

WINNEBAGO INDUSTRIES INC  
Form 10-Q  
December 23, 2010

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 27, 2010

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

(State or other jurisdiction of incorporation or organization)

42-0802678

(I.R.S. Employer Identification No.)

P. O. Box 152, Forest City, Iowa

(Address of principal executive offices)

50436

(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

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

The number of shares of common stock, par value \$0.50 per share, outstanding December 22, 2010 was 29,115,090.



WINNEBAGO INDUSTRIES, INC.

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## Part I. FINANCIAL INFORMATION

## Item 1. Condensed Financial Statements

## Winnebago Industries, Inc.

## Unaudited Statements of Operations

| (In thousands, except per share data)       | Quarter Ended        |                      |
|---|----------------------|----------------------|
|   | November 27,<br>2010 | November 28,<br>2009 |
| Net revenues                                | \$123,711            | \$81,017             |
| Cost of goods sold                          | 112,512              | 80,493               |
| Gross profit                                | 11,199               | 524                  |
| Operating expenses:                         |                      |                      |
| Selling                                     | 3,267                | 3,229                |
| General and administrative                  | 3,651                | 3,272                |
| Gain on sale of asset held for sale         | (644)                | —                    |
| Total operating expenses                    | 6,274                | 6,501                |
| Operating income (loss)                     | 4,925                | (5,977)              |
| Other non-operating income (expense)        | 152                  | (233)                |
| Income (loss) before income taxes           | 5,077                | (6,210)              |
| Provision (benefit) for taxes               | 1,291                | (4,866)              |
| Net income (loss)                           | \$3,786              | \$(1,344)            |
| Income (loss) per common share:             |                      |                      |
| Basic                                       | \$0.13               | \$(0.05)             |
| Diluted                                     | \$0.13               | \$(0.05)             |
| Weighted average common shares outstanding: |                      |                      |
| Basic                                       | 29,112               | 29,073               |
| Diluted                                     | 29,115               | 29,086               |

See unaudited notes to financial statements.

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## Winnebago Industries, Inc.

## Unaudited Balance Sheets

| (In thousands, except per share data)  | November 27,<br>2010 | August 28,<br>2010 |
|--|----------------------|--------------------|
| Assets   |                      |                    |
| Current assets:  |                      |                    |
| Cash and cash equivalents  | \$81,165             | \$74,691           |
| Short-term investments   | 5,250                | —                  |
| Receivables, less allowance for doubtful accounts (\$106 and \$91, respectively)       | 16,508               | 18,798             |
| Inventories  | 45,173               | 43,526             |
| Prepaid expenses and other assets  | 4,597                | 4,570              |
| Income taxes receivable  | 132                  | 132                |
| Total current assets   | 152,825              | 141,717            |
| Property, plant, and equipment, net  | 24,949               | 25,677             |
| Assets held for sale   | 1,201                | 4,254              |
| Long-term investments  | 11,146               | 17,785             |
| Investment in life insurance   | 23,500               | 23,250             |
| Other assets   | 15,850               | 14,674             |
| Total assets   | \$229,471            | \$227,357          |
| Liabilities and Stockholders' Equity   |                      |                    |
| Current liabilities:   |                      |                    |
| Accounts payable   | \$17,035             | \$19,725           |
| Income taxes payable   | 1,301                | 99                 |
| Accrued expenses:  |                      |                    |
| Accrued compensation   | 11,176               | 10,529             |
| Product warranties   | 7,607                | 7,634              |
| Self-insurance   | 4,499                | 4,409              |
| Accrued loss on repurchases  | 964                  | 1,362              |
| Promotional  | 1,616                | 1,817              |
| Other  | 4,087                | 4,797              |
| Total current liabilities  | 48,285               | 50,372             |
| Long-term liabilities:   |                      |                    |
| Unrecognized tax benefits  | 5,761                | 5,877              |
| Postretirement health care and deferred compensation benefits                          | 74,905               | 73,581             |
| Total long-term liabilities  | 80,666               | 79,458             |
| 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   | 29,290               | 29,464             |
| Retained earnings  | 424,461              | 420,675            |
| Accumulated other comprehensive income   | 642                  | 1,242              |
| Treasury stock, at cost (22,666 and 22,661 shares, respectively)                       | (379,761)            | (379,742)          |
| Total stockholders' equity   | 100,520              | 97,527             |
| Total liabilities and stockholders' equity   | \$229,471            | \$227,357          |

See unaudited notes to financial statements.



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Winnebago Industries, Inc.

Unaudited Statements of Cash Flows

| (In thousands)   | Three Months Ended   |                      |
|--|----------------------|----------------------|
|  | November 27,<br>2010 | November 28,<br>2009 |
| Operating activities:  |                      |                      |
| Net income (loss)  | \$3,786              | \$(1,344 )           |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                      |                      |
| Depreciation   | 1,430                | 1,684                |
| Stock-based compensation   | 80                   | 164                  |
| Deferred income taxes including valuation allowance                                      | 291                  | —                    |
| Postretirement benefit income and deferred compensation expenses                         | 345                  | 323                  |
| Provision (reduction) for doubtful accounts  | 17                   | (52 )                |
| Increase in cash surrender value of life insurance policies                              | (324 )               | (296 )               |
| Gain on sale or disposal of property   | (693 )               | (8 )                 |
| Other  | 29                   | 19                   |
| Change in assets and liabilities:  |                      |                      |
| Inventories  | (1,647 )             | (4,229 )             |
| Receivables and prepaid assets   | 2,246                | (449 )               |
| Income taxes and unrecognized tax benefits   | 974                  | (4,887 )             |
| Accounts payable and accrued expenses  | (3,435 )             | 4,055                |
| Postretirement and deferred compensation benefits  | (926 )               | (837 )               |
| Net cash provided by (used in) operating activities                                      | 2,173                | (5,857 )             |
| Investing activities:  |                      |                      |
| Proceeds from the sale of investments, at par  | 1,200                | —                    |
| Purchases of property and equipment  | (667 )               | (509 )               |
| Proceeds from the sale of property   | 3,769                | 44                   |
| Other  | 24                   | (464 )               |
| Net cash provided by (used in) investing activities                                      | 4,326                | (929 )               |
| Financing activities:  |                      |                      |
| Payments for purchase of common stock  | (89 )                | (249 )               |
| Proceeds from exercise of stock options  | —                    | 15                   |
| Other  | 64                   | (341 )               |
| Net cash used in financing activities  | (25 )                | (575 )               |
| Net increase (decrease) in cash and cash equivalents                                     | 6,474                | (7,361 )             |
| Cash and cash equivalents at beginning of period   | 74,691               | 36,566               |
| Cash and cash equivalents at end of period   | \$81,165             | \$29,205             |
| Supplemental cash flow disclosure:   |                      |                      |
| Income taxes paid  | \$25                 | \$21                 |

See unaudited notes to financial statements.

