

WINNEBAGO INDUSTRIES INC  
Form 10-Q  
January 03, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2013

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: 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  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  No

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  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

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

The number of shares of common stock, par value \$0.50 per share, outstanding January 2, 2014 was 27,718,043.

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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)   |
| 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 |
| 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  |
| LIBOR            | London Interbank Offered Rate   |
| LIFO             | Last In, First Out  |
| NMF              | Non-Meaningful Figure   |
| NYSE             | New York Stock Exchange   |
| 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   |                     |
|---|----------------------|---------------------|
|   | November 30,<br>2013 | December 1,<br>2012 |
| Net revenues  | \$222,670            | \$193,554           |
| Cost of goods sold  | 196,708              | 172,807             |
| Gross profit  | 25,962               | 20,747              |
| Operating expenses:   |                      |                     |
| Selling   | 4,333                | 4,961               |
| General and administrative  | 5,623                | 5,812               |
| Loss on sale of asset held for sale   | —                    | 28                  |
| Total operating expenses  | 9,956                | 10,801              |
| Operating income  | 16,006               | 9,946               |
| Non-operating income  | 91                   | 614                 |
| Income before income taxes  | 16,097               | 10,560              |
| Provision for taxes   | 4,951                | 3,169               |
| Net income  | \$11,146             | \$7,391             |
| Income per common share:  |                      |                     |
| Basic   | \$0.40               | \$0.26              |
| Diluted   | \$0.40               | \$0.26              |
| Weighted average common shares outstanding:   |                      |                     |
| Basic   | 27,851               | 28,301              |
| Diluted   | 27,971               | 28,361              |
| Net income  | \$11,146             | \$7,391             |
| Other comprehensive (loss) income:  |                      |                     |
| Amortization of prior service credit<br>(net of tax of \$482 and \$442)               | (800)                | (734)               |
| Amortization of net actuarial loss<br>(net of tax of \$99 and \$149)                  | 164                  | 253                 |
| Unrealized appreciation (depreciation) of investments<br>(net of tax of \$91 and \$0) | 151                  | (1)                 |
| Total other comprehensive loss  | (485)                | (482)               |
| Comprehensive income  | \$10,661             | \$6,909             |

See notes to consolidated financial statements.



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Consolidated Balance Sheets  
(Unaudited)

| (In thousands, except per share data)   | November 30,<br>2013 | August 31,<br>2013 |
|---|----------------------|--------------------|
| Assets  |                      |                    |
| Current assets:   |                      |                    |
| Cash and cash equivalents   | \$49,737             | \$64,277           |
| Receivables, less allowance for doubtful accounts (\$152 and \$152)                       | 42,944               | 29,145             |
| Inventories   | 122,478              | 112,541            |
| Prepaid expenses and other assets   | 8,356                | 8,277              |
| Income taxes receivable and prepaid   | 132                  | 1,868              |
| Deferred income taxes   | 8,155                | 7,742              |
| Total current assets  | 231,802              | 223,850            |
| Property, plant and equipment, net  | 21,057               | 20,266             |
| Long-term investments   | —                    | 2,108              |
| Investment in life insurance  | 25,299               | 25,051             |
| Deferred income taxes   | 25,007               | 25,649             |
| Goodwill  | 1,228                | 1,228              |
| Other assets  | 10,520               | 10,993             |
| Total assets  | \$314,913            | \$309,145          |
| Liabilities and Stockholders' Equity  |                      |                    |
| Current liabilities:  |                      |                    |
| Accounts payable  | \$27,316             | \$28,142           |
| Income taxes payable  | 2,623                | —                  |
| Accrued expenses:   |                      |                    |
| Accrued compensation  | 15,207               | 22,101             |
| Product warranties  | 8,345                | 8,443              |
| Self-insurance  | 4,455                | 4,531              |
| Accrued loss on repurchases   | 1,610                | 1,287              |
| Promotional   | 2,988                | 1,910              |
| Other   | 4,465                | 3,940              |
| Total current liabilities   | 67,009               | 70,354             |
| Long-term liabilities:  |                      |                    |
| Unrecognized tax benefits   | 3,830                | 3,988              |
| Postretirement health care and deferred compensations benefits                            | 63,485               | 64,074             |
| Total long-term liabilities   | 67,315               | 68,062             |
| Contingent liabilities and commitments  |                      |                    |
| Stockholders' equity:   |                      |                    |
| Capital stock common, par value \$0.50;<br>authorized 60,000 shares, issued 51,776 shares | 25,888               | 25,888             |
| Additional paid-in capital  | 31,071               | 29,334             |
| Retained earnings   | 520,589              | 509,443            |
| Accumulated other comprehensive income  | 364                  | 849                |
| Treasury stock, at cost (23,945 and 23,917 shares)  | (397,323             | ) (394,785         |
| Total stockholders' equity  | 180,589              | 170,729            |
| Total liabilities and stockholders' equity  | \$314,913            | \$309,145          |

See notes to consolidated financial statements.

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Winnebago Industries, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

