

WINNEBAGO INDUSTRIES INC

Form 10-Q

June 29, 2012

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 May 26, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-06403

WINNEBAGO INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Iowa

42-0802678

(State or other jurisdiction of incorporation or organization)

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

P. O. Box 152, Forest City, Iowa

50436

(Address of principal executive offices)

(Zip Code)

(641) 585-3535

(Registrant's telephone number, including area code)

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

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

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

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

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 June 28, 2012 was 29,239,106.



WINNEBAGO INDUSTRIES, INC.

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Glossary

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

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

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## Part I. FINANCIAL INFORMATION

## Item 1. Condensed Financial Statements

Winnebago Industries, Inc.

Unaudited Consolidated Statements of Operations

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

See unaudited notes to consolidated financial statements.

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Winnebago Industries, Inc.

Unaudited Consolidated Balance Sheets

(In thousands, except per share data)

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

See unaudited notes to consolidated financial statements.

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Winnebago Industries, Inc.

Unaudited Consolidated Statements of Cash Flows

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



See unaudited notes to consolidated financial statements.

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Winnebago Industries, Inc.  
Unaudited Notes to Consolidated Financial Statements

Note 1: Basis of Presentation

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

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

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

New Accounting Pronouncements

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

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

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

Note 2: Acquisition

On December 29, 2010 we purchased, through Towables, substantially all of the assets of SunnyBrook, a manufacturer of travel trailer and fifth wheel RVs. The aggregate consideration paid was \$4.7 million in cash, net of cash acquired, including the repayment of \$3.3 million of SunnyBrook commercial and shareholder debt on the closing date. The assets acquired included inventory, equipment and other tangible and intangible property and are

being used in connection with the operation of manufacturing towable recreation vehicles. Also on December 29, 2010, we entered into a five year operating lease agreement for the SunnyBrook facilities. The operations of Towables are included in our consolidated operating results from the date of its acquisition. Towables has continued to manufacture products under the SunnyBrook brands. In addition, in the first quarter of Fiscal 2012, Towables began diversifying its product line by including Winnebago brand trailer and fifth wheel products. The primary reason for the acquisition was diversification outside of the motorized market while utilizing the Winnebago brand strength in the towable market allowing for the potential of revenue and earnings growth.

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

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

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

#### Note 3: Concentration Risk

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

#### Note 4: Fair Value Measurements

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

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

##### Cash Equivalents

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

##### Long-Term and Short-Term Investments

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

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

#### Assets that Fund Deferred Compensation

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

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

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

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

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

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

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

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

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

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

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

|                                    |      |   |      |   |
|------------------------------------|------|---|------|---|
| Discount for lack of marketability | 2.94 | % | 3.55 | % |
|------------------------------------|------|---|------|---|

#### Note 5: Investments

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

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

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

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

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

## Note 6: Inventories

Inventories consist of the following:

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

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

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

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

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



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

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## Note 8: Goodwill and Amortizable Intangible Assets

Goodwill and other intangible assets consist of the following:

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

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

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

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

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

## Note 9: Credit Facility

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

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

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

## Note 10: Warranty

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

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Changes in our product warranty liability are as follows:

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

## Note 11: Employee and Retiree Benefits

Postretirement health care and deferred compensation benefits are as follows:

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

## Postretirement Health Care Benefits

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

Net periodic postretirement benefit income consisted of the following components:

| (In thousands)                             | Quarter Ended   |                 | Nine Months Ended |                 |
|--|-----------------|-----------------|-------------------|-----------------|
|  | May 26,<br>2012 | May 28,<br>2011 | May 26,<br>2012   | May 28,<br>2011 |
| Interest cost                              | \$453           | \$476           | \$1,397           | \$1,429         |
| Service cost                               | 132             | 152             | 407               | 456             |
| Net amortization and deferral              | (958            | ) (776          | ) (2,606          | ) (2,328        |
| Net periodic postretirement benefit income | \$(373          | ) \$(148        | ) \$(802          | ) \$(443        |
| Payments for postretirement health care    | \$297           | \$303           | \$916             | \$908           |

For accounting purposes, we recognized net periodic postretirement income as presented in the table above, due to the amortization of prior service credit associated with the establishment of caps on the employer portion of benefits in Fiscal 2005 and the 10% cap reduction in Fiscal 2012.

## Note 12: Stock-based Compensation Plans

We have a 2004 Incentive Compensation Plan approved by shareholders in place which allows us to grant or issue stock awards and other compensation to key employees and to nonemployee directors. On January 11, 2012 our Board of Directors granted 50,000 shares of restricted common stock to Robert J. Olson, retiring CEO, in recognition of his contributions to our success during his 43 years of service. 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 \$114,000 and \$877,000 during the third quarters of Fiscal 2012 and Fiscal 2011, respectively. Stock-based compensation expense was \$863,000 and \$1.0 million during the first nine months of Fiscal 2012 and Fiscal 2011, respectively. Of the \$863,000, \$398,000 related to the January 11, 2012 grant. The remainder is related to the amortization of previously granted restricted stock awards, as well as nonemployee director stock units issued in lieu of their fees. Compensation expense is recognized over the requisite service period of the award or over a period ending with the employee's eligible retirement date, if earlier.

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## Note 13: 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 RVs purchased.

Our repurchase agreements provide that, in the event of default by the dealer on the agreement to pay the lending institution, we will repurchase the financed merchandise. The terms of these agreements, which generally can last up to 18 months, provide that our liability will be the lesser of remaining principal owed by the dealer or dealer invoice less periodic reductions based on the time since the date of the original invoice. Our contingent liability on these repurchase agreements was approximately \$169.0 million and \$133.4 million at May 26, 2012 and August 27, 2011, 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 RVs 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 \$11.4 million and \$5.7 million at May 26, 2012 and August 27, 2011, respectively.

Based on these repurchase agreements, we establish an associated loss reserve which is disclosed separately in the balance sheets. Repurchased sales are not recorded as revenue transactions, but the net difference between the original repurchase price and the resale price are recorded against the loss reserve, which is a deduction from gross revenue. Our loss reserve for repurchase commitments contains uncertainties because the calculation requires management to make assumptions and apply judgment regarding a number of factors. There are two significant assumptions associated with establishing our loss reserve for repurchase commitments: (1) the percentage of dealer inventory that we will be required to repurchase as a result of defaults by the dealer, and (2) the loss that will be incurred, if any, when repurchased inventory is resold. These key assumptions are affected by a number of factors, such as macro-market conditions, current retail demand of our product, age of product in dealer inventory, physical condition of the product, location of the dealer, and the financing source. To the extent that dealers are increasing or decreasing their inventories, our overall exposure under repurchase agreements is likewise impacted. The percentage of dealer inventory we estimate we will repurchase (which has ranged in recent years from 5% to 11% on a weighted average basis) and the associated estimated loss (which has ranged in recent years from 7% to 16% on a weighted average basis) is based on historical information, current trends and an analysis of dealer inventory aging for all dealers with inventory subject to this obligation. In periods where there is increasing retail demand for our product at our dealerships, the lower end of our estimated range of assumptions will be more appropriate and in periods of decreasing retail demand, the opposite will be true.