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Winnebago Industries, Inc.  
 Unaudited Notes to Financial Statements

General:

The "Company," "we," "our" and "us" are used interchangeably to refer to Winnebago Industries, Inc.

Note 1: Basis of Presentation

In our opinion, the accompanying condensed unaudited financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position as of November 27, 2010 and the results of operations for the first quarters of Fiscal 2011 and 2010, and cash flows for the first quarters of Fiscal 2011 and 2010. The statement of operations for the first quarter of Fiscal 2011 is not necessarily indicative of the results to be expected for the full year. The balance sheet data as of August 28, 2010 was derived from audited financial statements, but does not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto appearing in our Annual Report to Shareholders for the year ended August 28, 2010.

Note 2: New Accounting Pronouncements

On January 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06. The ASU amends FASB Accounting Standards Codification (ASC) 820 to add new requirements for disclosures about transfers into and out of fair value hierarchy Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The ASU also amends guidance on employers' disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. The guidance in the ASU is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010 (our Fiscal 2012).

Note 3: Fair Value Measurements

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

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.

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 27, 2010 and August 28, 2010 according to the valuation techniques we used to determine their fair values:

| (In thousands) | Fair Value at<br>November 27,<br>2010 | Fair Value Measurements Using Inputs Considered As |   |  |
|----------------|---------------------------------------|--|---|--|
|                |                                       | Level 1<br>Quoted Prices in<br>Active Markets for  | Level 2<br>Significant Other<br>Observable Inputs | Level 3<br>Significant<br>Unobservable |



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|   |          | Identical Assets |         | Inputs   |
|---|----------|------------------|---------|----------|
| Short-term investments                    |          |                  |         |          |
| Student loan ARS with pending redemptions | \$5,250  | \$—              | \$5,250 | \$—      |
| Long-term investments                     |          |                  |         |          |
| Student loan ARS                          | 11,146   | —                | —       | 11,146   |
| Assets that fund deferred compensation    |          |                  |         |          |
| Domestic equity funds                     | 9,736    | 9,736            | —       | —        |
| International equity funds                | 1,780    | 1,780            | —       | —        |
| Fixed income                              | 620      | 620              | —       | —        |
| Total assets at fair value                | \$28,532 | \$12,136         | \$5,250 | \$11,146 |

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| (In thousands)                         | Fair Value at<br>August 28, 2010 | Fair Value Measurements Using Inputs Considered As                    |   |  |
|--|----------------------------------|---|---|--|
|  |                                  | Level 1<br>Quoted Prices in<br>Active Markets for<br>Identical Assets | Level 2<br>Significant Other<br>Observable Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
| Long-term investments                  |                                  |   |   |  |
| Student loan ARS                       | \$17,785                         | \$—   | \$—   | \$17,785   |
| Assets that fund deferred compensation |                                  |   |   |  |
| Domestic equity funds                  | 8,735                            | 8,735   | —   | —  |
| International equity funds             | 1,569                            | 1,569   | —   | —  |
| Fixed income                           | 650                              | 650   | —   | —  |
| Total assets at fair value             | \$28,739                         | \$10,954  | \$—   | \$17,785   |

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)                                    | November 27,<br>2010 | November 28,<br>2009 |
|---|----------------------|----------------------|
| Balance at beginning of period                    | \$17,785             | \$33,294             |
| Transfer to Level 2                               | (5,250 )             | (200 )               |
| Net change included in other comprehensive income | (189 )               | 212                  |
| Sales   | (1,200 )             | —                    |
| Balance at end of period                          | \$11,146             | \$33,306             |

**Transfers between Levels**

During the first quarter of Fiscal 2011 there were two transfers out of Level 3 valued assets. The \$1.2 million transfer was related to a redemption at par of Auction Rate Securities (ARS) that occurred during the quarter. The \$5.3 million transfer from a Level 3 valuation to Level 2 valuation was due to ARS redemptions at par subsequent to quarter end.

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

**Long-Term and Short-Term Investments**

Our debt securities are comprised of ARS. Our ARS related investments (as described in Note 4) are classified as Level 3 as quoted prices were unavailable due to events described in Note 4. Due to limited market information, we utilized a discounted cash flow (DCF) model to derive an estimate of fair value at November 27, 2010. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, forward projections of the interest rate benchmarks, the probability of full repayment of the principal considering the credit quality and guarantees in place and the rate of return required by investors to own such securities given the current liquidity risk associated with ARS. All of our short-term ARS portfolio is classified as Level 2 as they are also in an inactive market but inputs other than quoted prices were observable and used to value the securities.

**Assets that Fund Deferred Compensation**

Our assets that fund deferred compensation are marketable equity securities and are measured at fair value using quoted market prices and primarily consist of equity-based mutual funds. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available. These securities fund the Executive Share Option Plan, a deferred compensation program, and are presented as other assets in the accompanying balance sheets.

**Note 4: Investments**

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

At November 27, 2010, we held \$11.4 million (par value) of long term investments comprised of tax-exempt ARS, which are variable-rate debt securities and have a long-term maturity with the interest rate being reset through Dutch auctions that are typically held every 7, 28 or 35 days. Prior to February 2008, these securities traded at par and are callable at par at the option of the issuer. Interest is typically paid at the end of each auction period or semiannually. The ARS we hold are AAA/Aaa rated with most collateralized by student loans guaranteed by the U.S. Government under the Federal Family Education Loan Program.

Since February 2008, most ARS auctions have failed for these securities and there is no assurance that future auctions will succeed and, as a result, our ability to liquidate our investment and fully recover the par value in the near term may be limited or nonexistent. We have no reason to believe that any of the underlying issuers of our ARS are presently at risk of default. We have continued to receive interest payments on the ARS in accordance with their terms. We believe we will ultimately be able to liquidate our ARS related investments without significant loss primarily due to the collateral securing our ARS. However, redemption could

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take until final maturity of the ARS (up to 30 years) to realize the par value of our investments. Due to the changes and uncertainty in the ARS market, we believe the recovery period for these investments is likely to be longer than 12 months and as a result, we have classified these investments as long-term as of November 27, 2010. We also hold \$5.3 million (par value) of ARS that are classified as short-term investments as these securities were redeemed at par subsequent to quarter end on or before December 8, 2010.

