WINNEBAGO INDUSTRIES INC
Form 10-Q
June 22, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 28, 2016
or

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

For the transition period from __________________ to __________________

Commission File Number: 001-06403

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

Iowa	42-0802678
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P. O. Box 152, Forest City,	50436

Iowa
(Address of principal executive offices) (Zip Code)

(641) 585-3535
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of shares of common stock, par value $0.50 per share, outstanding June 21, 2016 was 26,893,756.

Winnebago Industries, Inc.
Table of Contents

Glossary		1
PART I	FINANCIAL INFORMATION	2
Item 1.	Condensed Consolidated Financial Statements (Unaudited)	
	Consolidated Statements of Income and Comprehensive Income	2
	Consolidated Balance Sheets	3
	Consolidated Statements of Cash Flows	4
	Notes to Condensed Consolidated Financial Statements	5
	Note 1: Basis of Presentation	5
	Note 2: Concentration Risk	6
	Note 3: Investments and Fair Value Measurements	6
	Note 4: Inventories	7
	Note 5: Property, Plant and Equipment	7
	Note 6: Warranty	7
	Note 7: Employee and Retiree Benefits	8
	Note 8: Shareholders' Equity	9
	Note 9: Contingent Liabilities and Commitments	9
	Note 10: Income Taxes	10
	Note 11: Earnings Per Share	11
	Note 12: Comprehensive Income (Loss)	11
	Note 13: Subsequent Event	11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	20
Item 4.	Controls and Procedures	20
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	20
Item 1A	Risk Factors	20
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 6.	Exhibits	21
SIGNATURES		22

Table of Contents

Glossary

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

AOCI	Accumulated Other Comprehensive Income (Loss)
Amended Credit Agreement	Credit Agreement dated as of May 28, 2014 by and between Winnebago Industries, Inc. and Winnebago of Indiana, LLC, as Borrowers, and Wells Fargo Capital Finance, as Agent
ASC	Accounting Standards Codification
ASP	Average Sales Price
ASU	Accounting Standards Update
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
FASB	Financial Accounting Standards Board
FIFO	First In, First Out
GAAP	Generally Accepted Accounting Principles
IRS	Internal Revenue Service
IT	Information Technology
Knott	Knott Investment Pty Ltd, et. al.
LIFO	Last In, First Out
NMF	Non-Meaningful Figure
NYSE	New York Stock Exchange
OCI	Other Comprehensive Income
RV	Recreation Vehicle
RVIA	Recreation Vehicle Industry Association
SEC	U.S. Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
Stat Surveys	Statistical Surveys, Inc.
Towables	Winnebago of Indiana, LLC, a wholly-owned subsidiary of Winnebago Industries, Inc.
US	United States of America
XBRL	eXtensible Business Reporting Language
YTD	Year to Date

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Winnebago Industries, Inc.
Consolidated Statements of Income and Comprehensive Income
(Unaudited)

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	May 28, 2016	May 30, 2015	May 28, 2016	May 30, 2015
Net revenues	$272,077	$266,510	$711,972	$725,456
Cost of goods sold	241,820	238,327	631,191	648,629
Gross profit	30,257	28,183	80,781	76,827
Operating expenses:				
Selling	4,770	5,150	14,714	14,703
General and administrative	4,894	6,453	19,212	19,154
Impairment of fixed assets	—	462	—	462
Total operating expenses	9,664	12,065	33,926	34,319
Operating income	20,593	16,118	46,855	42,508
Non-operating income	77	—	194	35
Income before income taxes	20,670	16,118	47,049	42,543
Provision for taxes	6,232	4,616	14,699	13,050
Net income	$14,438	$11,502	$32,350	$29,493
Income per common share:				
Basic	$0.54	$0.43	$1.20	$1.09
Diluted	$0.53	$0.43	$1.20	$1.09
Weighted average common shares outstanding:				
Basic	26,892	26,932	26,935	26,942
Diluted	27,004	27,030	27,029	27,042
Dividends paid per common share	$0.10	$0.09	$0.30	$0.27
Net income	$14,438	$11,502	$32,350	$29,493
Other comprehensive (loss) income:				
Amortization of prior service credit (net of tax of $765, $556, $2,182 and $1,554)	(1,243)	(903)	(3,545)	(2,525)
Amortization of net actuarial loss (net of tax of $160, $154, $462 and $412)	260	249	751	668
Plan amendment (net of tax of $0, $0, $10,895 and $581)	—	—	17,701	944
Total other comprehensive (loss) income	(983)	(654)	14,907	(913)
Comprehensive income	$13,455	$10,848	$47,257	$28,580

See notes to consolidated financial statements.

