WINNEBAGO INDUSTRIES INC
Form 10-Q
June 27, 2014

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 31, 2014
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 26, 2014 was 27,054,190.

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Glossary

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

3M	3M Company
AOCI	Accumulated Other Comprehensive Income (Loss)
Amended Credit Agreement	Credit Agreement dated as of May 28, 2014 by and between Winnebago Industries, Inc. and Winnebago of Indiana, LLC, as Borrowers, and General Electric Capital Corporation, as Agent
Apollo	Apollo Motorhome Holidays, LLC
ARS	Auction Rate Securities
ASC	Accounting Standards Codification
ASP	Average Sales Price
ASU	Accounting Standards Update
COLI	Company Owned Life Insurance
Credit Agreement	Credit Agreement dated as of October 31, 2012 by and between Winnebago Industries, Inc. and Winnebago of Indiana, LLC, as Borrowers, and General Electric Capital Corporation, as Agent (was amended May 28, 2014)
DCF	Discounted Cash Flow
FASB	Financial Accounting Standards Board
FIFO	First In, First Out
GAAP	Generally Accepted Accounting Principles
GECC	General Electric Capital Corporation
IRS	Internal Revenue Service
IT	Information Technology
LIBOR	London Interbank Offered Rate
LIFO	Last In, First Out
NMF	Non-Meaningful Figure
NYSE	New York Stock Exchange
OCI	Other Comprehensive Income
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.
US	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.
Consolidated Statements of Operations and Comprehensive Income
(Unaudited)

(In thousands, except per share data)	Three Months Ended May 31, 2014	Three Months Ended June 1, 2013	Nine Months Ended May 31, 2014	Nine Months Ended June 1, 2013
Net revenues	$247,747	$218,199	$699,228	$588,919
Cost of goods sold	221,266	197,002	623,940	529,784
Gross profit	26,481	21,197	75,288	59,135
Operating expenses:				
Selling	4,887	4,857	13,709	13,649
General and administrative	6,005	6,092	16,577	16,392
(Gain) loss on sale of real estate	—	—	(629)	28
Total operating expenses	10,892	10,949	29,657	30,069
Operating income	15,589	10,248	45,631	29,066
Non-operating income	735	144	752	739
Income before income taxes	16,324	10,392	46,383	29,805
Provision for taxes	4,939	2,731	14,259	8,468
Net income	$11,385	$7,661	$32,124	$21,337
Income per common share:				
Basic	$0.42	$0.27	$1.17	$0.76
Diluted	$0.42	$0.27	$1.16	$0.76
Weighted average common shares outstanding:				
Basic	27,209	27,987	27,552	28,128
Diluted	27,319	28,087	27,666	28,218
Net income	$11,385	$7,661	$32,124	$21,337
Other comprehensive (loss) income:				
Amortization of prior service credit (net of tax of $557, $514, $1,567 and $1,430	(925)	(853)	(2,601)	(2,373)
Amortization of net actuarial loss (net of tax of $103, $(90), $304 and $206)	173	503	505	1,006
Plan amendment (net of tax of $0, $0, $1,346 and $1,613)	—	—	2,234	2,676
Unrealized appreciation of investments (net of tax of $0, $96, $91 and $63)	—	160	151	104
Total other comprehensive income	(752)	(190)	289	1,413
Comprehensive income	$10,633	$7,471	$32,413	$22,750

See notes to consolidated financial statements.

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Winnebago Industries, Inc.
Consolidated Balance Sheets
(Unaudited)

(In thousands, except per share data)	May 31, 2014	August 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$50,490	$64,277
Receivables, less allowance for doubtful accounts ($150 and $152)	56,333	29,145
Inventories	117,735	112,541
Net investment in operating leases	16,479	—
Prepaid expenses and other assets	7,121	8,277
Income taxes receivable and prepaid	385	1,868
Deferred income taxes	7,348	7,742
Total current assets	255,891	223,850
Property, plant and equipment, net	22,665	20,266
Long-term investments	—	2,108
Investment in life insurance	24,793	25,051
Deferred income taxes	24,540	25,649
Goodwill	1,228	1,228
Other assets	11,217	10,993
Total assets	$340,334	$309,145
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$31,229	$28,142
Accrued expenses:		
Accrued compensation	19,067	22,101
Operating lease repurchase obligations	16,050	—
Product warranties	8,918	8,443
Self-insurance	4,926	4,531
Accrued loss on repurchases	1,420	1,287
Promotional	3,424	1,910
Other	8,363	3,940
Total current liabilities	93,397	70,354
Long-term liabilities:		
Unrecognized tax benefits	3,228	3,988
Postretirement health care and deferred compensations benefits	59,219	64,074
Total long-term liabilities	62,447	68,062
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	31,410	29,334
Retained earnings	541,567	509,443
Accumulated other comprehensive income	1,138	849
Treasury stock, at cost (24,644 and 23,917 shares)	(415,513)	(394,785)
Total stockholders' equity	184,490	170,729
Total liabilities and stockholders' equity	$340,334	$309,145

See notes to consolidated financial statements.