| (In thousands)  | Three Months Ended   |                     |
|---|----------------------|---------------------|
|   | November 30,<br>2013 | December 1,<br>2012 |
| Operating activities:   |                      |                     |
| Net income  | \$11,146             | \$7,391             |
| Adjustments to reconcile net income to net cash used in operating activities: |                      |                     |
| Depreciation and amortization   | 984                  | 1,147               |
| LIFO expense  | 431                  | 352                 |
| Stock-based compensation  | 952                  | 687                 |
| Deferred income taxes including valuation allowance                           | 366                  | (40)                |
| Postretirement benefit income and deferred compensation expense               | (139)                | ) 221               |
| Provision for doubtful accounts   | —                    | 3                   |
| Loss (gain) on disposal of property   | 8                    | (3)                 |
| Gain on life insurance  | —                    | (509)               |
| Increase in cash surrender value of life insurance policies                   | (286)                | ) (383)             |
| Change in assets and liabilities:   |                      |                     |
| Inventories   | (10,368)             | ) (19,621)          |
| Receivables, prepaid and other assets   | (13,928)             | ) (4,107)           |
| Income taxes and unrecognized tax benefits                                    | 4,584                | 3,195               |
| Accounts payable and accrued expenses   | (4,675)              | ) 2,521             |
| Postretirement and deferred compensation benefits                             | (970)                | ) (1,177)           |
| Net cash used in operating activities   | (11,895)             | ) (10,323)          |
| Investing activities:   |                      |                     |
| Proceeds from the sale of investments, at par                                 | 2,350                | —                   |
| Proceeds from life insurance  | —                    | 974                 |
| Purchases of property and equipment   | (1,693)              | ) (1,273)           |
| Proceeds from the sale of property  | 1                    | 566                 |
| Repayments of COLI borrowings   | —                    | (1,371)             |
| Other   | 153                  | 129                 |
| Net cash provided by (used in) investing activities                           | 811                  | (975)               |
| Financing activities:   |                      |                     |
| Payments for purchases of common stock  | (5,561)              | ) (7,177)           |
| Proceeds from exercise of stock options                                       | 2,080                | —                   |
| Other   | 25                   | (133)               |
| Net cash used in financing activities   | (3,456)              | ) (7,310)           |
| Net decrease in cash and cash equivalents                                     | (14,540)             | ) (18,608)          |
| Cash and cash equivalents at beginning of period                              | 64,277               | 62,683              |
| Cash and cash equivalents at end of period                                    | \$49,737             | \$44,075            |
| Supplement cash flow disclosure:  |                      |                     |
| Income taxes paid, net of refunds   | \$—                  | \$13                |

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](http://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 November 30, 2013 and the consolidated results of operations and comprehensive income and consolidated cash flows for the first three months of Fiscal 2014 and 2013. The consolidated statement of operations and comprehensive income for the first three 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. Fiscal 2013 was a 53-week fiscal year; the first quarter ending December 1, 2012 had 14 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.

Note 2: Concentration Risk

One of our dealer organizations accounted for 19.8% and 28.0% of our consolidated net revenue for the first three months of Fiscal 2014 and Fiscal 2013, respectively. A second dealer organization accounted for 11.2% and 10.4% of our consolidated net revenue for the first three months of Fiscal 2014 and Fiscal 2013, respectively. The loss 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 November 30, 2013 and August 31, 2013 according to the valuation techniques we used to determine their fair values:

| (In thousands)                          | Fair Value at<br>November 30,<br>2013 | Fair Value Measurements<br>Using Inputs Considered As                    |   |  |
|---|---------------------------------------|--|---|--|
|   |                                       | Level 1 Quoted<br>Prices in<br>Active Markets<br>for Identical<br>Assets | Level 2<br>Significant<br>Other<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
| Assets that fund deferred compensation: |                                       |  |   |  |
| Domestic equity funds                   | \$6,502                               | \$6,502  | \$—   | \$—  |
| International equity funds              | 762                                   | 762  | —   | —  |
| Fixed income funds                      | 257                                   | 257  | —   | —  |
| Total assets at fair value              | \$7,521                               | \$7,521  | \$—   | \$—  |

| (In thousands)                          | Fair Value at<br>August 31,<br>2013 | Fair Value Measurements<br>Using Inputs Considered As                    |   |  |
|---|-------------------------------------|--|---|--|
|   |                                     | Level 1 Quoted<br>Prices in<br>Active Markets<br>for Identical<br>Assets | Level 2<br>Significant<br>Other<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>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)                                    | Quarter Ended        |                     |
|---|----------------------|---------------------|
|   | November 30,<br>2013 | December 1,<br>2012 |
| Balance at beginning of period                    | \$2,108              | \$9,074             |
| Transfer to Level 2                               | —                    | (250 )              |
| Net change included in other comprehensive income | 242                  | (1 )                |
| Sales   | (2,350 )             | —                   |
| Balance at end of period                          | \$—                  | \$8,823             |

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.

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## 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 8), a deferred compensation program, and are presented as other assets in the accompanying balance sheets.

## 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 three months of Fiscal 2014, no impairments were recorded for non-financial assets.

## Note 4: Inventories

Inventories consist of the following:

| (In thousands)    | November 30,<br>2013 | August 31,<br>2013 |
|-------------------|----------------------|--------------------|
| Finished goods    | \$47,822             | \$43,927           |
| Work-in-process   | 49,451               | 46,257             |
| Raw materials     | 55,481               | 52,201             |
| Total             | 152,754              | 142,385            |
| LIFO reserve      | (30,276              | ) (29,844          |
| Total inventories | \$122,478            | \$112,541          |

The above value of inventories, before reduction for the LIFO reserve, approximates replacement cost. Of the \$152.8 million and \$142.4 million inventory at November 30, 2013 and August 31, 2013, respectively, \$143.1 million and \$136.1 million is valued on a LIFO basis. Towables inventory of \$9.7 million and \$6.3 million at November 30, 2013 and August 31, 2013, respectively, is valued on a FIFO basis.

## Note 5: Property, Plant and Equipment

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

| (In thousands)                             | November 30,<br>2013 | August 31,<br>2013 |
|--|----------------------|--------------------|
| Land                                       | \$757                | \$757              |
| Buildings and building improvements        | 50,570               | 50,297             |
| Machinery and equipment                    | 92,014               | 91,224             |
| Transportation                             | 9,032                | 9,044              |
| Total property, plant and equipment, gross | 152,373              | 151,322            |
| Less accumulated depreciation              | (131,316             | ) (131,056         |
| Total property, plant and equipment, net   | \$21,057             | \$20,266           |

On December 19, 2013 3M exercised an option to purchase warehouse facilities that 3M had leased from us since 1980. Net proceeds from the sale were \$2.2 million, resulting in a gain of approximately \$630,000. We received lease payments of \$860,000 and recorded depreciation charges of \$148,000 in Fiscal 2013 related to these warehouse facilities.

## Note 6: 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 expires 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. Interest on loans made under the new facility will be based on LIBOR plus a margin of 3.0%. 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.



