THOR INDUSTRIES INC
Form 10-Q
November 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended October 31, 2015.

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

COMMISSION FILE NUMBER 1-9235

THOR INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	93-0768752 (I.R.S. Employer Identification No.)
601 E. Beardsley Ave., Elkhart, IN (Address of principal executive offices)	46514-3305 (Zip Code)

(574) 970-7460
(Registrant s telephone number, including area code)

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

Yes þ No ¨

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

Yes þ No ¨

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

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

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

Yes ¨ No þ

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

Class	Outstanding at 10/31/2015
Common stock, par value $ .10 per share	52,482,615 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)

	October 31, 2015	July 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 179,317	$ 183,478
Accounts receivable, trade, less allowance for doubtful accounts of $682 and $1,283, respectively	291,037	244,052
Accounts receivable, other	26,271	25,642
Inventories, net	271,370	246,115
Notes receivable		8,367
Prepaid income taxes, expenses and other	14,593	8,323
Deferred income taxes, net	59,327	59,864
Total current assets	841,915	775,841
Property, plant and equipment, net	243,515	234,045
Other assets:		
Goodwill	312,622	312,622
Amortizable intangible assets, net	162,990	169,018
Other	11,341	11,722
Total other assets	486,953	493,362
TOTAL ASSETS	$ 1,572,383	$ 1,503,248
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 190,246	$ 162,587
Accrued liabilities:		
Compensation and related items	55,376	51,984
Product warranties	107,847	108,206
Income and other taxes	8,080	11,000
Promotions and rebates	21,376	19,817
Product, property and related liabilities	11,158	10,892
Other	16,332	13,849
Total current liabilities	410,415	378,335
Unrecognized tax benefits	12,627	11,945
Deferred income taxes, net	22,315	20,563
Other liabilities	26,652	27,218
Total long-term liabilities	61,594	59,726
Contingent liabilities and commitments		

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 62,439,795 and 62,306,037 shares, respectively	6,244	6,231
Additional paid-in capital	218,443	215,539
Retained earnings	1,207,186	1,172,432
Less treasury shares of 9,957,180 and 9,911,474, respectively, at cost	(331,499)	(329,015)
Total stockholders equity	1,100,374	1,065,187
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,572,383	$ 1,503,248

See Notes to the Condensed Consolidated Financial Statements.

THOR INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014 (UNAUDITED)

	Three Months Ended October 31,	
	2015	2014
Net sales	$ 1,030,351	$ 921,992
Cost of products sold	878,135	804,327
Gross profit	152,216	117,665
Selling, general and administrative expenses	68,454	57,989
Amortization of intangible assets	6,028	3,689
Interest income	138	367
Interest expense	174	
Other income (expense), net	(7)	352
Income from continuing operations before income taxes	77,691	56,706
Income taxes	26,955	17,505
Net income from continuing operations	50,736	39,201
Loss from discontinued operations, net of income taxes	(239)	(276)
Net Income and comprehensive income	$ 50,497	$ 38,925
Weighted average common shares outstanding:		
Basic	52,409,945	53,336,592
Diluted	52,545,560	53,433,447
Earnings per common share from continuing operations:		
Basic	$ 0.97	$ 0.73
Diluted	$ 0.97	$ 0.73
Loss per common share from discontinued operations:		
Basic	$ (0.01)	$ 0.00
Diluted	$ (0.01)	$ 0.00
Earnings per common share:		
Basic	$ 0.96	$ 0.73
Diluted	$ 0.96	$ 0.73
Regular dividends declared and paid per common share	$ 0.30	$ 0.27

See Notes to the Condensed Consolidated Financial Statements.

THOR INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED OCTOBER 31, 2015 AND 2014 (UNAUDITED)

	Three Months Ended October 31, 2015	2014
Cash flows from operating activities:		
Net income	$ 50,497	$ 38,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,405	3,324
Amortization of intangible assets	6,028	3,689
Deferred income tax provision	2,289	1,177
Gain on disposition of property, plant and equipment	(1)	(13)
Stock-based compensation expense	2,279	1,565
Excess tax benefits from stock-based awards	(291)	(114)
Changes in assets and liabilities (excluding acquisitions):		
Accounts receivable	(47,614)	35,870
Inventories	(25,255)	(5,497)
Prepaid income taxes, expenses and other	(5,889)	(4,267)
Accounts payable	28,667	(13,743)
Accrued liabilities	2,579	(7,479)
Other liabilities	198	(3,412)
Net cash provided by operating activities	18,892	50,025
Cash flows from investing activities:		
Purchases of property, plant and equipment	(15,922)	(8,541)
Proceeds from dispositions of property, plant and equipment	40	13
Proceeds from notes receivable	8,367	
Acquisitions, net of cash acquired		(2,915)
Other		7
Net cash used in investing activities	(7,515)	(11,436)
Cash flows from financing activities:		
Regular cash dividends paid	(15,743)	(14,412)
Principal payments on capital lease obligations	(86)	
Excess tax benefits from stock-based awards	291	114
Net cash used in financing activities	(15,538)	(14,298)
Net increase (decrease) in cash and cash equivalents	(4,161)	24,291
Cash and cash equivalents, beginning of period	183,478	289,336
Cash and cash equivalents, end of period	$ 179,317	$ 313,627
Supplemental cash flow information:		
Income taxes paid	$ 35,326	$ 36,246
Interest paid	$ 174	$
Non-cash transactions:		
Capital expenditures in accounts payable	$ 532	$ 353