2

Table of Contents

Winnebago Industries, Inc.
Consolidated Balance Sheets
(Unaudited)

(In thousands, except per share data)	May 28, 2016	August 29, 2015
Assets		
Current assets:		
Cash and cash equivalents	$71,253	$70,239
Receivables, less allowance for doubtful accounts ($147 and $120)	65,474	66,936
Inventories	130,136	112,165
Prepaid expenses and other assets	6,670	6,882
Deferred income taxes	—	9,995
Total current assets	273,533	266,217
Property, plant and equipment, net	52,799	37,250
Investment in life insurance	26,739	26,172
Deferred income taxes	17,946	21,994
Other assets	9,020	10,541
Total assets	$380,037	$362,174
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$47,748	$33,158
Income taxes payable	—	2,314
Accrued expenses:		
Accrued compensation	16,500	18,346
Product warranties	11,911	11,254
Self-insurance	6,536	6,242
Accrued loss on repurchases	1,126	1,329
Promotional	3,594	3,149
Other	5,383	5,818
Total current liabilities	92,798	81,610
Non-current liabilities:		
Unrecognized tax benefits	2,333	2,511
Postretirement health care and deferred compensation benefits	25,988	57,090
Total non-current liabilities	28,321	59,601
Shareholders' equity:		
Capital stock common, par value $0.50; authorized 60,000 shares, issued 51,776 shares	25,888	25,888
Additional paid-in capital	32,173	32,018
Retained earnings	610,118	585,941
Accumulated other comprehensive income (loss)	12,633	(2,274)
Treasury stock, at cost (24,883 and 24,825 shares)	(421,894)	(420,610)
Total shareholders' equity	258,918	220,963
Total liabilities and shareholders' equity	$380,037	$362,174

See notes to consolidated financial statements.

Table of Contents

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

(In thousands)	Nine Months Ended May 28, 2016	May 30, 2015
Operating activities:		
Net income	$32,350	$29,493
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,243	3,284
LIFO expense	1,280	1,041
Asset impairment	—	462
Stock-based compensation	1,818	1,739
Deferred income taxes	2,717	2,793
Postretirement benefit income and deferred compensation expense	(3,053)	(587)
Provision for doubtful accounts	37	—
Loss (gain) on disposal of property	10	(20)
Gain on life insurance	(118)	—
Increase in cash surrender value of life insurance policies	(609)	(657)
Change in assets and liabilities:		
Inventories	(19,251)	(10,768)
Receivables, prepaid and other assets	1,905	3,581
Investment in operating leases, net of repurchase obligations	—	(72)
Income taxes and unrecognized tax benefits	(766)	(2,375)
Accounts payable and accrued expenses	14,345	(6,308)
Postretirement and deferred compensation benefits	(3,167)	(3,049)
Net cash provided by operating activities	31,741	18,557
Investing activities:		
Purchases of property, plant and equipment	(19,928)	(14,174)
Proceeds from the sale of property	21	43
Proceeds from life insurance	295	—
Other	76	435
Net cash used in investing activities	(19,536)	(13,696)
Financing activities:		
Payments for purchases of common stock	(3,058)	(6,166)
Payments of cash dividends	(8,173)	(7,324)
Borrowings on loans	—	22,000
Repayments of loans	—	(22,000)
Other	40	40
Net cash used in financing activities	(11,191)	(13,450)
Net increase (decrease) in cash and cash equivalents	1,014	(8,589)
Cash and cash equivalents at beginning of period	70,239	57,804
Cash and cash equivalents at end of period	$71,253	$49,215

Supplement cash flow disclosure:

Income taxes paid, net	$13,137	$12,361
Interest paid	$—	$10
Non-cash transactions:		
Capital expenditures in accounts payable	$397	$—

See notes to consolidated financial statements.

Table of Contents

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

Note 1: Basis of Presentation
The "Company," "we," "our" and "us" are used interchangeably to refer to Winnebago Industries, Inc. and its wholly-owned subsidiary, Winnebago of Indiana, LLC, as appropriate in the context.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly our consolidated financial position as of May 28, 2016 and the consolidated results of income and comprehensive income and consolidated cash flows for the first nine months of Fiscal 2016 and 2015. The consolidated statement of income and comprehensive income for the first nine months of Fiscal 2016 is not necessarily indicative of the results to be expected for the full year. 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 29, 2015.