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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.

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

## Note 7: 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)                 | Quarter Ended        |                     |
|--------------------------------|----------------------|---------------------|
|                                | November 30,<br>2013 | December 1,<br>2012 |
| Balance at beginning of period | \$8,443              | \$6,990             |
| Provision                      | 2,770                | 2,486               |
| Claims paid                    | (2,868               | ) (1,927            |
| Balance at end of period       | \$8,345              | \$7,549             |

## Note 8: Employee and Retiree Benefits

Postretirement health care and deferred compensation benefits are as follows:

| (In thousands)  | November 30,<br>2013 | August 31,<br>2013 |
|---|----------------------|--------------------|
| Postretirement health care benefit cost                                 | \$36,468             | \$36,244           |
| Non-qualified deferred compensation                                     | 22,014               | 22,366             |
| Executive share option plan liability                                   | 6,506                | 6,959              |
| SERP benefit liability  | 2,914                | 2,876              |
| Executive deferred compensation   | 175                  | 105                |
| Officer stock-based compensation  | 286                  | 543                |
| Total postretirement health care and deferred compensation benefits     | 68,363               | 69,093             |
| Less current portion  | (4,878               | ) (5,019           |
| Long-term postretirement health care and deferred compensation benefits | \$63,485             | \$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 October 2013, our Board of Directors approved an additional reduction in the employer dollar caps to be effective in January 2014 whereby the employer established dollar caps for postretirement health care benefits per eligible employee will be

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reduced by 10%, which is estimated to reduce our liability for postretirement health care by approximately \$3.6 million and will be amortized as prior service credit over 7.3 years.

Net periodic postretirement benefit income consisted of the following components:

| (In thousands)                             | Quarter Ended        |                     |
|--|----------------------|---------------------|
|  | November 30,<br>2013 | December 1,<br>2012 |
| Interest cost                              | \$395                | \$394               |
| Service cost                               | 101                  | 152                 |
| Amortization of prior service benefit      | (1,281               | ) (1,176            |
| Amortization of net actuarial loss         | 260                  | 396                 |
| Net periodic postretirement benefit income | \$(525               | ) \$(234            |
| Payments for postretirement health care    | \$273                | \$291               |

#### Note 9: Stock-Based Compensation Plans

We have a 2004 Incentive Compensation Plan approved by shareholders (as amended, the "Plan") in place which 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.

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. 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 \$952,000 and \$687,000 during the first quarters of Fiscal 2014 and 2013, respectively. Of the \$952,000 in Fiscal 2014, \$704,000 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 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 10: 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 \$274.5 million and \$232.9 million at November 30, 2013 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 \$4.9 million and \$5.0 million at November 30, 2013 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 \$1.6 million as of November 30, 2013 and \$1.3 million as of August 31, 2013.

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A summary of repurchase activity is as follows:

| (Dollars in thousands)    | Quarter Ended<br>November 30,<br>2013 | December 1,<br>2012 |
|---------------------------|---------------------------------------|---------------------|
| Inventory repurchased:    |                                       |                     |
| Units                     | 14                                    | —                   |
| Dollars                   | \$325                                 | \$—                 |
| Inventory resold:         |                                       |                     |
| Units                     | 14                                    | —                   |
| Cash collected            | \$257                                 | \$—                 |
| Loss recognized           | \$68                                  | \$—                 |
| 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 November 30, 2013 would have affected net income by approximately \$290,000.

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 11: 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 November 30, 2013 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 November 30, 2013, our unrecognized tax benefits were \$2.1 million, of which if realized \$2.7 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. As of November 30, 2013, we had accrued \$1.7 million in

interest and penalties which are not included in the unrecognized tax benefits of \$2.1 million. We do not anticipate any significant changes in unrecognized tax benefits within the next twelve months. Actual results may differ materially from this estimate.

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## Note 12: Earnings Per Share

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

| (In thousands, except per share data)                             | Quarter Ended     |                  |
|---|-------------------|------------------|
|   | November 30, 2013 | December 1, 2012 |
| Income per share - basic  |                   |                  |
| Net income  | \$11,146          | \$7,391          |
| Weighted average shares outstanding                               | 27,851            | 28,301           |
| Net income per share - basic                                      | \$0.40            | \$0.26           |
| Income per share - assuming dilution                              |                   |                  |
| Net income  | \$11,146          | \$7,391          |
| Weighted average shares outstanding                               | 27,851            | 28,301           |
| Dilutive impact of awards and options outstanding                 | 120               | 60               |
| Weighted average shares and potential dilutive shares outstanding | 27,971            | 28,361           |
| Net income per share - assuming dilution                          | \$0.40            | \$0.26           |

At the end of the first quarters of Fiscal 2014 and Fiscal 2013, there were options outstanding to purchase 364,042 shares and 689,328 shares, respectively, of common stock at an average price of \$32.36 and \$29.57, 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.

## Note 13: Comprehensive Income

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

| (In thousands)                 | Quarter Ended<br>November 30, 2013  |  |        | December 1, 2012                    |  |            |
|--------------------------------|-------------------------------------|--|--------|-------------------------------------|--|------------|
|                                | Defined<br>Benefit<br>Pension Items | Unrealized<br>Gains and<br>Losses on<br>Available-<br>for-Sale<br>Securities | Total  | Defined<br>Benefit<br>Pension Items | Unrealized<br>Gains and<br>Losses on<br>Available-<br>for-Sale<br>Securities | Total      |
| Balance at beginning of period | \$ 1,000                            | \$(151)  | )\$849 | \$(3,326)                           | )\$(360)   | )\$(3,686) |
| OCI before reclassifications   | —                                   | 151  | 151    | —                                   | (1)  | )(1)       |
| Amounts reclassified from AOCI | (636)                               | )—   | (636)  | ) (481)                             | )—   | (481)      |
| Net current-period OCI         | (636)                               | )151   | (485)  | ) (481)                             | ) (1)  | )(482)     |
| Balance at end of period       | \$364                               | \$—  | \$364  | \$(3,807)                           | )\$(361)   | )\$(4,168) |