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Winnebago Industries, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Nine Months Ended May 31, 2014	June 1, 2013
Operating activities:		
Net income	$32,124	$21,337
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,962	3,190
LIFO expense	934	438
Stock-based compensation	1,694	1,258
Deferred income taxes including valuation allowance	464	(1,243)
Postretirement benefit income and deferred compensation expense	(752)	259
Provision for doubtful accounts	1	62
Gain on disposal of property	(712)	(34)
Gain on life insurance	(726)	(536)
Increase in cash surrender value of life insurance policies	(651)	(853)
Change in assets and liabilities:		
Inventories	(6,128)	(26,295)
Receivables, prepaid and other assets	(26,349)	(10,819)
Investment in operating leases, net of repurchase obligations	(429)	—
Income taxes and unrecognized tax benefits	1,986	(234)
Accounts payable and accrued expenses	8,851	9,895
Postretirement and deferred compensation benefits	(3,080)	(3,359)
Net cash provided by (used in) operating activities	10,189	(6,934)
Investing activities:		
Proceeds from the sale of investments, at par	2,350	250
Proceeds from life insurance	1,737	1,004
Purchases of property and equipment	(7,005)	(3,322)
Proceeds from the sale of property	2,403	637
Repayments of COLI borrowings	—	(1,371)
Other	(1,123)	692
Net cash used in investing activities	(1,638)	(2,110)
Financing activities:		
Payments for purchases of common stock	(24,324)	(11,123)
Proceeds from exercise of stock options	2,080	—
Other	(94)	(94)
Net cash used in financing activities	(22,338)	(11,217)
Net decrease in cash and cash equivalents	(13,787)	(20,261)
Cash and cash equivalents at beginning of period	64,277	62,683
Cash and cash equivalents at end of period	$50,490	$42,422
Supplement cash flow disclosure:		
Income taxes paid, net of refunds	$11,814	$9,946

See notes to consolidated financial statements.

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Winnebago Industries, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1: Basis of Presentation
The "Company," "we," "our" and "us" are used interchangeably to refer to Winnebago Industries, Inc. and its wholly-owned 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.”

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 31, 2014 and the consolidated results of operations and comprehensive income and consolidated cash flows for the first nine months of Fiscal 2014 and 2013. The consolidated statement of operations and comprehensive income for the first nine months of Fiscal 2014 is not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet data as of August 31, 2013 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 31, 2013.

Fiscal Period
We follow a 52-/53-week fiscal year, ending the last Saturday in August. Fiscal 2014 is a 52-week year; the first quarter ending November 30, 2013 had 13 weeks; the first nine months ending May 31, 2014 had 39 weeks. Fiscal 2013 was a 53-week fiscal year; the first quarter ending December 1, 2012 had 14 weeks; the first nine months ending June 1, 2013 had 40 weeks.

New Accounting Pronouncements
In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740), which requires entities to present unrecognized tax benefits as a liability and not combine it with deferred tax assets to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date. ASU 2013-11 will become effective for fiscal years beginning after December 15, 2013 (our Fiscal 2015). We are currently evaluating the impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which specifies how and when to recognize revenue as well as providing informative, relevant disclosures. ASU 2014-09 will become effective for fiscal years beginning after December 15, 2016 (our Fiscal 2018). We are currently evaluating the impact on our consolidated financial statements.

Note 2: Concentration Risk

One of our dealer organizations accounted for 18.4% and 26.9% of our consolidated net revenue for the first nine months of Fiscal 2014 and Fiscal 2013, respectively. A second dealer organization accounted for 11.9% and 13.6% of our consolidated net revenue for the first nine months of Fiscal 2014 and Fiscal 2013, respectively. The loss of either or both of these dealer organizations could have a significant adverse effect on our business. In addition, deterioration in the liquidity or creditworthiness of these dealers could negatively impact our sales and could trigger repurchase obligations under our repurchase agreements.

Note 3: Investments and 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 original maturities are less than three months. Our cash equivalents are comprised of money market funds traded in an active market with no restrictions.

