WINNEBAGO INDUSTRIES INC
Form 10-Q
June 29, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 26, 2012

or

o 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: 001-06403

WINNEBAGO INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Iowa	42-0802678
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P. O. Box 152, Forest City, Iowa	50436
(Address of principal executive offices)	(Zip Code)

(641) 585-3535
(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 x No o

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 x No o

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of common stock, par value $0.50 per share, outstanding June 28, 2012 was 29,239,106.

WINNEBAGO INDUSTRIES, INC.

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Glossary

The following terms and abbreviations appear in the text of this report and are defined as follows:

ARS	Auction Rate Securities
ASC	Accounting Standards Codification
ASP	Average Sales Price
ASU	Accounting Standards Update
CCMF	Charles City Manufacturing Facility
COLI	Company Owned Life Insurance
DCF	Discounted Cash Flow
EPS	Earnings Per Share
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
IRS	Internal Revenue Service
LIBOR	London Interbank Offered Rate
LIFO	Last In, First Out
Loan Agreement	Loan and Security Agreement dated October 13, 2009 by and between Winnebago Industries, Inc. and Wells Fargo Bank, National Association, as successor to Burdale Capital Finance, Inc., as Agent
NYSE	New York Stock Exchange
PDM	PDM Distribution Services, Inc.
RV	Recreation Vehicle
RVIA	Recreation Vehicle Industry Association
SEC	U.S. Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
Stat Surveys	Statistical Surveys, Inc.
SunnyBrook	SunnyBrook RV, Inc.
Towables	Winnebago of Indiana, LLC, a wholly-owned subsidiary of Winnebago Industries, Inc.
U.S.	United States of America
XBRL	eXtensible Business Reporting Language

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Part I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements
Winnebago Industries, Inc.
Unaudited Consolidated Statements of Operations

(In thousands, except per share data)	Quarter Ended May 26, 2012	Quarter Ended May 28, 2011	Nine Months Ended May 26, 2012	Nine Months Ended May 28, 2011
Net revenues	$155,709	$135,568	$419,146	$365,872
Cost of goods sold	143,638	126,865	391,733	334,646
Gross profit	12,071	8,703	27,413	31,226
Operating expenses:				
Selling	4,331	3,608	12,485	10,129
General and administrative	4,213	3,952	11,938	11,623
Assets held for sale impairment and (gain), net	—	605	—	(39)
Total operating expenses	8,544	8,165	24,423	21,713
Operating income	3,527	538	2,990	9,513
Non-operating income	402	76	549	550
Income before income taxes	3,929	614	3,539	10,063
(Benefit) provision for taxes	(12)	(581)	(525)	1,767
Net income	$3,941	$1,195	$4,064	$8,296
Income per common share:				
Basic	$0.13	$0.04	$0.14	$0.28
Diluted	$0.13	$0.04	$0.14	$0.28
Weighted average common shares outstanding:				
Basic	29,225	29,124	29,171	29,118
Diluted	29,263	29,152	29,243	29,135

See unaudited notes to consolidated financial statements.

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Winnebago Industries, Inc.
Unaudited Consolidated Balance Sheets