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

| (In thousands)                       | Location on Consolidated Statements of<br>Operations and Comprehensive Income | Quarter Ended     |                  |
|--------------------------------------|---|-------------------|------------------|
|                                      |   | November 30, 2013 | December 1, 2012 |
| Amortization of prior service credit | Cost of goods sold  | \$—               | \$(637)          |
|                                      | Operating expenses  | (800)             | ) (97)           |
|                                      |   | (800)             | ) (734)          |

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|                                    |                    |        |            |
|------------------------------------|--------------------|--------|------------|
| Amortization of net actuarial loss | Cost of goods sold | —      | 220        |
|                                    | Operating expenses | 164    | 33         |
|                                    |                    | 164    | 253        |
| Total                              |                    | \$(636 | ) \$(481 ) |

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Note 14: Subsequent Event

We evaluated all events or transactions occurring between the balance sheet date for the quarterly period ended November 30, 2013 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, except as described in Note 5.

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.

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, 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, availability of chassis and other key component parts, sales order cancellations, slower than anticipated sales of new or existing products, new product introductions by competitors, 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 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.

|                      | Through October 31 |       |   | Calendar Year |       |       |   |
|----------------------|--------------------|-------|---|---------------|-------|-------|---|
|                      | 2013               | 2012  | % | 2012          | 2011  | 2010  |   |
| US Retail Motorized: |                    |       |   |               |       |       |   |
| Class A gas          | 22.5               | %23.6 | % | 24.2          | %22.2 | %23.7 | % |
| Class A diesel       | 17.9               | %19.4 | % | 19.4          | %17.6 | %15.2 | % |
| Total Class A        | 20.7               | %21.8 | % | 22.2          | %20.2 | %19.5 | % |
| Class C              | 16.9               | %17.8 | % | 18.3          | %17.4 | %17.9 | % |
| Total Class A and C  | 19.0               | %20.0 | % | 20.5          | %19.0 | %18.8 | % |
| Class B              | 17.6               | %17.1 | % | 17.6          | %7.9  | %15.6 | % |

|                            | Through October 31 |       |   | Calendar Year |       |       |   |
|----------------------------|--------------------|-------|---|---------------|-------|-------|---|
|                            | 2013               | 2012  | % | 2012          | 2011  | 2010  |   |
| Canadian Retail Motorized: |                    |       |   |               |       |       |   |
| Class A gas                | 13.5               | %15.2 | % | 15.3          | %16.5 | %14.9 | % |
| Class A diesel             | 14.8               | %16.7 | % | 17.3          | %18.0 | %9.9  | % |
| Total Class A              | 14.0               | %15.8 | % | 16.1          | %17.1 | %12.6 | % |
| Class C                    | 11.7               | %14.6 | % | 14.9          | %15.9 | %13.8 | % |
| Total Class A and C        | 12.7               | %15.2 | % | 15.5          | %16.5 | %13.2 | % |
| Class B                    | 20.1               | %12.1 | % | 12.7          | %7.1  | %4.8  | % |

|                  | US                 |      |               |      | Canadian           |      |               |      |   |
|------------------|--------------------|------|---------------|------|--------------------|------|---------------|------|---|
|                  | Through October 31 |      | Calendar Year |      | Through October 31 |      | Calendar Year |      |   |
| Retail Towables: | 2013               | 2012 | 2012          | 2011 | 2013               | 2012 | 2012          | 2011 |   |
| Travel trailer   | 1.0                | %0.8 | %0.8          | %0.6 | %0.9               | %0.6 | %0.6          | %0.5 | % |
| Fifth wheel      | 0.8                | %1.1 | %1.1          | %0.5 | %1.4               | %1.6 | %1.5          | %0.6 | % |
| Total towables   | 0.9                | %0.9 | %0.9          | %0.6 | %1.0               | %0.8 | %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 |
| Q2 2012                                   | 1,001                     | 872                  | 2,074             | 1,004         | 562                            | 332                  | 1,376             | 417           |
| Q3 2012                                   | 1,280                     | 1,414                | 1,940             | 1,237         | 646                            | 652                  | 1,370             | 505           |
| 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           |
| Rolling 12 months<br>Dec 2011-Nov<br>2012 | 5,136                     | 5,036                |                   |               | 2,460                          | 2,051                |                   |               |
| 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           |
| 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           |
| Rolling 12 months<br>Dec 2012-Nov<br>2013 | 7,292                     | 6,202                |                   |               | 2,462                          | 2,426                |                   |               |



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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 <sup>(1)</sup>               |               |            |            |        | Retail Registrations <sup>(2)</sup> |           |          |        |      |   |
|  | Calendar Year |            | (Decrease) |        | Calendar Year                       |           |          |        |      |   |
| (In units)                                       | 2012          | 2011       | Increase   | Change | 2012                                | 2011      | Increase | Change |      |   |
| Q1   | 6,869         | 6,888      | (19        | ) (0.3 | ) %                                 | 5,706     | 5,114    | 592    | 11.6 | % |
| Q2   | 7,707         | 7,868      | (161       | ) (2.0 | ) %                                 | 8,206     | 8,140    | 66     | 0.8  | % |
| Q3   | 6,678         | 5,267      | 1,411      | 26.8   | %                                   | 6,916     | 6,102    | 814    | 13.3 | % |
| Q4   | 6,944         | 4,807      | 2,137      | 44.5   | %                                   | 4,922     | 4,623    | 299    | 6.5  | % |
| Total  | 28,198        | 24,830     | 3,368      | 13.6   | %                                   | 25,750    | 23,979   | 1,771  | 7.4  | % |
| (In units)                                       | 2013          | 2012       | Increase   | Change | 2013                                | 2012      | Increase | Change |      |   |
| Q1   | 8,500         | 6,869      | 1,631      | 23.7   | %                                   | 7,137     | 5,706    | 1,431  | 25.1 | % |
| Q2   | 10,972        | 7,707      | 3,265      | 42.4   | %                                   | 10,890    | 8,206    | 2,684  | 32.7 | % |
| Q3   | 9,469         | 6,678      | 2,791      | 41.8   | %                                   | 9,052     | 6,916    | 2,136  | 30.9 | % |
| October  | 3,454         | 2,506      | 948        | 37.8   | %                                   | 2,558     | 1,910    | 648    | 33.9 | % |
| November   | 3,037         | 2,295      | 742        | 32.3   | %                                   | (4) 1,636 |          |        |      |   |
| December   | 3,104         | (3) 2,143  | 961        | 44.8   | %                                   | (4) 1,376 |          |        |      |   |
| Q4   | 9,595         | (3) 6,944  | 2,651      | 38.2   | %                                   | (4) 4,922 |          |        |      |   |
| Total  | 38,536        | (3) 28,198 | 10,338     | 36.7   | %                                   | 25,750    |          |        |      |   |