See Notes to the Condensed Consolidated Financial Statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(All dollar amounts presented in thousands except per share data)

1. Nature of Operations and Accounting Policies

Nature of Operations

Thor Industries, Inc. was founded in 1980 and, through its subsidiaries (collectively, the Company), manufactures a wide range of recreational vehicles (RVs) in the United States at various manufacturing facilities located primarily in Indiana and Ohio. These products are sold to independent dealers 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 two distinct operations, which include the design, manufacture and sale of towable recreational vehicles and motorized recreational vehicles. Accordingly, the Company has presented segment financial information for these two segments in Note 4 to the Condensed Consolidated Financial Statements. See Note 3, Discontinued Operations, in the Notes to the Condensed Consolidated Financial Statements for a description of the Company s bus operations that were sold during the quarter ended October 31, 2013. The accompanying financial statements (including footnote disclosures unless otherwise indicated) reflect these bus operations as discontinued operations apart from the Company s continuing operations.

The July 31, 2015 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, 2015. Due to seasonality within the recreational vehicle industry, annualizing the results of operations for the quarter ended October 31, 2015 would not necessarily be indicative of the results for a full fiscal 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 amounts of revenues and expenses during the reporting period. Key estimates include reserves for inventory, incurred but not reported medical claims, warranty claims, recall liabilities, workers compensation claims, vehicle repurchases, uncertain tax positions, product and non-product litigation and assumptions made for both intangible assets acquired and 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 April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-08 (ASU 2014-08) Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under the new guidance, the disposal of a component or group of components of a business will be reported as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. The Company adopted ASU 2014-08 as of August 1, 2015. The impact to the Company will depend on future disposals.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This standard will supersede most current revenue recognition guidance. Under the new standard, entities are required to identify the contract with a customer, identify the separate performance obligations in the contract, determine the transaction price, allocate the transaction price to the separate performance obligations in the contract and recognize the appropriate amount of revenue when (or as) the entity satisfies each performance obligation. The standard is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2017. The standard is effective for the Company in its fiscal year 2019 beginning on August 1, 2018. Entities have the option of using either retrospective transition or a modified approach in applying the new standard. The Company is currently evaluating the approach it will use to apply the new standard and the impact that the adoption of the new standard will have on the Company s consolidated financial statements.

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In July 2015, the FASB issued Accounting Standards Update No. 2015-11 (ASU 2015-11) Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 requires inventory measured using any method other than last-in, first-out (LIFO) or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Under this ASU, subsequent measurement of inventory using the LIFO and retail inventory method is unchanged. ASU 2015-11 is effective prospectively for fiscal years, and for interim periods within those years, beginning after December 15, 2016. The standard is effective for the Company in its fiscal year 2018 beginning on August 1, 2017. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16 (ASU 2015-16) Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments, to simplify the accounting for measurement-period adjustments in a business combination. Under the new standard, an acquirer must recognize adjustments to provisional amounts in a business combination in the reporting period in which the adjustment amounts are determined, rather than retrospectively adjusting the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill as under current guidance. ASU 2015-16 is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2015. This standard is effective for the Company in its fiscal year 2017 beginning on August 1, 2016. This new standard will be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company is currently evaluating the impact of this ASU on its consolidated financial statements, which will be dependent on future acquisitions.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17) Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes. Under the new standard, both deferred tax liabilities and assets are required to be classified as noncurrent in a classified balance sheet. ASU 2015-17 is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016. This standard is effective for the Company in its fiscal year 2018 beginning on August 1, 2017. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

2. Acquisitions

<u>Postle</u>

On May 1, 2015, the Company closed on a Membership Interest Purchase Agreement with Postle Aluminum Company, LLC for the acquisition of all the outstanding membership units of Postle Operating, LLC (Postle), a manufacturer of aluminum extrusion and specialized component products sold to RV and other manufacturers, for total cash consideration of $144,048, net of cash acquired. The net cash consideration of $144,048 was funded entirely from the Company s cash on hand, based on a final determination of the actual net assets as of the May 1, 2015 closing date and paid during the fourth quarter of fiscal 2015. Postle operates as an independent operation in the same manner as the Company s other subsidiaries. The operations of Postle are reported in Other, which is a non-reportable segment.