Fiscal Period
We follow a 52-/53-week fiscal year, ending the last Saturday in August. Both Fiscal 2016 and Fiscal 2015 are 52-week years.

New Accounting Pronouncements
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which specifies how and when to recognize revenue as well as providing informative, relevant disclosures. In August 2015, the FASB deferred the effective date of this standard by one year, which would become effective for fiscal years beginning after December 15, 2017 (our Fiscal 2019). We are currently evaluating the impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330), which requires inventory measured using any method other than last-in, first-out ("LIFO") or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Under this ASU, subsequent measurement of inventory using the LIFO and retail inventory method is unchanged. ASU 2015-11 will become effective prospectively for fiscal years beginning after December 15, 2016 (our Fiscal 2018). We are currently evaluating the impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805), to simplify the accounting for measurement-period adjustments in a business combination. Under the new standard, an acquirer must recognize adjustments to provisional amounts in a business combination in the reporting period in which the adjustment amounts are determined, rather than retrospectively adjusting the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill as under current guidance. ASU 2015-16 is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2015 (our Fiscal 2017). This new standard will be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application

permitted for financial statements that have not been issued. We are currently evaluating the impact of this ASU on our consolidated financial statements, which will be dependent on future acquisitions.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), to simplify the presentation of deferred income taxes. Under the new standard, both deferred tax liabilities and assets are required to be classified as noncurrent in a classified balance sheet. During the first quarter of Fiscal 2016, we elected to prospectively adopt ASU 2015-17, thus reclassifying current deferred tax assets to noncurrent on the accompanying consolidated balance sheet. The prior reporting period was not retrospectively adjusted. The adoption of this guidance had no impact on our consolidated statements of income and comprehensive income.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for the related income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016 (our Fiscal 2018), including interim periods within those annual reporting periods. Early adoption is permitted. We are currently evaluating the impact of this ASU on our consolidated financial statements.

Table of Contents

Note 2: Concentration Risk

One of our dealer organizations accounted for 17.6% and 17.0% of our consolidated net revenues for the first nine months of Fiscal 2016 and Fiscal 2015, respectively. A second dealer organization accounted for 13.8% and 18.1% of our consolidated net revenues for the first nine months of Fiscal 2016 and Fiscal 2015, respectively. The loss of either or both of these dealer organizations could have a significant adverse effect on our business. In addition, deterioration in the liquidity or creditworthiness of these dealers could negatively impact our sales and could trigger repurchase obligations under our repurchase agreements.

Note 3: Investments and Fair Value Measurements
Assets and Liabilities that are Measured at Fair Value on a Recurring Basis
We account for fair value measurements in accordance with ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurement. The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following tables set forth by level within the fair value hierarchy our financial assets that were accounted for at fair value on a recurring basis at May 28, 2016 and August 29, 2015 according to the valuation techniques we used to determine their fair values:

		Fair Value Measurements Using Inputs Considered As		
(In thousands)	Fair Value at May 28, 2016	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Cash equivalents	$53,168	$53,168	$ —	$ —
Assets that fund deferred compensation:				
Domestic equity funds	3,857	3,788	69	—
International equity funds	284	231	53	—
Fixed income funds	255	223	32	—
Total assets at fair value	$57,564	$57,410	$ 154	$ —

		Fair Value Measurements Using Inputs Considered As		
(In thousands)	Fair Value at August 29, 2015	Level 1 Quoted Prices in Active Markets for Identical	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs

		Assets		
Cash equivalents	$63,107	$63,107	$ —	$ —
Assets that fund deferred compensation:				
Domestic equity funds	4,937	4,894	43	—
International equity funds	493	477	16	—
Fixed income funds	284	251	33	—
Total assets at fair value	$68,821	$68,729	$ 92	$ —

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:
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 and are included in cash and cash equivalents on the accompanying consolidated balance sheets.

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. The majority of which 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 and the Executive deferred compensation plan (see Note 7). The assets related to these deferred compensation plans that will expire

Table of Contents

within a year are included in prepaid expenses and other assets in the accompanying consolidated balance sheets; the remaining noncurrent assets are included in other assets.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis
Our non-financial assets, which include goodwill and property, plant and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required, we must evaluate the non-financial asset for impairment. If an impairment did occur, the asset is required to be recorded at the estimated fair value. During the first nine months of Fiscal 2016, no impairments were recorded for non-financial assets.