(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.

Monthly and quarterly 2013 Class A, B and C wholesale shipments are based upon the forecast prepared by Dr.

(3) Richard Curtin of the University of Michigan Consumer Survey Research Center for RVIA and reported in the Roadsigns RV Winter 2013 Industry Forecast Issue. The revised RVIA annual 2013 and 2014 wholesale shipment forecast is 38,100 and 41,900 respectively.

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

Key statistics for the towable industry are as follows:

| US and Canada Travel Trailer & Fifth Wheel Industry |               |            |          |        |                                     |            |          |        |      |   |
|---|---------------|------------|----------|--------|-------------------------------------|------------|----------|--------|------|---|
| Wholesale Shipments <sup>(1)</sup>                  |               |            |          |        | Retail Registrations <sup>(2)</sup> |            |          |        |      |   |
|   | Calendar Year |            |          |        | Calendar Year                       |            |          |        |      |   |
| (In units)  | 2012          | 2011       | Increase | Change | 2012                                | 2011       | Increase | Change |      |   |
| Q1  | 60,402        | 54,132     | 6,270    | 11.6   | %                                   | 39,093     | 33,698   | 5,395  | 16.0 | % |
| Q2  | 71,095        | 65,987     | 5,108    | 7.7    | %                                   | 83,990     | 79,155   | 4,835  | 6.1  | % |
| Q3  | 56,601        | 47,547     | 9,054    | 19.0   | %                                   | 67,344     | 63,014   | 4,330  | 6.9  | % |
| Q4  | 54,782        | 45,266     | 9,516    | 21.0   | %                                   | 32,469     | 30,044   | 2,425  | 8.1  | % |
| Total   | 242,880       | 212,932    | 29,948   | 14.1   | %                                   | 222,896    | 205,911  | 16,985 | 8.2  | % |
| (In units)  | 2013          | 2012       | Increase | Change | 2013                                | 2012       | Increase | Change |      |   |
| Q1  | 66,745        | 60,402     | 6,343    | 10.5   | %                                   | 42,852     | 39,093   | 3,759  | 9.6  | % |
| Q2  | 79,935        | 71,095     | 8,840    | 12.4   | %                                   | 94,526     | 83,990   | 10,536 | 12.5 | % |
| Q3  | 61,251        | 56,601     | 4,650    | 8.2    | %                                   | 79,321     | 67,344   | 11,977 | 17.8 | % |
| October   | 24,383        | 21,374     | 3,009    | 14.1   | %                                   | 16,871     | 14,812   | 2,059  | 13.9 | % |
| November  | 17,932        | 17,480     | 452      | 2.6    | %                                   | (4) 10,083 |          |        |      |   |
| December  | 18,448        | (3) 15,928 | 2,520    | 15.8   | %                                   | (4) 7,574  |          |        |      |   |
| Q4  | 60,763        | (3) 54,782 | 5,981    | 10.9   | %                                   | (4) 32,469 |          |        |      |   |

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|       |         |     |         |        |      |   |         |
|-------|---------|-----|---------|--------|------|---|---------|
| Total | 268,694 | (3) | 242,880 | 25,814 | 10.6 | % | 222,896 |
|-------|---------|-----|---------|--------|------|---|---------|

(1) Towable wholesale shipments as reported by RVIA.

(2) Towable retail registrations as reported by Stat Surveys for the US and Canada combined.

Monthly and quarterly 2013 towable wholesale shipments are based upon the forecast prepared by Dr. Richard

(3) Curtin of the University of Michigan Consumer Survey Research Center for RVIA and reported in the Roadsigns RV Winter 2013 Industry Forecast Issue. The revised RVIA annual 2013 and 2014 wholesale shipment forecast is 263,900 and 279,100 respectively.

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

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## Company Outlook

Our motorized dealer backlog is an indicator of demand for our product in the current marketplace. We have experienced positive growth in this measure for eight consecutive fiscal quarters. We believe the increase is a result of the overall growth of the RV industry coupled with positive dealer response and increased retail registration activity of our products.

As a result of the improved demand, we have been increasing our production rates and recently leased an additional production facility. In addition to the increased production capacity, we also expect to have increased access to Class A gas chassis late in our second fiscal quarter. Recently the availability of these chassis has been limited.

Another positive outcome of the increased demand is an improved sales incentive environment. Coupled with the operating leverage within our business model, we are able to achieve stronger operating margins. During the first quarter of Fiscal 2014 we achieved operating margins of 7.2%, an increase of 2.1% when compared to the first quarter of Fiscal 2013.

Our motorized sales order backlog of 3,534 as of November 30, 2013 represents orders to be shipped in the next two quarters.

We believe that the level of our dealer inventory at the end of the first quarter of Fiscal 2014 is aligned with current market conditions given the improved retail demand and increased sales order backlog of our product.

