THOR INDUSTRIES INC
Form 10-K
September 25, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

(Mark one)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended July 31, 2014, Commission File Number 1-9235

or

¨ **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 Number)
601 East Beardsley Ave., Elkhart, IN (Address of principal executive offices)	46514-3305 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class:	Name of each exchange on which registered:
Common Stock (par value $.10 per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

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 the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ¨ No þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 126-2 of the Exchange Act.)

Yes ¨ No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of January 31, 2014 was $2,225,046,139 based on the closing price of the registrant s common shares on January 31, 2014, the last business day of the registrant s most recently completed second fiscal quarter. Solely for the purpose of this calculation and for no other purpose, the non-affiliates of the registrant are assumed to be all shareholders of the registrant other than (i) directors of the registrant (ii) current executive officers of the registrant who are identified as named executive officers pursuant to Item 11 of the registrant s Form 10-K for the fiscal year ended July 31, 2013 and (iii) any shareholder that beneficially owns 10% or more of the registrant s common stock. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant. The number of common shares of registrant s stock outstanding as of September 12, 2014 was 53,329,552.

Documents incorporated by reference:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on December 9, 2014 are incorporated by reference in Part III of this Annual Report on Form 10-K.

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PART I

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

ITEM 1. BUSINESS

The following discussion of our business solely relates to ongoing operations.

General Development of Business

Our company was founded in 1980 and, through its subsidiaries, manufactures and sells a wide range of recreational vehicles (RVs) in the United States and Canada. We are incorporated in Delaware and are the successor to a corporation of the same name which was incorporated in Nevada on July 29, 1980. Our principal executive office is located at 601 East Beardsley Avenue, Elkhart, Indiana 46514 and our telephone number is (574) 970-7460. Our Internet address is *www.thorindustries.com*. We maintain copies of our recent filings with the Securities and Exchange Commission (SEC), available free of charge, on our web site. 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.

Our principal recreational vehicle operating subsidiaries are Airstream, Inc. *(Airstream)*, CrossRoads RV *(CrossRoads)*, Thor Motor Coach, Inc. *(Thor Motor Coach)*, Keystone RV Company *(Keystone)*, Heartland Recreational Vehicles, LLC *(Heartland),* Livin Lite RV, Inc. *(Livin Lite)*, Bison Coach *(Bison)* and K.Z., Inc. *(KZ)*.

On June 3, 2013, Thor Wakarusa, LLC, a wholly-owned subsidiary of Thor, purchased a recreational vehicle production campus in Wakarusa, Indiana for $5,819. The purchase included land and production facilities, comprised of approximately one million square feet of total production space on more than 150 acres, along with certain related equipment, including more than 35 paint booths specifically designed for painting recreational vehicles. The Company uses the facilities primarily for motorized recreational vehicle production and to vertically integrate certain paint operations through one of its towable recreational vehicle subsidiaries.

On August 30, 2013, the Company acquired the assets of towable recreational vehicle manufacturer Livin Lite Corp., located in Wakarusa, Indiana, through a wholly-owned subsidiary for final cash consideration of $16,769, net of cash acquired. As a result of the purchase, the Company formed a new entity, Livin Lite. The Company purchased the assets to expand its recreational vehicle market share and complement its existing brands with Livin Lite s advanced lightweight product offerings. Under our ownership, Livin Lite operates as an independent operation in the same manner as our existing recreational vehicle subsidiaries.

On October 31, 2013, the Company acquired the assets of towable recreational vehicle manufacturer Bison Coach, LLC, located in Milford, Indiana, for final cash consideration of $16,914. As a result of the purchase, the Company formed a new entity, Bison. The Company purchased the net assets of Bison to supplement its existing product offerings with Bison s equestrian products with living quarters. Under our ownership, Bison operates as an independent operation in the same manner as our existing recreational vehicle subsidiaries.

On May 1, 2014, the Company acquired all the outstanding capital stock of towable recreational vehicle manufacturer KZ for initial cash consideration paid in fiscal 2014 of $52,409, net of cash acquired, and a working capital adjustment of $2,915 paid in the first quarter of fiscal 2015. The Company purchased KZ to expand its towable recreational vehicle market share and supplement its existing towable RV product offerings and dealer base. Under our ownership, KZ operates as an independent operation in the same manner as our existing recreational vehicle subsidiaries.