Based on the repurchase exposure as previously described, we established an associated loss reserve of \$862,000 as of May 26, 2012 and \$1.2 million as of August 27, 2011. The inventory repurchased and the associated losses on the inventory resold presented in the table below during the first nine months of Fiscal 2012 relates to three dealers, two of which were towable dealers.

A summary of repurchase activity is as follows:

|                        | Quarter Ended | Nine Months Ended |
|------------------------|---------------|-------------------|
| (Dollars in thousands) |               |                   |

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|                       | May 26,<br>2012 | May 28,<br>2011 | May 26,<br>2012 | May 28,<br>2011 |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
| Inventory repurchased |                 |                 |                 |                 |
| Units                 | 1               | 4               | 18              | 9               |
| Dollars               | \$ 16           | \$508           | \$1,264         | \$658           |
| Inventory resold      |                 |                 |                 |                 |
| Units                 | 1               | 4               | 18              | 9               |
| Cash collected        | \$11            | \$487           | \$1,113         | \$612           |
| Loss recognized       | \$5             | \$21            | \$151           | \$46            |

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our loss reserve for repurchase commitments. A hypothetical change of a 10% increase or decrease in our significant repurchase commitment assumptions at May 26, 2012 would have affected pre-tax income by approximately \$255,000.

#### 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.

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## Note 14: Income Taxes

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

Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. Valuation allowances arise due to uncertainty of realizing deferred tax assets. ASC 740 requires that companies assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence, using a “more-likely-than-not” standard. In making such assessments, significant weight is given to evidence that can be objectively verified. A company's current or previous losses are given more weight than its future outlook. 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, as of August 27, 2011 and May 26, 2012, we have applied a valuation allowance of \$39.3 million and \$37.2 million respectively against our deferred tax assets. We will continue to assess the likelihood that our deferred tax assets will be realizable at each reporting period and our valuation allowance will be adjusted accordingly, which could materially impact our financial position and results of operations.

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

As of May 26, 2012, our unrecognized tax benefits were \$4.9 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 May 26, 2012, we had accrued \$2.2 million in interest and penalties which are included in unrecognized tax benefits. 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 15: Earnings Per Share

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

| (In thousands, except per share data) | Quarter Ended   |                 | Nine Months Ended |                 |
|---------------------------------------|-----------------|-----------------|-------------------|-----------------|
|                                       | May 26,<br>2012 | May 28,<br>2011 | May 26,<br>2012   | May 28,<br>2011 |
| Income per share - basic:             |                 |                 |                   |                 |
| Net income                            | \$3,941         | \$1,195         | \$4,064           | \$8,296         |
| Weighted average shares outstanding   | 29,225          | 29,124          | 29,171            | 29,118          |
| Net income per share - basic          | \$0.13          | \$0.04          | \$0.14            | \$0.28          |

Income per share - assuming dilution:



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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Net income  | \$3,941 | \$1,195 | \$4,064 | \$8,296 |
| Weighted average shares outstanding                               | 29,225  | 29,124  | 29,171  | 29,118  |
| Dilutive impact of options and awards outstanding                 | 38      | 28      | 72      | 17      |
| Weighted average shares and potential dilutive shares outstanding | 29,263  | 29,152  | 29,243  | 29,135  |
| Net income per share - assuming dilution                          | \$0.13  | \$0.04  | \$0.14  | \$0.28  |

At the end of the third quarters of Fiscal 2012 and Fiscal 2011, there were options outstanding to purchase 772,832 shares and 923,731 shares, respectively, of common stock at a weighted average price of \$29.02 and \$28.07, respectively, which were not included in the computation of diluted income per share because they are considered anti-dilutive under the treasury stock method per ASC 260, Earnings Per Share.

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## Note 16: Comprehensive Income

Comprehensive income, net of tax, consists of:

| (In thousands)  | Quarter Ended   |                 | Nine Months Ended |                 |
|---|-----------------|-----------------|-------------------|-----------------|
|   | May 26,<br>2012 | May 28,<br>2011 | May 26,<br>2012   | May 28,<br>2011 |
| Net income  | \$3,941         | \$1,195         | \$4,064           | \$8,296         |
| Amortization of prior service credit                  | (2,024          | ) (656          | ) (3,371          | ) (1,966        |
| Amortization of actuarial loss                        | 448             | 171             | 768               | 514             |
| Plan amendment  | —               | —               | 4,598             | —               |
| Unrealized (depreciation) appreciation of investments | (351            | ) 167           | (335              | ) (109          |
| Comprehensive income                                  | \$2,014         | \$877           | \$5,724           | \$6,735         |

## Note 17: Subsequent Event

We evaluated all events or transactions occurring between the balance sheet date for the quarterly period ended May 26, 2012 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 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 27, 2011.

## Forward-Looking Information

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

## Executive Overview

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

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Our retail unit market share, as reported by Stat Surveys, is as follows:

| U.S. Retail Motorized: | Through April 30 |        | Calendar Year |        |        |   |   |
|------------------------|------------------|--------|---------------|--------|--------|---|---|
|                        | 2012             | 2011   | 2011          | 2010   | 2009   |   |   |
| Class A gas            | 22.2             | % 22.2 | % 22.2        | % 23.7 | % 22.9 | % | % |
| Class A diesel         | 19.8             | % 16.6 | % 17.6        | % 15.2 | % 11.4 | % | % |
| Total Class A          | 21.2             | % 19.7 | % 20.2        | % 19.5 | % 16.6 | % | % |
| Class C                | 19.3             | % 18.2 | % 17.5        | % 17.9 | % 22.7 | % | % |
| Total Class A and C    | 20.3             | % 19.0 | % 19.0        | % 18.8 | % 19.1 | % | % |
| Class B                | 14.9             | % 3.5  | % 7.7         | % 15.6 | % 18.1 | % | % |