Our unit order backlog was as follows:

| (In units)                             | As Of             |                  |         |       | Increase<br>(Decrease) | %<br>Change |    |
|--|-------------------|------------------|---------|-------|------------------------|-------------|----|
|  | November 30, 2013 | December 1, 2012 |         |       |                        |             |    |
| Class A gas                            | 1,382             | 39.1             | % 884   | 41.7  | % 498                  | 56.3        | %  |
| Class A diesel                         | 521               | 14.7             | % 389   | 18.4  | % 132                  | 33.9        | %  |
| Total Class A                          | 1,903             | 53.8             | % 1,273 | 60.1  | % 630                  | 49.5        | %  |
| Class B                                | 317               | 9.0              | % 111   | 5.2   | % 206                  | 185.6       | %  |
| Class C                                | 1,314             | 37.2             | % 734   | 34.7  | % 580                  | 79.0        | %  |
| Total motorhome backlog <sup>(1)</sup> | 3,534             | 100.0            | % 2,118 | 100.0 | % 1,416                | 66.9        | %  |
| Travel trailer                         | 117               | 77.5             | % 557   | 81.1  | % (440)                | (79.0)      | )% |
| Fifth wheel                            | 34                | 22.5             | % 130   | 18.9  | % (96)                 | (73.8)      | )% |
| Total towable backlog <sup>(1)</sup>   | 151               | 100.0            | % 687   | 100.0 | % (536)                | (78.0)      | )% |

Approximate backlog revenue in thousands

|           |           |           |            |        |    |
|-----------|-----------|-----------|------------|--------|----|
| Motorhome | \$340,703 | \$226,457 | \$114,246  | 50.4   | %  |
| Towable   | \$3,401   | \$14,049  | \$(10,648) | (75.8) | )% |

We include in our backlog all accepted purchase orders from dealers to be shipped within the next six months.

<sup>(1)</sup> Orders in backlog can be cancelled or postponed at the option of the purchaser and, therefore, backlog may not necessarily be an accurate measure of future sales.

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## Results of Operations

## Current Quarter Compared to the Comparable Quarter Last Year

The following is an analysis of changes in key items included in the statements of operations:

| (In thousands, except percent and per share data) | Quarter Ended     |                              | December 1, 2012 | % of Revenues <sup>(1)</sup> | Increase (Decrease) | % Change |   |  |
|---|-------------------|------------------------------|------------------|------------------------------|---------------------|----------|---|--|
|   | November 30, 2013 | % of Revenues <sup>(1)</sup> |                  |                              |                     |          |   |  |
| Net revenues                                      | \$222,670         | 100.0                        | % \$193,554      | 100.0                        | % \$29,116          | 15.0     | % |  |
| Cost of goods sold                                | 196,708           | 88.3                         | % 172,807        | 89.3                         | % 23,901            | 13.8     | % |  |
| Gross profit                                      | 25,962            | 11.7                         | % 20,747         | 10.7                         | % 5,215             | 25.1     | % |  |
| Selling   | 4,333             | 1.9                          | % 4,961          | 2.6                          | % (628)             | (12.7)   | % |  |
| General and administrative                        | 5,623             | 2.5                          | % 5,812          | 3.0                          | % (189)             | (3.3)    | % |  |
| Loss on sale of asset held for sale               | —                 | —                            | % 28             | —                            | % (28)              | (100.0)  | % |  |
| Operating expenses                                | 9,956             | 4.5                          | % 10,801         | 5.6                          | % (845)             | (7.8)    | % |  |
| Operating income                                  | 16,006            | 7.2                          | % 9,946          | 5.1                          | % 6,060             | 60.9     | % |  |
| Non-operating income                              | 91                | —                            | % 614            | 0.3                          | % (523)             | (85.2)   | % |  |
| Income before income taxes                        | 16,097            | 7.2                          | % 10,560         | 5.5                          | % 5,537             | 52.4     | % |  |
| Provision for taxes                               | 4,951             | 2.2                          | % 3,169          | 1.6                          | % 1,782             | 56.2     | % |  |
| Net income  | \$11,146          | 5.0                          | % \$7,391        | 3.8                          | % \$3,755           | 50.8     | % |  |
| Diluted income per share                          | \$0.40            |                              | \$0.26           |                              | \$0.14              | 53.8     | % |  |
| Diluted average shares outstanding                | 27,971            |                              | 28,361           |                              | (390)               | (1.4)    | % |  |

<sup>(1)</sup> Percentages may not add due to rounding differences.

Unit deliveries and ASP, net of discounts, consisted of the following:

| (In units)                 | Quarter Ended     |                              | December 1, 2012 | Product Mix % <sup>(1)</sup> | Increase (Decrease) | % Change |   |  |
|----------------------------|-------------------|------------------------------|------------------|------------------------------|---------------------|----------|---|--|
|                            | November 30, 2013 | Product Mix % <sup>(1)</sup> |                  |                              |                     |          |   |  |
| Motorhomes:                |                   |                              |                  |                              |                     |          |   |  |
| Class A gas                | 710               | 35.4                         | % 620            | 40.4                         | % 90                | 14.5     | % |  |
| Class A diesel             | 397               | 19.8                         | % 345            | 22.5                         | % 52                | 15.1     | % |  |
| Total Class A              | 1,107             | 55.2                         | % 965            | 62.9                         | % 142               | 14.7     | % |  |
| Class B                    | 102               | 5.1                          | % 90             | 5.9                          | % 12                | 13.3     | % |  |
| Class C                    | 796               | 39.7                         | % 479            | 31.2                         | % 317               | 66.2     | % |  |
| Total motorhome deliveries | 2,005             | 100.0                        | % 1,534          | 100.0                        | % 471               | 30.7     | % |  |
| ASP (in thousands)         | \$100.5           |                              | \$111.9          |                              | \$(11.5)            | (10.2)   | % |  |
| Towables:                  |                   |                              |                  |                              |                     |          |   |  |
| Travel trailer             | 407               | 84.1                         | % 408            | 73.2                         | % (1)               | (0.2)    | % |  |
| Fifth wheel                | 77                | 15.9                         | % 149            | 26.8                         | % (72)              | (48.3)   | % |  |
| Total towable deliveries   | 484               | 100.0                        | % 557            | 100.0                        | % (73)              | (13.1)   | % |  |
| ASP (in thousands)         | \$21.6            |                              | \$21.4           |                              | \$0.2               | 1.2      | % |  |

<sup>(1)</sup> Percentages may not add due to rounding differences.