At November 27, 2010, there was insufficient observable ARS market information available to determine the fair value of our long term ARS investments. Therefore, we estimated fair value by incorporating assumptions that market participants would use in their estimates of fair value. Some of these assumptions included credit quality, final stated maturities, estimates on the probability of the issue being called prior to final maturity, impact due to extended periods of maximum auction rates and broker quotes from independent evaluators. Based on this analysis, we recorded a temporary impairment of \$254,000 related to our long-term ARS investments of \$11.4 million (par value).

## Note 5: Inventories

Inventories consist of the following:

| (In thousands)    | November 27,<br>2010 | August 28,<br>2010 |
|-------------------|----------------------|--------------------|
| Finished goods    | \$25,015             | \$21,200           |
| Work-in-process   | 23,585               | 24,897             |
| Raw materials     | 26,500               | 26,992             |
|                   | 75,100               | 73,089             |
| LIFO reserve      | (29,927 )            | (29,563 )          |
| Total inventories | \$45,173             | \$43,526           |

## Note 6: Property, Plant and Equipment and Assets Held for Sale

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

| (In thousands)                           | November 27,<br>2010 | August 28,<br>2010 |
|--|----------------------|--------------------|
| Land                                     | \$772                | \$772              |
| Buildings                                | 49,313               | 49,309             |
| Machinery and equipment                  | 89,479               | 89,304             |
| Transportation equipment                 | 8,906                | 9,109              |
|  | 148,470              | 148,494            |
| Less accumulated depreciation            | (123,521 )           | (122,817 )         |
| Total property, plant and equipment, net | \$24,949             | \$25,677           |

During the first quarter of Fiscal 2011, an idled assembly facility in Charles City, Iowa (CCMF) classified as held for sale, was sold to CGS TIRES US, INC. (CGS). The sale was finalized on November 1, 2010 and generated \$4.0 million in gross proceeds, selling costs of \$256,000 and a gain of \$644,000.

Assets held for sale as of November 27, 2010 of \$1.2 million consisted of an idled fiberglass manufacturing facility in Hampton, Iowa.

## Note 7: Credit Facility

On October 13, 2009, we entered into a Loan and Security Agreement (the "Loan Agreement") with Burdale Capital Finance, Inc., as Agent. The Loan Agreement provides for an initial \$20.0 million revolving credit facility, based on

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

Interest on loans made under the Loan Agreement will be based on the greater of LIBOR or a base rate of 2.0 percent plus a margin of 4.0 percent or the greater of prime rate or 4.25 percent plus a margin of 3.0 percent. The unused line fee associated with this Loan Agreement is 1.25 percent per annum. Additionally, under certain circumstances, we will be required to pay an early termination fee ranging from 1 - 3 percent of the maximum credit available under the Loan Agreement if we terminate the Loan Agreement prior to October 13, 2012.

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## Note 8: Warranty

We provide our motor home customers a comprehensive 12-month/15,000-mile warranty on the Class A, Class B and Class C coaches, and a 3-year/36,000-mile structural warranty on Class A and Class C sidewalls and floors. 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. We record our warranty liabilities based on our estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. We also incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions.

Changes in our product warranty liability are as follows:

| (In thousands)                 | Quarter Ended        |                      |
|--------------------------------|----------------------|----------------------|
|                                | November 27,<br>2010 | November 28,<br>2009 |
| Balance at beginning of period | \$7,634              | \$6,408              |
| Provision                      | 1,470                | 1,129                |
| Claims paid                    | (1,497 )             | (1,357 )             |
| Balance at end of period       | \$7,607              | \$6,180              |

## Note 9: Employee and Retiree Benefits

Postretirement health care and deferred compensation benefits are as follows:

| (In thousands)  | Quarter Ended        |                    |
|---|----------------------|--------------------|
|   | November 27,<br>2010 | August 28,<br>2010 |
| Postretirement health care benefit cost                                 | \$40,649             | \$40,327           |
| Non-qualified deferred compensation                                     | 25,193               | 25,372             |
| Executive share option plan liability                                   | 9,909                | 8,698              |
| SERP benefit liability  | 3,157                | 3,107              |
| Executive deferred compensation   | 81                   | 74                 |
| Total postretirement health care and deferred compensation benefits     | 78,989               | 77,578             |
| Less current portion  | (4,084 )             | (3,997 )           |
| Long-term postretirement health care and deferred compensation benefits | \$74,905             | \$73,581           |

## Postretirement Health Care Benefits

We provide certain health care and other benefits for retired employees hired before April 1, 2001, who have fulfilled eligibility requirements of age 55 with 15 years of continuous service. Retirees are required to pay a monthly premium for medical coverage based on years of service at retirement and then current age. Our postretirement health care plan currently is not funded. We use a September 1 measurement date for this plan. Net periodic postretirement benefit income consisted of the following components:

| (In thousands)                             | Quarter Ended        |                      |
|--|----------------------|----------------------|
|  | November 27,<br>2010 | November 28,<br>2009 |
| Interest cost                              | \$476                | \$494                |
| Service cost                               | 152                  | 139                  |
| Net amortization and deferral              | (776 )               | (831 )               |
| Net periodic postretirement benefit income | \$(148 )             | \$(198 )             |
| Payments for postretirement health care    | \$306                | \$183                |

For accounting purposes, we recognized income from the plan for the first quarters of both Fiscal 2011 and Fiscal 2010 due to the amortization of the cost savings from an amendment effective September 2004, which amended our postretirement health care benefit by establishing a maximum employer contribution amount.

Note 10: Contingent Liabilities and Commitments

Repurchase Commitments

Generally, companies in the RV industry enter into repurchase agreements with lending institutions which have provided wholesale floorplan financing to dealers. Most dealers' motor homes 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 motor homes purchased.

Our repurchase agreements provide that, in the event of default by the dealer on the agreement to pay the lending institution, we

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will repurchase the financed merchandise. The terms of these agreements, which 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 liability cannot exceed 100 percent of the dealer invoice. Our contingent liability on these repurchase agreements was approximately \$170.3 million and \$155.5 million at November 27, 2010 and August 28, 2010, 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 motor 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 \$6.8 million and \$4.5 million at November 27, 2010 and August 28, 2010, respectively.

