

THOR INDUSTRIES INC  
Form 10-Q  
July 03, 2007

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**

**FOR QUARTER ENDED April 30, 2007**

**COMMISSION FILE NUMBER 1-9235**

**THOR INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware

93-0768752

(State or other jurisdiction of  
incorporation or organization)

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

419 West Pike Street, Jackson Center, OH

45334-0629

(Address of principal executive offices)

(Zip Code)

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

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

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

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**Explanatory Note**

**(All amounts presented in thousands)**

In this Form 10-Q for the quarter ended April 30, 2007, Thor Industries, Inc. ( we or the Company ) is restating its condensed consolidated financial statements for the three and nine months ended April 30, 2006. The effects of this restatement are reflected in the comparative amounts included in this Form 10-Q. We have restated our previously issued financial statements as of July 31, 2006 and 2005, and for each of the years in the three-year period ended July 31, 2006, and the financial results in each of the quarterly periods in 2006 and 2005, and on June 11, 2007 filed an amendment to our Annual Report on Form 10-K/A for the year ended July 31, 2006. We have also restated our condensed consolidated financial statements as of October 31, 2006 and for the three months ended October 31, 2006 and 2005, and on June 12, 2007 filed an amendment to our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006.

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

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

The condensed consolidated financial statements and related financial information for the three and nine months ended April 30, 2007 included in this Form 10-Q should be read only in conjunction with the information contained in our Annual Report on Form 10-K/A for the year ended July 31, 2006. See Note 2 to our condensed consolidated financial statements included in this Form 10-Q for further discussion.

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

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employed at Dutchmen during the periods restated. The effect of the restatement reported in this Quarterly Report on Form 10-Q is a reduction to income before income taxes of \$3,902, or \$2,470 in net income, for the three months ended April 30, 2006 and a reduction to income before income taxes of \$10,160, or \$6,431 in net income, for the nine months ended April 30, 2006. The restated financial statements as of July 31, 2006 and 2005, and for each of the years in the three-year period ended July 31, 2006, and the financial results in each of the quarterly periods in 2006 and 2005, are reported in our Annual Report on Form 10-K/A for the year ended July 31, 2006. The restated financial statements as of October 31, 2006 and for the three months ended October 31, 2006 and 2005 are reported in our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006.

The effects of these restatements are reflected in the financial statements and other supplemental data, including the unaudited quarterly data for fiscal years 2005 and 2006 and selected financial data for the fiscal years 2004, 2005 and 2006, included in our Annual Report on Form 10-K/A for the year ended July 31, 2006, our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006, our Quarterly Report on Form 10-Q for the quarter ended January 31, 2007 and this Form 10-Q. We have not amended and do not intend to amend any of our previously filed Annual Reports on Form 10-K for the periods affected by the restatement or adjustments other than our Annual Report on Form 10-K/A for the year ended July 31, 2006 or any of our previously filed Quarterly Reports on Form 10-Q other than our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006.

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

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

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

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

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

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

<b>ASSETS</b>	<b>April 30, 2007</b>	<b>July 31, 2006</b>
Current assets:		
Cash and cash equivalents	\$ 146,982	\$ 196,136
Investments short term	105,590	68,237
Accounts receivable:		
Trade	213,081	188,104
Other	8,013	5,639
Inventories	202,725	183,169
Prepaid expenses	9,850	6,533
Deferred income taxes	25,367	4,898
Total current assets	711,608	652,716
Property:		
Land	21,741	21,323
Buildings and improvements	134,290	131,649
Machinery and equipment	60,660	55,656
Total cost	216,691	208,628
Accumulated depreciation	60,135	51,163
Property, net	156,556	157,465
Investment in joint ventures	2,696	2,737
Other assets:		
Goodwill	165,663	165,663
Non-compete agreements	2,171	2,841
Trademarks	13,900	13,900
Other	12,216	9,403
Total other assets	193,950	191,807
<b>TOTAL ASSETS</b>	<b>\$ 1,064,810</b>	<b>\$ 1,004,725</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 148,103	\$ 145,609
Accrued liabilities:		
Taxes	45,236	18,709
Compensation and related items	38,686	37,161

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Product warranties	60,724	59,795
Promotions and rebates	13,429	12,953
Product/property liability and related liabilities	12,779	10,423
Other	11,745	7,315
<b>Total current liabilities</b>	<b>330,702</b>	<b>291,965</b>
Deferred income taxes and other liabilities	15,948	12,911
Contingent liabilities and commitments		
Stockholders' equity:		
Common stock - authorized 250,000,000 shares; issued 57,210,404 shares @ 4/30/07 and 57,100,286 shares @ 7/31/06; par value of \$.10 per share	5,721	5,710
Additional paid-in capital	89,133	86,538
Accumulated other comprehensive income	2,109	1,772
Retained earnings	681,320	664,322
Less Treasury shares of 1,441,600 @ 4/30/07 & 1,401,200 @ 7/31/06	(60,123)	(58,493)
<b>Total stockholders' equity</b>	<b>718,160</b>	<b>699,849</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,064,810</b>	<b>\$ 1,004,725</b>

See notes to condensed consolidated financial statements

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**THOR INDUSTRIES, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CONDENSED CONSOLIDATED INCOME**  
**FOR THE THREE & NINE MONTHS ENDED APRIL 30, 2007 AND 2006**