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The following tables set forth by level within the fair value hierarchy our financial assets that were accounted for at fair value on a recurring basis at May 31, 2014 and August 31, 2013 according to the valuation techniques we used to determine their fair values:

(In thousands)	Fair Value at May 31, 2014	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
Assets that fund deferred compensation:				
Domestic equity funds	$5,529	$5,529	$—	$—
International equity funds	741	741	—	—
Fixed income funds	240	240	—	—
Total assets at fair value	$6,510	$6,510	$—	$—

(In thousands)	Fair Value at August 31, 2013	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	$2,108	$—	$—	$2,108
Assets that fund deferred compensation:				
Domestic equity funds	7,127	7,127	—	—
International equity funds	742	742	—	—
Fixed income funds	287	287	—	—
Total assets at fair value	$10,264	$8,156	$—	$2,108

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

(In thousands)	Three Months Ended May 31, 2014	Three Months Ended June 1, 2013	Nine Months Ended May 31, 2014	Nine Months Ended June 1, 2013
Balance at beginning of period	$—	$8,735	$2,108	$9,074
Transfer to Level 2	—	(4,605)	—	(4,855)
Net change included in other comprehensive income	—	255	242	166
Sales	—	—	(2,350)	—
Balance at end of period	$—	$4,385	$—	$4,385

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Long-Term Investments

Our long-term investments were comprised of ARS. Our long-term ARS investments were classified as Level 3, as quoted prices were unavailable and there was insufficient observable ARS market information available to determine the fair value of our ARS investments. Due to limited market information, we utilized a DCF model to derive an estimate of fair value for the ARS for prior periods. 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. During the first quarter of Fiscal 2014 we redeemed our last ARS holding at par value of $2.4 million.

Assets that Fund Deferred Compensation

Our assets that fund deferred compensation are marketable equity securities 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 (see Note 9), a deferred compensation program, and are presented as other assets in the accompanying balance sheets.

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Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Our non-financial assets, which include goodwill and property, plant 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 first nine months of Fiscal 2014, no impairments were recorded for non-financial assets.

Note 4: Inventories

Inventories consist of the following:

(In thousands)	May 31, 2014	August 31, 2013
Finished goods	$34,458	$43,927
Work-in-process	44,993	46,257
Raw materials	69,063	52,201
Total	148,514	142,385
LIFO reserve	(30,779)	(29,844)
Total inventories	$117,735	$112,541

The above value of inventories, before reduction for the LIFO reserve, approximates replacement cost. Of the $148.5 million and $142.4 million inventory at May 31, 2014 and August 31, 2013, respectively, $142.0 million and $136.1 million is valued on a LIFO basis. Towables inventory of $6.5 million and $6.3 million at May 31, 2014 and August 31, 2013, respectively, is valued on a FIFO basis.

Note 5: Net Investment in Operating Leases and Operating Lease Repurchase Obligation

During the third quarter of Fiscal 2014 we delivered 520 RV rental units to Apollo, a US RV rental company. Under the terms of a sales agreement with Apollo, all units were paid for upon delivery. To secure an order of this magnitude, we contractually agreed to repurchase up to 343 of the units at specified prices after one season of rental use (by no later than December 31, 2014) provided certain conditions are met. As a result, the units subject to repurchase are accounted for as operating leases and are recorded in the balance sheet as net investment in operating leases of $16.5 million at May 31, 2014. The original cost of these units is being depreciated down to the estimated net realizable value of the rental units during the time frame that the units are in rental use. Also, we recorded in the balance sheet operating lease repurchase obligations of $16.1 million at May 31, 2014 which represents our estimated repurchase obligation per the terms of the sales agreement.

Estimated net lease revenue is being recorded ratably over the rental period that Apollo holds the units based upon the difference between the proceeds received and the estimated repurchase obligation less the estimated depreciation expense of the unit. When we sell the repurchased units we will record a gain or loss for the difference, if any, between the estimated residual value of the unit and the actual resale value as a component of net lease revenue. We recorded $100,000 of net lease revenue during the third quarter of Fiscal 2014.

We anticipate repurchasing most of the units subject to repurchase during the first quarter of Fiscal 2015 and for any units subject to repurchase which are not returned we will remove the remaining net investment in lease and repurchase obligation balance for such units and record a net gain or loss for the difference between these two balances.