Note 4: Inventories
Inventories consist of the following:

(In thousands)	May 28, 2016	August 29, 2015
Finished goods	$17,875	$12,179
Work-in-process	74,918	66,602
Raw materials	71,167	65,928
Total	163,960	144,709
LIFO reserve	(33,824)	(32,544)
Total inventories	$130,136	$112,165

The above value of inventories, before reduction for the LIFO reserve, approximates replacement cost at the respective dates. Of the $164.0 million and $144.7 million inventory at May 28, 2016 and August 29, 2015, respectively, $153.5 million and $136.3 million is valued on a LIFO basis; the remaining inventories of $10.4 million and $8.4 million at May 28, 2016 and August 29, 2015, respectively, are 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)	May 28, 2016	August 29, 2015
Land	$3,864	$1,874
Buildings and building improvements	61,860	53,388
Machinery and equipment	97,761	94,034
Software	13,303	8,033
Transportation	8,976	8,913
Total property, plant and equipment, gross	185,764	166,242
Less accumulated depreciation	(132,965)	(128,992)
Total property, plant and equipment, net	$52,799	$37,250

On November 30, 2015 we purchased land and buildings from Country Coach in Junction City, OR for approximately $5.7 million. On January 6, 2016 we purchased adjacent property in Junction City, OR for approximately $4.0 million. These properties are being used for expansion of our West Coast motorhome manufacturing and service operations.

Note 6: 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 voluntarily agreed to pay certain warranty-type costs to help protect the reputation of our products and the goodwill of our customers. Warranty expense is affected by dealership labor rates, the cost of parts and the frequency of claims. 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.

Table of Contents

Changes in our product warranty liability are as follows:

(In thousands)	Three Months Ended May 28, 2016	Three Months Ended May 30, 2015	Nine Months Ended May 28, 2016	Nine Months Ended May 30, 2015
Balance at beginning of period	$11,727	$9,856	$11,254	$9,501
Provision	4,844	3,233	12,311	8,079
Claims paid	(4,660)	(3,284)	(11,654)	(7,775)
Balance at end of period	$11,911	$9,805	$11,911	$9,805

Note 7: Employee and Retiree Benefits

Postretirement health care and deferred compensation benefits are as follows:

(In thousands)	May 28, 2016	August 29, 2015
Postretirement health care benefit cost	$5,556	$ 34,535
Non-qualified deferred compensation	18,360	19,508
Executive share option plan liability	3,593	4,788
SERP benefit liability	2,497	2,649
Executive deferred compensation	371	299
Officer stock-based compensation	204	242
Total postretirement health care and deferred compensation benefits	30,581	62,021
Less current portion	(4,593)	(4,931)
Long-term postretirement health care and deferred compensation benefits	$25,988	$ 57,090

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.

In Fiscal 2005, through a plan amendment, 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. Each year from 2012 to 2015, the employer established dollar caps were reduced by 10% through plan amendments. On September 28, 2015, we announced a plan amendment to our postretirement health care benefits. On January 1, 2016, postretirement health care benefits were discontinued for retirees age 65 and over. We will fund up to a $700,000 health reimbursement account in calendar 2016 to assist retirees over age 65 with medical expenses. The plan amendment also includes a 10% reduction in employer paid premiums for retirees under age 65. As a result of these amendments, our liability for postretirement health care was reduced as presented in the following table.

Date	Event	Dollar Cap Reduction	Liability Reduction (In thousands)	Amortization Period[(1)]
Fiscal 2005	Established employer dollar caps		$ 40,414	11.5 years
January 2012	Reduced employer dollar caps	10%	4,598	7.8 years
January 2013	Reduced employer dollar caps	10%	4,289	7.5 years
	Reduced employer dollar caps	10%	3,580	7.3 years

January 2014					
January 2015	Reduced employer dollar caps	10%	3,960	7.1	years
January 2016 [2]	Reduced employer dollar caps for retirees under age 65; discontinued retiree benefits for retirees age 65 and over	10%	28,596	6.9	years

[1] Plan amendments are amortized on a straight-line basis over the expected remaining service period of active plan participants.

[2] In accordance with ASC 715, the effects of the plan amendment are accounted for at the date the amendment is adopted and the date the amendment has been communicated to plan participants. The effective date for this plan amendment was September 28, 2015.