Discontinued Operations

On July 31, 2013, we entered into a definitive Stock Purchase Agreement and sold our bus business to Allied Specialty Vehicles, Inc. (ASV) for final cash consideration of $105,043. The sale closed on October 20, 2013. Thor s bus business included Champion Bus, Inc., General Coach America, Inc., Goshen Coach, Inc., El Dorado National (California), Inc., and El Dorado National (Kansas), Inc. As a result of the divestiture of the bus business, the assets and liabilities of the bus business are reported as assets or liabilities of discontinued operations in the Consolidated Balance Sheet as of July 31, 2013 and the results of operations as income from discontinued operations, net of income taxes on the Consolidated Statements of Income and Comprehensive Income for the years ended July 31, 2014, 2013, and 2012. Discontinued operations also reflect the results of the ambulance product line through the date of its sale on April 30, 2013. See Note 3, Discontinued Operations, in the Notes to the Consolidated Financial Statements for further information.

Recreational Vehicles

Thor, through its operating subsidiaries, is one of the largest manufacturers of RVs in North America, by units sold and revenue, based on retail statistics published by Statistical Surveys, Inc. and other reported data.

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Airstream

Our Airstream subsidiary manufactures and sells premium quality travel trailers and motorhomes. Airstream vehicles are distinguished by their rounded shape and bright aluminum finish and, in our opinion, constitute the most recognized product in the recreational vehicle industry. Airstream manufactures and sells travel trailers under the trade names *Airstream International*, *Classic Limited*, *Sport*, *Flying Cloud*, *Land Yacht* and *Eddie Bauer*. Airstream also sells the *Interstate* and *Autobahn* Class B motorhomes.

CrossRoads

Our CrossRoads subsidiary manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Cruiser*, *Rushmore*, *Zinger*, *Elevation*, *ReZerve* and *Sunset Trail* and luxury fifth wheels under the trade name *Redwood.*

Thor Motor Coach

Thor Motor Coach manufactures and sells gasoline and diesel Class A and Class C motorhomes. Its products are sold under trade names such as *Four Winds*, *Hurricane*, *Windsport*, *Chateau*, *Daybreak*, *Challenger*, *Tuscany*, *Outlaw*, *Axis*, *Vegas*, *Palazzo* and *A.C.E.*

Keystone

Our Keystone subsidiary manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Montana*, *Springdale*, *Hideout*, *Sprinter*, *Outback*, *Laredo*, *Alpine*, *Bullet*, *Fuzion*, *Raptor*, *Passport*, *Cougar*, *Coleman*, *Kodiak*, *Aspen Trail* and *Voltage*.

Heartland

Our Heartland subsidiary manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Landmark*, *Bighorn*, *Sundance*, *Elk Ridge*, *Trail Runner*, *Cyclone*, *Prowler* and *Wilderness*.

Livin Lite

Our Livin Lite subsidiary manufactures and sells advanced lightweight travel trailers, fifth wheels and specialty products under trade names such as *Camplite*, *Quicksilver*, *Bearcat* and *Axxess*.

Bison

Our Bison subsidiary manufactures and sells equestrian recreational vehicle products with living quarters under trade names such as *Trail Hand*, *Trail Express*, *Stratus* and *Stratus Express*.

KZ

Our KZ subsidiary manufactures and sells conventional travel trailers and fifth wheels under trade names such as *Sportsmen*, *Vision*, *Spree, MXT*, *Durango*, *SportTrek* and *Sonic*.

Product Line Sales and Segment Information

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), CrossRoads, Keystone (including Dutchmen, which was merged into Keystone during the second quarter of fiscal 2014), Heartland, Livin Lite, Bison and KZ. The motorized recreational vehicle reportable segment consists of the following operating segments that have been aggregated: Airstream (motorized) and Thor Motor Coach.

