerals (tantalum, tin, gold and tungsten), that are mined from the Democratic Republic of Congo and adjoining countries. These new requirements will necessitate due diligence efforts by the Company to assess whether such minerals are used in our products in order to make relevant disclosures beginning in May 2014. There will be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of those minerals that may be used or necessary to the production of our products. We may face reputational challenges that could impact future sales if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

**ITEM 6. EXHIBITS**

| Exhibit | Description  |
|---------|--|
| 10.1    | Agreement, dated December 12, 2012 between the Company and Marcus Lemonis, Stephen Adams, in his individual capacity, and Stephen Adams and his successor, as trustee under the Stephen Adams Living Trust (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated December 14, 2012) |
| 10.2    | Employment offer letter, dated January 11, 2013 from the Company to Dominic A. Romeo (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated January 16, 2013)  |
| 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 of 2002  |
| 32.2    | Chief Financial Officer's Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document  |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document   |
| 101.LAB | XBRL Taxonomy Label Linkbase Document  |

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

Attached as Exhibits 101 to this report are the following financial statements from the Company's Quarterly report on Form 10-Q for the quarter ended January 31, 2013 formatted in XBRL ( eXtensible Business Reporting Language ): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements.

The XBRL related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall not be deemed filed or a part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

**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: March 7, 2013

/s/ Peter B. Orthwein  
Peter B. Orthwein  
Chairman of the Board and Chief Executive Officer

DATE: March 7, 2013

/s/ Dominic A. Romeo  
Dominic A. Romeo  
Senior Vice President and Chief Financial Officer