The following table summarizes the fair values assigned to the Postle net assets acquired, which are based on internal and independent external valuations:

Cash	$ 2,963
Other current assets	54,780
Property, plant and equipment	32,251
Customer relationships	38,800
Trademarks	6,000
Backlog	300
Goodwill	42,871
Current liabilities	(23,729)
Capital lease obligations	(7,225)
Total fair value of net assets acquired	147,011
Less cash acquired	(2,963)
Total cash consideration for acquisition, less cash acquired	$ 144,048

On the acquisition date, amortizable intangible assets had a weighted average useful life of 12.3 years. The customer relationships were valued based on the Discounted Cash Flow Method and will be amortized on an accelerated basis over 12 years. The trademarks were valued on the

Relief from Royalty Method and will be amortized on a straight-line basis over 15 years. Backlog was valued based on the Discounted Cash Flow Method and was amortized on a straight-line basis over 6 weeks. Goodwill is deductible for tax purposes.

Cruiser RV, LLC and DRV, LLC

On January 5, 2015, the Company closed on a Stock Purchase Agreement (CRV/DRV SPA) for the acquisition of all the outstanding membership units of towable recreational vehicle manufacturer Cruiser RV, LLC (CRV) and luxury fifth wheel towable recreational vehicle manufacturer DRV, LLC (DRV) through its Heartland Recreational Vehicles, LLC subsidiary (Heartland). The Heartland operations are reported within the towable recreational vehicle reportable segment. In accordance with the CRV/DRV SPA, the closing was deemed effective as of January 1, 2015. As contemplated in the CRV/DRV SPA, the Company also acquired, in a series of integrated transactions, certain real estate used in the ongoing operations of CRV and DRV. The initial cash paid for this acquisition was $47,412, subject to adjustment, and was funded entirely from the Company s cash on hand. This payment of $47,412, less the $1,062 of cash on hand at the acquisition date, resulted in initial net cash consideration of $46,350. Adjustments to increase the net cash consideration by $1,173 were identified, based on the preliminary determination of the actual net assets as of the close of business on December 31, 2014 and the finalization of certain tax matters, and paid during the fourth quarter of fiscal 2015. The $1,173 included reimbursing the seller for $1,062 of cash on hand at the acquisition date and resulted in total net cash consideration of $47,523. The Company purchased CRV and DRV to expand its towable recreational vehicle market share and to supplement and expand its existing lightweight travel trailer and luxury fifth wheel product offerings and dealer base.

The following table summarizes the fair values assigned to the CRV and DRV net assets acquired, which are based on internal and independent external valuations. Additional adjustments to certain accounts, such as acquired medical benefit liabilities, are possible but not expected to be material:

Cash	$ 1,062
Other current assets	22,175
Property, plant and equipment	4,533
Dealer network	14,300
Trademarks	5,400
Backlog	450
Goodwill	13,172
Current liabilities	(12,507)
Total fair value of net assets acquired	48,585
Less cash acquired	(1,062)
Total cash consideration for acquisition, less cash acquired	$ 47,523

On the acquisition date, amortizable intangible assets had a weighted average useful life of 13.9 years. The dealer network was valued based on the Discounted Cash Flow Method and will be amortized on an accelerated basis over 12 years. The trademarks were valued on the Relief from Royalty Method and will be amortized on a straight-line basis over 20 years. Backlog was valued based on the Discounted Cash Flow Method and was amortized on a straight-line basis over 6 weeks. Goodwill is deductible for tax purposes.

The following unaudited pro forma information represents the Company s results of operations as if the fiscal 2015 acquisitions of both Postle and CRV/DRV had occurred at the beginning of fiscal 2014. These performance results may not be indicative of the actual results that would have occurred under the ownership and management of the Company.

	Three Months Ended October 31, 2014
Net sales	$ 1,001,227
Net income	$ 43,774
Basic earnings per common share	$ 0.82
Diluted earnings per common share	$ 0.82

3. Discontinued Operations

On July 31, 2013, the Company entered into a Stock Purchase Agreement (ASV SPA) to sell its bus business to Allied Specialty Vehicles, Inc. (ASV) for cash of $100,000, subject to closing adjustments for changes in the net assets sold from April 30, 2013, to the closing date. The

Company s bus business manufactured and sold transit and shuttle buses. The sale was completed as of October 20, 2013, and the Company received the $100,000 on October 21, 2013, and an additional $5,043 in February 2014, representing the increase in bus net assets since April 30, 2013.