Our risk of loss related to these repurchase commitments is 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. Accrued loss on repurchases were \$964,000 as of November 27, 2010 and \$1.4 million as of August 28, 2010. A summary of the activity for the fiscal years stated for repurchased units is as follows:

A summary of repurchase activity is as follows:

| (Dollars in thousands) | Quarter Ended        |                      |
|------------------------|----------------------|----------------------|
|                        | November 27,<br>2010 | November 28,<br>2009 |
| Inventory repurchased  |                      |                      |
| Units                  | 1                    | 2                    |
| Dollars                | \$66                 | \$159                |
| Inventory resold       |                      |                      |
| Units                  | 1                    | 2                    |
| Cash collected         | \$60                 | \$146                |
| Loss recognized        | \$6                  | \$16                 |

Litigation

We are involved in various legal proceedings which are ordinary routine litigation incidental to our business, some of which are covered in whole or in part by insurance. While it is impossible to estimate with certainty the ultimate legal and financial liability with respect to this litigation, we believe that 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 Topic 740, Income Taxes, (ASC 740). 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. As of November 27, 2010 and August 28, 2010, we have applied a full valuation allowance of \$40.5 million and \$41.8 million, respectively, against our 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. Under that standard, our three-year historical cumulative loss was a significant negative factor. We have evaluated the sustainability of our deferred tax assets on our balance sheet which includes the assessment of cumulative income or losses over recent prior periods. Based on ASC 740 guidelines, we determined a full valuation allowance was appropriate as of November 27, 2010. 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 U.S. federal jurisdiction, as well as various international and state jurisdictions. Our federal tax returns have been audited by the Internal Revenue Service (IRS) through Fiscal 2008. Our Fiscal 2009 federal income tax return is currently under examination by the IRS. Although certain years are no longer subject to examinations by the IRS and various state taxing authorities, NOL 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. A number of years may elapse before an uncertain tax position is audited and finally resolved, and it is often very difficult to predict the outcome of such audits. Periodically, various state and local jurisdictions conduct audits, therefore, a variety of years are subject to state and local jurisdiction review.

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As of November 27, 2010, our unrecognized tax benefits were \$5.8 million, all of which, if recognized, would positively affect our effective tax rate as all of the deferred tax assets associated with these positions have a full valuation allowance established against them. It is our policy to recognize interest and penalties accrued relative to unrecognized tax benefits as tax expense. As of November 27, 2010, we had accrued \$2.5 million in interest and penalties. 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 12: Income Per Share

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

| (In thousands, except per share data)                             | Quarter Ended        |                      |
|---|----------------------|----------------------|
|   | November 27,<br>2010 | November 28,<br>2009 |
| Income (loss) per share - basic:                                  |                      |                      |
| Net income (loss)   | \$3,786              | \$(1,344 )           |
| Weighted average shares outstanding                               | 29,112               | 29,073               |
| Net income (loss) per share - basic                               | \$0.13               | \$(0.05 )            |
| Income (loss) per share - assuming dilution:                      |                      |                      |
| Net income (loss)   | \$3,786              | \$(1,344 )           |
| Weighted average shares outstanding                               | 29,112               | 29,073               |
| Dilutive impact of options and awards outstanding                 | 3                    | 13                   |
| Weighted average shares and potential dilutive shares outstanding | 29,115               | 29,086               |
| Net income (loss) per share - assuming dilution                   | \$0.13               | \$(0.05 )            |

At the end of the first quarters of Fiscal 2011 and Fiscal 2010, there were options outstanding to purchase 924,731 shares and 962,724 shares, respectively, of common stock at an average price of \$28.05 and \$28.20, 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.

## Note 13: Comprehensive Income

Comprehensive income, net of tax, consists of:

| (In thousands)  | Quarter Ended        |                      |
|---|----------------------|----------------------|
|   | November 27,<br>2010 | November 28,<br>2009 |
| Net income (loss)                                     | \$3,786              | \$(1,344 )           |
| Amortization of prior service credit                  | (655 )               | (652 )               |
| Amortization of actuarial loss                        | 172                  | 137                  |
| Unrealized (depreciation) appreciation of investments | (117 )               | 133                  |
| Comprehensive income (loss)                           | \$3,186              | \$(1,726 )           |

## Note 14: Subsequent Event

We evaluated all events or transactions occurring between the balance sheet date 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.

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

It is suggested that this management's discussion be read in conjunction with the Management's Discussion and Analysis included in our Annual Report to Shareholders for the year ended August 28, 2010.

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, interest rates and availability of credit, low consumer confidence, significant increase in repurchase obligations, inadequate liquidity or capital resources, availability and price of fuel, a further or continued slowdown in the economy, 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, 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

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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 New York Stock Exchange.

## Executive Overview

Winnebago Industries, Inc. is a leading U.S. manufacturer of motor homes with a proud history of manufacturing recreation vehicles for more than 50 years. Our strategy is to manufacture quality motor homes in a profitable manner. We produce all of our motor homes in highly vertically integrated manufacturing facilities in the state of Iowa. We distribute our products through independent dealers throughout the United States and Canada, who then retail the products to the end consumer. Our retail unit market share, as reported by Statistical Surveys, Inc. (Statistical Surveys), is as follows:

|                     | Through October 31, |        | Calendar Year |        |        |  |  |  |
|---------------------|---------------------|--------|---------------|--------|--------|--|--|--|
|                     | 2010                | 2009   | 2009          | 2008   | 2007   |  |  |  |
| US Retail:          |                     |        |               |        |        |  |  |  |
| Class A gas         | 23.8                | % 23.1 | % 22.9        | % 23.2 | % 21.9 |  |  |  |
| Class A diesel      | 14.7                | % 11.2 | % 11.4        | % 8.1  | % 8.9  |  |  |  |
| Total Class A       | 19.3                | % 16.7 | % 16.6        | % 15.3 | % 15.2 |  |  |  |
| Class C             | 17.7                | % 22.8 | % 22.7        | % 22.8 | % 24.0 |  |  |  |
| Total Class A and C | 18.6                | % 19.3 | % 19.1        | % 18.3 | % 18.5 |  |  |  |
| Class B             | 17.5                | % 17.1 | % 18.1        | % 3.5  | % —    |  |  |  |
| Canadian Retail:    |                     |        |               |        |        |  |  |  |
| Class A gas         | 16.7                | % 12.6 | % 13.8        | % 18.4 | % 16.6 |  |  |  |
| Class A diesel      | 11.6                | % 6.7  | % 7.0         | % 5.3  | % 6.3  |  |  |  |
| Total Class A       | 14.4                | % 9.4  | % 10.0        | % 12.4 | % 11.9 |  |  |  |
| Class C             | 14.4                | % 9.3  | % 9.5         | % 19.5 | % 18.3 |  |  |  |
| Total Class A and C | 14.4                | % 9.4  | % 9.8         | % 15.7 | % 14.4 |  |  |  |

We have led the industry with the highest market share in the U.S. of Class A and Class C motor homes combined for the past nine calendar years ending in 2009 and in Calendar 2010 through October per the most recent Statistical Surveys reporting. We have seen notable improvement in our Class A market share in 2010, primarily due to Class A diesel retail acceptance, and we lead the industry in that sector. However, we have experienced a drop in Class C market share in Calendar 2010. In addition to increased competitive pricing pressures in the Class C product, particularly at the entry level, we believe this decline resulted primarily from large volume RV rental operators increasing their fleet purchases in early Calendar 2010. While we participated in some of this volume, we chose not to pursue a large percentage of fleet rental business due to considerably lower margins.