	<b>Three Months Ended April 30</b>		<b>Nine Months Ended April 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<b>(As restated, see Note 2)</b>		<b>(As restated, see Note 2)</b>
Net sales	\$ 789,643	\$ 857,615	\$ 2,101,408	\$ 2,260,985
Cost of products sold	686,663	733,506	1,848,091	1,941,529
Gross profit	102,980	124,109	253,317	319,456
Selling, general and administrative expenses	51,834	50,317	132,703	135,890
Interest income	2,515	2,552	7,771	6,270
Interest expense	212	347	563	917
Other income	510	243	1,375	1,169
Income before income taxes	53,959	76,240	129,197	190,088
Provision for income taxes	18,390	27,571	44,779	70,141
Net income	\$ 35,569	\$ 48,669	\$ 84,418	\$ 119,947
Average common shares outstanding:				
Basic	55,696,304	56,656,684	55,654,327	56,605,615
Diluted	55,935,718	57,087,096	55,916,602	56,994,628
Earnings per common share:				
Basic	\$ .64	\$ .86	\$ 1.52	\$ 2.12
Diluted	\$ .64	\$ .85	\$ 1.51	\$ 2.10
Regular dividends declared per common share:	\$ .07	\$ .07	\$ .21	\$ .12
Special dividends declared per common share:	\$	\$	\$ 1.00	\$
Regular dividends paid per common share:	\$ .07	\$ .07	\$ .21	\$ .17
Special dividends paid per common share:	\$	\$	\$ 1.00	\$ .25
See notes to condensed consolidated financial statements				



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**THOR INDUSTRIES, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS**  
**FOR THE NINE MONTHS ENDED APRIL 30, 2007 AND 2006**

	<b>2007</b>	<b>2006</b> (As restated, see Note 2)
<b>Cash flows from operating activities:</b>		
Net income	\$ 84,418	\$ 119,947
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	9,687	10,023
Amortization	670	712
Deferred income taxes	(20,604)	(18,149)
Loss on disposition of assets	85	(11)
Loss on disposition of trading investments	104	403
Unrealized loss on trading investments		(461)
Stock based compensation	455	791
<b>Changes in non cash assets and liabilities, net of effect from acquisitions:</b>		
Purchases of trading investments		(197,462)
Proceeds from disposition of trading investments	68,133	117,726
Accounts receivable	(27,351)	(74,934)
Inventories	(19,556)	(37,787)
Prepays and other	(6,521)	(4,427)
Accounts payable	2,303	43,670
Accrued liabilities	36,243	54,697
Other liabilities	2,869	2,142
Net cash provided by operating activities	130,935	16,880
<b>Cash flows from investing activities:</b>		
Purchase of property, plant & equipment	(8,885)	(18,263)
Proceeds from disposition of assets	230	229
Purchase of available for sale investments	(205,020)	
Proceeds from sale of available for sale investments	100,148	
Net cash used in investing activities	(113,527)	(18,034)
<b>Cash flows from financing activities:</b>		
Cash dividends	(67,420)	(23,807)
Purchase of common stock held as treasury shares	(1,630)	
Proceeds from issuance of common stock	2,151	1,863
Net cash used in financing activities	(66,899)	(21,944)

<b>Effect of exchange rate changes on cash</b>	337	996
Net decrease in cash and equivalents	(49,154)	(22,102)
Cash and equivalents, beginning of period	196,136	163,596
<b>Cash and equivalents, end of period</b>	<b>\$ 146,982</b>	<b>\$ 141,494</b>
<b>Supplemental cash flow information:</b>		
Income taxes paid	\$ 36,552	\$ 52,057
Interest paid	563	917
<b>Non cash transactions:</b>		
Capital expenditures in accounts payable	\$ 191	\$ 1,406
Purchase of treasury shares		5,102
Incentive stock options disqualifying disposition		339
Cancellation of restricted stock	35	42
See notes to condensed consolidated financial statements		
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**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

1. The July 31, 2006 amounts are derived from the annual audited financial statements, as restated. The interim financial statements are unaudited. In the opinion of management, all adjustments (which consist of normal recurring adjustments) necessary to present fairly the financial position, results of operations and change in cash flows for the interim periods presented have been made. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K/A for the year ended July 31, 2006. The results of operations for the nine months ended April 30, 2007 are not necessarily indicative of the results for the full year.
2. Restatement of Financial Statements

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

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

The Company has restated its previously issued financial statements as of July 31, 2006, in conjunction with the Company's Annual Report on Form 10-K/A, and for the three and nine month periods ended April 30, 2006. The restatement followed the Company's evaluation, considering the results from the Audit Committee's investigation, of accounting practices employed at Dutchmen during these periods.

The following tables show the previously reported, restatement adjustment and restated amounts for those accounts in the Statements of Condensed Consolidated Income for the three months ended April 30, 2006 and the nine months ended April 30, 2006 and the Statement of Condensed Consolidated Cash Flows for the nine months ended April 30, 2006, affected by the restatements.

	<b>Previously reported</b>	<b>Restatement adjustment</b>	<b>Restated</b>
<b>Statement of Condensed Consolidated Income</b>			
<b>Three months ended April 30, 2006</b>			
Cost of products sold	\$729,604	\$ 3,902	\$733,506
Gross profit	128,011	(3,902)	124,109
Income before income taxes	80,142	(3,902)	76,240
Provision for income taxes	29,003	(1,432)	27,571
Net income	51,139	(2,470)	48,669
<b>Earnings per common share</b>			
<b>Three months ended April 30, 2006</b>			
Basic	\$ .90	\$ (.04)	\$ .86
Diluted	\$ .90	\$ (.05)	\$ .85
<b>Statement of Condensed Consolidated Income</b>			
<b>Nine months ended April 30, 2006</b>			



**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	<b>Previously reported</b>	<b>Restatement adjustment</b>	<b>Restated</b>
Cost of products sold	\$ 1,931,369	\$ 10,160	\$ 1,941,529
Gross profit	329,616	(10,160)	319,456
Income before income taxes	200,248	(10,160)	190,088
Provision for income taxes	73,870	(3,729)	70,141
Net income	126,378	(6,431)	119,947

**Earnings per common share****Nine months ended April 30, 2006**

Basic	\$ 2.23	\$ (.11)	\$ 2.12
Diluted	\$ 2.22	\$ (.12)	\$ 2.10

**Statement of Condensed Consolidated Cash Flows****Nine months ended April 30, 2006**

Cash flows from operating activities			
Net income	\$ 126,378	\$ (6,431)	\$ 119,947
Accounts receivable	(77,568)	2,634	(74,934)
Inventories	(38,389)	602	(37,787)
Accounts payable	36,747	6,923	43,670
Accrued liabilities	58,425	(3,728)	54,697