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|                            | Through April 30 |        | Calendar Year    |        |               |   |
|----------------------------|------------------|--------|------------------|--------|---------------|---|
|                            | 2012             | 2011   | 2011             | 2010   | 2009          |   |
| Canadian Retail Motorized: |                  |        |                  |        |               |   |
| Class A gas                | 14.0             | % 14.6 | % 16.5           | % 14.9 | % 13.8        | % |
| Class A diesel             | 17.1             | % 20.1 | % 18.0           | % 9.9  | % 7.0         | % |
| Total Class A              | 15.1             | % 17.1 | % 17.1           | % 12.6 | % 10.0        | % |
| Class C                    | 11.0             | % 15.9 | % 15.9           | % 13.8 | % 9.5         | % |
| Total Class A and C        | 13.0             | % 16.6 | % 16.5           | % 13.2 | % 9.8         | % |
| Class B                    | 4.4              | % 5.1  | % 7.1            | % 4.8  | % 2.3         | % |
|                            |                  |        | Through April 30 |        | Calendar Year |   |
| U.S. Retail Towables:      |                  |        | 2012             | 2011   | 2011          |   |
| Travel trailer             |                  |        | 0.9              | % 0.6  | % 0.6         | % |
| Fifth wheel                |                  |        | 1.0              | % 0.4  | % 0.5         | % |
| Total towables             |                  |        | 0.9              | % 0.6  | % 0.6         | % |
|                            |                  |        | Through April 30 |        | Calendar Year |   |
| Canadian Retail Towables:  |                  |        | 2012             | 2011   | 2011          |   |
| Travel trailer             |                  |        | 0.4              | % 0.3  | % 0.4         | % |
| Fifth wheel                |                  |        | 1.1              | % 0.6  | % 0.5         | % |
| Total towables             |                  |        | 0.6              | % 0.3  | % 0.4         | % |

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

|  | Class A, B & C Motor Homes |               |                   |               | Travel Trailers & Fifth Wheels |               |                   |               |
|--|----------------------------|---------------|-------------------|---------------|--------------------------------|---------------|-------------------|---------------|
|  | Wholesale                  | Retail        | As of Quarter End |               | Wholesale                      | Retail        | As of Quarter End |               |
| (In units)                               | Deliveries                 | Registrations | Dealer Inventory  | Order Backlog | Deliveries                     | Registrations | Dealer Inventory  | Order Backlog |
| 4 <sup>th</sup> quarter 2010             | 1,164                      | 1,120         | 2,044             | 818           | —                              | —             | —                 | —             |
| 1 <sup>st</sup> quarter 2011             | 1,115                      | 1,093         | 2,066             | 698           | —                              | —             | —                 | —             |
| 2 <sup>nd</sup> quarter 2011             | 909                        | 796           | 2,179             | 957           | 85                             | 100           | 905               | 151           |
| 3 <sup>rd</sup> quarter 2011             | 1,283                      | 1,394         | 2,068             | 642           | 326                            | 203           | 1,028             | 164           |
| Rolling 12 months<br>(Jun 2010-May 2011) | 4,471                      | 4,403         |                   |               | 411                            | 303           |                   |               |
| 4 <sup>th</sup> quarter 2011             | 1,088                      | 1,198         | 1,958             | 681           | 358                            | 420           | 966               | 293           |
| 1 <sup>st</sup> quarter 2012             | 1,040                      | 1,053         | 1,945             | 618           | 435                            | 255           | 1,146             | 460           |
| 2 <sup>nd</sup> quarter 2012             | 1,001                      | 872           | 2,074             | 1,004         | 562                            | 332           | 1,376             | 417           |
| 3 <sup>rd</sup> quarter 2012             | 1,280                      | 1,414         | 1,940             | 1,237         | 646                            | 652           | 1,370             | 505           |
| Rolling 12 months<br>(Jun 2011-May 2012) | 4,409                      | 4,537         |                   |               | 2,001                          | 1,659         |                   |               |

Highlights of our most recent quarter:

The increase in net revenues in the third quarter of Fiscal 2012 was driven by two primary factors: increased towable sales volume and higher average selling prices based upon the mix of RVs delivered. The incremental revenue generated in our fiscal third quarter allowed us to improve our gross margins on a year over year basis and on a consecutive quarter basis. The key factor for the margin improvement related to better fixed cost absorption as we produced more product in the quarter.

In addition, Towables specifically contributed to improved results in our fiscal third quarter, generating operating income that resulted in \$.01 of EPS of the fiscal quarter; the first accretive quarter since the acquisition in December 2010. This compares to a \$.01 EPS loss attributable to Towables in the same quarter last year. The investments we have made over the past several quarters are beginning to produce positive financial results in the near term and we expect to build on this momentum. The increased towable backlog coupled with the recent strong retail turn rate and relatively low towable dealer inventory validates our belief that there is room to grow this portion of our business in the coming quarters and years.

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## Industry Outlook

Key statistics for the motor home industry are as follows:

| (In units)              | U.S. and Canada Industry Class A, B & C Motor Homes |           |                        |        |   |                                     |        |                        |        |   |
|-------------------------|---|-----------|------------------------|--------|---|-------------------------------------|--------|------------------------|--------|---|
|                         | Wholesale Shipments <sup>(1)</sup>                  |           |                        |        |   | Retail Registrations <sup>(2)</sup> |        |                        |        |   |
|                         | Calendar Year                                       |           | Increase<br>(Decrease) | Change |   | Calendar Year                       |        | Increase<br>(Decrease) | Change |   |
|                         | 2011  | 2010      |                        |        | % | 2011                                | 2010   |                        |        | % |
| 1 <sup>st</sup> quarter | 6,900   | 5,700     | 1,200                  | 21.1   | % | 5,100                               | 5,000  | 100                    | 2.0    | % |
| 2 <sup>nd</sup> quarter | 7,800   | 7,800     | —                      | —      | % | 8,200                               | 8,400  | (200)                  | (2.4)  | % |
| 3 <sup>rd</sup> quarter | 5,300   | 6,200     | (900)                  | (14.5) | % | 6,100                               | 6,100  | —                      | —      | % |
| 4 <sup>th</sup> quarter | 4,800   | 5,500     | (700)                  | (12.7) | % | 4,600                               | 4,600  | —                      | —      | % |
| Total                   | 24,800  | 25,200    | (400)                  | (1.6)  | % | 24,000                              | 24,100 | (100)                  | (0.4)  | % |
|                         | 2012  | 2011      | (Decrease)<br>Increase | Change |   | 2012                                | 2011   | Increase<br>(Decrease) | Change |   |
| 1 <sup>st</sup> quarter | 6,900   | 6,900     | —                      | —      | % | 5,700                               | 5,100  | 600                    | 11.8   | % |
| April                   | 2,500   | 2,800     | (300)                  | (10.7) | % | 2,400                               | 2,700  | (300)                  | (11.1) | % |
| May                     | 2,800   | 2,700     | 100                    | 3.7    | % | (4)                                 | 2,800  |                        |        |   |
| June                    | 2,200   | (3) 2,300 | (100)                  | (4.3)  | % | (4)                                 | 2,700  |                        |        |   |
| 3 <sup>rd</sup> quarter | 6,400   | (3) 5,300 | 1,100                  | 20.8   | % | (4)                                 | 6,100  |                        |        |   |
| 4 <sup>th</sup> quarter | 5,900   | (3) 4,800 | 1,100                  | 22.9   | % | (4)                                 | 4,600  |                        |        |   |
| Total                   | 26,700  | 24,800    | 1,900                  | 7.7    | % |                                     | 24,000 |                        |        |   |