Note 6: Property, Plant and Equipment

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

(In thousands)

	May 31, 2014	August 31, 2013
Land	$738	$757
Buildings and building improvements	47,132	50,297
Machinery and equipment	91,412	88,280
Software	3,554	2,944
Transportation	9,063	9,044
Total property, plant and equipment, gross	151,899	151,322
Less accumulated depreciation	(129,234)	(131,056)
Total property, plant and equipment, net	$22,665	$20,266

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In the second quarter of Fiscal 2014, 3M exercised an option to purchase warehouse facilities that they had leased from us since 1980. Net proceeds from the sale were $2.3 million, resulting in a gain of $629,000. We received lease payments of $860,000 and recorded depreciation charges of $148,000 in Fiscal 2013 related to these warehouse facilities.

Note 7: Credit Facilities

On October 31, 2012, we entered into the Credit Agreement with GECC. The Credit Agreement provides for an initial $35.0 million revolving credit facility based on the Company's eligible inventory and was to expire on October 31, 2015, unless terminated earlier in accordance with its terms. There is no termination fee associated with the Credit Agreement.

The Credit Agreement contains no financial covenant restrictions for borrowings where we have excess borrowing availability under the facility of greater than $5.0 million. The Credit Agreement requires us to comply with a fixed charge ratio if excess borrowing availability under the facility is less than $5.0 million. In addition the Credit Agreement also includes a framework to expand the size of the facility up to $50.0 million, based on mutually agreeable terms at the time of the expansion. The initial unused line fee associated with the Credit Agreement is 0.5% per annum and has the ability to be lowered based upon facility usage.

The Credit Agreement contains typical affirmative representations and covenants for a credit agreement of this size and nature. Additionally, the Credit Agreement contains negative covenants limiting our ability, among other things, to incur debt, grant liens, make acquisitions, make certain investments, pay certain dividends and distributions, engage in mergers, consolidations or acquisitions and sell certain assets. Obligations under the Credit Agreement are secured by a security interest in all of our accounts and other receivables, chattel paper, documents, deposit accounts, instruments, equipment, inventory, investment property, leasehold interest, cash and cash equivalents, letter-of-credit rights, most real property and fixtures and certain other business assets.

On May 28, 2014, we amended this Credit Agreement (the "Amended Credit Agreement"). The Amended Credit Agreement extends the term of the credit facility from October 31, 2015 to May 28, 2019. In addition, interest on loans made under the Amended Credit Facility will be based on LIBOR plus a margin of 2.0%. The amendment also revised and added definitions of several terms including an expanded Restricted Payment Basket that now permits up to $15.0 million purchases of company stock or cash dividends to be excluded from the Fixed Charge ratio. In addition, the definition of Eligible Accounts was expanded to permit certain receivables to be included in the Borrowing Base. The Amended Credit Agreement also permits us to engage in certain sale lease buyback transactions in the ordinary course of business subject to certain restrictions and increases our ability to incur capital lease obligations.

As of the date of this report, we are in compliance with all terms of the Amended Credit Agreement, and no borrowings have been made thereunder.

Note 8: Warranty

We provide our motorhome customers a comprehensive 12-month/15,000-mile warranty on our Class A, B and C motorhomes, and a 3-year/36,000-mile structural warranty on Class A and 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 upon 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 in which such claims or additional costs materialize.

Changes in our product warranty liability are as follows:

(In thousands)	Three Months Ended May 31, 2014	Three Months Ended June 1, 2013	Nine Months Ended May 31, 2014	Nine Months Ended June 1, 2013
Balance at beginning of period	$8,781	$8,065	$8,443	$6,990
Provision	2,736	2,118	7,874	7,032
Claims paid	(2,599)	(1,742)	(7,399)	(5,581)
Balance at end of period	$8,918	$8,441	$8,918	$8,441

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Note 9: Employee and Retiree Benefits

Postretirement health care and deferred compensation benefits are as follows:

(In thousands)	May 31, 2014	August 31, 2013
Postretirement health care benefit cost	$33,342	$36,244
Non-qualified deferred compensation	21,338	22,366
Executive share option plan liability	5,682	6,959
SERP benefit liability	2,760	2,876
Executive deferred compensation	199	105
Officer stock-based compensation	484	543
Total postretirement health care and deferred compensation benefits	63,805	69,093
Less current portion	(4,586)	(5,019)
Long-term postretirement health care and deferred compensation benefits	$59,219	$64,074

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 at 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. Changes in the postretirement benefit plan include:

- 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 $4.6 million and is being amortized as prior service credit over 7.8 years.
- In January 2013 the employer-established dollar caps were further reduced by 10%, which reduced our liability for postretirement health care by approximately $4.3 million and is being amortized as prior service credit over 7.5 years.
- In January 2014 the employer-established dollar caps were further reduced by 10%, which reduced our liability for postretirement health care by approximately $3.6 million and is being amortized as prior service credit over 7.3 years.