We began producing Class B motor homes in February 2008 and we held the number three U.S. position in retail unit market share for Class B motor homes in Calendar 2009 and through October in Calendar 2010.

We hold the number three retail market share position in Canada of Class A and Class C motor home units combined in 2010 through October, which is approximately 15 percent of the size of the U.S. market. Our market share in Canada was significantly impacted in Calendar 2009 due to distressed merchandise sold into the dealer channel, primarily by competitors going through Chapter 11 bankruptcy. We have seen notable improvement in Calendar 2010 in all categories due to the fact that the majority of that distressed product was retailed in Calendar 2009. Our increased level of Canadian rental orders has also positively impacted our Class C share thus far in Calendar 2010.

## Industry Outlook

The motorized RV market was significantly impacted by highly unstable market conditions in recent years. The tightening of the wholesale and retail credit markets, low consumer confidence, the effect of the global recession and

uncertainty related to fuel prices placed enormous pressure on retail sales and as a result, dealers significantly reduced their inventory levels. Industry motorhome wholesale shipments in the 20 years prior to Calendar 2008 averaged 58,000 units per year, similar to retail demand. In Calendar 2008, shipments dropped 49 percent to 28,300, the lowest deliveries on record since 1971 and then shipments dropped an additional 53 percent in Calendar 2009 to an unprecedented level of 13,200. Retail registrations fell during this same time frame, but not to the same magnitude, resulting in significant dealer inventory liquidation.

Industry shipments have improved dramatically in Calendar 2010 as compared to the prior year and only slightly outpaced retail demand as dealers restocked in the early part of the year. We attribute the recovery to the improvement in wholesale and retail credit availability and also a result of dealer inventory levels reaching equilibrium with retail demand. The current industry outlook for Calendar 2010 per RVIA is for wholesale shipments to be higher than retail activity was in Calendar 2009 by 14 percent, as evidenced in the table below. RVIA has also forecasted that shipments in Calendar 2011 will increase by an additional 5 percent to 26,300 units.

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Key statistics for the motor home industry are as follows:

|                        | US and Canada Industry Class A, B & C Motor Homes<br>Wholesale Shipments <sup>(1)</sup> |            |                        |          | Retail Registrations <sup>(2)</sup> |            |                        |          |
|------------------------|---|------------|------------------------|----------|-------------------------------------|------------|------------------------|----------|
|                        | Calendar Year   |            | (Decrease)<br>Increase | Change   | Calendar Year                       |            | Decrease               | Change   |
| (In units)             | 2009  | 2008       |                        |          | 2009                                | 2008       |                        |          |
| First quarter          | 2,400   | 11,000     | (8,600 )               | (78.2 )% | 4,800                               | 9,700      | (4,900 )               | (50.5 )% |
| Second quarter         | 3,200   | 9,300      | (6,100 )               | (65.6 )% | 7,100                               | 11,900     | (4,800 )               | (40.3 )% |
| Third quarter          | 3,300   | 5,000      | (1,700 )               | (34.0 )% | 5,800                               | 7,600      | (1,800 )               | (23.7 )% |
| Fourth quarter         | 4,300   | 3,000      | 1,300                  | 43.3 %   | 4,200                               | 4,600      | (400 )                 | (8.7 )%  |
| Total                  | 13,200  | 28,300     | (15,100 )              | (53.4 )% | 21,900                              | 33,800     | (11,900 )              | (35.2 )% |
| (In units)             | 2010  | 2009       | Increase               | Change   | 2010                                | 2009       | Increase<br>(Decrease) | Change   |
| First quarter          | 5,700   | 2,400      | 3,300                  | 137.5 %  | 4,900                               | 4,800      | 100                    | 2.1 %    |
| Second quarter         | 7,800   | 3,200      | 4,600                  | 143.8 %  | 7,800                               | 7,100      | 700                    | 9.9 %    |
| Third quarter          | 6,200   | 3,300      | 2,900                  | 87.9 %   | 5,700                               | 5,800      | (100 )                 | (1.7 )%  |
| October                | 2,000   | 1,500      | 500                    | 33.3 %   | 1,800                               | 1,800      | —                      | — %      |
| November -<br>December | 3,300   | (3) 2,800  | 500                    | 17.9 %   | (4) 2,400                           |            |                        |          |
| Total                  | 25,000  | (3) 13,200 | 11,800                 | 89.4 %   | 20,200                              | (4) 21,900 |                        |          |

(1) Class A, B and C wholesale shipments as reported by RVIA, rounded to the nearest hundred.

(2) Class A, B and C U.S. retail registrations as reported by Statistical Surveys for the US and Canada combined, rounded to the nearest hundred.

(3) Based upon forecasted 2010 Class A, B and C wholesale shipments as reported by RVIA in the Roadsigns Winter 2010 issue.

(4) Statistical Surveys has not issued a projection for fourth quarter 2010 retail demand.

### Company Outlook

We have seen significant improvement in our business in Fiscal 2010 and thus far in Fiscal 2011, both in net revenues and in our operating performance. Our increased volume has allowed for greater absorption of our fixed costs and improved labor efficiencies, which favorably impacted our profit margins. Our dealer's inventory levels have remained at approximately the same levels since the end of our second quarter of Fiscal 2010. With dealer inventories at reasonable levels for the past few quarters, we were able to reduce the level of discounting and retail programs offered, which also positively impacted our margins. We believe retail sales will be the key driver to sustain our recovery and for continued growth going forward.