The table below sets forth the contribution of each of the Company s segments to net sales in each of the last three fiscal years:

	2014		2013		2012	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Recreational Vehicles:						
Towables	$ 2,721,625	77	$ 2,650,253	82	$ 2,285,863	87
Motorized	803,831	23	591,542	18	353,935	13
Total Net Sales	$ 3,525,456	100	$ 3,241,795	100	$ 2,639,798	100

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Recreational Vehicles

Overview

We manufacture and sell a wide variety of recreational vehicles throughout the United States and Canada, as well as related parts and accessories. Recreational vehicle classifications are based upon standards established by the Recreation Vehicle Industry Association (RVIA). The principal types of towable recreational vehicles that we produce include conventional travel trailers, fifth wheels and park models. In addition, we also produce truck and folding campers and equestrian and other specialty towable vehicles, as well as Class A, Class C and Class B motorhomes.

Travel trailers are non-motorized vehicles which are designed to be towed by passenger automobiles, pickup trucks, SUVs or vans. Travel trailers provide comfortable, self-contained living facilities for camping and vacationing purposes. We produce conventional and fifth wheel travel trailers. Conventional trailers are towed by means of a frame hitch attached to the towing vehicle. Fifth wheel trailers, designed to be towed by pickup trucks, are constructed with a raised forward section that is attached to a receiver in the bed area of the pickup truck.

Park models are recreational dwellings towed to a permanent site such as a lake, woods or park. The maximum size of park models in the United States is 400 square feet. They provide comfortable self-contained living and are second homes for their owners.

A motorhome is a self-powered vehicle built on a motor vehicle chassis. Motorhomes are self-contained with their own lighting, heating, cooking, refrigeration, sewage holding and water storage facilities, so that they can be utilized without being attached to utilities.

Class A motorhomes, generally constructed on medium-duty truck chassis, are supplied complete with engine and drivetrain components by motor vehicle manufacturers such as Ford and Freightliner. We design, manufacture and install the living area and driver s compartment of Class A motorhomes. Class C and Class B motorhomes are built on a Ford, General Motors or Mercedes Benz small truck or van chassis, which includes an engine, drivetrain components and a finished cab section. We construct a living area which has access to the driver s compartment and attaches to the cab section. Although they are not designed for permanent or semi-permanent living, motorhomes can provide comfortable living facilities for camping and vacationing purposes.

Production

In order to minimize finished inventory, our recreational vehicles generally are produced to dealer order. Our facilities are designed to provide efficient assembly line manufacturing of products. Capacity increases can be achieved quickly and at relatively low cost, largely by increasing the number of production employees or by acquiring or leasing additional facilities and equipment.

We purchase in finished form many of the components used in the production of our recreational vehicles. The principal raw materials used in the manufacturing processes for motorhomes and travel trailers are aluminum, lumber, plywood, plastic, fiberglass and steel purchased from numerous suppliers. We believe that, except for chassis and key towable RV components sourced from a major supplier, Drew Industries, Inc. (Drew), substitute sources for raw materials and components are available with no material impact on our operations.

Our relationship with our chassis suppliers is similar to our other vendor relationships in that no long-term contractual commitments are entered into by either party. Historically, Ford and General Motors resort to an industry-wide allocation system during periods when chassis supply is restricted. These allocations are based on the volume of chassis previously purchased. Sales of motorhomes rely on these chassis and are affected accordingly. To date, we have not experienced any unusual cost increases from our chassis suppliers.

Generally, all of our operating subsidiaries introduce new or improved lines or models of recreational vehicles each year. Changes typically include new sizes and floor plans, different decors or design features and engineering improvements.

Seasonality

Since recreational vehicles are used primarily by vacationers and campers, our recreational vehicle sales are seasonal and, in most geographical areas, tend to be significantly lower during the winter months than in other periods. As a result, recreational vehicle sales are historically lowest during our second fiscal quarter, which ends on January 31 of each year.

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Marketing and Distribution

We market our recreational vehicles through independent dealers located throughout the United States and Canada. Each of our recreational vehicle operating subsidiaries maintains its own dealer organization, with some dealers carrying more than one of our product lines. As of July 31, 2014, there were approximately 1,950 dealerships carrying our products in the U.S. and Canada. We believe that close working relationships between our management and sales personnel and the many independent dealers with which we work provide us with valuable information on customer preferences and the quality and marketability of our products. Additionally, by maintaining substantially separate dealer networks for each of our subsidiaries, our products are targeted to be competing against competitors products in similar price ranges rather than against our other products.