(In thousands, except per share data)	May 26, 2012	August 27, 2011
Assets		
Current assets:		
Cash and cash equivalents	$80,831	$69,307
Short-term investments	250	—
Receivables, less allowance for doubtful accounts ($86 and $76, respectively)	18,476	19,981
Inventories	69,604	69,165
Prepaid expenses and other assets	4,289	4,227
Income taxes receivable	875	1,525
Deferred income taxes	1,402	649
Total current assets	175,727	164,854
Property, plant, and equipment, net	20,382	22,589
Assets held for sale	600	600
Long-term investments	9,091	10,627
Investment in life insurance	22,981	23,669
Goodwill	1,228	1,228
Amortizable intangible assets	661	720
Other assets	13,254	15,640
Total assets	$243,924	$239,927
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$24,635	$21,610
Income taxes payable	—	104
Accrued expenses:		
Accrued compensation	13,370	10,841
Product warranties	6,595	7,335
Self-insurance	4,243	3,203
Accrued loss on repurchases	862	1,174
Promotional	2,320	2,177
Other	5,023	4,874
Total current liabilities	57,048	51,318
Long-term liabilities:		
Unrecognized tax benefits	4,853	5,387
Postretirement health care and deferred compensation benefits	67,158	74,492
Total long-term liabilities	72,011	79,879
Contingent liabilities and commitments		
Stockholders' equity:		
Capital stock common, par value $0.50; authorized 60,000 shares, issued 51,776 shares	25,888	25,888
Additional paid-in capital	28,600	30,131
Retained earnings	436,582	432,518
Accumulated other comprehensive income (loss)	1,206	(454)
Treasury stock, at cost (22,541 and 22,641 shares, respectively)	(377,411)	(379,353)
Total stockholders' equity	114,865	108,730
Total liabilities and stockholders' equity	$243,924	$239,927

See unaudited notes to consolidated financial statements.

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Winnebago Industries, Inc.
Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended	
(In thousands)	May 26, 2012	May 28, 2011
Operating activities:		
Net income	$4,064	$8,296
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,786	4,193
LIFO expense	844	1,193
Asset impairment	—	605
Stock-based compensation	863	1,001
Deferred income taxes including valuation (provision) allowance	(753)	874
Postretirement benefit income and deferred compensation expenses	510	1,034
Provision for doubtful accounts	28	5
Increase in cash surrender value of life insurance policies	(523)	(617)
Loss (gain) on sale or disposal of property	20	(867)
Gain on life insurance	(281)	(372)
Other	579	90
Change in assets and liabilities:		
Inventories	(1,283)	(30,091)
Receivables and prepaid assets	1,893	2,609
Income taxes and unrecognized tax benefits	105	(747)
Accounts payable and accrued expenses	4,950	1,523
Postretirement and deferred compensation benefits	(3,053)	(2,792)
Net cash provided by (used in) operating activities	11,749	(14,063)
Investing activities:		
Proceeds from the sale of investments, at par	750	6,450
Proceeds from life insurance	1,404	659
Purchases of property and equipment	(1,527)	(1,590)
Proceeds from the sale of property	16	4,009
Cash paid for acquisition, net of cash acquired	—	(4,694)
Other	(558)	(410)
Net cash provided by investing activities	85	4,424
Financing activities:		
Payments for purchases of common stock	(343)	(89)
Proceeds from exercise of stock options	—	83
Other	33	184
Net cash (used in) provided by financing activities	(310)	178
Net increase (decrease) in cash and cash equivalents	11,524	(9,461)
Cash and cash equivalents at beginning of period	69,307	74,691
Cash and cash equivalents at end of period	$80,831	$65,230
Supplemental cash flow disclosure:		
Income taxes paid, net of refunds	$115	$1,638

See unaudited notes to consolidated financial statements.

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Winnebago Industries, Inc.
Unaudited Notes to Consolidated Financial Statements

Note 1: Basis of Presentation

The "Company," "we," "our" and "us" are used interchangeably to refer to Winnebago Industries, Inc. and its subsidiary, Winnebago of Indiana, LLC, as appropriate in the context.

We were incorporated under the laws of the state of Iowa on February 12, 1958 and adopted our present name on February 28, 1961. Our executive offices are located at 605 West Crystal Lake Road in Forest City, Iowa. Our telephone number is (641) 585-3535; our website is www.winnebagoind.com. Our common stock trades on the NYSE under the symbol “WGO”. We operate on a 52-53 week fiscal year ending on the last Saturday in August.

In our opinion, the accompanying condensed unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly our consolidated financial position as of May 26, 2012 and the consolidated results of operations for the third quarters and first nine months of Fiscal 2012 and 2011, and consolidated cash flows for the first nine months of Fiscal 2012 and 2011. The consolidated statement of operations for the first nine months of Fiscal 2012 is not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet data as of August 27, 2011 was derived from audited financial statements, but does not include all of the information and footnotes required by GAAP for complete financial statements. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the fiscal year ended August 27, 2011.