Certain key metrics for our Class A, B and C motor homes are provided in the table below:

| (In units and presented in fiscal quarters, except as noted below) | Wholesale Deliveries | Retail Registrations | As of Quarter End |               |
|--|----------------------|----------------------|-------------------|---------------|
|  |                      |                      | Dealer Inventory  | Order Backlog |
| 2nd Quarter 2009   | 315                  | 666                  | 2,918             | 335           |
| 3rd Quarter 2009   | 620                  | 1,214                | 2,324             | 382           |
| 4th Quarter 2009   | 605                  | 1,235                | 1,694             | 940           |
| 1st Quarter 2010   | 794                  | 921                  | 1,567             | 1,521         |
| Rolling 12 months (Dec 2008 through Nov 2009)                      | 2,334                | 4,036                |                   |               |
| 2nd Quarter 2010   | 1,109                | 654                  | 2,022             | 1,159         |
| 3rd Quarter 2010   | 1,366                | 1,388                | 2,000             | 935           |

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|  |                      |                      |                  |               |
|--|----------------------|----------------------|------------------|---------------|
| 4th Quarter 2010   | 1,164                | 1,120                | 2,044            | 818           |
| 1st Quarter 2011   | 1,115                | 1,093                | 2,066            | 698           |
| Rolling 12 months (Dec 2009 through Nov 2010)                                | 4,754                | 4,255                |                  |               |
| Key comparison increases (decreases):  | Wholesale Deliveries | Retail Registrations | Dealer Inventory | Order Backlog |
| Rolling 12 month comparison (period ended Nov 2010 to period ended Nov 2009) | 2,420                | 219                  | NA               | NA            |
|  | 103.7                | % 5.4                | % NA             | NA            |
| 1st quarter Fiscal 2011 as compared to 1st quarter Fiscal 2010               | 321                  | 172                  | 499              | (823 )        |
|  | 40.4                 | % 18.7               | % 31.8           | % (54.1 )%    |
| 1st quarter Fiscal 2011 as compared to 4th quarter Fiscal 2010               | (49 )                | (27 )                | 22               | (120 )        |
|  | (4.2 )%              | (2.4 )%              | 1.1              | % (14.7 )%    |

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Our motor home order backlog is as follows:

|   | As Of             |                  |                   |                  | (Decrease) |             |        |    |
|---|-------------------|------------------|-------------------|------------------|------------|-------------|--------|----|
|   | November 27, 2010 |                  | November 28, 2009 |                  |            |             |        |    |
|   | Units             | % <sup>(1)</sup> | Units             | % <sup>(1)</sup> |            |             |        |    |
| Class A gas   | 254               | 36.4             | % 531             | 34.9             | % (277     | )           | (52.2  | )% |
| Class A diesel  | 201               | 28.8             | % 381             | 25.0             | % (180     | )           | (47.2  | )% |
| Total Class A   | 455               | 65.2             | % 912             | 60.0             | % (457     | )           | (50.1  | )% |
| Class B <sup>(2)</sup>  | —                 | —                | % 17              | 1.1              | % (17      | )           | (100.0 | )% |
| Class C   | 243               | 34.8             | % 592             | 38.9             | % (349     | )           | (59.0  | )% |
| Total backlog   | 698               | 100.0            | % 1,521           | 100.0            | % (823     | )           | (54.1  | )% |
| Total approximate revenue dollars (in thousands) <sup>(3)</sup> |                   | \$75,454         |                   | \$149,501        |            | \$ (74,047) | (49.5  | )% |

- (1) Percentages may not add due to rounding differences.
- (2) Class B backlog is currently not applicable given the fact that the ERA was temporarily discontinued during the 2011 model year. Current plans call for the ERA to be reintroduced in the 2012 model year. We include in our backlog all accepted purchase orders from dealers to be shipped within the next six months.
- (3) Orders in backlog can be canceled or postponed at the option of the purchaser at any time without penalty 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          |           | November 28, % of      |           | Increase (Decrease) | % Change |   |
|---|------------------------|-----------|------------------------|-----------|---------------------|----------|---|
|   | November 27, % of 2010 | Revenues* | November 28, % of 2009 | Revenues* |                     |          |   |
| Net revenues                                      | \$ 123,711             | 100.0 %   | \$ 81,017              | 100.0 %   | \$ 42,694           | 52.7     | % |
| Cost of goods sold                                | 112,512                | 90.9 %    | 80,493                 | 99.4 %    | 32,019              | 39.8     | % |
| Gross profit                                      | 11,199                 | 9.1 %     | 524                    | 0.6 %     | 10,675              | NMF      |   |
| Selling   | 3,267                  | 2.6 %     | 3,229                  | 4.0 %     | 38                  | 1.2      | % |
| General and administrative                        | 3,651                  | 3.0 %     | 3,272                  | 4.0 %     | 379                 | 11.6     | % |
| Gain on sale of asset held for sale               | (644)                  | (0.5 %)   | —                      | —         | (644)               | NMF      |   |
| Total operating expenses                          | 6,274                  | 5.1 %     | 6,501                  | 8.0 %     | (227)               | (3.5)    | % |
| Operating income (loss)                           | 4,925                  | 4.0 %     | (5,977)                | (7.4 %)   | 10,902              | 182.4    | % |
| Other non-operating inc (exp)                     | 152                    | 0.1 %     | (233)                  | (0.3 %)   | 385                 | (165.2)  | % |
| Income (loss) before income taxes                 | 5,077                  | 4.1 %     | (6,210)                | (7.7 %)   | 11,287              | 181.8    | % |
| Provision (benefit) for taxes                     | 1,291                  | 1.0 %     | (4,866)                | (6.0 %)   | 6,157               | 126.5    | % |
| Net income (loss)                                 | \$ 3,786               | 3.1 %     | \$(1,344)              | (1.7 %)   | \$ 5,130            | 381.7    | % |
| Diluted income (loss) per share                   | \$ 0.13                |           | \$(0.05)               |           | \$ 0.18             | 360.0    | % |
| Fully diluted average shares outstanding          | 29,115                 |           | 29,086                 |           | 29                  | 0.1      | % |

\* Percentages may not add due to rounding differences.