Each of our recreational vehicle operating subsidiaries has an independent sales force to call on their dealers. Our most important sales promotions occur at the major recreational vehicle shows which take place throughout the year at different locations across the country. We benefit from the recreational vehicle awareness advertising and major marketing programs sponsored by the RVIA in national print media and television. We engage in a limited amount of consumer-oriented advertising for our recreational vehicles, primarily through industry magazines, product brochures, direct mail advertising campaigns and the internet.

In our selection of individual dealers, we emphasize the dealer s ability to maintain a sufficient inventory of our products, as well as their financial stability, credit worthiness, reputation, experience and ability to provide service. Many of our dealers carry the recreational vehicle lines of one or more of our competitors. Generally, each of our operating subsidiaries has sales agreements with their dealers.

During fiscal 2014, 2013 and 2012, one of our dealers, FreedomRoads, LLC, accounted for 17%, 17% and 14% of our continuing consolidated net sales, respectively. This dealer also accounted for 21% of the Company s continuing consolidated trade accounts receivable at July 31, 2014 and 24% at July 31, 2013.

We generally do not finance dealer purchases. Most dealers are financed on a floor plan basis by an unrelated bank or financing company which lends the dealer all or substantially all of the wholesale purchase price and retains a security interest in the vehicles purchased. As is customary in the recreational vehicle industry, we will execute a repurchase agreement with a lending institution financing a dealer s purchase of our products upon the lending institution s request. Repurchase agreements provide that, typically for a period of up to 18 months after a unit is financed, and in the event of default by the dealer and notification from the lending institution of the dealer default, we will repurchase all the dealer units repossessed by the lending institution for the amount then due, which is often less than 100% of the dealer s cost. The risk of loss under repurchase agreements is spread over numerous dealers and is further reduced by the resale value of the units which we would be required to repurchase. We believe that any future losses under these agreements would not have a material adverse effect on our Company. The losses incurred due to repurchase were $288, $906 and $360 in fiscal 2014, 2013 and 2012, respectively.

Backlog

As of July 31, 2014, the backlog for towable and motorized recreational vehicle orders was $296,828 and $241,246, respectively, compared to $228,416 and $213,116, respectively, at July 31, 2013. Backlog represents unfilled dealer orders on a particular day which can and do fluctuate on a seasonal basis. In the recreational vehicle business our manufacturing time is relatively short. The existing backlog of towable and motorized recreational vehicles is expected to be filled in fiscal 2015.

Historically, the amount of our current backlog compared to our backlog in previous periods reflects general economic and industry conditions and, together with other relevant factors such as continued acceptance of our products by the consumer, may be an indicator of our revenues in the near term.

Product Warranties

We generally provide retail purchasers of our recreational vehicles with a one-year limited warranty against defects in materials and workmanship with longer warranties on certain structural components. The chassis and engines of our motorhomes are generally warranted for three years or 36,000 miles by their manufacturers.

Regulation

We are subject to the provisions of the National Traffic and Motor Vehicle Safety Act (NTMVSA) and the safety standards for recreational vehicles and recreational vehicle components which have been promulgated thereunder by the U.S. Department of Transportation. Because of our sales in Canada, we are also governed by similar laws and regulations issued by the Canadian government.

We are a member of the RVIA, a voluntary association of recreational vehicle manufacturers which promulgates recreational vehicle safety standards. We place an RVIA seal on each of our recreational vehicles to certify that the RVIA s standards have been met.

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Both federal and state authorities have various environmental control standards relating to air, water and noise pollution which affect our business and operations. For example, these standards, which are generally applicable to all companies, control our choice of paints, our air compressor discharge, our waste water and the noise emitted by our factories. We rely upon certifications obtained by chassis manufacturers with respect to compliance by our vehicles with all applicable emission control standards.

We are also subject to the regulations promulgated by the Occupational Safety and Health Administration (OSHA). Our plants are periodically inspected by federal agencies concerned with health and safety in the work place, and by the RVIA, to ensure that our plants and products comply with applicable governmental and industry standards.

We believe that our products and facilities comply in all material respects with applicable vehicle safety, environmental, RVIA and OSHA regulations.

We do not believe that ongoing compliance with the regulations discussed above will have a material effect on our capital expenditures, earnings or competitive position.