## 3. Major classifications of inventories are:

	April 30, 2007	July 31, 2006
Raw materials	\$ 97,791	\$ 99,807
Chassis	53,051	39,772
Work in process	56,009	51,208
Finished goods	22,071	13,416
Total	228,922	204,203
Less excess of FIFO costs over LIFO costs	26,197	21,034
Total inventories	\$ 202,725	\$ 183,169

## 4. Earnings Per Share

	Three Months Ended April 30, 2007	Three Months Ended April 30, 2006	Nine Months Ended April 30, 2007	Nine Months Ended April 30, 2006
Weighted average shares outstanding for basic earnings per share	55,696,304	56,656,684	55,654,327	56,605,615
Stock options and restricted stock	239,414	430,412	262,275	389,013
Total For diluted shares	55,935,718	57,087,096	55,916,602	56,994,628



**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

## 5. Comprehensive Income

	Three Months Ended April 30, 2007	Three Months Ended April 30, 2006	Nine Months Ended April 30, 2007	Nine Months Ended April 30, 2006
Net income	\$ 35,569	\$ 48,669	\$ 84,418	119,947
Foreign currency translation adjustment	798	156	337	996
Comprehensive income	\$ 36,367	\$ 48,825	\$ 84,755	\$ 120,943

## 6. Segment Information

The Company has three reportable segments: 1.) towable recreation vehicles, 2.) motorized recreation vehicles, and 3.) buses. The towable recreation vehicle segment consists of product lines from the following operating companies that have been aggregated: Airstream, Breckenridge, CrossRoads, Dutchmen, General Coach Hensall and Oliver, Keystone, Komfort, and Thor California. The motorized recreation vehicle segment consists of product lines from the following operating companies that have been aggregated: Airstream, Damon, Four Winds and Oliver. The bus segment consists of the following operating companies that have been aggregated: Champion Bus, Eldorado California, Eldorado Kansas and Goshen Coach. During the quarter ended January 31, 2006, the Company made the decision not to produce a planned motorized product line. The impairment charge associated with the decision was \$1,360 and is included in cost of products sold.

	Three Months Ended April 30, 2007	Three Months Ended April 30, 2006	Nine Months Ended April 30, 2007	Nine Months Ended April 30, 2006
Net Sales:				
Recreation vehicles:				
Towables	\$ 524,041	\$ 615,043	\$ 1,397,936	\$ 1,606,140
Motorized	159,642	161,593	412,259	424,528
Total recreation vehicles	683,683	776,636	1,810,195	2,030,668
Buses	105,960	80,979	291,213	230,317
Total	\$ 789,643	\$ 857,615	\$ 2,101,408	\$ 2,260,985

	Three Months Ended April 30, 2007	Three Months Ended April 30, 2006	Nine Months Ended April 30, 2007	Nine Months Ended April 30, 2006
Income Before Income Taxes:				
Recreation vehicles:				

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Towables	\$ 48,086	\$ 67,986	\$ 110,290	\$ 173,154
Motorized	7,220	7,756	16,756	18,293
Total recreation vehicles	55,306	75,742	127,046	191,447
Buses	5,447	2,034	11,622	6,013
Corporate	(6,794)	(1,536)	(9,471)	(7,372)
Total	\$ 53,959	\$ 76,240	\$ 129,197	\$ 190,088



**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	April 30, 2007	July 31, 2006
Identifiable Assets:		
Recreation vehicles:		
Towables	\$ 495,900	\$ 483,324
Motorized	177,404	150,058
Total recreation vehicles	673,304	633,382
Buses	104,659	103,861
Corporate	286,847	267,482
Total	\$ 1,064,810	\$ 1,004,725

**7. Treasury Shares**

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

**8. Investments – Short Term**

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

At April 30, 2007, all investments – short term are comprised of auction rate securities that are classified as available-for-sale and are reported at fair value in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company purchases its auction rate securities at par, which either mature or reset at par, and generally there are no unrealized or realized gains or losses to report. Cost is determined on the specific identification basis. Interest income is accrued as earned. All of the available-for-sale securities held at April 30, 2007 mature within one year.

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

**9. Goodwill and Other Intangible Assets**

The components of other intangible assets are as follows:

	April 30, 2007		July 31, 2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Amortized Intangible Assets:				
Non-compete agreements	\$15,889	\$13,718	\$15,889	\$13,048

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	Three Months Ended April 30, 2007	Three Months Ended April 30, 2006	Nine Months Ended April 30, 2007	Nine Months Ended April 30, 2006
Non-compete Agreements: Amortization Expense	\$ 216	\$ 237	\$ 670	\$ 712

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

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## Amortization Expense:

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

There was no change in the carrying amount of goodwill and trademarks for the nine month period ended April 30, 2007.

As of April 30, 2007, Goodwill and Trademarks by segments totaled as follows:

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

## 10. Warranty

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

	Three Months Ended April 30, 2007	Three Months Ended April 30, 2006	Nine Months Ended April 30, 2007	Nine Months Ended April 30, 2006
Beginning Balance	\$ 59,061	\$ 53,882	\$ 59,795	\$ 55,118
Provision	17,049	17,428	50,243	45,281
Payments	15,386	14,470	49,314	43,559
Ending Balance	\$ 60,724	\$ 56,840	\$ 60,724	\$ 56,840

## 11. Commercial Commitments

Our principal commercial commitments at April 30, 2007 are summarized in the following chart:

Commitment	Total Amount Committed	Term of Guarantee
Guarantee on dealer financing	\$ 2,972	less than 1 year
Standby repurchase obligation on dealer financing	\$ 956,975	less than 1 year

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**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The Company records repurchase and guarantee reserves based on prior experience and known current events. The combined repurchase and recourse reserve balances are approximately \$2,212 and \$1,563 as of April 30, 2007 and July 31, 2006, respectively.