Net periodic postretirement benefit income consisted of the following components:

	Three Months Ended		Nine Months Ended	
(In thousands)	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Interest cost	$380	$373	$1,160	$1,136
Service cost	96	140	296	433
Amortization of prior service benefit	(1,482)	(1,366)	(4,168)	(3,803)
Amortization of net actuarial loss	274	407	803	1,195
Net periodic postretirement benefit income	$(732)	$(446)	$(1,909)	$(1,039)
Payments for postretirement health care	$247	$271	$779	$836

Note 10: Stock-Based Compensation Plans

In October 2013, we adopted the 2014 Omnibus Equity, Performance Award, and Incentive Compensation Plan (as amended, the "Plan"). It was approved by shareholders in December 2013 and allows us to grant or issue non-qualified stock options, incentive stock options, share awards and other equity compensation to key employees and to non-employee directors.

The Plan replaced the 2004 Incentive Compensation Plan which had a ten-year term. No new grants may be made from the 2004 Incentive Compensation Plan on or after January 1, 2014. Any stock awards previously granted under the 2004 Incentive Compensation Plan shall continue to vest and /or be exercisable in accordance with their original

terms and conditions.
On October 16, 2013 and October 10, 2012 the Board of Directors granted an aggregate of 84,200 and 155,600 shares, respectively, of restricted common stock to our key employees and non-employee directors under the 2004 Plan. The value of the restricted stock award is determined using the intrinsic value method which, in this case, is based on the number of shares granted and the closing price of our common stock on the date of grant.
Stock-based compensation expense was $305,000 and $262,000 during the third quarters of Fiscal 2014 and 2013, respectively. Stock-based compensation expense was $1.7 million and $1.3 million during the nine months of Fiscal 2014 and 2013, respectively. Of the $1.7 million in Fiscal 2014, $1.1 million related to the October 16, 2013 grant of 84,200 shares. The remainder is related to the amortization of previously granted restricted stock awards, as well as non-employee director stock units issued in

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lieu of director fees. Compensation expense is recognized over the requisite service period of the award or over a period ending with the employee's eligible retirement date, if earlier.

Note 11: Contingent Liabilities and Commitments

Repurchase Commitments

Generally, manufacturers in the RV industry enter into repurchase agreements with lending institutions which have provided wholesale floorplan financing to dealers. Most dealers' RVs are financed on a "floorplan" basis under which a bank or finance company lends the dealer all, or substantially all, of the purchase price, collateralized by a security interest in the recreation vehicles purchased.

Our repurchase agreements provide that, in the event of default by the dealer on the agreement to pay the lending institution, we will repurchase the financed merchandise. The terms of these agreements, which generally can last up to 18 months, provide that our liability will be the lesser of remaining principal owed by the dealer or dealer invoice less periodic reductions based on the time since the date of the original invoice. Our contingent liability on these repurchase agreements was approximately $361.4 million and $232.9 million at May 31, 2014 and August 31, 2013, respectively.

In certain instances, we also repurchase inventory from our dealers due to state law or regulatory requirements that govern voluntary or involuntary relationship terminations. Although laws vary from state to state, some states have laws in place that require manufacturers of recreation vehicles to repurchase current inventory if a dealership exits the business. Incremental repurchase exposure beyond existing repurchase agreements, related to dealer inventory in states that we have had historical experience of repurchasing inventory, totaled $7.0 million and $8.0 million at May 31, 2014 and August 31, 2013, respectively.

Our risk of loss related to our repurchase commitments is significantly reduced by the potential resale value of any products that are subject to repurchase and is spread over numerous dealers and lenders. The aggregate contingent liability related to our repurchase agreements represents all financed dealer inventory at the period reporting date subject to a repurchase agreement, net of the greater of periodic reductions per the agreement or dealer principal payments. Based on the repurchase exposure as previously described, we established an associated loss reserve. Our accrued losses on repurchases were $1.4 million as of May 31, 2014 and $1.3 million as of August 31, 2013.

A summary of repurchase activity is as follows:

	Three Months Ended		Nine Months Ended	
(Dollars in thousands)	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Inventory repurchased:				
Units	—	13	14	13
Dollars	$—	$260	$325	$260
Inventory resold:				
Units	—	13	14	13
Cash collected	$—	$207	$257	$207
Loss recognized	$—	$53	$68	$53
Units in ending inventory	—	—	—	—

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our loss reserve for repurchase commitments. A hypothetical change of a 10% increase or decrease in our significant repurchase commitment assumptions at May 31, 2014 would have affected net income by approximately $366,000.