Competition

The recreational vehicle industry is generally characterized by ease of entry, although the codes, standards and safety requirements are a deterrent to new competitors. The need to develop an effective dealer network and to support wholesale lending through floor plan finance companies also act as barriers to entry. The recreational vehicle market is intensely competitive with a number of other manufacturers selling products which compete directly with our products. Competition in the recreational vehicle industry is based upon price, design, value, quality and service. We believe that the quality, design and price of our products and the warranty coverage and service that we provide allow us to compete favorably for retail purchasers of recreational vehicles. There are approximately 70 RV manufacturers in the U.S. and Canada.

Our primary competitors within the towable segment include Forest River, Inc. and Jayco, Inc. while our primary competitors within the motorized segment are Winnebago Industries, Inc. and Forest River, Inc. We estimate that, in the aggregate, we are one of the largest recreational vehicle manufacturers in terms of both units produced and revenue. According to Statistical Surveys, Inc., for the six months ended June 30, 2014 our U.S. market share for travel trailers and fifth wheels is approximately 38.2% and our U.S. market share for motorhomes is approximately 24.7%.

Trademarks and Patents

We have registered United States trademarks, Canadian trademarks, certain international trademarks and licenses carrying the principal trade names and model lines under which our products are marketed. We hold and protect certain patents related to our business. We are not dependent upon any patents or technology licenses of others for the conduct of our business.

Employee Relations

At July 31, 2014, we employed approximately 9,400 full-time employees in the United States, of which approximately 1,070 were salaried. None of our employees are represented by certified labor organizations. We believe that we maintain a good working relationship with our employees.

Information about Foreign and Domestic Operations and Export Sales

Export sales from our continuing U.S. operations, primarily to Canada, were $521,818, $537,374 and $456,073 in fiscal 2014, 2013 and 2012, respectively.

Forward Looking Statements

This Annual Report on Form 10-K 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. 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. There can be no assurance that actual results will not differ from our expectations. Factors which could cause materially different results include, among others, price fluctuations, material or chassis supply restrictions, legislative and regulatory developments, the costs of compliance with increased governmental regulation, legal issues, the potential impact of increased tax burdens on our dealers and retail consumers, lower consumer confidence and the level of discretionary consumer spending, interest rate fluctuations, restrictive lending practices, recent management changes, the success of new product introductions, the pace of obtaining and producing at new production facilities, the pace of acquisitions, the integration of new acquisitions, the impact of the divestiture of the Company s bus businesses, the availability of delivery personnel, asset impairment charges, cost structure changes, competition, general economic, market and political conditions and the other risks and uncertainties discussed more fully in ITEM 1A. RISK FACTORS below.

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We disclaim any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained in this Annual Report on Form 10-K or to reflect any change in our expectations after the date of this Annual Report on Form 10-K or any change in events, conditions or circumstances on which any statement is based, except as required by law.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports and the Proxy Statement for our Annual Meeting of Stockholders are made available, free of charge, on our website, *www.thorindustries.com*, as soon as reasonably practicable after such reports have been filed with or furnished to the SEC. You may also read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website that contains reports, proxy and information statements and other information that is filed electronically with the SEC. The website can be accessed at *www.sec.gov*.

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ITEM 1A. RISK FACTORS

The following risk factors, which relate to our continuing operations, should be considered carefully in addition to the other information contained in this filing.

The risks and uncertainties described below are not the only ones we face and represent some of the risks that our management believes are material to our Company and our business. If any of the following risks actually occur, our business, financial condition or results of operations could be harmed.

Risks Relating To Our Business

The industry in which we operate is highly competitive.

The industry that we are engaged in is highly competitive and we have numerous existing and potential competitors. The recreational vehicle industry is generally characterized by ease of entry, although the current codes, standards and safety requirements may be a deterrent to new competitors. The need to develop an effective dealer network and to support wholesale lending through floor plan finance companies also act as barriers to entry. Competition is based upon price, design, value, quality and service. Competitive pressures have, from time to time, resulted in a reduction of our profit margins. Sustained increases in these competitive pressures could have a material adverse effect on our results of operations. There can be no assurance that existing or new competitors will not develop products that are superior to ours or that achieve better consumer acceptance, thereby adversely affecting our market share, sales volume and profit margins.

The industry in which we operate is centered in northern Indiana.