	Three Months Ended April 30, 2007	Three Months Ended April 30, 2006	Nine Months Ended April 30, 2007	Nine Months Ended April 30, 2006
Cost of units repurchased	\$ 2,313	\$ 881	\$ 10,402	\$ 2,984
Realization on units resold	2,245	749	9,262	2,555
Losses due to repurchase	\$ 68	\$ 132	\$ 1,140	\$ 429

## 12. Provision for Income Taxes

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

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

(\$ in thousands)

**Executive Overview**

We were founded in 1980 and have grown to be the largest manufacturer of Recreation Vehicles (RV's) and a major manufacturer of commercial buses in North America. Our position in the travel trailer and fifth wheel segment of the industry (towables), gives us a market share of approximately 32%. In the motorized segment of the industry we have a market share of approximately 13%. Our market share in small and mid-size buses is approximately 40%. We entered the 40-foot bus market with a new facility in Southern California designed for that product as well as our existing 30-foot and 35-foot buses.

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

We rely on internally generated cash flows from operations to finance our growth, although we may borrow to make an acquisition if we believe the incremental cash flows will provide for rapid payback. We invested significant capital to modernize and expand our plant facilities and have expended approximately \$31,008 for that purpose in fiscal 2006.

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

Our RV products are sold to dealers who, in turn, retail those products. Our buses are sold through dealers to municipalities and private purchasers such as rental car companies and hotels. We do not finance dealers. In support of our RV dealer financing needs, however, we enter into agreements with providers of inventory financing whereby we repurchase new inventory (on agreed terms) located at dealer facilities should the lender foreclose. In another dealer support activity, we have a 50-50 joint venture with G.E. Consumer Finance, Thor Credit Corporation, that offers retail financing to customers of the dealer in their purchase of Thor and other manufacturer's products.

**Restatement**

As further described in the Explanatory Note on page 1 of this report, Note 2 to our condensed consolidated financial statements contained elsewhere in this report and our Annual Report on Form 10-K/A for the year ended July 31, 2006, we have restated our financial statements as of July 31, 2006 and 2005, and for each of the years in the three-year period ended July 31, 2006, and the financial results in each of the quarterly periods in 2006 and 2005, and the financial statements as of October 31, 2006 and for the three months ended October 31, 2006 and 2005. The restatement follows the Company's evaluation, considering the results from the independent investigation of the Audit Committee of our Board of Directors, of accounting practices employed at our Dutchmen Manufacturing, Inc. operating subsidiary (Dutchmen) during these periods. The effect of the restatement reported in this Quarterly Report on Form 10-Q is a reduction to income before income taxes of \$3,902, or \$2,470 in net income, for the three months ended April 30, 2006 and a reduction to income before income taxes of \$10,160, or \$6,431 in net income, for the nine months ended April 30, 2006. The restated financial statements as of July 31, 2006 and 2005, and for each of the years in the

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three-year period ended July 31, 2006, and the financial results in each of the quarterly periods in 2006 and 2005, are reported in our Annual Report on Form 10-K/A for the year ended July 31, 2006. The restated financial statements as of October 31, 2006 and for the three months ended October 31, 2006 and 2005 are reported in our Quarterly Report on Form 10-Q/A for the quarter ended October 31, 2006. The accompanying management's discussion and analysis of financial condition and results of operations gives effect to the restatement described in Note 2 to our condensed consolidated financial statements contained elsewhere in this report.

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

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

**Trends and Business Outlook**

The most important determinant of demand for Recreation Vehicles is demographics. The baby boomer population is now reaching retirement age and retirees are a large market for our products. The baby boomer retiree population in the United States is expected to grow five times as fast as the total United States population. We believe a primary indicator of the strength of the recreation vehicle industry is retail RV sales, which we closely monitor to determine industry trends. For the three months ended March 31, 2007, Statistical Surveys, Inc. reported that travel trailers and fifth wheel unit sales were down 1.6% and that motorhome sales were down 10.0%, compared to the three months ended March 31, 2006. Higher interest rates and fuel prices appear to affect the motorized segment more severely. According to Statistical Surveys, Inc., our travel trailer and fifth wheel market share for the three months ended March 31, 2007 was 31.9%, down from 32.1% for the three months ended March 31, 2006. In motorhomes, our market share increased to 13.2% for the three months ended March 31, 2007, up from 13.0% for the three months ended March 31, 2006.

Government entities are primary users of our buses. Demand in this segment is subject to fluctuations in government spending on transit. In addition, hotel and rental car companies are also major users of our small and mid-size buses and therefore airline travel is an important indicator for this market. The majority of our buses have a 5-year useful life, so many of the buses are being replaced. Management estimates that industry unit sales of small and mid-sized buses are up 14.7% in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Economic or industry-wide factors affecting our recreation vehicle business include raw material costs of commodities used in the manufacture of our product. Material cost is the primary factor determining our cost of products sold. Additional increases in raw material costs would impact our profit margins negatively if we were unable to raise prices for our products by corresponding amounts.

**Table of Contents****Three Months Ended April 30, 2007 vs.  
Three Months Ended April 30, 2006**

		Three Months Ended April 30, 2007	Three Months Ended April 30, 2006	Change Amount	%		
<b>NET SALES:</b>							
Recreation Vehicles							
Towables	\$	524,041	\$ 615,043	\$ (91,002)	(14.8)		
Motorized		159,642	161,593	(1,951)	(1.2)		
Total Recreation Vehicles		683,683	776,636	(92,953)	(12.0)		
Buses		105,960	80,979	24,981	30.8		
Total	\$	789,643	\$ 857,615	\$ (67,972)	(7.9)		
<b># OF UNITS:</b>							
Recreation Vehicles							
Towables		24,530	31,729	(7,199)	(22.7)		
Motorized		2,153	2,190	(37)	(1.7)		
Total Recreation Vehicles		26,683	33,919	(7,236)	(21.3)		
Buses		1,737	1,438	299	20.8		
Total		28,420	35,357	(6,937)	(19.6)		
		% of Segment Net Sales	% of Segment Net Sales				
<b>GROSS PROFIT:</b>							
Recreation Vehicles							
Towables	\$	77,258	14.7	\$ 101,841	16.6	\$ (24,583)	(24.1)
Motorized		16,395	10.3	15,830	9.8	565	3.6
Total Recreation Vehicles		93,653	13.7	117,671	15.2	(24,018)	(20.4)
Buses		9,327	8.8	6,438	8.0	2,889	44.9
Total	\$	102,980	13.0	\$ 124,109	14.5	\$ (21,129)	(17.0)
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:</b>							
Recreation Vehicles							
Towables	\$	29,275	5.6	\$ 33,914	5.5	\$ (4,639)	(13.7)
Motorized		9,175	5.7	8,074	5.0	1,101	13.7