New Accounting Pronouncements
On May 12, 2011, the FASB issued ASU 2011-04, Fair Value Measurement, which requires measurement uncertainty disclosure in the form of a sensitivity analysis of unobservable inputs to reasonable alternative amounts for all Level 3 recurring fair value measurements. ASU 2011-04 became effective for interim and annual periods beginning on or after December 15, 2011. The Company adopted this guidance in the third quarter of our Fiscal 2012. The adoption of this guidance required additional disclosures, but did not have any impact on our consolidated results of operations, financial position, or cash flows.

On June 16, 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which revised the manner in which entities present comprehensive income in their financial statements. ASU 2011-05 is effective for fiscal years beginning after December 15, 2011 (our Fiscal 2013). We do not believe that this will have a significant impact on our consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which simplified the manner in which entities test goodwill for impairment. After assessment of certain qualitative factors, if it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying amount, entities must perform a quantitative analysis of the goodwill impairment test. Otherwise, the quantitative test becomes optional. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011 (our Fiscal 2013). We do not believe that this will have a significant impact on our consolidated financial statements.

Note 2: Acquisition

On December 29, 2010 we purchased, through Towables, substantially all of the assets of SunnyBrook, a manufacturer of travel trailer and fifth wheel RVs. The aggregate consideration paid was $4.7 million in cash, net of cash acquired, including the repayment of $3.3 million of SunnyBrook commercial and shareholder debt on the closing date. The assets acquired included inventory, equipment and other tangible and intangible property and are being used in connection with the operation of manufacturing towable recreation vehicles. Also on December 29, 2010, we entered into a five year operating lease agreement for the SunnyBrook facilities. The operations of Towables are included in our consolidated operating results from the date of its acquisition. Towables has continued to manufacture products under the SunnyBrook brands. In addition, in the first quarter of Fiscal 2012, Towables began diversifying its product line by including Winnebago brand trailer and fifth wheel products. The primary reason for the acquisition was diversification outside of the motorized market while utilizing the Winnebago brand strength in the towable market allowing for the potential of revenue and earnings growth.

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The following table summarizes the approximate fair value of the net assets acquired at the date of the closing:

(In thousands)	December 29, 2010
Current assets	$5,773
Property, plant and equipment	337
Goodwill	1,228
Dealer network	535
Trademarks	196
Non-compete agreement	40
Current liabilities	(2,513)
Total fair value of net assets acquired	5,596
Less cash acquired	(902)
Total cash paid for acquisition less cash acquired	$4,694

At December 29, 2010, the amortizable intangible assets had a weighted average useful life of 9.8 years. The dealer network was valued based on the Discounted Cash Flow Method and is being amortized on a straight line basis over 10 years. The trademarks were valued based on the Relief from Royalty Method and are being amortized on a straight line basis over 10 years. The non-compete agreement is being amortized on a straight line basis over 7 years. Goodwill is not subject to amortization and is tax deductible. Pro forma financial information has not been presented due to its insignificance.

Note 3: Concentration Risk

One dealer, FreedomRoads, LLC, accounted for 26.1% of our consolidated net revenues for the nine months ended May 26, 2012. The loss of this dealer could have a significant adverse effect on our business.

Note 4: Fair Value Measurements

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis
We account for fair value measurements in accordance with ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurement. The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Cash Equivalents
The carrying value of cash equivalents approximates fair value as maturities are less than three months. Our cash equivalents are comprised of money market funds traded in an active market with no restrictions.