The results of operations for the bus business have been reported as discontinued operations in the Condensed Consolidated Statements of Income and Comprehensive Income for all periods presented.

The following table summarizes the results of discontinued operations:

	Three Months Ended October 31, 2015	Three Months Ended October 31, 2014
Operating loss of discontinued operations before income taxes	$ (378)	$ (435)
Income tax benefit	(139)	(159)
Loss from discontinued operations, net of taxes	$ (239)	$ (276)

The operating loss of discontinued operations before income taxes for the three months ended October 31, 2015 and October 31, 2014 reflects expenses incurred directly related to the former bus operations, including ongoing costs related to liabilities retained by the Company under the ASV SPA for bus product liability and worker s compensation claims occurring prior to the closing date of the sale.

As a result of the sale of the bus business, and in accordance with the ASV SPA, the Company is no longer the primary obligor to the taxing authorities for bus operations in certain states. Under the terms of the sale, the Company has agreed to indemnify ASV for any claims made by the taxing authorities after the date of sale for these uncertain tax positions, but does not expect future losses under this guarantee to be material.

4. Business Segments

The Company has two reportable segments: (1) towable recreational vehicles and (2) motorized recreational vehicles. The towable recreational vehicle reportable segment consists of the following operating segments that have been aggregated: Airstream (towable), Bison, CrossRoads, Heartland (including its wholly owned subsidiaries CRV and DRV), Keystone, KZ and Livin Lite. The motorized recreational vehicle reportable segment consists of the following operating segments that have been aggregated: Airstream (motorized) and Thor Motor Coach.

The operations of the Company s Postle subsidiary, which was acquired May 1, 2015, are included in Other, which is a non-reportable segment. Net sales included in Other mainly relate to the sale of aluminum extrusions and specialized component products. Intercompany eliminations adjust for Postle sales to the Company s towables and motorized segments, which are transacted at established arm s length transfer prices generally consistent with the selling prices of extrusion components to third party customers.

All manufacturing is conducted in the United States. Total assets include those assets used in the operation of each reportable and non-reportable segment, and the Corporate assets consist primarily of cash and cash equivalents and deferred income tax assets.

	Three Months Ended October 31, 2015	Three Months Ended October 31, 2014
Net sales:		
Recreational vehicles:		
Towables	$ 744,679	$ 699,778
Motorized	251,099	222,214
Total recreational vehicles	995,778	921,992
Other	50,382	
Intercompany eliminations	(15,809)	
Total	$ 1,030,351	$ 921,992

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	Three Months Ended October 31, 2015	2014
Income (loss) from continuing operations before income taxes:		
Recreational vehicles:		
Towables	$ 63,224	$ 49,299
Motorized	21,653	15,101
Total recreational vehicles	84,877	64,400
Other, net	2,656	
Corporate	(9,842)	(7,694)
Total	$ 77,691	$ 56,706

	October 31, 2015	July 31, 2015
Total assets:		
Recreational vehicles:		
Towables	$ 951,863	$ 907,175
Motorized	196,260	162,940
Total recreational vehicles	1,148,123	1,070,115
Other, net	155,276	161,075
Corporate	268,984	272,058
Total	$ 1,572,383	$ 1,503,248

5. Earnings Per Common Share

	Three Months Ended October 31, 2015	2014
Weighted average common shares outstanding for basic earnings per share	52,409,945	53,336,592
Stock options, unvested restricted stock and restricted stock units	135,615	96,855
Weighted average common shares outstanding for diluted earnings per share	52,545,560	53,433,447

At October 31, 2015 and 2014, the Company had 48,119 and 39,523, respectively, of stock options, unvested restricted stock and restricted stock units outstanding which were excluded from this calculation as their effect would be antidilutive.

6. Inventories

Major classifications of inventories are as follows:

	October 31, 2015	July 31, 2015
Finished goods RV	$ 48,111	$ 35,693
Finished goods other	15,803	18,045
Work in process	55,368	51,556

Raw materials	132,480	133,482
Chassis	50,008	37,739
Total	301,770	276,515
Excess of FIFO costs over LIFO costs	(30,400)	(30,400)
Total inventories, net	$ 271,370	$ 246,115

Of the $301,770 and $276,515 of inventories at October 31, 2015 and July 31, 2015, all but $79,592 and $72,498, respectively, at certain subsidiaries were valued on a last-in, first-out basis. The $79,592 and $72,498 of inventories were valued on a first-in, first-out method.