8

Table of Contents

Net periodic postretirement benefit income consisted of the following components:

(In thousands)	Three Months Ended		Nine Months Ended	
	May 28, 2016	May 30, 2015	May 28, 2016	May 30, 2015
Interest cost	$58	$348	$269	$1,034
Service cost	23	107	86	320
Amortization of prior service benefit	(2,008)	(1,459)	(5,728)	(4,079)
Amortization of net actuarial loss	415	399	1,197	1,066
Net periodic postretirement benefit income	$(1,512)	$(605)	$(4,176)	$(1,659)
Payments for postretirement health care	$232	$231	$738	$707

Note 8: Shareholders' Equity

Stock-Based Compensation

We have a 2014 Omnibus Equity, Performance Award, and Incentive Compensation Plan (as amended, the "Plan") in place as approved by shareholders, 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 13, 2015 and October 15, 2014 the Human Resources Committee of the Board of Directors granted an aggregate of 204,200 and 99,600 shares, respectively, of restricted common stock to our key employees and non-employee directors under the Plan. The Human Resources Committee of the Board of Directors granted Michael J. Happe incentive stock options of 10,000 shares and restricted stock awards of 10,000 shares in January 2016, fulfilling terms of his employment contract. 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 $553,000 and $391,000 during the third quarters of Fiscal 2016 and 2015, respectively. Stock-based compensation expense was $1.8 million and $1.7 million during the first nine months of Fiscal 2016 and 2015, respectively. Of the $1.8 million expense recognized in Fiscal 2016, $1.1 million related to the October 13, 2015 grant of 204,200 shares. The remainder is related to the amortization of previously granted restricted stock awards, non-employee director stock units issued in lieu of director fees and the CEO stock grants. Compensation expense is recognized over the requisite service period of the award.

Dividends

On March 16, 2016, the Board of Directors declared a quarterly cash dividend of $0.10 per share of common stock, which was paid on April 27, 2016 to shareholders of record at the close of business on April 13, 2016.

On June 15, 2016, the Board of Directors declared a quarterly cash dividend of $0.10 per share of common stock, payable on July 27, 2016 to shareholders of record at the close of business on July 13, 2016.

Note 9: 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 to the lending institution, or dealer invoice less periodic reductions based on the time since the date of the original invoice. Our total

contingent liability on all repurchase agreements was approximately $419.0 million and $386.0 million at May 28, 2016 and August 29, 2015, respectively.

In certain instances, we also repurchase inventory from our dealers due to state law or regulatory requirements that govern voluntary or involuntary relationship terminations. Although laws vary from state to state, some states have laws in place that require manufacturers of recreation vehicles to repurchase current inventory if a dealership exits the business. Incremental repurchase exposure beyond existing repurchase agreements, related to dealer inventory in states that we have had historical experience of repurchasing inventory, totaled $7.3 million and $7.2 million at May 28, 2016 and August 29, 2015, 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 although two dealer organizations account for approximately 31% of our revenues. The aggregate contingent liability related to our repurchase agreements represents all

Table of Contents

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 $1.1 million as of May 28, 2016 and $1.3 million as of August 29, 2015. Repurchase risk is affected by the credit worthiness of our dealer network and we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to establish the loss reserve for repurchase commitments.
A summary of repurchase activity is as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	May 28, 2016	May 30, 2015	May 28, 2016	May 30, 2015
Inventory repurchased	$ 445	$ —	$ 445	$ 7,325
Cash collected on resold inventory	$ —	$ —	$ 36	$ 6,309
(Gain) loss realized on resold inventory	$ —	$ —	$ (1)	$ 1,033

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. While we believe the ultimate disposition of litigation will not have material adverse effect on our financial position, results of operations or liquidity, there exists the possibility that such litigation may have an impact on our results for a particular reporting period in which litigation effects become probable and reasonably estimable. Though we do not believe there is a reasonable likelihood that there will be a material change related to these matters, litigation is subject to inherent uncertainties and management’s view of these matters may change in the future.
For the past several years we have been involved in litigation in Australia seeking to recover from Knott for damages arising from Knott using our name on RVs without our approval. On December 2, 2015, the Federal Court of Australia, New South Wales District Registry, General Division, entered judgment in our favor and against Knott for damages arising out of its use of the Winnebago name. Damages awarded were 1.0% of the total sales of Winnebago branded recreation vehicles from October 14, 2004, through October 17, 2013, plus interest. We previously disclosed that the amount of that award was likely to exceed $5.0 million, plus attorneys’ fees. Knott appealed that ruling. On May 26, 2016, in exchange for immediate payment to Winnebago of $2.75 million, Winnebago and Knott executed a global settlement pursuant to which Knott will cease all use of the Winnebago name and logos, all appeals and oppositions are terminated, and all proceedings between the parties have been settled. Winnebago’s trademarks in Australia will proceed to registration without further opposition from Knott. The settlement of $2.75 million was recorded within general and administrative expense in the third quarter of Fiscal 2016.