The majority of our operations are located in one region. The geographic centrality of the RV industry in northern Indiana creates certain risks, including:

- Competition for workers skilled in the industry, especially during times of increasing RV production, may increase the cost of our labor; and

- Employee retention and recruitment challenges, as employees with industry knowledge and experience are attracted to the most lucrative positions and their ability to change employers is relatively easy.

Our business is cyclical and this can lead to fluctuations in our operating results.

The recreational vehicle industry in which we operate is cyclical and there can be substantial fluctuations in our production levels, shipments and operating results. Consequently, the results for any prior period may not be indicative of results for any future period.

Our business is seasonal and this leads to fluctuations in sales, production and net income.

We have experienced, and expect to continue to experience, significant variability in sales, production and net income as a result of annual seasonality in our business. Since recreational vehicles are used primarily by vacationers and campers, demand in the recreational vehicle industry generally declines during the winter season, while sales and profits are generally highest during the spring and summer months. In addition, unusually severe weather conditions in some geographic areas may delay the timing of shipments from one quarter to another.

Our business may be affected by certain external factors beyond our control.

Companies within the recreational vehicle industry are subject to volatility in operating results due to external factors such as general economic conditions, including credit availability, consumer confidence, employment rates, prevailing interest rates, inflation, other economic conditions affecting consumer attitudes and disposable consumer income, demographic changes and political changes. Specific factors affecting our business include:

Overall consumer confidence and the level of discretionary consumer spending;

Inventory levels, including the level of retail sales by our dealers;

General economic, market and political conditions, including war, terrorism and military conflict;

Demographics, such as the retirement of baby boomers ;

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- Interest rates and the availability of credit;
- Employment trends;
- Global, domestic or regional financial turmoil;
- Natural disasters;
- Industry demand;
- Increases in raw material costs;
- Relative or perceived cost, availability and comfort of recreational vehicle use versus other modes of travel, such as air travel, rail, etc.; and
- Increases in real wages and disposable income of consumers and their willingness to make large discretionary purchases.

The loss of our largest dealer could have a significant effect on our business.

FreedomRoads, LLC accounted for 17% of our consolidated net sales for fiscal 2014. The loss of this dealer could have a significant adverse effect on our business. In addition, deterioration in the liquidity or credit worthiness of FreedomRoads, LLC could negatively impact our sales and accounts receivable and could trigger repurchase obligations under our repurchase agreements.

Certain of our notes receivable may have collectability risk.

In December 2009, we entered into a $10,000 credit agreement with Marcus Lemonis, Stephen Adams, in his individual capacity, and Stephen Adams and his successors, as trustee under the Trust (collectively, the December 2009 Loan Borrowers), and later modified in December 2012, pursuant to which $7,400 of original principal is outstanding as of July 31, 2014 with the final payment due on August 30, 2015. The December 2009 Loan Borrowers own, directly or indirectly, a controlling interest in FreedomRoads Holding Company, LLC, the parent company of FreedomRoads, LLC, our largest dealer.

While we believe that the current note receivable from the December 2009 Loan Borrowers is collectable, deterioration in the liquidity or credit worthiness of the December 2009 Loan Borrowers could impact the collectability of this note receivable.

Fuel shortages, or high prices for fuel, could have a negative effect on sales of our recreational vehicles.

Gasoline or diesel fuel is required for the operation of our vehicles. There can be no assurance that the supply of these petroleum products will continue uninterrupted, that rationing will not be imposed or that the price of or tax on these petroleum products will not significantly increase in the future. Shortages of gasoline and diesel fuel, and substantial increases in the price of fuel, have had a material adverse effect on the recreational vehicle industry as a whole in the past and could have a material adverse effect on our business in the future.

Our business depends on the performance of independent dealers and transportation carriers.

We distribute our products through a system of independent, authorized dealers, many of whom sell products from competing manufacturers. The geographic coverage of our dealers and their individual business conditions can affect the ability of our authorized dealers to sell our products to consumers. In addition, recent consolidation of dealers, as well as the growth of larger, multi-location dealers, may result in increased bargaining power on the part of dealers.

Most often, our products are delivered via a system of independent transportation contractors. The network of carriers is limited and, in times of high demand and limited availability, can create risk in, and disruption of, our distribution channel.

Our business is affected by the availability and terms of financing to dealers and retail purchasers.