7. Property, Plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation, and consists of the following:

	October 31, 2015	July 31, 2015
Land	$ 29,187	$ 27,447
Buildings and improvements	224,001	214,462
Machinery and equipment	110,421	106,959
Total cost	363,609	348,868
Less accumulated depreciation	(120,094)	(114,823)
Property, plant and equipment, net	$ 243,515	$ 234,045

Property, plant and equipment at October 31, 2015 includes buildings and improvements under capital leases of $6,527 and related amortization included in accumulated depreciation of $272.

8. Intangible Assets and Goodwill

The components of amortizable intangible assets are as follows:

	Weighted Average Remaining Life in Years at October 31, 2015	October 31, 2015		July 31, 2015	
		Cost	Accumulated Amortization	Cost	Accumulated Amortization
Dealer networks/customer relationships	10	$ 143,860	$ 41,780	$ 143,860	$ 37,194
Trademarks	19	55,282	8,244	55,282	7,608
Design technology and other intangibles	9	22,400	8,843	22,400	8,168
Non-compete agreements	4	450	135	4,710	4,264
Total amortizable intangible assets		$ 221,992	$ 59,002	$ 226,252	$ 57,234

The dealer networks and customer relationships are being amortized on an accelerated basis. Trademarks, design technology and other intangibles and non-compete agreements are amortized on a straight-line basis.

Estimated annual amortization expense is as follows:

For the fiscal year ending July 31, 2016	$ 23,440
For the fiscal year ending July 31, 2017	20,671
For the fiscal year ending July 31, 2018	18,986
For the fiscal year ending July 31, 2019	16,975
For the fiscal year ending July 31, 2020	15,256
For the fiscal year ending July 31, 2021 and thereafter	73,690
	$ 169,018

Of the recorded goodwill of $312,622 at both October 31, 2015 and July 31, 2015, $269,751 resides in the towable recreational vehicle segment and $42,871 resides in the other non-reportable 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 4 to the Condensed Consolidated Financial Statements. Fair values are determined by a discounted cash flow model. 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 and discount rates, and therefore largely represent Level 3 inputs as defined by ASC 820. 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.

9. Concentration of Risk

One dealer, FreedomRoads, LLC (FreedomRoads), accounted for 18% and 14% of the Company s continuing consolidated net sales for the three months ended October 31, 2015 and the three months ended October 31, 2014, respectively. This dealer also accounted for 15% of the Company s consolidated trade accounts receivable at October 31, 2015 and 22% at July 31, 2015. The loss of this dealer could have a significant effect on the Company s business.

10. Investments and Fair Value Measurements

The Company carries at fair value its investments in securities (primarily in mutual funds) held for the benefit of certain employees of the Company as part of a deferred compensation plan. These investments are measured with Level 1 inputs as prescribed by ASC 820, which include quoted prices in active markets for identical assets or liabilities and are the most observable inputs. Deferred compensation plan asset balances of $10,757 and $10,803 were recorded as of October 31, 2015 and July 31, 2015, respectively, as components of other long-term assets in the Condensed Consolidated Balance Sheets. An equal and offsetting liability is also recorded in regards to the deferred compensation plan as a component of other long-term liabilities in the Condensed Consolidated Balance Sheets. Changes in the fair value of the plan assets and the related liability are reflected in other income (expense), net and selling, general and administrative expenses, respectively, in the Condensed Consolidated Statements of Income and Comprehensive Income.

11. 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 on certain structural components. The Company records a liability based on its best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Factors used in estimating the warranty liability include a history of units sold, existing dealer inventory, average cost incurred and a profile of the distribution of warranty expenditures over the warranty period. Management believes that the warranty reserves are adequate. However, actual claims incurred could differ from estimates, requiring adjustments to the reserves. Warranty reserves are reviewed and adjusted as necessary on at least a quarterly basis.

Changes in our product warranty reserves are as follows:

	Three Months Ended October 31,	
	2015	**2014**
Beginning balance	$ 108,206	$ 94,938
Provision	26,233	29,461
Payments	(26,592)	(26,759)
Ending balance	$ 107,847	$ 97,640

12. Provision for Income Taxes

The overall effective income tax rate for the three months ended October 31, 2015 was 34.7% compared with 30.9% for the three months ended October 31, 2014. The primary reason for the increase in the effective income tax rate was the favorable settlement of uncertain tax benefits that occurred during the three months ended October 31, 2014 while no such settlements occurred in the three months ended October 31, 2015.

It is the Company s policy to recognize interest and penalties accrued relative to unrecognized tax benefits in income tax expense. For the three months ended October 31, 2015, there were no material changes to the balance of unrecognized tax benefits and the Company accrued $141 in interest and penalties related to the remaining uncertain tax positions recorded at July 31, 2015.