Unit deliveries and average sales price (ASP), net of discounts, consisted of the following:

| (In units)         | Quarter Ended             |         | November 28, Product      |         | Increase (Decrease) | % Change |   |
|--------------------|---------------------------|---------|---------------------------|---------|---------------------|----------|---|
|                    | November 27, Product 2010 | Mix*    | November 28, Product 2009 | Mix*    |                     |          |   |
| Class A gas        | 389                       | 34.9 %  | 235                       | 29.6 %  | 154                 | 65.5     | % |
| Class A diesel     | 270                       | 24.2 %  | 180                       | 22.7 %  | 90                  | 50.0     | % |
| Total Class A      | 659                       | 59.1 %  | 415                       | 52.3 %  | 244                 | 58.8     | % |
| Class B            | 1                         | 0.1 %   | 62                        | 7.8 %   | (61)                | (98.4)   | % |
| Class C            | 455                       | 40.8 %  | 317                       | 39.9 %  | 138                 | 43.5     | % |
| Total deliveries   | 1,115                     | 100.0 % | 794                       | 100.0 % | 321                 | 40.4     | % |
| ASP (in thousands) | \$ 104                    |         | \$ 95                     |         | \$ 9                | 9.1      | % |

\* Percentages may not add due to rounding differences.

Net revenues for the first quarter of Fiscal 2011 increased \$42.7 million, or 52.7 percent, compared to the first quarter of Fiscal 2010, due to the following:

- Volume increase: The primary reason for the net revenue increase was due to an increase in unit deliveries of 40.4 percent.
- Pricing and mix: Our motor home ASP increased 9.1 percent. This increase was primarily due to a shift to higher-priced product as our sales mix was more heavily weighted to Class A product and a decrease of product discounts offered at the wholesale level.

- Promotional incentives: Our retail and other incentives, which are deductions from gross revenues, decreased 2.6 percent (as a percent of net revenues). In the prior year, we had more retail incentive programs in place to help stimulate dealer retail demand to move aged units. Better retail market conditions and significantly improved dealer inventory aging are the key reasons these types of promotional incentives are lower this year.
- Other revenue: Revenues for motor home parts and services and other manufacturing products increased 6.2 percent.

Cost of products sold was \$112.5 million, or 90.9 percent of net revenues for the first quarter of Fiscal 2011 compared to \$80.5 million, or 99.4 percent of net revenues for the comparable period a year ago due to the following:

- The change in our variable costs (material, labor, variable overhead, delivery, and warranty) increased \$31.5 million, which was primarily caused by increased sales volume. Total variable costs, as a percent of net revenues, decreased to 83.0 percent from 87.9 percent last year. This difference was primarily due to decreased discounting and promotional incentives.
- Fixed overhead (manufacturing support labor, depreciation and facility costs) and research and development-related costs decreased to 7.9 percent of net revenues compared to 11.4 percent last year. This difference was primarily due to higher absorption of fixed costs as a result of higher production volume.

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- All factors considered, gross profit increased from 0.6 percent to 9.1 percent of net revenues.

General and administrative expenses increased \$379,000, or 11.6 percent, during the first quarter of Fiscal 2011 and, as a percentage of net revenues were 3.0 percent and 4.0 percent for the first quarters of Fiscal 2011 and Fiscal 2010, respectively. The expense increase was due primarily to employee-related expenses.

We realized a gain of \$644,000 on the sale of CCMF, one of our assets held for sale. See Note 6.

Non-operating income increased \$385,000, or 165.2 percent, during the first quarter of Fiscal 2011. This difference is primarily due to a decrease in our line of credit costs of \$387,000 as a termination fee of \$375,000 was paid last year to Wells Fargo to terminate the credit and security agreement with them.

The overall effective income tax rate for the first quarter of Fiscal 2011 was 25.4 percent compared to a benefit of (78.3) percent for the first quarter of Fiscal 2010. Most notably, our effective tax rate the first quarter of Fiscal 2011 was positively impacted by the sale of CCMF by approximately 4 percent, as this transaction resulted in a tax loss even though we incurred a gain for book purposes. Our tax benefit of (78.3) percent in the first quarter of Fiscal 2010 related entirely to the carryback of Fiscal 2009 losses due to a tax law change. During the first quarter of Fiscal 2010, the President of the United States signed into law the Worker, Homeownership, and Business Assistance Act of 2009, which expanded the carryback period from two to five years, which allowed us to carryback all Fiscal 2009 NOL. As a result, we recorded a tax benefit of \$4.8 million and reduced the associated valuation allowance due to this beneficial tax law change.

Net income was \$3.8 million, or \$0.13 per diluted share, for the first quarter of Fiscal 2011 compared to a net loss of \$1.3 million, or \$0.05 per diluted share, for the first quarter of Fiscal 2010. See Note 12.

Analysis of Financial Condition, Liquidity and Resources

Cash and cash equivalents totaled \$81.2 million and \$74.7 million as of November 27, 2010 and August 28, 2010, respectively.

Significant liquidity events in the first quarter of Fiscal 2011 include:

- Net income of \$3.8 million.
- Net proceeds of \$3.7 million due to the sale of CCMF.  
ARS redemptions at par of \$1.2 million. Subsequent to the end of the quarter, we have had \$5.3 million of
- additional ARS redemptions at par. We have \$11.4 million ARS at par value classified as long-term investments as of November 27, 2010. See further discussion in Note 4.

We also have in place a \$20.0 million revolving credit facility, as described in further detail in Note 7, which allows us to borrow up to \$12.5 million without financial covenant restrictions if there is adequate asset coverage. We had sufficient asset coverage in accounts receivable and inventory as of November 27, 2010 to access the entire \$12.5 million. The facility also includes a framework to expand the size of the facility up to \$50.0 million, based on mutually agreeable covenants to be determined at the time of expansion. This potential additional borrowing capacity may be beneficial to us if inventory levels need to substantially increase rapidly as a result of product demand.

We filed a Registration Statement on Form S-3, which was declared effective by the SEC on March 31, 2010. 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. We currently have no plans to offer and sell the common stock registered under the Registration Statement; however, it does provide another source of liquidity in addition to the alternatives already in place.

Working capital at November 27, 2010 and August 28, 2010 was \$104.5 million and \$91.3 million, respectively, an increase of \$13.2 million. We currently expect cash on hand, funds generated from operations (if any) and the availability under the credit facility to be sufficient to cover both short-term and long-term operation requirements. We anticipate capital expenditures during the balance of Fiscal 2011 of approximately \$2.3 million, primarily for manufacturing equipment and facilities which will be funded with cash on hand.

#### Operating Activities

Cash provided by operating activities was \$2.2 million for the quarter ended November 27, 2010 compared to cash used in operating activities of \$5.9 million for the quarter ended November 28, 2009. The combination of net income of \$3.8 million in the current fiscal year and an improvement in non-cash charges (e.g., depreciation, stock-based compensation) provided \$5.0 million of operating cash compared to a usage of \$490,000 in the prior year period. In Fiscal 2011, changes in assets and liabilities (primarily accounts payable and accrued expenses) was a usage of \$2.8 million of operating cash. Cash use in the first quarter of Fiscal 2010 was for increased inventories due to a ramp up of production and to support the quarter's net loss.