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Total Recreation Vehicles	38,450	5.6	41,988	5.4	(3,538)	(8.4)
Buses	3,655	3.4	4,092	5.1	(437)	(10.7)
Corporate	9,729		4,237		5,492	129.6
Total	\$ 51,834	6.6	\$ 50,317	5.9	\$ 1,517	3.0

**INCOME BEFORE**

**INCOME TAXES:**

Recreation Vehicles

Towables	\$ 48,086	9.2	\$ 67,986	11.1	\$ (19,900)	(29.3)
Motorized	7,220	4.5	7,756	4.8	(536)	(6.9)

Total Recreation Vehicles	55,306	8.1	75,742	9.8	(20,436)	(26.9)
Buses	5,447	5.1	2,034	2.5	3,413	167.8
Corporate	(6,794)		(1,536)		(5,258)	(342.4)
Total	\$ 53,959	6.8	\$ 76,240	8.9	\$ (22,281)	(29.2)

	As of April 30, 2007	As of April 30, 2006	Change	
			Amount	%
<b><u>ORDER BACKLOG</u></b>				
Recreation Vehicles				
Towables	\$ 266,448	\$ 369,034	\$ (102,586)	(27.8)
Motorized	111,339	132,109	(20,770)	(15.7)
Total Recreation Vehicles	377,787	501,143	(123,356)	(24.6)
Buses	214,755	196,687	18,068	9.2
Total	\$ 592,542	\$ 697,830	\$ (105,288)	(15.1)

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

Net sales and gross profit for the three months ended April 30, 2007 were down 7.9% and 17.0%, respectively, compared to the three months ended April 30, 2006. We estimate that in the three months ended April 30, 2006 approximately \$8,581, or 1.4%, of towable net sales were related to hurricane relief units sold through our dealer network. There have been no sales of hurricane relief units in fiscal 2007. Selling, general and administrative expenses for the three months ended April 30, 2007 increased 3% compared to the three months ended April 30, 2006. Income before income taxes for the three months ended April 30, 2007 was down 29.2% compared to the three months ended April 30, 2006. The specifics on 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 were \$9,729 for the three months ended April 30, 2007 compared to \$4,237 for the three months ended April 30, 2006. This \$5,492 increase is primarily the result of costs associated with the investigation regarding certain accounting issues at our Dutchmen Manufacturing, Inc. operating subsidiary and the restatement of our financial statements as discussed above. Corporate interest income and other income was \$2,858 for the three months ended April 30, 2007 compared to \$2,677 for the three months ended April 30, 2006.

The overall effective tax rate for the three months ended April 30, 2007 was 34.1% compared to 36.2% for the three months ended April 30, 2006. The primary reason for this reduction was that we recorded a \$2,000 tax benefit from the reversal of certain state tax reserves due to statute expiration during the three months ended April 30, 2007.

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

Analysis of Percentage Change in Net Sales Versus Prior Year

	Average Price Per Unit	Units	Net Change
Recreation Vehicles			
Towables	7.9%	(22.7)%	(14.8)%
Motorized	.5%	(1.7)%	(1.2)%

**TOWABLE RECREATION VEHICLES**

The decrease in towables net sales of 14.8% resulted primarily from reduced unit sales. We estimate that in the three months ended April 30, 2006 approximately \$8,581, or 1.4%, of towable net sales were related to hurricane relief units sold through our dealer network. There have been no sales of hurricane relief units in fiscal 2007. Excluding the effect of hurricane relief units, towables net sales for the three months ended April 30, 2007 decreased 13.6% compared to the prior year period. The overall industry unit decrease in towables for February and March of 2007 was 14.8% according to statistics published by the Recreation Vehicle Industry Association. Increases in the average price per unit resulted from product mix and no hurricane unit sales in fiscal 2007. Hurricane unit pricing in fiscal 2006 was substantially lower than the average price per unit of other towables.

Towables gross profit percentage decreased to 14.7% of net sales for the three months ended April 30, 2007 from 16.6% of net sales for the three months ended April 30, 2006. The primary factor for the decrease in gross profit was the 14.8% decrease in net sales. Towable discounts and allowances increased by \$129 in the three months ended April 30, 2007 compared to the three months ended April 30, 2006. Selling, general and administrative expenses were 5.6% of net sales for the three months ended April 30, 2007 and 5.5% of net sales for the three months ended April 30, 2006.

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Towables income before income taxes decreased to 9.2% of net sales for the three months ended April 30, 2007 from 11.1% of net sales for the three months ended April 30, 2006. The primary factor for this decrease was the reduction in unit sales and corresponding margins.

**MOTORIZED RECREATION VEHICLES**

The decrease in motorized net sales of 1.2% resulted primarily from a 1.7% decrease in unit shipments. The decrease in units sold of 1.7% compared to a flat market in motorhomes for February and March of 2007 according to statistics published by the Recreation Vehicle Industry Association. The increase in the average price per unit resulted from the product mix.

Motorized gross profit percentage increased to 10.3% of net sales for the three months ended April, 30 2007, from 9.8% of net sales for the three months ended April 30, 2006. The primary factor for the increase in gross profit percentage in 2007 was reduced discounts and allowances of \$4,083 for the three months ended April 30, 2007 compared to the same period in 2006. Selling, general and administrative expenses were 5.7% of net sales for the three months ended April 30, 2007 and 5.0% of net sales for the three months ended April 30, 2006.