The Company anticipates a decrease of approximately $3,525 in unrecognized tax benefits, and $935 in accrued interest and penalties related to unrecognized tax benefits recorded as of October 31, 2015, within the next 12 months from expected settlements or payments of uncertain tax positions and lapses of the applicable statutes of limitations. Actual results may differ from these estimates.

Generally, fiscal years 2012, 2013 and 2014 remain open for federal income tax purposes and fiscal years 2011, 2012, 2013 and 2014 remain open for state and Canadian income tax purposes. The Company and its subsidiaries file a consolidated U.S. federal income tax return and multiple state income tax returns. The Company is currently disputing the audit results by the state of Indiana for tax years ended July 31, 2008, 2009 and 2010. The Company believes it has adequately reserved for its exposure to additional payments for uncertain tax positions related to its Indiana income tax returns in its liability for unrecognized tax benefits.

13. Contingent Liabilities, Commitments and Legal Matters

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, we may also be required to repurchase inventory relative to dealer terminations in certain states in accordance with state laws or regulatory requirements. The repurchase activity related to dealer terminations in certain states has been insignificant in relation to our repurchase obligation with financial institutions.

The Company s total commercial commitments under standby repurchase obligations on dealer inventory financing as of October 31, 2015 and July 31, 2015 were $1,313,093 and $1,363,576, respectively. The commitment term is primarily 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 at inception. The estimated fair value takes into account an estimate of the losses that may 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 its dealers. This deferred amount is included in the repurchase and guarantee reserve balances of $4,010 and $4,163 as of October 31, 2015 and July 31, 2015, respectively, which are included in other current liabilities on the Condensed Consolidated Balance Sheets.

The following table reflects losses incurred related to repurchase agreements that were settled 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 October 31,	
	2015	2014
Cost of units repurchased	$ 819	$ 1,645
Realization of units resold	687	1,440
Losses due to repurchase	$ 132	$ 205

The Company is also 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. Litigation is, however, inherently uncertain and an adverse outcome from such litigation could have a material effect on the operating results of a particular reporting period.

14. Stockholders Equity

Stock-Based Compensation

During fiscal 2013, the Compensation and Development Committee of the Board (the Committee) approved a program to award restricted stock units to certain employees at the operating subsidiary and corporate levels. Under this program, the Committee approved awards that were granted in fiscal 2015 related to fiscal year 2014 performance and approved additional awards that were granted in fiscal 2016 related to fiscal 2015 performance. The employee restricted stock units vest, and shares of common stock will be issued, in equal installments on the first, second and third anniversaries of the date of grant. In fiscal 2016 and fiscal 2015, the Nominating and Governance Committee of the Board awarded restricted stock units to Board members that will vest, and shares of common stock will be issued, on the first anniversary of the date of the grant.

Total expense recognized in the three months ended October 31, 2015 and October 31, 2014 for these restricted stock unit awards and other stock-based compensation was $2,279 and $1,565, respectively.

For the restricted stock units that vested during the three month period ended October 31, 2015, a certain portion of the vested shares awarded were withheld as treasury shares to cover the recipients estimated withholding taxes. The total related taxes withheld of $2,484, to be paid by the Company on behalf of the recipients of these awards, is included in accrued compensation and related items as of October 31, 2015 in the Condensed Consolidated Balance Sheet and is expected to be paid in the second quarter of fiscal 2016.

Retained Earnings

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

Balance as of July 31, 2015	$ 1,172,432
Net income	50,497
Dividends declared and paid	(15,743)
Balance as of October 31, 2015	$ 1,207,186

The dividends declared and paid total of $15,743 represents the regular quarterly dividend of $0.30 per share for the first quarter of fiscal 2016.

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 the U.S. Private Securities Litigation Reform Act of 1995, 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 are made based on management s current expectations and beliefs regarding future and anticipated developments and their effects upon Thor Industries, Inc., and inherently involve uncertainties and risks. These forward looking statements are not a guarantee of future performance. We cannot assure you that actual results will not differ from our expectations. Factors which could cause materially different results include, among others, raw material and commodity 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, interest rate fluctuations and the potential economic impact of rising interest rates, restrictive lending practices, management changes, the success of new product introductions, the pace of obtaining and producing at new production facilities, the pace of acquisitions, the potential loss of existing customers of acquisitions, the integration of new acquisitions, the availability of delivery personnel, asset impairment charges, cost structure changes, competition, the potential impact of the strengthening U.S. dollar on international demand, general economic, market and political 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, 2015. 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 one of the largest manufacturers of recreational vehicles (RVs) in North America, by units sold and revenue, based on retail statistics published by Statistical Surveys, Inc. (Stat Surveys) and other reported data. Our combined U.S. and Canadian RV industry market share in the travel trailer and fifth wheel portion of the towable segment is approximately 37.2% for the calendar year-to-date period ended September 30, 2015. In the motorized segment of the RV industry, we have a combined U.S. and Canadian market share of approximately 25.0% for the calendar year-to-date period ended September 30, 2015.