#### Investing Activities

Cash provided by investing activities was due primarily to ARS redemptions of \$1.2 million in the quarter ended November 27, 2010, partially offset by capital spending of \$667,000. During the quarter ended November 28, 2009, cash used by investing

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activities of \$929,000 was in part due to manufacturing equipment purchases.

### Financing Activities

Cash used in financing activities was \$25,000 for the quarter ended November 27, 2010. The primary use of cash in financing activities for the quarter ended November 28, 2009 was \$341,000 associated with the set up of the Burdale credit facility.

### Critical Accounting Policies

Our financial statements are prepared in accordance with GAAP. In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time our financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates and such differences could be material.

We believe that the following accounting estimates and policies are the most critical to aid in fully understanding and evaluating our reported financial results and they require our most difficult, subjective or complex judgments resulting from the need to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board.

### Revenue Recognition

Generally, revenues for motor homes are recorded when all of the following conditions are met: an order for a product has been received from a dealer, written or verbal approval for payment has been received from the dealer's floorplan financing institution and the product is delivered to the dealer who placed the order. Most sales are financed under floorplan financing arrangements with banks or finance companies.

Revenues from the sales of our Original Equipment Manufacturing (OEM) and motor home-related parts are recorded as the products are shipped from our location. The title of ownership transfers on these products as they leave our location due to the freight terms of F.O.B. - Forest City, Iowa.

### Sales Promotions and Incentives

We accrue for sales promotions and incentive expenses, which are recognized as a reduction to revenues, at the time of sale to the dealer or when the sales incentive is offered to the dealer or retail customer. Examples of sales promotions and incentive programs include dealer and consumer rebates, volume discounts, retail financing programs and dealer sales associate incentives. Sales promotion and incentive expenses are estimated based upon current program parameters, such as unit or retail volume, and historical rates. Actual results may differ from these estimates if market conditions dictate the need to enhance or reduce sales promotion and incentive programs or if the retail customer usage rate varies from historical trends. Historically, sales promotion and incentive expenses have been within our expectations and differences have not been material.

### Warranty

We provide with the purchase of any new motor home, a comprehensive 12-month/15,000-mile warranty on Class A, Class B and Class C motor homes and a 3-year/36,000-mile warranty on Class A and Class C sidewalls and floors. 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. We also incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions. Estimated costs are accrued at the time the service action is implemented and are based upon past claim rate experiences and the estimated cost of the repairs.

#### Unrecognized Tax Benefits

We only recognize tax benefits for filing positions that are considered more likely than not of being sustained under audit by the relevant taxing authority, without regard to the likelihood of such an audit occurring. We record a liability for uncertain tax positions when it is more likely than not that our filed tax positions will not be sustained. We record deferred tax assets related to reserves for filing positions in a particular jurisdiction that would result in tax deductions in another tax jurisdiction if we were unable to sustain our filing position in an audit. Our income tax returns are periodically audited by various taxing authorities. These audits include questions regarding our tax filing positions, including the timing and the amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple years are subject to audit by the various taxing authorities. We continually assess our tax positions for all periods that are open to examination or have not been effectively settled based on the most current available information. We adjust our liability for unrecognized tax benefits and income tax provision in the period in which an uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available.

Our liability for unrecognized tax benefits contains uncertainties because we are required to make assumptions and apply judgment to estimate the exposure associated with our various filing positions. Our effective tax rate is also affected by changes in

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tax laws, the level of our earnings or losses and the results of tax audits.

Although we believe that the judgments and estimates discussed herein are reasonable, actual results could differ, and we may be exposed to losses or realize gains that could be material. To the extent that we prevail in matters for which a liability has been established or are required to pay amounts in excess of our established liability, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement generally would require use of our cash and may result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement may be recognized as a reduction in our effective tax rate in the period of resolution.

### Income Taxes

We account for income taxes in accordance with ASC 740. As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. 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 the 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 to be given to evidence that can be objectively verified. A company's current or previous losses are given more weight than its future outlook. Under that standard, our three-year historical cumulative loss was a significant negative factor. We have evaluated the sustainability of our deferred tax assets on our balance sheet which includes the assessment of cumulative income or losses over recent prior periods. Based on ASC 740 guidelines, we determined a full valuation allowance to be appropriate. 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.

### Postretirement Benefits Obligations and Costs

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. Postretirement benefit liabilities are determined by actuaries using assumptions about the discount rate and health care cost-trend rates. Thus, a significant increase or decrease in interest rates could have a significant impact on our operating results.

### Other

We have reserves for other loss exposures, such as litigation, product liability, workers' compensation, inventory and accounts receivable. Establishing loss reserves for these matters requires the use of estimates and judgment in regards to risk exposure and ultimate liability. We estimate losses under the programs using consistent and appropriate methods; however, changes in assumptions could materially affect our recorded liabilities for loss.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have market risk exposure to our ARS, which is described in further detail in Note 4.

## 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.



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## Part II. OTHER INFORMATION

## Item 1. Legal Proceedings

We are involved in various legal proceedings which are ordinary routine litigation incidental to our business, some of which are covered in whole or in part by insurance. While it is impossible to estimate with certainty the ultimate legal and financial liability with respect to this litigation, we believe that 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 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 2011, 8,303 shares were repurchased under this authorization for an aggregate consideration of approximately \$89,000. These shares were repurchased from employees who vested in Winnebago shares during the quarter and elected to pay their payroll tax via shares as opposed to cash.

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 2011:

| 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 |
|---------------------|----------------------------------|------------------------------|--|--|
| 08/29/10 - 10/02/10 | —                                | —                            | —  | \$59,334,000   |
| 10/03/10 - 10/30/10 | 8,303                            | \$ 10.77                     | 8,303  | \$59,244,000   |
| 10/31/10 - 11/27/10 | —                                | —                            | —  | \$59,244,000   |
| Total               | 8,303                            | \$ 10.77                     | 8,303  | \$59,244,000   |

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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 December 23, 2010.

31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated December 23, 2010.

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 December 23, 2010.

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 December 23, 2010.

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.  
(Registrant)

Date December 23, 2010

/s/ Robert J. Olson  
Robert J. Olson  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)

Date December 23, 2010

/s/ Sarah N. Nielsen  
Sarah N. Nielsen  
Chief Financial Officer (Principal Financial Officer)