Motorized income before income taxes was 4.5% of net sales for the three months ended April 30, 2007 and 4.8% of net sales for the three months ended April 30, 2006.

**BUSES**

Analysis of Percentage Change in Net Sales Versus Prior Year

	Average Price Per Unit	Units	Net Change
Buses	10.0%	20.8%	30.8%

The increase in buses net sales of 30.8% resulted from a combination of an increase in both average price per unit and unit shipments. The increase in the average price per unit resulted primarily from product mix.

Buses gross profit percentage was 8.8% of net sales for the three months ended April 30, 2007 and 8.0% for the three months ended April 30, 2006. The primary reason for the increase in buses gross profit percentage was the increase in buses net sales. Selling, general and administrative expenses were 3.4% of net sales for the three months ended April 30, 2007 and 5.1% for the three months ended April 30, 2006. The reduction in selling, general and administrative expenses as a percentage of net sales is primarily due to increased sales volume in the three months ended April 30, 2007.

Buses income before income taxes increased to 5.1% of net sales for the three months ended April 30, 2007 from 2.5% for the three months ended April 30, 2006 due to increased sales volume.

**Nine Months Ended April 30, 2007 vs.****Nine Months Ended April 30, 2006**

	Nine Months Ended April 30, 2007	Nine Months Ended April 30, 2006	Change Amount	%
<b>NET SALES:</b>				
Recreation Vehicles				
Towables	\$ 1,397,936	\$ 1,606,140	\$ (208,204)	(13.0)
Motorized	412,259	424,528	(12,269)	(2.9)
Total Recreation Vehicles	1,810,195	2,030,668	(220,473)	(10.9)
Buses	291,213	230,317	60,896	26.4
Total	\$ 2,101,408	\$ 2,260,985	\$ (159,577)	(7.1)

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		Nine Months Ended April 30, 2007	Nine Months Ended April 30, 2006	Change Amount	%
<b># OF UNITS:</b>					
Recreation Vehicles					
Towables		65,456	83,289	(17,833)	(21.4)
Motorized		5,529	5,695	(166)	(2.9)
Total Recreation Vehicles		70,985	88,984	(17,999)	(20.0)
Buses		4,825	4,227	598	14.2
Total		75,810	93,211	(17,401)	(18.7)
		% of Segment Net Sales	% of Segment Net Sales		
<b>GROSS PROFIT:</b>					
Recreation Vehicles					
Towables	\$ 191,656	13.7	\$ 263,105	16.4	(71,449) (27.2)
Motorized	38,888	9.4	39,007	9.2	(119) (.3)
Total Recreation Vehicles	230,544	12.7	302,112	14.9	(71,568) (23.7)
Buses	22,773	7.8	17,344	7.5	5,429 31.3
Total	\$ 253,317	12.1	\$ 319,456	14.1	(66,139) (20.7)
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:</b>					
Recreation Vehicles					
Towables	\$ 81,659	5.8	\$ 90,167	5.6	\$ (8,508) (9.4)
Motorized	22,118	5.4	20,711	4.9	1,407 6.8
Total Recreation Vehicles	103,777	5.7	110,878	5.5	(7,101) (6.4)
Buses	10,659	3.7	10,709	4.6	(50) (.5)
Corporate	18,267		14,303		3,964 27.7
Total	\$ 132,703	6.3	\$ 135,890	6.0	\$ (3,187) (2.3)
<b>INCOME BEFORE INCOME TAXES:</b>					
Recreation Vehicles					
Towables	\$ 110,290	7.9	\$ 173,154	10.8	\$ (62,864) (36.3)
Motorized	16,756	4.1	18,293	4.3	(1,537) (8.4)

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Total Recreation Vehicles	127,046	7.0	191,447	9.4	(64,401)	(33.6)
Buses	11,622	4.0	6,013	2.6	5,609	93.3
Corporate	(9,471)		(7,372)		(2,099)	(28.5)
Total	\$ 129,197	6.1	\$ 190,088	8.4	\$ (60,891)	(32.0)

**CONSOLIDATED**

Net sales and gross profit for the nine months ended April 30, 2007 were down 7.1% and 20.7%, respectively, compared to the nine months ended April 30, 2006. We estimate that for the nine months ended April 30, 2006 approximately \$122,258, or 7.6%, of towable net sales were related to hurricane relief units sold through our dealer network. There have been no sales of hurricane relief units in fiscal 2007. Selling, general and administrative expenses decreased 2.3% compared to the nine months ended April 30, 2006. The specifics on 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 were \$18,267 for the nine months ended April 30, 2007 compared to \$14,303 for the nine months ended April 30, 2006. This \$3,964 increase is primarily the result of costs associated with the investigation regarding certain accounting issues at our Dutchmen Manufacturing, Inc. operating subsidiary and the restatement of our financial statements, as discussed above, offset in part by reduced compensation and related bonuses and insurance costs. Corporate interest income and other income was \$8,641 for the nine months ended April 30, 2007 compared to \$6,914 for the nine months ended April 30, 2006.

The overall effective tax rate for the nine months ended April 30, 2007 was 34.7% compared to 36.9% nine months ended April 30, 2006. The primary reasons for this reduction were that we recorded a \$1,900 tax benefit in the second quarter of fiscal 2007 related to the Company's research and

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development credits and a \$2,000 tax benefit in the third quarter of fiscal 2007 from the reversal of certain state tax reserves due to statute expiration.