Our business model includes decentralized operating units, and we compensate operating management with a combination of cash and restricted stock units, based primarily 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. We generally do not finance dealers directly, but do provide industry customary repurchase agreements to certain of the dealers floor plan lenders.

Our growth has been achieved both organically and by acquisition. Our strategy is designed to increase our profitability by driving innovation, servicing our customers, manufacturing quality products, improving the efficiencies of our facilities and by acquisitions.

We have relied on internally generated cash flows from operations to finance substantially all of 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 $15,922 for the three months ended October 31, 2015 were made primarily for land and production building additions and improvements, as well as for replacing machinery and equipment used in the ordinary course of business.

Recent Events

On May 1, 2015, the Company closed on a Membership Interest Purchase Agreement with Postle Aluminum Company, LLC for the acquisition of all the outstanding membership units of Postle Operating, LLC (Postle) for cash consideration paid in fiscal 2015 of $144,048, net of cash acquired. Postle is a manufacturer of aluminum extrusion and specialized component products for the RV and other markets, and operates as an independent operation in the same manner as the Company s other subsidiaries.

On January 5, 2015, the Company closed on a Stock Purchase Agreement (CRV/DRV SPA) for the acquisition of all the outstanding membership units of towable recreational vehicle manufacturer Cruiser RV, LLC (CRV) and luxury fifth wheel towable recreational vehicle manufacturer DRV, LLC (DRV) by its Heartland Recreational Vehicles, LLC subsidiary (Heartland). In accordance with the CRV/DRV SPA, the closing was deemed effective as of January 1, 2015. As contemplated in the CRV/DRV SPA, the Company also acquired, in a series of integrated transactions, certain real estate used in the ongoing operations of CRV and DRV. Cash consideration paid for this acquisition in fiscal 2015 was $47,523, net of cash acquired. The Company purchased CRV and DRV to expand its towable recreational vehicle market share and to supplement and expand its existing lightweight travel trailer and luxury fifth wheel product offerings and dealer base.

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 Stat Surveys, whose 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.

We believe our dealer inventory levels are appropriate for seasonal consumer demand. RV dealer inventory of Thor products as of October 31, 2015 increased 6.0% to approximately 66,200 units from approximately 62,450 units as of October 31, 2014, partially attributable to acquisitions since the prior year. Thor s RV backlog as of October 31, 2015 increased 15.5% to $1,051,023 from $909,651 as of October 31, 2014, also partially attributable to acquisitions since the prior year.

Industry Wholesale Statistics

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

	U.S. and Canada Wholesale Unit Shipments			
	Calendar Year through September 30,			%
	2015	2014	Increase	Change
Towable Units	249,136	237,320	11,816	5.0
Motorized Units	35,913	34,032	1,881	5.5
Total	285,049	271,352	13,697	5.0

In August 2015, the RVIA forecasted that calendar year 2015 wholesale shipments for all RV categories will total 373,700 units, a 4.7% increase over calendar year 2014, with most of the 2015 unit growth expected in travel trailers. Calendar year 2015 motorized unit shipments are forecasted to increase 6.8% over calendar year 2014. Travel trailers and fifth wheels are expected to account for 84% of all RV shipments in 2015. The outlook for calendar 2015 growth in RV sales is based on modestly rising consumer confidence and home values, improved credit availability, continued slow gains in job and income prospects and the impact of the current stronger U.S dollar on Canadian sales as well as other global economic risks. RVIA has also forecasted that 2016 calendar year shipments for all categories will total 383,100 units, a 2.5% increase from the expected calendar year 2015 wholesale shipments.

Industry Retail Statistics

We believe that retail demand is the key to continued growth in the RV industry, and that annual RV industry wholesale shipments will generally be in line with annual retail sales going forward.

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

	U.S. and Canada Retail Unit Registrations		
	Calendar Year through September 30,		%
			Change

	2015	2014	Increase	
Towable Units	272,326	245,518	26,808	10.9
Motorized Units	35,076	31,327	3,749	12.0
Total	307,402	276,845	30,557	11.0

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

Company Wholesale Statistics

The Company s wholesale RV shipments, for the calendar year periods through September 30, 2015 and 2014 to correspond to the industry periods denoted above, were as follows:

	U.S. and Canada Wholesale Unit Shipments			
	Calendar Year through September 30,			
	2015	2014	Increase	% Change
Towable Units	90,611	82,363	8,248	10.0
Motorized Units	8,866	8,673	193	2.2
Total	99,477	91,036	8,441	9.3