Long-Term and Short-Term Investments
Our long-term and short-term investments are comprised of ARS. Our long-term ARS related investments (as described in Note 5) are classified as Level 3 as quoted prices were unavailable due to events described in Note 5. Due to limited market information, we utilized a DCF model to derive an estimate of fair value at May 26, 2012. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, forward projections of the interest rate benchmarks, the probability of full repayment of the principal considering the credit quality and guarantees in place and the rate of return required by investors to own such securities given the current liquidity risk associated with ARS. All of our short-term ARS portfolio is

classified as Level 2 as they are also in an inactive market, but inputs other than quoted prices were observable and used to value the securities.

Assets that Fund Deferred Compensation
Our assets that fund deferred compensation are marketable equity securities and are measured at fair value using quoted market prices and primarily consist of equity-based mutual funds. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available. These securities fund the Executive Share Option Plan, a deferred compensation program. The short-term portion is included in prepaid and other expenses; the long-term portion is included in other assets.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis
Our non-financial assets, which include goodwill, intangible assets, and property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required, we must evaluate the non-financial asset for impairment. If an impairment did occur, the asset is required to be recorded at the estimated fair value. During the third quarter of Fiscal 2012, no impairments were recorded for non-financial assets.

The following tables set forth, by level within the fair value hierarchy, our financial assets that were accounted for at fair value on a

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recurring basis at May 26, 2012 and August 27, 2011 according to the valuation techniques we used to determine their fair values:

(In thousands)	Fair Value at May 26, 2012	Fair Value Measurements Using Inputs Considered As Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Short-term investments				
Student loan ARS with pending redemptions	$250	$—	$250	$—
Long-term investments				
Student loan ARS	9,091	—	—	9,091
Assets that fund deferred compensation				
Domestic equity funds	7,526	7,526	—	—
International equity funds	914	914	—	—
Fixed income	483	483	—	—
Total assets at fair value	$18,264	$8,923	$250	$9,091

(In thousands)	Fair Value at August 27, 2011	Fair Value Measurements Using Inputs Considered As Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Long-term investments				
Student loan ARS	$10,627	$—	$—	$10,627
Assets that fund deferred compensation				
Domestic equity funds	9,362	9,362	—	—
International equity funds	1,441	1,441	—	—
Fixed income	649	649	—	—
Total assets at fair value	$22,079	$11,452	$—	$10,627

The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis, in the previous table, that used significant unobservable inputs (Level 3):

(In thousands)	Quarter Ended May 26, 2012	Quarter Ended May 28, 2011	Nine Months Ended May 26, 2012	Nine Months Ended May 28, 2011
Balance at beginning of period	$9,903	$10,891	$10,627	$17,785
Transfer to Level 2	(250)	(250)	(500)	(5,500)
Net change included in other comprehensive income	(562)	270	(536)	(174)
Sales	—	—	(500)	(1,200)
Balance at end of period	$9,091	$10,911	$9,091	$10,911

The following table presents quantitative information regarding unobservable inputs that were significant to the valuation of assets measured at fair value on a recurring basis using Level 3 inputs:

(In thousands)	Fair Value	Valuation Technique	Unobservable Input	Range Low	Range High
Student Loan ARS	$9,091	Discounted Cash Flow	Projected ARS Yield	2.04%	2.18%

Discount for lack of marketability	2.94 %	3.55 %

Note 5: Investments

We own investments in marketable securities that have been designated as "available for sale" in accordance with ASC 320, Investments-Debt and Equity Securities. Available for sale securities are carried at fair value with the unrealized gains and losses reported in "Accumulated other comprehensive income (loss)", a component of stockholders' equity.

At May 26, 2012, we held $10.0 million (par value) of investments comprised of tax-exempt ARS, which are variable-rate debt securities and have a long-term maturity with the interest rate being reset through Dutch auctions that are typically held every 7, 28 or 35 days. Prior to February 2008, these securities traded at par and are currently callable at par at the option of the issuer. Interest is typically paid at the end of each auction period or semiannually. The ARS we hold are AAA to AA+/Aaa rated by Standard & Poor's Ratings Services and Moody's Investors Service, Inc., respectively, with most collateralized by student loans guaranteed by the U.S. Government under the Federal Family Education Loan Program.