Note 10: 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.

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 examination 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 have been or will be used in a future period. As of May 28, 2016, our federal returns from Fiscal 2012 to present continue to be subject to review by the IRS. Currently, our Fiscal 2014 Federal Return is being reviewed. With few exceptions, the state returns from Fiscal 2009 to present continue to be subject to review by the state taxing jurisdictions. 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.

As of May 28, 2016, our unrecognized tax benefits were $2.3 million including accrued interest and penalties of $793,000. If we were to prevail on all unrecognized tax benefits recorded, $1.7 million of the $2.3 million would benefit the overall effective tax rate. It is our policy to recognize interest and penalties accrued relative to unrecognized tax benefits as tax expense. We do not believe that there will be a significant change in the total amount of unrecognized tax benefits within the next twelve months.

Table of Contents

Note 11: Earnings Per Share

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

(In thousands, except per share data)	Three Months Ended May 28, 2016	Three Months Ended May 30, 2015	Nine Months Ended May 28, 2016	Nine Months Ended May 30, 2015
Income per share - basic				
Net income	$14,438	$11,502	$32,350	$29,493
Weighted average shares outstanding	26,892	26,932	26,935	26,942
Net income per share - basic	$0.54	$0.43	$1.20	$1.09
Income per share - assuming dilution				
Net income	$14,438	$11,502	$32,350	$29,493
Weighted average shares outstanding	26,892	26,932	26,935	26,942
Dilutive impact of awards and options outstanding	112	98	94	100
Weighted average shares and potential dilutive shares outstanding	27,004	27,030	27,029	27,042
Net income per share - assuming dilution	$0.53	$0.43	$1.20	$1.09

The computation of weighted average shares and potential dilutive shares outstanding excludes options to purchase 10,000 and 175,434 shares of common stock for the third quarter of Fiscal 2016 and Fiscal 2015, respectively, and options to purchase 40,616 and 232,902 shares of common stock for the nine months of Fiscal 2016 and Fiscal 2015, respectively. These amounts 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 12: Comprehensive Income (Loss)

Changes in defined benefit pension items in AOCI, net of tax, were:

(In thousands)	Three Months Ended May 28, 2016	Three Months Ended May 30, 2015	Nine Months Ended May 28, 2016	Nine Months Ended May 30, 2015
Balance at beginning of period	$13,616	$(2,067)	$(2,274)	$(1,808)
OCI before reclassifications	—	—	17,701	944
Amounts reclassified from AOCI	(983)	(654)	(2,794)	(1,857)
Net current-period OCI	(983)	(654)	14,907	(913)
Balance at end of period	$12,633	$(2,721)	$12,633	$(2,721)

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

(In thousands)	Location on Consolidated Statements of Income and Comprehensive Income	Three Months Ended May 28, 2016	Three Months Ended May 30, 2015	Nine Months Ended May 28, 2016	Nine Months Ended May 30, 2015
Amortization of prior service credit	Operating expenses	$(1,243)	$(903)	$(3,545)	$(2,525)
Amortization of net actuarial loss	Operating expenses	260	249	751	668
Total reclassifications		$(983)	$(654)	$(2,794)	$(1,857)

Note 13: Subsequent Event

On June 15, 2016 our Board of Directors declared a cash dividend of $0.10 per share as noted in Note 8.

Table of Contents

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 Unaudited Consolidated 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 29, 2015 and in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Forward-Looking Information

Certain of the matters discussed in this Quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which involve risks and uncertainties. A number of factors could cause actual results to differ materially from these statements, including, but not limited to: increases in interest rates, availability of credit, low consumer confidence, availability of labor, 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, business interruptions, any unexpected expenses related to ERP 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, 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 currently produce all of our motorhomes in vertically integrated manufacturing facilities in Iowa and we produce all travel trailer and fifth wheel trailers in Indiana. We are in the process of expanding some motorhome manufacturing to Junction City, Oregon. We distribute our products primarily through independent dealers throughout the US and Canada, who then retail the products to the end consumer.