Our business is affected by the availability and terms of financing to dealers and retail purchasers. Generally, recreational vehicle dealers finance their purchases of inventory with financing provided by lending institutions. A decrease in the availability of this type of wholesale financing or an increase in the cost of such wholesale financing can prevent dealers from carrying adequate levels of inventory, which limits product offerings and could lead to reduced demand. In addition, two major financial flooring institutions held approximately 85% of our portion of our dealers total floored dollars outstanding at July 31, 2014.

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Substantial increases in interest rates and decreases in the general availability of credit have also had an adverse impact upon our business and results of operations in the past and may do so in the future. Further, a decrease in availability of consumer credit resulting from unfavorable economic conditions, or an increase in the cost of consumer credit, may cause consumers to reduce discretionary spending which could, in turn, reduce demand for our products and negatively affect our sales and profitability.

Changes in consumer preferences for our products or our failure to gauge those preferences could lead to reduced sales and additional costs.

Our ability to remain competitive depends heavily on our ability to provide a continuing and timely introduction of innovative product offerings. We cannot be certain that historical consumer preferences for our products in general, and recreational vehicles in particular, will remain unchanged. We believe that the introduction of new features, designs and models will be critical to the future success of our recreational vehicle operations. Managing frequent product introductions and transitions poses inherent risks. Delays in the introduction or market acceptance of new models, designs or product features could have a material adverse effect on our business. Products may not be accepted for a number of reasons, including changes in consumer preferences or our failure to properly gauge consumer preferences. Further, we cannot be certain that new product introductions will not reduce revenues from existing models and adversely affect our results of operations. In addition, there can be no assurance that any of these new models or products will be introduced to the market on time or that they will be successful when introduced.

If the frequency and size of product liability and other claims against us increase, our business, results of operations and financial condition may be harmed.

We are subject, in the ordinary course of business, to litigation involving product liability and other claims against us, including wrongful death, personal injury and warranties. We generally self-insure our product liability and other claims and also purchase product liability and other insurance in the commercial insurance market. We cannot be certain that our insurance coverage will be sufficient to cover all future claims against us. We have a self-insured retention (SIR) for products liability and personal injury matters ranging from $1,000 to $7,500 depending on the product type and when the occurrence took place. Generally, any occurrence (as defined by our insurance policies) after March 31, 2014 is subject to the $1,000 SIR.

Amounts above the SIR, up to a certain dollar amount, are covered by our excess insurance policy. Currently, we maintain excess liability insurance aggregating $50,000 with outside insurance carriers to minimize our risks related to catastrophic claims in excess of our self-insured positions for products liability and personal injury matters. Any material change in the aforementioned factors could have an adverse impact on our operating results. Any increase in the frequency and size of these claims, as compared to our experience in prior years, may cause the premium that we are required to pay for insurance to increase significantly and may negatively impact future SIR levels. It may also increase the amounts we pay in punitive damages, not all of which are covered by our insurance.

When we introduce new products into the marketplace, we may incur expenses that we did not anticipate, which, in turn, can result in reduced earnings.

The introduction of new models is critical to our future success. We may incur unexpected expenses, however, when we introduce new models. For example, we may experience unexpected engineering or design flaws that will force a recall of a new product or may cause increased warranty costs. The costs resulting from these types of problems could be substantial and could have a significant adverse effect on our earnings.

Our repurchase agreements with floor plan lenders could result in increased costs.

In accordance with customary practice in the recreational vehicle industry, upon the request of a lending institution financing a dealer s purchase of our products, we will execute a repurchase agreement with the lending institution. Repurchase agreements provide that, typically for a period of up to 18 months after a recreational vehicle is financed and in the event of default by the dealer, we will repurchase the recreational vehicle repossessed by the lending institution for the amount then due, which is usually less than 100% of the dealer s cost. 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 difference between the gross repurchase price and the price at which the repurchased product can then be resold, which is typically at a discount to the original sale price, is an expense to us. Thus, if we were obligated to repurchase a substantially greater number of recreational vehicles, or incurred substantially greater discounting to resell these units in the future, this would increase our costs. In difficult economic times this amount could increase significantly compared to recent years.

For some of our components, we depend on a small group of suppliers and the loss of any of these suppliers could affect our ability to obtain components at competitive prices which would decrease our margins.