Litigation

We are involved in various legal proceedings which are ordinary litigation incidental to our business, some of which are covered in whole or in part by insurance. We believe while the final resolution of any such litigation may have an impact on our results for a particular reporting period, the ultimate disposition of such litigation will not have any material adverse effect on our financial position, results of operations or liquidity.

Note 12: Income Taxes
We account for income taxes under ASC 740, Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns.

Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. Valuation allowances arise due to uncertainty of realizing deferred tax assets. ASC 740 requires that companies assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence, using a “more-likely-than-not” standard. In making such assessments, significant weight is given to evidence that can be objectively verified. A company's current or previous losses are given more weight than its future outlook. Based on ASC 740 guidelines, as of May 31, 2014 and August 31, 2013, we have applied a valuation allowance of $1.4 million and $1.6 million, respectively, against our deferred tax assets. We will continue to assess the likelihood that our deferred tax assets will be realizable at each reporting period and our valuation allowance will be adjusted accordingly, which could materially impact our financial position and results of operations.

We file tax returns in the US federal jurisdiction, as well as various international and state jurisdictions. Although certain years are no longer subject to examinations by the IRS and various state taxing authorities, net operating loss carryforwards generated in those years may still be adjusted upon examination by the IRS or state taxing authorities if they either have been or will be used in a future period. Due to such carryback claims, our federal returns from Fiscal 2004 to present continue to be subject to review by the IRS. Periodically, various state and local jurisdictions conduct audits, therefore, a variety of years are subject to state and local jurisdiction review.

As of May 31, 2014, our unrecognized tax benefits were $1.7 million and accrued interest and penalties of $1.5 million, of which if all were realized $2.3 million could have a positive impact on the overall effective tax rate. It is our policy to recognize interest and penalties accrued relative to unrecognized tax benefits as tax expense. We do not anticipate any significant changes in unrecognized tax benefits within the next twelve months. Actual results may differ materially from this estimate.

Note 13: Earnings Per Share

The following table reflects the calculation of basic and diluted income per share:

	Three Months Ended		Nine Months Ended	
(In thousands, except per share data)	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Income per share - basic				
Net income	$11,385	$7,661	$32,124	$21,337
Weighted average shares outstanding	27,209	27,987	27,552	28,128
Net income per share - basic	$0.42	$0.27	$1.17	$0.76
Income per share - assuming dilution				
Net income	$11,385	$7,661	$32,124	$21,337
Weighted average shares outstanding	27,209	27,987	27,552	28,128
Dilutive impact of awards and options outstanding	110	100	114	90
Weighted average shares and potential dilutive shares outstanding	27,319	28,087	27,666	28,218
Net income per share - assuming dilution	$0.42	$0.27	$1.16	$0.76

At the end of the third quarters of Fiscal 2014 and Fiscal 2013, there were options outstanding to purchase 457,421 shares and 669,494 shares, respectively, of common stock at an average price of $30.38 and $29.83, respectively, which were not included in the computation of diluted income per share because they are considered anti-dilutive under the treasury stock method per ASC 260, Earnings Per Share.

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Note 14: Comprehensive Income

Changes in AOCI by component, net of tax, were:

(In thousands)	Three Months Ended May 31, 2014 Defined Benefit Pension Items	Unrealized Gains and Losses on Available-for-Sale Securities	Total	June 1, 2013 Defined Benefit Pension Items	Unrealized Gains and Losses on Available-for-Sale Securities	Total
Balance at beginning of period	$1,890	$—	$1,890	$(1,667)	$(416)	$(2,083)
OCI before reclassifications	—	—	—	—	160	160
Amounts reclassified from AOCI	(752)	—	(752)	(350)	—	(350)
Net current-period OCI	(752)	—	(752)	(350)	160	(190)
Balance at end of period	$1,138	$—	$1,138	$(2,017)	$(256)	$(2,273)

(In thousands)	Nine Months Ended May 31, 2014 Defined Benefit Pension Items	Unrealized Gains and Losses on Available-for-Sale Securities	Total	June 1, 2013 Defined Benefit Pension Items	Unrealized Gains and Losses on Available-for-Sale Securities	Total
Balance at beginning of period	$1,000	$(151)	$849	$(3,326)	$(360)	$(3,686)
OCI before reclassifications	2,234	151	2,385	2,676	104	2,780
Amounts reclassified from AOCI	(2,096)	—	(2,096)	(1,367)	—	(1,367)
Net current-period OCI	138	151	289	1,309	104	1,413
Balance at end of period	$1,138	$—	$1,138	$(2,017)	$(256)	$(2,273)