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.

	Rolling 12 Months Through April		Calendar Year		
US and Canada	2016	2015	2015	2014	2013
Motorized A, B, C	19.5%	20.9%	20.4%	20.7%	18.6%
Travel trailer and fifth wheels	1.0 %	0.8 %	0.9 %	0.8 %	1.0 %

Industry Outlook

Key reported statistics for the North American RV industry are as follows:

- Wholesale unit shipments: RV product delivered to the dealers, which is reported monthly by RVIA
- Retail unit registrations: consumer purchases of RVs from the dealer, which is reported monthly by Stat Surveys

We track RV industry conditions using these key statistics to monitor trends and evaluate and understand our performance to the overall industry. The rolling twelve months shipment and retail information for 2016 and 2015 as noted below illustrates that the RV industry continues to grow both at the wholesale and retail level. We believe that retail demand is the key driver to continued growth in the RV industry and that annual RV shipments will generally be in line with retail registrations in the future.

	US and Canada Industry							
	Wholesale Unit Shipments per RVIA				Retail Unit Registrations per Stat Surveys			
	Rolling 12 Months through April				Rolling 12 Months through April			
	2016	2015	Unit Change	% Change	2016	2015	Unit Change	% Change
Towable [1]	324,552	309,539	15,013	4.9 %	325,322	293,828	31,494	10.7 %
Motorized [2]	49,943	45,156	4,787	10.6 %	45,624	41,014	4,610	11.2 %
Combined	374,495	354,695	19,800	5.6 %	370,946	334,842	36,104	10.8 %

[1] Towable: Fifth wheel and travel trailer products

[2] Motorized: Class A, B and C products

The most recent towable and motorized RVIA wholesale shipment forecasts for calendar year 2016 and 2017 as noted in the table below illustrates continued projected growth of the industry. The outlook for future growth in RV sales is based on continued

Table of Contents

modest gains in job and disposable income prospects as well as low inflation, and takes into account the impact of slowly rising interest rates, a strong U.S. dollar and continued weakness in energy production and prices.

Wholesale Unit Shipment Forecast per RVIA [1]	Calendar Year 2017	2016	Unit Change	% Change
Towable	341,200	334,200	7,000	2.1 %
Motorized	52,500	50,900	1,600	3.1 %
Combined	393,700	385,100	8,600	2.2 %

(1) Prepared by Dr. Richard Curtin of the University of Michigan Consumer Survey Research Center for RVIA and reported in the Roadsigns RV Summer 2016 Industry Forecast Issue.

Company Outlook

In the first calendar quarter of 2016 the RV industry continued to experience growth in both wholesale and retail volumes. This sustained growth has been consistent for several years in the motorized and towable segments. We have been able to capitalize on the industry growth to varying degrees with our towable and motorized products while making technology and other investments that we believe will support our growth.

In the first nine months of Fiscal 2016 we achieved strong results in our towables division, where our shipments grew much faster than the industry as a result of greater penetration of our new products and further expansion of our distribution base. We believe we can continue to achieve growth in excess of the overall towables market projections for the remainder of Fiscal 2016.

In the motorized business, however, we did not achieve unit growth commensurate with the industry. While we had a strong fiscal third quarter where our deliveries grew by 12.4%, fiscal year to date our deliveries have grown at a slower rate than the industry as a whole as we are still facing manufacturing capacity challenges and losing retail market share in select product categories. Our overall motorized market share has moved from 20.9% to 19.5% when comparing shipments during the twelve month trailing periods ended April 2015 to April 2016.

In part, the motorized market share decline has been influenced by limited production capacity within our North Iowa facilities. In recent quarters, we have begun to make investments in unlocking further capacity via improved operational processes and adding new facilities. While these investments have not been fully realized to date, we have taken near term actions to maximize the profitability of the motorized product with improved mix, cost containment efforts and pricing initiatives.

As a result of the actions taken within our motorized and towable products, we have seen similar changes to the backlog volumes at the end of our fiscal third quarter.

Towable backlog grew 130.2% on a unit basis, which is driven by the expansion of our distribution base and the new products that were mentioned earlier.

The motorized unit backlog decreased by 33.6% on a unit basis when compared to the third q