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

Analysis of Percentage Change in Net Sales Versus Prior Year

	Average Price Per Unit	Units	Net Change
Recreation Vehicles			
Towables	8.4%	(21.4)%	(13.0)%
Motorized	%	(2.9)%	(2.9)%

**TOWABLE RECREATION VEHICLES**

The decrease in towables net sales of 13.0% resulted primarily from reduced unit sales, primarily hurricane relief units. We estimate that in the nine months ended April 30, 2006 approximately \$122,258, or 7.6%, of towable net sales were related to hurricane relief units sold through our dealer network. There have been no sales of hurricane relief units in fiscal 2007. Excluding the effect of hurricane relief units, towables net sales for the nine months ended April 30, 2007 decreased 5.8% compared to the prior year period. The overall market unit decrease in towables for August 2006 through March 2007 was 18.1% according to statistics published by the Recreation Vehicle Industry Association. Increases in the average price per unit resulted from product mix and no hurricane unit sales in fiscal 2007. Hurricane unit pricing in fiscal 2006 was substantially lower than the average price per unit of other towables. Towables gross profit percentage decreased to 13.7% of net sales for the nine months ended April 30, 2007, from 16.4% of net sales for the nine months ended April 30, 2006. The primary factor for the decrease in gross profit percentage was the 13.0% decrease in net sales and increased discounts and allowances due to a soft market. Towable discounts and allowances increased by approximately \$14,602 in the nine months ended April 30, 2007 compared to the nine months ended April 30, 2006. Selling, general and administrative expenses were 5.8% of net sales for the nine months ended April 30, 2007 and 5.6% of net sales for the nine months ended April 30, 2006.

Towables income before income taxes decreased to 7.9% of net sales for the nine months ended April 30, 2007 from 10.8% of net sales for the nine months ended April 30, 2006. The primary factors for this decrease were the reduction in unit sales and corresponding margins.

**MOTORIZED RECREATION VEHICLES**

The decrease in motorized net sales of 2.9% resulted primarily from a 2.9% decrease in unit shipments. The decrease in units sold of 2.9% compares to the overall market unit decrease in motorhomes of 2.6% for August 2006 through March 2007 according to statistics published by the Recreation Vehicle Industry Association.

Motorized gross profit percentage increased to 9.4% of net sales in the nine months ended April 30, 2007 from 9.2% of net sales for the nine months ended April 30, 2006. Selling, general and administrative expenses were 5.4% of net sales for the nine months ended April 30, 2007 and 4.9% of net sales for the nine months ended April 30, 2006.

Motorized income before income taxes was 4.1% of net sales for the nine months ended April 30, 2007 and 4.3% of net sales for the nine months ended April 30, 2006.

**Table of Contents****BUSES**

## Analysis of Percentage Change in Net Sales Versus Prior Year

	Average Price Per Unit	Units	Net Change
Buses	12.2%	14.2%	26.4%

The increase in buses net sales of 26.4% resulted from a combination of an increase in both average price per unit and unit shipments. The increase in the average price per unit resulted primarily from product mix.

Buses gross profit percentage increased to 7.8% of net sales for the nine months ended April 30, 2007 from 7.5% of net sales for the nine months ended April 30, 2006. The primary reason for the increase in buses gross profit percentage was the increase in buses net sales. Selling, general and administrative expenses were 3.7% of net sales for the nine months ended April 30, 2007 and 4.6% for the nine months ended April 30, 2006.

Buses income before income taxes increased to 4.0% of net sales for the nine months ended April 30, 2007 from 2.6% for the nine months ended April 30, 2006 due to increased sales volume.

**Financial Condition and Liquidity**

As of April 30, 2007, we had \$252,572 in cash, cash equivalents and short-term investments, compared to \$264,373 on July 31, 2006. Effective August 1, 2006, the Company began classifying all short-term investment purchases as available-for-sale. This change was based on the Company's decision to change its investment strategy from one of generating profits on short term differences in price to one of preserving capital. This change should create less volatility and a more predictable return on our short term investments as income will be generated from interest income instead of appreciation or depreciation on our investments. This change will also have the effect of moving the purchases and proceeds from the sale of our investments out of the operating activities category and into the investing activities category on our cash flow statement, more clearly reflecting our true operating cash flow. It should have an insignificant effect on overall cash flow.

Working capital at April 30, 2007 was \$380,906 compared to \$360,751 at July 31, 2006. We have no long-term debt. We currently have a \$30,000 revolving line of credit which bears interest at negotiated rates below prime and expires on November 30, 2007. There were no borrowings on this line of credit during the nine months ended April 30, 2007. The loan agreement executed in connection with the line of credit contains certain covenants, including restrictions on additional indebtedness, and requires us to maintain certain financial ratios. We believe that internally generated funds and the line of credit will be sufficient to meet our current needs and any additional capital requirements for the foreseeable future. Capital expenditures of approximately \$9,166 for the nine months ended April 30, 2007 were primarily for planned expansions and improvements of our recreation vehicle segments.

The Company anticipates additional capital expenditures in the fourth quarter of fiscal 2007 of approximately \$3,000. These expenditures will be made primarily to expand our RV companies and to replace machinery and equipment to be used in the ordinary course of business.

**Critical Accounting Principles**

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

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

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

*Insurance Reserves*

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

*Warranty*

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

*Income Taxes*

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

*Revenue Recognition*

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

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



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

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

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

*Repurchase Commitments*

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

**Forward Looking Statements**

This report includes certain statements that are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 as amended. These forward looking statements involve uncertainties and risks. There can be no assurance that actual results will not differ from the Company's expectations. Factors which could cause materially different results include, among others, additional issues that may arise in connection with the findings of the Audit Committee's investigation and the SEC's requests for additional information, fuel prices, fuel availability, interest rate increases, increased material costs, the success of new product introductions, the pace of acquisitions, cost structure improvements, competition and general economic conditions and the other risks and uncertainties discussed more fully in Item 1A of our Annual Report on Form 10-K/A for the year ended July 31, 2006. The Company disclaims any obligation or undertaking to disseminate any updates or revisions to any change in expectation of the Company after the date hereof or any change in events, conditions or circumstances on which any statement is based except as required by law.