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

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

Monthly and quarterly 2012 Class A, B and C wholesale shipments are based upon the forecast prepared by Dr. Richard Curtin of the University of Michigan Consumer Survey Research Center for RVIA and reported in the (3) Roadsigns RV Special 2013 Industry Forecast Issue. The revised RVIA annual 2012 wholesale shipment forecast is 26,100 and the annual forecast for 2013 is 27,600.

(4) Stat Surveys has not issued a projection for 2012 retail demand for this period.

The size of the motorized retail market for each of the past three calendar years has been less than half of what the industry norms had been prior to the recession that began in December 2007. RVIA, in a recent Roadsigns publications, attributes the flat retail environment primarily to declining home equity. However, RVIA forecasts that motor homes sales are likely to improve at a relatively greater pace in the decade ahead as stricter fuel economy standards reduce the towing capacity of the household vehicle fleet.

Key statistics for the towable industry are as follows:

| (In units)              | U.S. and Canada Travel Trailer & Fifth Wheel Industry |        |                        |        |                                     |               |        |                        |        |   |
|-------------------------|---|--------|------------------------|--------|-------------------------------------|---------------|--------|------------------------|--------|---|
|                         | Wholesale Shipments <sup>(1)</sup>                    |        |                        |        | Retail Registrations <sup>(2)</sup> |               |        |                        |        |   |
|                         | Calendar Year   |        | Increase<br>(Decrease) | Change |                                     | Calendar Year |        | Increase<br>(Decrease) | Change |   |
|                         | 2011  | 2010   |                        |        | %                                   | 2011          | 2010   |                        |        | % |
| 1 <sup>st</sup> quarter | 54,200  | 49,300 | 4,900                  | 9.9    | %                                   | 33,400        | 31,100 | 2,300                  | 7.4    | % |
| 2 <sup>nd</sup> quarter | 66,000  | 62,300 | 3,700                  | 5.9    | %                                   | 75,000        | 69,400 | 5,600                  | 8.1    | % |
| 3 <sup>rd</sup> quarter | 47,500  | 48,600 | (1,100)                | (2.3)  | %                                   | 59,400        | 57,200 | 2,200                  | 3.8    | % |
| 4 <sup>th</sup> quarter | 45,200  | 39,000 | 6,200                  | 15.9   | %                                   | 29,500        | 28,300 | 1,200                  | 4.2    | % |

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|                         |         |            |                        |        |   |         |         |                        |        |   |
|-------------------------|---------|------------|------------------------|--------|---|---------|---------|------------------------|--------|---|
| Total                   | 212,900 | 199,200    | 13,700                 | 6.9    | % | 197,300 | 186,000 | 11,300                 | 6.1    | % |
| (In units)              | 2012    | 2011       | Increase<br>(Decrease) | Change |   | 2012    | 2011    | Increase<br>(Decrease) | Change |   |
| 1 <sup>st</sup> quarter | 60,400  | 54,200     | 6,200                  | 11.4   | % | 37,600  | 33,400  | 4,200                  | 12.6   | % |
| April                   | 22,800  | 20,000     | 2,800                  | 14.0   | % | 23,100  | 23,200  | (100)                  | (0.4)  | % |
| May                     | 24,500  | 23,200     | 1,300                  | 5.6    | % | (4)     | 25,800  |                        |        |   |
| June                    | 22,600  | (3) 22,800 | (200)                  | (0.9)  | % | (4)     | 26,000  |                        |        |   |
| 3 <sup>rd</sup> quarter | 54,700  | (3) 47,500 | 7,200                  | 15.2   | % | (4)     | 59,400  |                        |        |   |
| 4 <sup>th</sup> quarter | 47,100  | (3) 45,200 | 1,900                  | 4.2    | % | (4)     | 29,500  |                        |        |   |
| Total                   | 232,100 | 212,900    | 19,200                 | 9.0    | % |         | 197,300 |                        |        |   |

(1) Towable wholesale shipments as reported by RVIA, rounded to the nearest hundred.

(2) Towable retail registrations as reported by Stat Surveys for the US and Canada combined, rounded to the nearest hundred.

(3) Monthly and quarterly 2012 towable wholesale shipments are based upon the forecast prepared by Dr. Richard Curtin of the University of Michigan Consumer Survey Research Center for RVIA and reported in the Roadsigns RV Special 2013 Industry Forecast Issue. The revised RVIA annual 2012 wholesale shipment forecast is 229,100 and the annual forecast for 2013 is 239,400.

(4) Stat Surveys has not issued a projection for 2012 retail demand for this period.

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The towable retail market has not been as negatively impacted in recent years as the motorized market. The size of the market was nearly nine times larger than the motorized market on a unit basis in Calendar 2011. This is primarily due to the fact that average price of a towable unit is considerably less than a motor home.

## Company Outlook

Based on our profitable operating results for Fiscal 2011, profitable operating results and strong operating cash flow performance thus far in Fiscal 2012, we believe that we have demonstrated our ability to maintain adequate liquidity, cover operations costs, recover fixed assets, and maintain physical capacity at present levels. In Fiscal 2011 we entered into the towable market, providing us the potential to grow revenues and earnings in a market significantly larger than the motorized market.

We believe retail sales will be the key driver to improvement of the recreation vehicle market. We also believe that future dealer buying patterns will continue to be primarily based on retail demand, thus dealers are expected to order approximately one new unit as one is retailed. Our viewpoint is that dealers post-recession are much more cautious about their level of inventory and are more focused on their retail turn rate than they were as a group pre-recession. We plan to continue to focus on those same metrics, closely reviewing the aging of dealer inventory and retail turns by product series. Consistent with our current practice, we will continue to adjust our weekly production rate up or down based on market demand. Negative factors that may hinder retail sales include the current low level of consumer confidence, continued high unemployment levels and uncertainty regarding fuel prices.