Reclassifications out of AOCI in net periodic benefit costs, net of tax, were:

(In thousands)	Location on Consolidated Statements of Operations and Comprehensive Income	Three Months Ended May 31, 2014	June 1, 2013	Nine Months Ended May 31, 2014	June 1, 2013
Amortization of prior service credit	Cost of goods sold	$—	$(741)	$—	$(2,061)
	Operating expenses	(925)	(112)	(2,601)	(312)
		(925)	(853)	(2,601)	(2,373)
Amortization of net actuarial loss	Cost of goods sold	—	221	—	648
	Operating expenses	173	282	505	358
		173	503	505	1,006

Total	$(752)	$(350)	$(2,096)	$(1,367)

Note 15: Subsequent Event

We evaluated all events or transactions occurring between the balance sheet date for the quarterly period ended May 31, 2014 and the date of issuance of the financial statements that would require recognition or disclosure in the financial statements. There were no material subsequent events.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion should be read in conjunction with the Condensed Unaudited Financial Statements contained in this Form 10-Q as well as the Management's Discussion and Analysis and Risk Factors included in our Annual Report on Form 10 K for the fiscal year ended August 31, 2013 and in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Forward-Looking Information

Certain of the matters discussed in this Quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which involve risks and uncertainties. A number of factors could cause actual results to differ materially from these statements, including, but not limited to availability of chassis and other key component parts, increases in interest rates, availability of credit, low consumer confidence, significant increase in repurchase obligations, inadequate liquidity or capital resources, availability and price of fuel, a slowdown in the economy, increased material and component costs, sales order cancellations, slower than anticipated sales of new or existing products, new product introductions by competitors, a breach of our information technology systems, the effect of global tensions, integration of operations relating to mergers and acquisitions activities and other factors which may be disclosed throughout this report. Although we believe that the expectations reflected in the "forward-looking statements" are reasonable, we cannot guarantee future results, or levels of activity, performance or achievements. Undue reliance should not be placed on these "forward-looking statements," which speak only as of the date of this report. We undertake no obligation to publicly update or revise any "forward-looking statements" whether as a result of new information, future events or otherwise, except as required by law or the rules of the NYSE.

Executive Overview

Winnebago Industries, Inc. is a leading US manufacturer of RVs with a proud history of manufacturing RV products for more than 50 years. We produce all of our motorhomes in vertically integrated manufacturing facilities in Iowa and we produce all of our travel trailer and fifth wheels in Indiana. We distribute our products primarily through independent dealers throughout the US and Canada, who then retail the products to the end consumer.

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Our motorized and towable retail unit market share, as reported by Stat Surveys based on state records, is illustrated below. Note that this data is subject to adjustment and is continuously updated.

	Motorized				
	Through April 30		Calendar Year		
US	2014	2013	2013	2012	2011
Class A gas	19.8 %	23.0 %	22.4 %	24.2 %	22.2 %
Class A diesel	19.5 %	17.5 %	18.0 %	19.4 %	17.6 %
Total Class A	19.7 %	20.8 %	20.7 %	22.2 %	20.2 %
Class C	20.1 %	15.2 %	17.5 %	18.3 %	17.4 %
Total Class A and C	19.9 %	18.1 %	19.2 %	20.5 %	19.0 %
Class B	20.4 %	18.7 %	17.0 %	17.6 %	7.9 %
Canadian	2014	2013	2013	2012	2011
Class A gas	16.8 %	12.0 %	13.9 %	15.3 %	16.5 %
Class A diesel	17.2 %	16.4 %	15.6 %	17.3 %	18.0 %
Total Class A	16.9 %	13.6 %	14.5 %	16.1 %	17.1 %
Class C	12.8 %	15.3 %	11.9 %	14.9 %	15.9 %
Total Class A and C	14.9 %	14.5 %	13.1 %	15.5 %	16.5 %
Class B	13.7 %	17.5 %	20.1 %	12.7 %	7.1 %