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

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

**Table of Contents****ITEM 4. Controls and Procedures**

As further described in the Explanatory Note on page 1 of this report, Note 2 to our condensed consolidated financial statements contained elsewhere in this report and our Annual Report on Form 10-K/A for the year ended July 31, 2006, we have restated our financial statements as of July 31, 2006 and 2005, and for each of the years in the three-year period ended July 31, 2006, and the financial results in each of the quarterly periods in 2006 and 2005, and the financial statements as of October 31, 2006 and for the three months ended October 31, 2006 and 2005. The restatement follows the Company's evaluation, considering the results from the independent investigation of the Audit Committee of our Board of Directors, of accounting practices employed at our Dutchmen Manufacturing, Inc. operating subsidiary (Dutchmen) during these periods.

As more fully described in our Annual Report on Form 10-K/A for the year ended July 31, 2006, as of July 31, 2006, as a result of the findings of the independent investigation and the restatement of the Company's financial statements, management re-evaluated our internal control over financial reporting and identified a material weakness in our internal controls related to segregation of duties and found that our disclosure controls and procedures, as such term is defined under Securities Exchange Act Rule 13a-15(e), were not effective due to the material weakness.

As disclosed in our Annual Report on Form 10-K/A, management identified the following material weakness in the Company's internal control over financial reporting as of July 31, 2006:

*Segregation of Duties.* In January 2007, management was informed by the President of Dutchmen of facts that led it to discover that there was a lack of segregation of duties at Dutchmen. It is Company policy to segregate duties among different people to reduce the risk of error or inappropriate action. Despite certain efforts by the Company to improve internal controls at Dutchmen, Dutchmen's Vice President of Finance was able to perform functions that were or should have been specifically assigned to other employees of Dutchmen, including Dutchmen's controller and internal auditor/accountant. Specifically, Dutchmen's Vice President of Finance, through various means, was entering, approving and reconciling entries into various accounts, such as inventory, accounts receivable, accounts payable and cost of products sold, which duties should have been segregated, and continued to do so after the Company caused additional finance staff to be hired at Dutchmen. Dutchmen's Vice President of Finance also entered inaccurate accounting entries and prepared fraudulent supporting documentation and had excessive access rights to various aspects of Dutchmen's accounting and information systems. Dutchmen's internal policies did not sufficiently segregate duties for making or approving entries in key accounts and account reconciliations, and the Company lacked sufficient compensating internal controls to prevent or detect the acts described above. This material weakness caused the financial results reported by Dutchmen to the Company's corporate finance and accounting group to be materially inaccurate and to be incorporated into the Company's consolidated financial statements and the Company's required SEC filings. In addition, certain of the Company's other operating subsidiaries also had functions that should have been but were not segregated, there were employees who had inappropriate levels of access to various aspects of the accounting and information systems at certain operating subsidiaries, and the Company's corporate level monitoring of certain operating subsidiaries' reconciliations was insufficient.

In connection with the preparation of the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007, management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report. As described above, a material weakness was identified in our internal control over financial reporting regarding segregation of duties as of July 31, 2006. The Public Company Accounting Oversight Board's Auditing Standard No. 2 defines a material weakness as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Based upon management's evaluation, conducted under Exchange Act Rule 13a-15, our Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were not effective as of April 30, 2007 because the material weakness described above continued to persist as of such date.

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

Management evaluated whether there was a change in the Company's internal control over financial reporting during the three months ended April 30, 2007 and through the date of this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Based on management's evaluation, management believes that there was no such change during the three months ended April 30, 2007 and through the date of this report. However, the Company has taken or intends to take the following actions to remediate the material weakness described above:

The Company has terminated the employment of the Dutchmen Vice President of Finance and has hired a new Vice President of Finance at Dutchmen;

The Company has eliminated the excessive accounting and information system access rights found to be available to the Dutchmen Vice President of Finance;

Since discovery of the activities of the former Dutchmen Vice President of Finance, the Company has assigned a member of its internal audit department to Dutchmen to assist in implementing full segregation of duties in Dutchmen's accounting function;

The Company is modifying the duties of accounting personnel to improve segregation of duties and modifying certain information access rights at certain of its other operating subsidiaries;

The Company is providing additional training on fraud risk and awareness and assisting management and other key personnel to understand the lessons learned through the Dutchmen review;

To improve the Company's oversight of internal controls at its subsidiaries, the Company's Board of Directors has hired a professional services firm to lead and coordinate ongoing compliance efforts under Sarbanes-Oxley section 404 and partner with the internal audit function of the Company;

More frequent and in-depth periodic, unannounced internal audits of controls will be conducted at the subsidiary level;

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The Company has enhanced its corporate level monitoring of the operating subsidiaries' accounts receivable, accounts payable and cash reconciliations, including verification that financial information submitted by the operating subsidiaries agrees with the financial information recorded in the operating subsidiaries' information systems; and

The Company has modified its reporting relationships so that heads of subsidiary accounting departments report directly to the Chief Financial Officer of the Company as opposed to subsidiary level presidents.

**Table of Contents****PART II Other Information****ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds****(c) ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares (or Units)  Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
February 2007				1,947,200
March 2007				1,947,200
April 2007				1,947,200

(1) On June 26, 2006 our Board of Directors authorized the repurchase of an additional 2,000,000 shares extending over a 24-month period before expiring. At April 30, 2007, 1,947,200 shares of common stock remained authorized for repurchase under the repurchase program.

**ITEM 5. Other Information**

## Edgar Filing: THOR INDUSTRIES INC - Form 10-Q

We issued a press release on May 2, 2007 announcing our preliminary sales for the quarter and nine months ended April 30, 2007. The press release is attached as Exhibit 99.1 and incorporated herein by reference. The information set forth under this Item 5 is intended to be furnished under this Item 5 and Item 2.02, Results of Operations and Financial Condition of Form 8-K. Such information, including Exhibit 99.1 attached to this Form 10-Q, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

### **ITEM 6. Exhibits**

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

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Exhibit	Description
31.2	Chief Financial Officer s Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer s Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act 2002.
32.2	Chief Financial Officer s Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act 2002.
99.1	Copy of press release issued by the Company on May 2, 2007.

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**SIGNATURES**

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

**THOR INDUSTRIES, INC.**

(Registrant)

DATE: July 3, 2007

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

DATE: July 3, 2007

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