Our unit order backlog was as follows:

|   | As Of        |                  |       |                  | Increase   | %      |    |
|---|--------------|------------------|-------|------------------|------------|--------|----|
|   | May 26, 2012 | May 28, 2011     |       |                  |            |        |    |
| (In units)                              | Units        | % <sup>(1)</sup> | Units | % <sup>(1)</sup> | (Decrease) | Change |    |
| Class A gas                             | 479          | 38.7             | % 187 | 29.1             | % 292      | 156.1  | %  |
| Class A diesel                          | 257          | 20.8             | % 113 | 17.6             | % 144      | 127.4  | %  |
| Total Class A                           | 736          | 59.5             | % 300 | 46.7             | % 436      | 145.3  | %  |
| Class B                                 | 120          | 9.7              | % 130 | 20.2             | % (10)     | (7.7)  | )% |
| Class C                                 | 381          | 30.8             | % 212 | 33.0             | % 169      | 79.7   | %  |
| Total motor home backlog <sup>(2)</sup> | 1,237        | 100.0            | % 642 | 100.0            | % 595      | 92.7   | %  |
| Travel trailer                          | 301          | 59.6             | % 118 | 72.0             | % 183      | 155.1  | %  |
| Fifth wheel                             | 204          | 40.4             | % 46  | 28.0             | % 158      | 343.5  | %  |
| Total towable backlog <sup>(2)</sup>    | 505          | 100.0            | % 164 | 100.0            | % 341      | 207.9  | %  |

Approximate backlog revenue in thousands

|            |           |          |          |       |   |
|------------|-----------|----------|----------|-------|---|
| Motor home | \$131,418 | \$61,924 | \$69,494 | 112.2 | % |
| Towable    | \$12,487  | \$3,532  | \$8,955  | 253.5 | % |

(1) Percentages may not add due to rounding differences.

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

(2) 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.

During the third quarter of Fiscal 2012, we hosted our Dealer Days event, which was the primary reason our selling expenses increased from the prior year. At this event, we showcased our new product and spent time with our dealer body. The event resulted an improved sales order position for our motorized products and had a particularly positive



impact on our Towable backlog.

Based on the positive response we have received to our new model year products, our sales order backlog has shown significant growth. As a result, we have taken steps to gradually increase production rates. Due to the improved backlog and continued low dealer inventories of new products, we are optimistic about the remainder of the fiscal year.

In addition, we are anticipating that in the fourth quarter of Fiscal 2012, we will reach a three-year cumulative income position. This positive factor, along with our future outlook, may eliminate the uncertainty of realizing our deferred tax assets, thus allowing us to significantly reduce our valuation allowance against these assets. If this position is reached, it would result in a one-time, non-cash income tax benefit of approximately \$33 million to \$35 million in the fourth quarter of Fiscal 2012.

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## Results of Operations

## Current Quarter Compared to the Comparable Quarter Last Year

| (In thousands, except percent and per share data) | Quarter Ended |                | Quarter Ended |                | Increase (Decrease) | % Change |    |
|---|---------------|----------------|---------------|----------------|---------------------|----------|----|
|   | May 26, 2012  | % of Revenues* | May 28, 2011  | % of Revenues* |                     |          |    |
| Net revenues                                      | \$155,709     | 100.0          | % \$135,568   | 100.0          | % \$20,141          | 14.9     | %  |
| Cost of goods sold                                | 143,638       | 92.2           | % 126,865     | 93.6           | % 16,773            | 13.2     | %  |
| Gross profit                                      | 12,071        | 7.8            | % 8,703       | 6.4            | % 3,368             | 38.7     | %  |
| Selling   | 4,331         | 2.8            | % 3,608       | 2.7            | % 723               | 20.0     | %  |
| General and administrative                        | 4,213         | 2.7            | % 3,952       | 2.9            | % 261               | 6.6      | %  |
| Asset impairment                                  | —             | —              | % 605         | 0.4            | % (605)             | (100.0)  | )% |
| Total operating expenses                          | 8,544         | 5.5            | % 8,165       | 6.0            | % 379               | 4.6      | %  |
| Operating income                                  | 3,527         | 2.3            | % 538         | 0.4            | % 2,989             | 555.6    | %  |
| Non-operating income                              | 402           | 0.3            | % 76          | 0.1            | % 326               | 428.9    | %  |
| Income before income taxes                        | 3,929         | 2.5            | % 614         | 0.5            | % 3,315             | 539.9    | %  |
| Benefit for taxes                                 | (12)          | )—             | % (581)       | )(0.4          | )% 569              | 97.9     | %  |
| Net income  | \$3,941       | 2.5            | % \$1,195     | 0.9            | % \$2,746           | 229.8    | %  |
| Diluted income per share                          | \$0.13        |                | \$0.04        |                | \$0.09              | 225.0    | %  |
| Diluted average shares outstanding                | 29,263        |                | 29,152        |                |                     |          |    |

\* Percentages may not add due to rounding differences.

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

| (In units)                    | Quarter Ended |              | Quarter Ended |              | Increase (Decrease) | % Change |    |
|-------------------------------|---------------|--------------|---------------|--------------|---------------------|----------|----|
|                               | May 26, 2012  | Product Mix* | May 28, 2011  | Product Mix* |                     |          |    |
| Class A gas                   | 429           | 33.5         | % 425         | 33.1         | % 4                 | 0.9      | %  |
| Class A diesel                | 234           | 18.3         | % 204         | 15.9         | % 30                | 14.7     | %  |
| Total Class A                 | 663           | 51.8         | % 629         | 49.0         | % 34                | 5.4      | %  |
| Class B                       | 87            | 6.8          | % 1           | 0.1          | % 86                | NMF      |    |
| Class C                       | 530           | 41.4         | % 653         | 50.9         | % (123)             | (18.8)   | )% |
| Total motor home deliveries   | 1,280         | 100.0        | % 1,283       | 100.0        | % (3)               | (0.2)    | )% |
| Motor home ASP (in thousands) | \$102         |              | \$95          |              | \$7                 | 7.4      | %  |
| Travel trailer                | 357           | 55.3         | % 232         | 71.2         | % 125               | 53.9     | %  |
| Fifth wheel                   | 289           | 44.7         | % 94          | 28.8         | % 195               | 207.4    | %  |
| Total towable deliveries      | 646           | 100.0        | % 326         | 100.0        | % 320               | 98.2     | %  |
| Towable ASP (in thousands)    | \$25          |              | \$22          |              | \$3                 | 13.6     | %  |

\* Percentages may not add due to rounding differences.