	Towables				
	Through April 30		Calendar Year		
US	2014	2013	2013	2012	2011
Travel trailer	0.9 %	0.9 %	1.0 %	0.8 %	0.6 %
Fifth wheel	0.6 %	0.8 %	0.8 %	1.1 %	0.5 %
Total towables	0.8 %	0.9 %	0.9 %	0.9 %	0.6 %
Canadian	2014	2013	2013	2012	2011
Travel trailer	0.6 %	0.8 %	0.9 %	0.6 %	0.5 %
Fifth wheel	1.1 %	1.3 %	1.4 %	1.5 %	0.6 %
Total towables	0.7 %	0.9 %	1.0 %	0.9 %	0.5 %

Presented in fiscal quarters, certain key metrics are shown below:

	Class A, B & C Motorhomes				Travel Trailers & Fifth Wheels			
			As of Quarter End				As of Quarter End	
(In units)	Wholesale Deliveries	Retail Registrations	Dealer Inventory	Order Backlog	Wholesale Deliveries	Retail Registrations	Dealer Inventory	Order Backlog
Q4 2012	1,321	1,334	1,927	1,473	695	700	1,365	411
Q1 2013	1,534	1,416	2,045	2,118	557	367	1,555	687
Q2 2013	1,419	1,072	2,392	2,752	548	328	1,775	381
Q3 2013	1,978	1,736	2,634	2,846	713	846	1,642	443
Rolling 12 months Jun 2012-May 2013	6,252	5,558			2,513	2,241		
Q4 2013	1,890	1,870	2,654	3,409	717	748	1,611	221
Q1 2014	2,005	1,524	3,135	3,534	484	504	1,591	151
Q2 2014	2,055	1,283	3,907	2,900	575	394	1,772	206

Q3 2014 (1)	2,331	2,783	3,798	2,357	727	724	1,775	303
Rolling 12 months Jun 2013-May 2014	8,281	7,460			2,503	2,370		

(1) An additional 343 units were delivered but not included in Q3 2014 motorhome wholesale deliveries as presented in the table above as the units are subject to repurchase option. These units were included as retail registrations, not in dealer inventory, as the units were immediately placed into rental service once delivered. See Note 5 to the financial statements.

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Industry Outlook

Key statistics for the motorhome industry are as follows:

	US and Canada Industry Class A, B & C Motorhomes							
	Wholesale Shipments[1]				Retail Registrations[2]			
	Calendar Year				Calendar Year			
(In units)	2013	2012	Increase	Change	2013	2012	Increase	Change
Q1	8,500	6,869	1,631	23.7 %	7,145	5,706	1,439	25.2 %
Q2	10,972	7,707	3,265	42.4 %	10,898	8,206	2,692	32.8 %
Q3	9,469	6,678	2,791	41.8 %	9,111	6,916	2,195	31.7 %
Q4	9,391	6,944	2,447	35.2 %	6,276	4,922	1,354	27.5 %
Total	38,332	28,198	10,134	35.9 %	33,430	25,750	7,680	29.8 %
(In units)	2014	2013	Increase	Change	2014	2013	Increase	Change
Q1	11,125	8,500	2,625	30.9 %	8,026	7,145	881	12.3 %
April	4,092	3,780	312	8.3 %	4,108	3,512	596	17.0 %
May	4,486	3,698	788	21.3 %	(4)	3,787		
June	4,391 (3)	3,494	897	25.7 %	(4)	3,599		
Q2	12,969 (3)	10,972	1,997	18.2 %	(4)	10,898		
Q3	11,300 (3)	9,469	1,831	19.3 %	(4)	9,111		
Q4	10,600 (3)	9,391	1,209	12.9 %	(4)	6,276		
Total	45,994 (3)	38,332	7,662	20.0 %		33,430		

(1) Class A, B and C wholesale shipments as reported by RVIA.

(2) Class A, B and C retail registrations as reported by Stat Surveys for the US and Canada combined.

(3) Monthly and quarterly 2014 Class A, B and C wholesale shipments are based upon the forecast prepared by Dr. Richard Curtin of the University of Michigan Consumer Survey Research Center for RVIA and reported in the Roadsigns RV Summer 2014 Industry Forecast Issue. The revised RVIA annual 2014 wholesale shipment forecast is 46,500 and the annual forecast for 2015 is 47,300.

(4) Stat Surveys has not issued a projection for 2014 retail demand for this period.

Key statistics for the towable industry are as follows:

	US and Canada Travel Trailer & Fifth Wheel Industry							
	Wholesale Shipments[1]				Retail Registrations[2]			
	Calendar Year				Calendar Year			
(In units)	2013	2012	Increase	Change	2013	2012	Increase	Change
Q1	66,745	60,402	6,343	10.5 %	42,987	39,093	3,894	10.0 %
Q2	79,935	71,095	8,840	12.4 %	94,670			