We depend on timely and sufficient delivery of components from our suppliers. Most components are readily available from a variety of sources. However, a few components are currently produced by only a small group of quality suppliers that have the capacity to supply large quantities on a national basis.

Primarily, this occurs in the case of 1) motorized chassis, where Ford Motor Company and General Motors are dominant suppliers, and 2) windows and doors, towable chassis and slide-out mechanisms, axles and upholstered furniture for our recreational vehicles, where Drew is a major supplier for these items within the RV industry.

The recreational vehicle industry as a whole has, from time to time, experienced shortages of chassis due to the concentration or allocation of available resources by suppliers of chassis to the manufacturers of vehicles other than recreational vehicles or for other causes. Historically, in the event of an industry-wide restriction of supply, Ford Motor Company and General Motors have allocated chassis among us and our competitors based on the volume of chassis previously purchased. If Ford Motor Company or General Motors were to discontinue the manufacturing of motorhome chassis, or if, as a group, all of our chassis suppliers significantly reduced the availability of chassis to the industry, our business could be adversely affected. Similarly, shortages at, or production delays or work stoppages by the employees of Ford Motor Company, General Motors or other chassis suppliers, could have a material adverse effect on our sales. If the condition of the U.S. auto industry were to significantly deteriorate, this could also result in supply interruptions and a decrease in our sales and earnings while we obtain replacement chassis from other sources.

Drew is a major supplier of a number of key components of our recreational vehicles such as windows and doors, towable chassis and slide-out mechanisms, axles and upholstered furniture. We have not experienced any significant shortages or delays in delivery related to these items; however, if industry demand were to increase faster than Drew can respond, or other factors impact their ability to continue to supply our needs for these key components, our business could be adversely affected.

Finally, as is standard in the industry, arrangements with chassis and other suppliers such as Ford Motor Company, General Motors and Drew are terminable at any time by either our Company or the supplier. If we cannot obtain an adequate supply of chassis or key components, this could result in a decrease in our sales and earnings.

Our products and services may experience quality problems from time to time that can result in decreased sales and gross margin and could harm our reputation.

Our products contain thousands of parts, many of which are supplied by a network of approved vendors. As with all of our competitors, defects may occur in our products, including those purchased from our vendors. There can be no assurance that we can detect all such defects prior to distribution of our products. In addition, although we require our suppliers to maintain appropriate levels of insurance coverage, there is no assurance that if a defect in a vendor supplied part were to occur that the vendor would have the ability to financially rectify the defect. Failure to detect defects in our products, including vendor supplied parts, could result in lost revenue, significant warranty expense and other related direct and indirect costs.

Our business is subject to numerous international, federal, state and local regulations.

We are subject to numerous federal, state and local regulations governing the manufacture and sale of our products, including the provisions of the National Traffic and Motor Vehicle Safety Act (NTMVSA) and the safety standards for vehicles and components which have been promulgated under the NTMVSA by the Department of Transportation. The NTMVSA authorizes the National Highway Traffic Safety Administration to require a manufacturer to recall and repair vehicles which contain certain hazards or defects. Sales into foreign countries may be subject to similar regulations. Any recalls of our vehicles, voluntary or involuntary, could have a material adverse effect on our Company.

We are also subject to federal and numerous state consumer protection and unfair trade practice laws and regulations relating to the sale, transportation and marketing of motor vehicles, including so-called lemon laws . Federal, state and foreign laws and regulations also impose upon vehicle operators various restrictions on the weight, length and width of motor vehicles that may be operated in certain jurisdictions or on certain roadways. Certain jurisdictions also prohibit the sale of vehicles exceeding length restrictions. Federal and state authorities also have various environmental control standards relating to air, water, noise pollution and hazardous waste generation and disposal which affect our business and operations.

Further, certain U.S. and foreign laws and regulations affect the Company s activities. Areas of our business affected by such laws and regulations include, but are not limited to, labor, advertising, consumer protection, real estate, promotions, quality of services, intellectual property, tax, import and export, anti-corruption, anti-competition, environmental, health and safety. Compliance with these laws and others may be onerous and costly, at times, and may be inconsistent from jurisdiction to jurisdiction which further complicates compliance efforts.

The Company has instituted various and comprehensive policies and procedures to ensure compliance. However, there can be no assurance that employees, contractors, vendors or our agents will not violate such laws and regulations or the Company s policies and procedures.