## Net revenues consisted of the following:

| Motor homes <sup>(2)</sup> | Quarter Ended |                              | Quarter Ended |                              | Increase (Decrease) | % Change |   |
|----------------------------|---------------|------------------------------|---------------|------------------------------|---------------------|----------|---|
|                            | May 26, 2012  | % of Revenues <sup>(1)</sup> | May 28, 2011  | % of Revenues <sup>(1)</sup> |                     |          |   |
| Motor homes <sup>(2)</sup> | \$128,016     | 82.2                         | % \$119,528   | 88.2                         | % \$8,488           | 7.1      | % |

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|                               |           |       |             |       |            |        |    |
|-------------------------------|-----------|-------|-------------|-------|------------|--------|----|
| Towables <sup>(3)</sup>       | 16,392    | 10.5  | % 7,178     | 5.3   | % 9,214    | 128.4  | %  |
| Motor home parts and services | 2,909     | 1.9   | % 3,088     | 2.3   | % (179     | ) (5.8 | )% |
| Other manufactured products   | 8,392     | 5.4   | % 5,774     | 4.3   | % 2,618    | 45.3   | %  |
| Total net revenues            | \$155,709 | 100.0 | % \$135,568 | 100.0 | % \$20,141 | 14.9   | %  |

(1) Percentages may not add due to rounding differences.

(2) Motor home unit revenue less discounts, sales promotions and incentives, and accrued loss on repurchase adjustments.

(3) Includes towable units and parts revenues less discounts, sales promotions and accrued loss on repurchase adjustments.

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Net revenues for the third quarter of Fiscal 2012 increased \$20.1 million, or 14.9%, compared to the third quarter of Fiscal 2011, primarily due to:

- Towables revenues increased \$9.2 million in Fiscal 2012. The increase was due to higher sales volumes, increased product offerings and higher ASPs.

- Motor home revenues increased \$8.5 million mostly due to a 7.4% increase in ASP. Discounts and promotional pricing continued in both quarterly periods.

Cost of goods sold was \$143.6 million, or 92.2% of net revenues for the third quarter of Fiscal 2012 compared to \$126.9 million, or 93.6% of net revenues for the comparable period a year ago due to the following:

- Our variable costs (material, labor, variable overhead, delivery, and warranty) as a percent of net revenues, increased from 84.8% to 85.6% as a percent of net revenues, which was primarily due to increased material costs.

Fixed overhead (manufacturing support labor, depreciation and facility costs) and research and development-related costs decreased from 8.8% to 6.6%, primarily due to increased absorption of fixed overhead as a result of higher production levels.

- All factors considered, gross profit increased from 6.4% to 7.8% of net revenues.

Selling expenses increased \$723,000, or 20.0% during the third quarter of Fiscal 2012 as compared to the third quarter of Fiscal 2011, and as a percent of net revenues, were 2.8% and 2.7% for the third quarters of Fiscal 2012 and Fiscal 2011, respectively. The expense increase was due primarily to the fact that we hosted our Dealer Days show (we had not held this event since our Fiscal 2008), as well as increased operating expenses associated with Towables.

General and administrative expenses increased \$261,000 or 6.6% during the third quarter of Fiscal 2012 as compared to the third quarter of Fiscal 2011, and as a percentage of net revenues, were 2.7% and 2.9% for the third quarters of Fiscal 2012 and Fiscal 2011, respectively. Incremental employee expenses were partially offset by decreases in legal expenses and stock-based compensation expense in the third quarter of Fiscal 2012 as compared to the same period in Fiscal 2011.

Non-operating income increased \$326,000 during the third quarter of Fiscal 2012 when compared to the same period in Fiscal 2011, primarily due to gains from COLI policies.

The overall effective income tax benefit rate for the third quarter of Fiscal 2012 was 0.3% compared to the tax benefit rate of 94.6% for the third quarter of Fiscal 2011. Most notably, our effective tax benefit rate for the third quarter of Fiscal 2012 was near zero as most of the income tax expense associated with pre-tax income was offset by income tax benefit associated with a reduction in the valuation allowance resulting from the finalization of the Fiscal 2011 federal and state tax returns. In addition, we recorded tax benefits in the third quarter of Fiscal 2012 associated with reductions to reserves for uncertain tax positions.

The overall effective income tax rate for the third quarter of Fiscal 2011 was a benefit of 94.6% percent as a result of a reduction in the estimated annual effective tax rate. During the third quarter of Fiscal 2011, the estimated annual effective tax rate decreased most notably as a result of the tax-exempt interest income in relation to projected pre-tax income, the sale of CCMF and the increase to the NOL carryforward from the finalization and filing of the Fiscal 2010 federal and state tax returns.

Net income was \$3.9 million, or \$0.13 per diluted share, for the third quarter of Fiscal 2012 compared to net income of \$1.2 million, or \$0.04 per diluted share, for the third quarter of Fiscal 2011. See Note 15.

First Nine Months Compared to the Comparable Nine Months Last Year

|                               | Nine Months Ended |   |   |   |
|-------------------------------|-------------------|---|---|---|
| (In thousands, except percent | %                 | % | % | % |

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| and per share data)                                | May 26,<br>2012 | Revenues* | May 28,<br>2011 | Revenues* | Increase<br>(Decrease) | Change   |         |    |
|--|-----------------|-----------|-----------------|-----------|------------------------|----------|---------|----|
| Net revenues                                       | \$419,146       | 100.0     | % \$365,872     | 100.0     | % \$53,274             | 14.6     | %       |    |
| Cost of goods sold                                 | 391,733         | 93.5      | % 334,646       | 91.5      | % 57,087               | 17.1     | %       |    |
| Gross profit                                       | 27,413          | 6.5       | % 31,226        | 8.5       | % (3,813               | )(12.2   | )%      |    |
| Selling  | 12,485          | 3.0       | % 10,129        | 2.8       | % 2,356                | 23.3     | %       |    |
| General and administrative                         | 11,938          | 2.8       | % 11,623        | 3.2       | % 315                  | 2.7      | %       |    |
| Assets held for sale impairment<br>and (gain), net | —               | —         | % (39           | )—        | % 39                   | 100.0    | %       |    |
| Total operating expenses                           | 24,423          | 5.8       | % 21,713        | 5.9       | % 2,710                | 12.5     | %       |    |
| Operating income                                   | 2,990           | 0.7       | % 9,513         | 2.6       | % (6,523               | )(68.6   | )%      |    |
| Non-operating income                               | 549             | 0.1       | % 550           | 0.2       | % (1                   | )(0.2    | )%      |    |
| Income before income taxes                         | 3,539           | 0.8       | % 10,063        | 2.8       | % (6,524               | )(64.8   | )%      |    |
| (Benefit) provision for taxes                      | (525            | )(0.1     | )%              | 1,767     | 0.5                    | % (2,292 | )(129.7 | )% |
| Net income   | \$4,064         | 1.0       | % \$8,296       | 2.3       | % \$(4,232             | )(51.0   | )%      |    |
| Diluted income per share                           | \$0.14          |           | \$0.28          |           | \$(0.14                | )(50.0   | )%      |    |
| Diluted average shares<br>outstanding              | 29,243          |           | 29,135          |           |                        |          |         |    |

\* Percentages may not add due to rounding differences.