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Net revenues consisted of the following:

| (In thousands)              | Quarter Ended        |       |                     |       | Increase<br>(Decrease) | %<br>Change |   |  |
|-----------------------------|----------------------|-------|---------------------|-------|------------------------|-------------|---|--|
|                             | November 30,<br>2013 |       | December 1,<br>2012 |       |                        |             |   |  |
| Motorhomes <sup>(1)</sup>   | \$204,385            | 91.8  | % \$173,828         | 89.8  | % \$30,557             | 17.6        | % |  |
| Towables <sup>(2)</sup>     | 10,531               | 4.7   | % 12,071            | 6.2   | % (1,540)              | (12.8)      | % |  |
| Other manufactured products | 7,754                | 3.5   | % 7,655             | 4.0   | % 99                   | 1.3         | % |  |
| Total net revenues          | \$222,670            | 100.0 | % \$193,554         | 100.0 | % \$29,116             | 15.0        | % |  |

(1) Motorhome unit revenue less discounts, sales promotions and incentives, and accrued loss on repurchase adjustments.

(2) Includes towable units and parts.

Motorhome net revenues increased \$30.6 million or 17.6% in the first quarter of Fiscal 2014. The increase was attributed primarily to a 30.7% increase in unit deliveries driven by higher dealer and retail consumer demand, partially offset by a decrease in motorhome ASP of 10.2% as compared to the first quarter of Fiscal 2013. The decrease in ASP was primarily due to a shift in class A diesel product to lower price points, a higher percent of Class C unit sales and a lower percent of class A gas unit sales in the first quarter of Fiscal 2014.

The decrease in Towables revenues of \$1.5 million or 12.8% was attributed to a 13.1% decrease in unit deliveries with ASPs comparable to the first quarter of Fiscal 2013.

One contributing factor to the increase in unit deliveries during the quarter relates to revised shipping terms with our dealers. Effective in the first quarter of Fiscal 2014, we entered into revised dealer agreements to change our shipping terms so that title and risk of loss passes to our dealers upon acceptance of the unit by an independent transportation company for delivery which is standard industry practice. As a result of this term change, an additional \$21.4 million of revenue was recognized in the quarter, which represented units in possession of the transportation company in-transit to the dealer. In Fiscal 2013, such revenues would have been recognized in the second fiscal quarter. Conversely, due to our 52/53 week fiscal year convention, the first quarter of Fiscal 2013 had an extra week in the quarter as compared to the first quarter of Fiscal 2014 resulting in an additional \$13.8 million of revenue recognized in the prior year first quarter. The net effect of these two timing items resulted in a positive impact of \$7.6 million when comparing the first quarter of Fiscal 2014 to the first quarter of Fiscal 2013.

Cost of goods sold was \$196.7 million, or 88.3% of net revenues for the first quarter of Fiscal 2014 compared to \$172.8 million, or 89.3% of net revenues for the first quarter of Fiscal 2013 due to the following:

• Total variable costs (materials, direct labor, variable overhead, delivery expense and warranty), as a percent of net revenues, decreased to 83.2% this year from 83.7%.

Fixed overhead (manufacturing support labor, depreciation and facility costs) and research and development-related costs decreased to 5.2% of net revenues compared to 5.6% for Fiscal 2013. This difference was primarily due to significantly higher production levels in Fiscal 2014 which resulted in higher absorption of fixed overhead costs.

▲ All factors considered, gross profit increased from 10.7% to 11.7% of net revenues.

Selling expenses decreased to 1.9% from 2.6% of net revenues in the first quarter of Fiscal 2014 compared to Fiscal 2013, respectively. Selling expenses decreased \$628,000, or 12.7%, in the first quarter of Fiscal 2014 compared to the same period in Fiscal 2013. The expense decrease was primarily due to advertising expenses associated with timing of the Louisville show which occurred in the first quarter of Fiscal 2013 and will occur in the second quarter of Fiscal 2014.

General and administrative expenses were 2.5% and 3.0% of net revenues in the first quarter of Fiscal 2014 and Fiscal 2013, respectively. General and administrative expenses decreased \$189,000, or 3.3% in the first quarter of Fiscal 2014 compared to the same period in Fiscal 2013. This decrease was due primarily to a decrease in legal expenses of \$527,000, partially offset by increased stock compensation expense of \$209,000 in Fiscal 2014.

Non-operating income decreased \$523,000 or 85.2%, in the first quarter of Fiscal 2014 compared to the same period in Fiscal 2013. This difference is primarily due to proceeds from COLI policies in Fiscal 2013.

The overall effective income tax provision rate for the first quarter of Fiscal 2014 was 30.8% compared to the tax provision rate of 30.0% for the first quarter of Fiscal 2013. The increase in tax rate for the first quarter of Fiscal 2014 is primarily a result of the increased level of pretax book income earned during the quarter and a reduced level (in comparison to book income) of benefits recorded for tax free and dividend income as well as uncertain tax positions during the quarter.

Net income and diluted income per share were \$11.1 million and \$0.40 per share, respectively, for the first quarter of Fiscal 2014. In the first quarter of Fiscal 2013, net income was \$7.4 million and diluted income was \$0.26 per share.

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### Analysis of Financial Condition, Liquidity and Resources

Cash and cash equivalents decreased \$14.5 million during the first three months of Fiscal 2014 and totaled \$49.7 million as of November 30, 2013. Significant liquidity events that occurred during the first three months of Fiscal 2014 were:

• Increase in receivables and prepaid assets of \$13.9 million

• Generation of net income of \$11.1 million

• Increases in inventories of \$10.4 million

• Stock repurchases of approximately \$5.6 million partially offset by \$2.1 million of proceeds from the exercise of stock options

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 our eligible inventory and expires 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. See Note 6 to the financial statements.