Company Retail Statistics

Retail statistics of the Company s RV products, as reported by Stat Surveys, for the calendar year periods through September 30, 2015 and 2014 to correspond to the industry periods denoted above (and adjusted to include results of acquisitions only from the date of acquisition forward), were as follows:

	U.S. and Canada Retail Unit Registrations			
	Calendar Year through September 30,			
	2015	2014	Increase	% Change
Towable Units	97,550	87,373	10,177	11.6
Motorized Units	8,772	7,432	1,340	18.0
Total	106,322	94,805	11,517	12.1

Our outlook for future growth in retail sales is dependent upon various economic conditions faced by consumers such as the rate of unemployment, the level of consumer confidence, the growth in disposable income of consumers, changes in interest rates, credit availability, the pace of recovery in the housing market, the impact of rising taxes and fuel prices. With continued improvement in consumer confidence, availability of retail and wholesale credit, low interest rates and the absence of negative economic factors, we would expect to see incremental improvements in RV sales and expect to benefit from our ability to increase production to meet increasing demand.

A positive future 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 74 will total 78 million by 2025, 24% higher than in 2012 according to the RVIA. In addition, in recent years the industry has benefited from growing retail sales to younger consumers with new product offerings targeted to younger, more active families, as they place a higher value on family outdoor recreation than any prior generation. Based on a study from the Pew Research Center, the Millennial generation, defined as those currently between the ages of 18 and 33, consisted of more than 68 million people in 2014. In general, these consumers are more technologically savvy, but still value active outdoor experiences shared with family and friends, making them strong potential customers for our industry in the decades to come. Younger RV consumers are generally attracted to lower and moderately priced entry-level travel trailers, as affordability is a key driver at this stage in their lives. As the first generation of the internet age, Millennials are more comfortable gathering information online, and are therefore generally more knowledgeable about products and competitive pricing than any prior generation.

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, and any future increases in raw material costs would impact our profit margins negatively if we were unable to raise the prices for our products by corresponding amounts. Historically, we have been able to pass along cost increases to customers.

Recently, we have not experienced any unusual cost increases or supply constraints from our chassis suppliers. The recreational vehicle industry has, from time to time, experienced shortages of chassis due to various causes such as component shortages, production delays or work stoppages at the chassis manufacturers which has impacted our sales and earnings. We believe that the current supply of chassis used in our motorized RV production is adequate for current production levels and that available inventory would compensate for short-term changes in supply schedules if they occur.

Three Months Ended October 31, 2015 vs. Three Months Ended October 31, 2014

		Three Months Ended October 31, 2015		Three Months Ended October 31, 2014		Change Amount	% Change
NET SALES:							
Recreational vehicles							
Towables	$	744,679	$	699,778	$	44,901	6.4
Motorized		251,099		222,214		28,885	13.0
Total recreational vehicles		995,778		921,992		73,786	8.0
Other		50,382				50,382	
Intercompany eliminations		(15,809)				(15,809)	
Total	$	1,030,351	$	921,992	$	108,359	11.8
# OF UNITS:							
Recreational vehicles							
Towables		28,933		26,447		2,486	9.4
Motorized		3,069		2,734		335	12.3
Total		32,002		29,181		2,821	9.7

			% of Segment Net Sales			% of Segment Net Sales		Change Amount	% Change
GROSS PROFIT:									
Recreational vehicles									
Towables	$	110,765	14.9	$	91,606	13.1	$	19,159	20.9
Motorized		35,362	14.1		26,059	11.7		9,303	35.7
Total recreational vehicles		146,127	14.7		117,665	12.8		28,462	24.2
Other, net		6,089	12.1					6,089	
Total	$	152,216	14.8	$	117,665	12.8	$	34,551	29.4
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:									
Recreational vehicles									
Towables	$	43,342	5.8	$	38,765	5.5	$	4,577	11.8
Motorized		13,710	5.5		10,947	4.9		2,763	25.2
Total recreational vehicles		57,052	5.7		49,712	5.4		7,340	14.8
Other		1,602	3.2					1,602	
Corporate		9,800			8,277			1,523	18.4
Total	$	68,454	6.6	$	57,989	6.3	$	10,465	18.0
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES:									
Recreational vehicles									
Towables	$	63,224	8.5	$	49,299	7.0	$	13,925	28.2

Motorized		21,653	8.6		15,101	6.8		6,552	43.4
Total recreational vehicles		84,877	8.5		64,400	7.0		20,477	31.8
Other, net		2,656	5.3					2,656	
Corporate		(9,842)			(7,694)			(2,148)	(27.9)
Total	$	77,691	7.5	$	56,706	6.2	$	20,985	37.0

	As of October 31, 2015	As of October 31, 2014	Change Amount	% Change
ORDER BACKLOG:				