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

| (In units)                    | Nine Months Ended |                 | May 28,<br>2011 | Product<br>Mix* | Increase<br>(Decrease) | %<br>Change |  |   |
|-------------------------------|-------------------|-----------------|-----------------|-----------------|------------------------|-------------|--|---|
|                               | May 26,<br>2012   | Product<br>Mix* |                 |                 |                        |             |  |   |
| Class A gas                   | 1,163             | 35.0            | % 1,145         | 34.6            | % 18                   | 1.6         |  | % |
| Class A diesel                | 701               | 21.1            | % 692           | 20.9            | % 9                    | 1.3         |  | % |
| Total Class A                 | 1,864             | 56.1            | % 1,837         | 55.5            | % 27                   | 1.5         |  | % |
| Class B                       | 215               | 6.5             | % 2             | 0.1             | % 213                  | NMF         |  |   |
| Class C                       | 1,242             | 37.4            | % 1,468         | 44.4            | % (226)                | (15.4)      |  | % |
| Total motor home deliveries   | 3,321             | 100.0           | % 3,307         | 100.0           | % 14                   | 0.4         |  | % |
| Motor home ASP (in thousands) | \$ 106            |                 | \$ 101          |                 | \$ 5                   | 5.0         |  | % |
| Travel trailer                | 928               | 56.5            | % 296           | 72.0            | % 632                  | 213.5       |  | % |
| Fifth wheel                   | 715               | 43.5            | % 115           | 28.0            | % 600                  | 521.7       |  | % |
| Total towable deliveries      | 1,643             | 100.0           | % 411           | 100.0           | % 1,232                | 299.8       |  | % |
| Towable ASP (in thousands)    | \$ 25             |                 | \$ 21           |                 | \$ 4                   | 19.0        |  | % |

\* Percentages may not add due to rounding differences.

Net revenues consisted of the following:

|                               | Nine Months Ended |                                 | May 28,<br>2011 | % of<br>Revenues <sup>(1)</sup> | Increase<br>(Decrease) | %<br>Change |  |   |
|-------------------------------|-------------------|---------------------------------|-----------------|---------------------------------|------------------------|-------------|--|---|
|                               | May 26,<br>2012   | % of<br>Revenues <sup>(1)</sup> |                 |                                 |                        |             |  |   |
| Motor homes <sup>(2)</sup>    | \$347,510         | 82.9                            | % \$330,831     | 90.4                            | % \$16,679             | 5.0         |  | % |
| Towables <sup>(3)</sup>       | 40,948            | 9.8                             | % 8,956         | 2.4                             | % 31,992               | 357.2       |  | % |
| Motor home parts and services | 8,695             | 2.1                             | % 9,030         | 2.5                             | % (335)                | (3.7)       |  | % |
| Other manufactured products   | 21,993            | 5.2                             | % 17,055        | 4.7                             | % 4,938                | 29.0        |  | % |
| Total net revenues            | \$419,146         | 100.0                           | % \$365,872     | 100.0                           | % \$53,274             | 14.6        |  | % |

(1) Percentages may not add due to rounding differences.

(2) Motor home unit revenue less discounts, sales promotions and incentives, and accrued loss on repurchase adjustments.

(3) Includes towable units and parts revenues less discounts, sales promotions and accrued loss on repurchase adjustments.

Net revenues for the first nine months of Fiscal 2012 increased \$53.3 million, or 14.6%, compared to the first nine months of Fiscal 2011, primarily due to:

Towables revenues were \$40.9 million in the first nine months of Fiscal 2012. SunnyBrook, which was acquired in the second quarter of Fiscal 2011, had revenues \$9.0 million in the first nine months of Fiscal 2011.

Motor home revenues primarily increased \$16.7 million due to a 5.0% increase in ASP. This increase was primarily due to a shift to higher-priced Class A motor homes, although ASPs in general were negatively impacted by increased discounts and promotional pricing.

Cost of goods sold was \$391.7 million, or 93.5% of net revenues for the first nine months of Fiscal 2012 compared to \$334.6 million, or 91.5% of net revenues for the comparable period a year ago due to the following:

The increase in cost of goods sold was a result of the \$3.5 million favorable inventory adjustment recorded in Fiscal 2011. The adjustment favorably impacted our material, labor, variable overhead and fixed overhead costs as a

percentage of net revenues in the first nine months of Fiscal 2011.

Total variable costs (material, labor, variable overhead, delivery, and warranty) as a percent of net revenues, increased from 83.2% last year to 85.9% this year. Increased discounts and promotional pricing and inflationary commodity pressures also contributed to the increase in cost of goods sold as a percentage of net revenues.

Fixed overhead (manufacturing support labor, depreciation and facility costs) and research and development-related costs decreased to 7.6% of net revenues compared to 8.3% last year. This difference was primarily due to increased absorption of fixed expenses as a result of higher production volumes.

All factors considered, gross profit decreased from 8.5% to 6.5% of net revenues. Excluding the effect of the physical inventory adjustment in Fiscal 2011, gross profit would have been 7.6% for the first nine months of Fiscal 2011.

Selling expenses increased \$2.4 million, or 23.3% during the first nine months of Fiscal 2012 and, as a percent of net revenues were 3.0% and 2.8% for the first nine months of Fiscal 2012 and Fiscal 2011, respectively. The expense increase was due primarily to operating expenses associated with Towables and our Dealer Days show in Fiscal 2012.

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General and administrative expenses increased \$315,000 during the first nine months of Fiscal 2012 and, as a percentage of net revenues were 2.8% and 3.2% for the first nine months of Fiscal 2012 and Fiscal 2011, respectively. Increases in operating expenses associated with Towables and employee-related expenses in the first nine months of Fiscal 2012 were partially offset by decreases in legal and product liability expenses when compared to the same period in Fiscal 2011.

During the first nine months of Fiscal 2011 we realized a gain of \$644,000 on the sale of CCMF, an asset held for sale, and an impairment of \$605,000 on our Hampton facility.

Non-operating income was essentially the same in both nine-month periods. In the first nine months of Fiscal 2012, increased COLI policy gains were partially offset by lower investment income.