We filed a Registration Statement on Form S-3, which was declared effective by the SEC on May 9, 2013. Subject to market conditions, we have the ability to offer and sell up to \$35 million of our common stock in one or more offerings pursuant to the Registration Statement. The Registration Statement will be available for use for three years from its effective date. We currently have no plans to offer and sell the common stock registered under the Registration Statement; however, it does provide another potential source of liquidity in addition to the alternatives already in place.

Working capital at November 30, 2013 and August 31, 2013 was \$164.8 million and \$153.5 million, respectively, an increase of \$11.3 million. We currently expect cash on hand, funds generated from operations and the availability under a credit facility to be sufficient to cover both short-term and long-term operating requirements. We anticipate capital expenditures during the balance of Fiscal 2014 of approximately \$10.2 million, primarily for manufacturing equipment and facilities and IT upgrades.

We made share repurchases of \$5.6 million in the first three months of Fiscal 2014. If we believe the common stock is trading at attractive levels and reflects a prudent use of our capital, we may purchase additional shares in the remainder of Fiscal 2014. See Part II, Item 2 of this Form 10-Q.

### Operating Activities

Cash used in operating activities was \$11.9 million for the three months ended November 30, 2013 compared to \$10.3 million for the three months ended December 1, 2012. In Fiscal 2014 the combination of net income of \$11.1 million and changes in non-cash charges (e.g., depreciation, LIFO, stock-based compensation, deferred income taxes) provided \$13.5 million of operating cash. Changes in assets and liabilities (primarily increases in inventory and receivables) used \$25.4 million of operating cash. In the first three months of Fiscal 2013, the combination of net income of \$7.4 million and changes in non-cash charges (e.g., depreciation, LIFO, stock-based compensation, deferred income taxes) provided \$8.9 million of operating cash. Changes in assets and liabilities (primarily an increase in inventories) used \$19.2 million of operating cash.

### Investing Activities

Cash provided by investing activities of \$811,000 for the three months ended November 30, 2013 was due primarily to proceeds from the sale of investments of \$2.4 million and was partially offset by capital spending of \$1.7 million. In the three months ended December 1, 2012, cash used in investing activities of \$975,000 was due primarily to payments of COLI borrowings of \$1.4 million, and capital spending of \$1.3 million, and was partially offset by proceeds of \$1.0 million from COLI policies and proceeds of \$566,000 from the sale of property.

### Financing Activities

Cash used in financing activities of \$3.5 million for the three months ended November 30, 2013 was primarily due to \$5.6 million in repurchases of our stock partially offset by proceeds of \$2.1 million from the exercise of stock options.

Cash used in financing activities of \$7.3 million for the three months ended December 1, 2012 was primarily due to \$7.2 million in repurchases of our stock.

#### Significant Accounting Policies

We describe our significant accounting policies in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2013. We discuss our critical accounting estimates in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the fiscal year ended August 31, 2013. We refer to these disclosures for a detailed

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explanation of our significant accounting policies and critical accounting estimates. There has been no significant change in our significant accounting policies or critical accounting estimates since the end of Fiscal 2013.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

None

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures", as such term is defined under Securities Exchange Act of 1934, as amended ("Exchange Act") Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's disclosure control objectives.

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Report (the "Evaluation Date"). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10 K for the fiscal year ended August 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On December 19, 2007, the Board of Directors authorized the repurchase of outstanding shares of our common stock, depending on market conditions, for an aggregate consideration of up to \$60 million. There is no time restriction on this authorization. During the first quarter of Fiscal 2014, 210,000 shares were repurchased under the authorization, at an aggregate cost of \$5.6 million. Of these shares, 49,000 were repurchased from employees who vested in Winnebago Industries shares during the first quarter of Fiscal 2014 and elected to pay their payroll tax via shares as

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opposed to cash. As of November 30, 2013, there was \$34.4 million remaining under this authorization.

This table provides information with respect to purchases by us of shares of our common stock during each fiscal month of the first quarter of Fiscal 2014:

| Period              | Total Number of Shares Purchased | Average Price Paid per Share | Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---------------------|----------------------------------|------------------------------|--|--|
| 09/01/13 - 10/05/13 | 72,322                           | \$22.49                      | 72,322   | \$38,295,000   |
| 10/06/13 - 11/02/13 | 52,808                           | \$27.44                      | 52,808   | \$36,846,000   |
| 11/03/13 - 11/30/13 | 85,037                           | \$29.23                      | 85,037   | \$34,360,000   |
| Total               | 210,167                          | \$26.46                      | 210,167  | \$34,360,000   |

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Item 6. Exhibits

- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 3, 2014.
- 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated January 3, 2014.
- 32.1 Certification by the Chief Executive Officer pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated January 3, 2014.
- 32.2 Certification by the Chief Financial Officer pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated January 3, 2014.

101.INS\*XBRL Instance Document

101.SCH\*XBRL Taxonomy Extension Schema Document

101.CAL\*XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF\*XBRL Taxonomy Extension Definitions Linkbase Document

101.LAB\*XBRL Taxonomy Extension Label Linkbase Document

101.PRE\*XBRL Taxonomy Extension Presentation Linkbase Document

\*Attached as Exhibit 101 to this report are the following financial statements from our Quarterly Report on Form 10-Q for the quarter ended November 30, 2013 formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations and Comprehensive Income, (iii) the Unaudited Consolidated Statement of Cash Flows, and (iv) related notes to these financial statements. Such exhibits are deemed furnished and not filed pursuant to Rule 406T of Regulation S-T.

**SIGNATURES**

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

WINNEBAGO INDUSTRIES, INC.

Date: January 3, 2014

By /s/ Randy J. Potts  
Randy J. Potts  
Chief Executive Officer, President, Chairman of the  
Board  
(Principal Executive Officer)

Date: January 3, 2014

By /s/ Sarah N. Nielsen  
Sarah N. Nielsen  
Vice President, Chief Financial Officer  
(Principal Financial and Accounting Officer)