Since February 2008, most ARS auctions have failed for these securities and there is no assurance that future auctions will

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succeed and, as a result, our ability to liquidate our investment and fully recover the par value in the near term may be limited or nonexistent. We have no reason to believe that any of the underlying issuers of our ARS are presently at risk of payment default. We have continued to receive interest payments on the ARS in accordance with their terms. We believe we will ultimately be able to liquidate our ARS related investments without significant loss primarily due to the collateral securing our ARS. However, redemption could take until final maturity of the ARS (up to 30 years) to realize the par value of our investments. Due to the changes and uncertainty in the ARS market, we believe the recovery period for these investments is likely to be longer than 12 months. On June 1, 2012 we received notice of a partial redemption on a particular ARS with payment received on June 4, 2012. As a result, of the total of $10.0 million of ARS investments, we have classified $9.7 million (par value) as long-term with the remaining amount of $250,000 classified as short-term ARS investments as of May 26, 2012.

At May 26, 2012, there was insufficient observable ARS market information available to determine the fair value of our long term ARS investments. Therefore, we estimated fair value by incorporating assumptions that market participants would use in their estimates of fair value. Some of these assumptions included credit quality, final stated maturities, estimates on the probability of the issue being called prior to final maturity, impact due to extended periods of maximum auction rates and broker quotes from independent evaluators. Based on this analysis, at May 26, 2012 we recorded an unrealized temporary impairment of $609,000 in accumulated other comprehensive income related to our long-term ARS investments of $9.7 million (par value).

Note 6: Inventories

Inventories consist of the following:

(In thousands)	May 26, 2012	August 27, 2011
Finished goods	$31,659	$29,656
Work-in-process	34,039	31,966
Raw materials	36,387	39,180
	102,085	100,802
LIFO reserve	(32,481)	(31,637)
Total inventories	$69,604	$69,165

The above values of inventories, before reduction for the LIFO reserve, approximates replacement cost at the respective dates. Towables inventory, which is included in the table above and is valued on a first-in, first-out basis, was $10.0 million and $6.5 million as of May 26, 2012 and August 27, 2011, respectively.

Note 7: Property, Plant and Equipment and Assets Held for Sale

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

(In thousands)	May 26, 2012	August 27, 2011
Land	$757	$767
Buildings	49,573	49,226
Machinery and equipment	90,417	90,380
Transportation equipment	8,849	8,837
	149,596	149,210
Less accumulated depreciation	(129,214)	(126,621)
Total property, plant and equipment, net	$20,382	$22,589

Assets held for sale as of May 26, 2012 of $600,000 consisted of an idled fiberglass manufacturing facility in Hampton, Iowa.

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Note 8: Goodwill and Amortizable Intangible Assets

Goodwill and other intangible assets consist of the following:

	May 26, 2012		August 27, 2011	
(In thousands)	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Goodwill	$1,228	$—	$1,228	$—
Dealer network	534	74	534	34
Trademarks	196	27	196	13
Non-compete agreement	40	8	40	4
Total	$1,998	$109	$1,998	$51

Goodwill and other intangible assets are the result of the acquisition of SunnyBrook during the second quarter of Fiscal 2011. Goodwill is not subject to amortization. Amortizable intangible assets are amortized on a straight-line basis. The weighted average remaining amortization period at May 26, 2012 is 8.4 years.

Goodwill is reviewed for impairment annually or whenever events or circumstances indicate a potential impairment. Intangible assets are also subject to impairment tests whenever events or circumstances indicate that the asset's carrying value may exceed its estimated fair value, at which time an impairment would be recorded.

Estimated amortization expense of intangible assets for the next five years is as follows:

(In thousands)	Amount
Year Ended: 2013	$80
2014	79
2015	79
2016	79
2017	79

Note 9: Credit Facility

The Loan Agreement provides for an initial $20.0 million revolving credit facility, based on eligible accounts receivable and eligible inventory, expiring on October 13, 2012, unless terminated earlier in accordance with its terms. The Loan Agreement contains no financial covenant restrictions for borrowings up to $12.5 million; provided that borrowings cannot exceed the Asset Coverage Amount (as defined in the Loan Agreement) divided by 2.25. The Loan Agreement also includes a framework to expand the size of the facility up to $50.0 million, based on mutually agreeable covenants to be determined at the time of expansion. No borrowings have been made under the Loan Agreement as of the date of this report.