The overall effective income tax benefit rate for the first nine months of Fiscal 2012 was 14.8% compared to the tax benefit rate of 17.6% for the first nine months of Fiscal 2011. Most notably, our effective tax benefit rate for the first nine months of Fiscal 2012 was the result of a lower level of book income recorded for such period compared to the same prior year period as well as income tax expense associated with pre-tax income being offset by income tax benefit associated with reductions in valuation allowances resulting from the finalization of the Fiscal 2011 federal and state tax returns. In addition, we recorded tax benefits associated with reductions to reserves for uncertain tax positions.

Our tax benefit rate of 17.6% in the first nine months of Fiscal 2011 was primarily the result of higher book income, thus resulting in lower reductions in tax expense as a percentage of book income, the sale of CCMF, and the increase to the NOL carryforward from the finalization of the Fiscal 2010 federal and state tax returns.

Net income was \$4.1 million, or \$0.14 per diluted share, for the first nine months of Fiscal 2012 compared to \$8.3 million, or \$0.28 per diluted share, for the first nine months of Fiscal 2011. See Note 15.

## Analysis of Financial Condition, Liquidity and Resources

Cash and cash equivalents totaled \$80.8 million and \$69.3 million as of May 26, 2012 and August 27, 2011, respectively.

Significant liquidity events in the first nine months of Fiscal 2012 include:

• Cash flow from operating activities of \$11.7 million, of which \$4.1 million was from net income.

• ARS redemptions at par of \$750,000. We have \$10.0 million ARS at par value as of May 26, 2012. See further discussion in Note 5.

We also have in place a \$20.0 million revolving credit facility expiring on October 13, 2012, unless terminated earlier, which allows us to borrow up to \$12.5 million without financial covenant restrictions if there is adequate asset coverage. (See further discussion in Note 9.) We had sufficient asset coverage in accounts receivable and inventory as of May 26, 2012 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. Due to the current credit facility expiring in early Fiscal 2013, we are reviewing financing alternatives that may be available to us at the time of expiration.

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



from its effective date. We currently have no plans to offer and sell the common stock registered under the Registration Statement; however, it does provide another source of liquidity in addition to the alternatives already in place.

Working capital at May 26, 2012 and August 27, 2011 was \$118.7 million and \$113.5 million, respectively, an increase of \$5.2 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 2012 of approximately \$1.1 million, primarily for manufacturing equipment and facilities which will be funded with cash on hand.

#### Operating Activities

Cash provided by operating activities was \$11.7 million for the nine months ended May 26, 2012 compared to cash used in operating activities of \$14.1 million for the nine months ended May 28, 2011. In the current fiscal year, the combination of net income and non-cash charges (e.g., depreciation, stock-based compensation) provided \$9.1 million of operating cash compared to \$15.4 million in the prior year period. In the first nine months of Fiscal 2012, changes in assets and liabilities provided \$2.6 million of operating cash. In the first nine months of Fiscal 2011, a significant increase in inventory of \$30.1 million was partially offset by net income of \$8.3 million.

#### Investing Activities

In the nine months ended May 26, 2012, cash provided by investing activities was due to \$750,000 of ARS redemptions proceeds and proceeds of life insurance of \$1.4 million, partially offset by capital spending of \$1.5 million. During the nine months ended

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May 28, 2011, cash provided by investing activities of \$4.4 million was due to ARS redemptions of \$6.5 million, proceeds of the sale of CCMF of \$3.7 million, partially offset by the acquisition of SunnyBrook for \$4.7 million and capital spending of \$1.6 million.

### Financing Activities

Cash used in financing activities was \$310,000 for the nine months ended May 26, 2012 compared to cash provided by financing activities of \$178,000 for the nine months ended May 28, 2011.

### Other Events

During the third quarter of Fiscal 2012, we received an unsolicited, non-binding and highly-conditional proposal from North Street Capital, LP ("North Street") to acquire all outstanding shares of our common stock at \$11.00 per share in cash. Our management has reviewed with our Board of Directors the information provided by North Street in connection with the offer and has determined that, as of the date of this filing, it has not received sufficient information to deem the offer as credible.

### Significant Accounting Policies

We describe our significant accounting policies in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 27, 2011. We discuss our critical accounting estimates in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the fiscal year ended August 27, 2011. We refer to these disclosures for a detailed explanation of our significant accounting policies and critical accounting estimates. There has been no significant change in our significant accounting policies or critical accounting estimates since the end of Fiscal 2011.

### 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 5.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

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

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

#### Changes in Internal Control Over Financial Reporting

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

## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are involved in various legal proceedings which are ordinary 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 \$60.0 million. There is no time restriction on this authorization. During the third quarter of Fiscal 2012, there were 11,171 shares repurchased pursuant to this authorization, at an aggregate cost of approximately \$108,000. These shares were repurchased from employees who vested in Company shares during the quarter and elected to pay their payroll tax via share repurchases as opposed to cash. As of May 26, 2012, there was approximately

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\$58.9 million remaining under this authorization.

This table provides information with respect to purchases by us of shares of our common stock during each fiscal month of the third quarter of Fiscal 2012:

| 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 |
|---------------------|----------------------------------|------------------------------|--|--|
| 02/26/12 - 03/31/12 | 11,171                           | \$9.67                       | 11,171 (1)   | \$58,902,000   |
| 04/01/12 - 04/28/12 | —                                | —                            | —  | \$58,902,000   |
| 04/29/12 - 05/26/12 | —                                | —                            | —  | \$58,902,000   |
| Total               | 11,171                           | \$9.67                       | 11,171 (1)   | \$58,902,000   |

(1) Shares purchased for payment of employee taxes upon restricted share vesting.

## Item 6. Exhibits

- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated June 29, 2012.
- 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated June 29, 2012.
- 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 June 29, 2012.
- 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 June 29, 2012.
- 101.INS\*XBRL Instance Document
- 101.SCH\*XBRL Taxonomy Extension Schema Document
- 101.CAL\*XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\*XBRL Taxonomy Extension Definitions Linkbase Document
- 101.LAB\*XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\*XBRL Taxonomy Extension Presentation Linkbase Document

\* Attached as Exhibit 101 to this report are the following financial statements from our Quarterly Report on Form 10-Q for the quarter ended May 26, 2012 formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations, (iii) the Unaudited Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements tagged as blocks of text. Such exhibits are deemed furnished and not filed pursuant to Rule 406T of Regulation S-T.

## Signatures

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

WINNEBAGO INDUSTRIES, INC.

Date June 29, 2012

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

Date June 29, 2012

/s/ Sarah N. Nielsen

Sarah N. Nielsen  
Chief Financial Officer (Principal Financial and Accounting Officer)