Interest on loans made under the Loan Agreement will be based on the greater of LIBOR or a base rate of 2.0% plus a margin of 4.0% or the greater of prime rate or 4.25% plus a margin of 3.0%. The unused line fee associated with the Loan Agreement is 1.25% per annum. Additionally, under certain circumstances, we will be required to pay an early termination fee of 1% of the maximum credit available under the Loan Agreement if we terminate the Loan Agreement prior to October 13, 2012.

On February 1, 2012 Wells Fargo Bank, National Association purchased the loan portfolio of Burdale Capital Finance, Inc., which included the Loan Agreement. No modifications were made to the Loan Agreement as a result of this transaction.

Note 10: Warranty

We provide our motor home customers a comprehensive 12-month/15,000-mile warranty on the Class A, Class B and Class C motor homes, and a 3-year/36,000-mile structural warranty on Class A and Class C sidewalls and floors. We provide a comprehensive 12-month warranty on all towable products. We have also incurred costs for certain warranty-type expenses which occurred after the normal warranty period. We have voluntarily agreed to pay such costs to help protect the reputation of our products and the goodwill of our customers. Estimated costs related to product warranty are accrued at the time of sale and are based on past warranty claims and unit sales history and adjusted as required to reflect actual costs incurred, as information becomes available. A significant increase in dealership labor rates, the cost of parts or the frequency of claims could have a material adverse impact on our operating results for the period or periods on which such claims or additional costs materialize. We also incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions. Estimated costs are accrued at the time the service action is implemented and are based on past claim rate experiences and the estimated cost of the repairs.

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Changes in our product warranty liability are as follows:

(In thousands)	Quarter Ended May 26, 2012	Quarter Ended May 28, 2011	Nine Months Ended May 26, 2012	Nine Months Ended May 28, 2011
Balance at beginning of period	$6,530	$8,068	$7,335	$7,634
Provision	1,645	1,441	3,928	4,258
Claims paid	(1,580)	(1,542)	(4,668)	(3,925)
Balance at end of period	$6,595	$7,967	$6,595	$7,967

Note 11: Employee and Retiree Benefits

Postretirement health care and deferred compensation benefits are as follows:

(In thousands)	May 26, 2012	August 27, 2011
Postretirement health care benefit cost	$37,659	$41,370
Non-qualified deferred compensation	23,911	24,622
Executive share option plan liability	6,931	9,286
SERP benefit liability	2,971	3,086
Executive deferred compensation	101	93
Total postretirement health care and deferred compensation benefits	71,573	78,457
Less current portion	(4,415)	(3,965)
Long-term postretirement health care and deferred compensation benefits	$67,158	$74,492

Postretirement Health Care Benefits

We provide certain health care and other benefits for retired employees hired before April 1, 2001, who have fulfilled eligibility requirements of age 55 with 15 years of continuous service. We use a September 1 measurement date for this plan and our postretirement health care plan currently is not funded. In Fiscal 2005, we established dollar caps on the amount that we will pay for postretirement health care benefits per retiree on an annual basis so that we were not exposed to continued medical inflation. Retirees are required to pay a monthly premium in excess of the employer dollar caps for medical coverage based on years of service and age at retirement. In January 2012 the employer established dollar caps were reduced by 10%, which reduced our liability for postretirement health care by approximately $4.6 million.

Net periodic postretirement benefit income consisted of the following components:

(In thousands)	Quarter Ended May 26, 2012	Quarter Ended May 28, 2011	Nine Months Ended May 26, 2012	Nine Months Ended May 28, 2011
Interest cost				