

WINNEBAGO INDUSTRIES INC  
Form 10-Q  
June 28, 2013

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 June 1, 2013

or

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

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

Commission File Number: 001-06403

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

Iowa  
(State or other jurisdiction of incorporation or organization)

42-0802678  
(I.R.S. Employer Identification No.)

P. O. Box 152, Forest City, Iowa  
(Address of principal executive offices)

50436  
(Zip Code)

(641) 585-3535

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of common stock, par value \$0.50 per share, outstanding June 27, 2013 was 27,922,110.

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Glossary

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

|                  |  |
|------------------|--|
| AOCI             | Accumulated Other Comprehensive Income (Loss)  |
| ARS              | Auction Rate Securities  |
| ASC              | Accounting Standards Codification  |
| ASP              | Average Sales Price  |
| ASU              | Accounting Standards Update  |
| COLI             | Company Owned Life Insurance   |
| Credit Agreement | Credit Agreement dated as of October 31, 2012 by and between Winnebago Industries, Inc. and Winnebago of Indiana, LLC, as Borrowers, and General Electric Capital Corporation, as Agent          |
| DCF              | Discounted Cash Flow   |
| FASB             | Financial Accounting Standards Board   |
| FIFO             | First In, First Out  |
| GAAP             | Generally Accepted Accounting Principles   |
| GECC             | General Electric Capital Corporation   |
| IRS              | Internal Revenue Service   |
| LIBOR            | London Interbank Offered Rate  |
| LIFO             | Last In, First Out   |
| 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 |
| NMF              | Non-Meaningful Figure  |
| NYSE             | New York Stock Exchange  |
| RV               | Recreation Vehicle   |
| RVIA             | Recreation Vehicle Industry Association  |
| SEC              | U.S. Securities and Exchange Commission  |
| SERP             | Supplemental Executive Retirement Plan   |
| Stat Surveys     | Statistical Surveys, Inc.  |
| SunnyBrook       | SunnyBrook RV, Inc.  |
| Towables         | Winnebago of Indiana, LLC, a wholly-owned subsidiary of Winnebago Industries, Inc.   |
| US               | United States of America   |
| XBRL             | eXtensible Business Reporting Language   |

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Financial Statements

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

| (In thousands, except per share data)  | Quarter Ended   |                 | Nine Months Ended |                 |
|--|-----------------|-----------------|-------------------|-----------------|
|  | June 1,<br>2013 | May 26,<br>2012 | June 1,<br>2013   | May 26,<br>2012 |
| Net revenues   | \$218,199       | \$155,709       | \$588,919         | \$419,146       |
| Cost of goods sold   | 197,002         | 143,638         | 529,784           | 391,733         |
| Gross profit   | 21,197          | 12,071          | 59,135            | 27,413          |
| Operating expenses:  |                 |                 |                   |                 |
| Selling  | 4,857           | 4,331           | 13,649            | 12,485          |
| General and administrative   | 6,092           | 4,213           | 16,392            | 11,938          |
| Loss on sale of asset held for sale  | —               | —               | 28                | —               |
| Total operating expenses   | 10,949          | 8,544           | 30,069            | 24,423          |
| Operating income   | 10,248          | 3,527           | 29,066            | 2,990           |
| Non-operating income   | 144             | 402             | 739               | 549             |
| Income before income taxes   | 10,392          | 3,929           | 29,805            | 3,539           |
| Provision (benefit) for taxes  | 2,731           | (12             | ) 8,468           | (525            |
| Net income   | \$7,661         | \$3,941         | \$21,337          | \$4,064         |
| Income per common share:   |                 |                 |                   |                 |
| Basic  | \$0.27          | \$0.13          | \$0.76            | \$0.14          |
| Diluted  | \$0.27          | \$0.13          | \$0.76            | \$0.14          |
| Weighted average common shares outstanding:  |                 |                 |                   |                 |
| Basic  | 27,987          | 29,225          | 28,128            | 29,171          |
| Diluted  | 28,087          | 29,263          | 28,218            | 29,243          |
| Net income   | \$7,661         | \$3,941         | \$21,337          | \$4,064         |
| Other comprehensive (loss) income:   |                 |                 |                   |                 |
| Amortization of prior service credit<br>(net of tax of \$514, \$(803), \$1,430 and \$0)                  | (853            | ) (2,024        | ) (2,373          | ) (3,371        |
| Amortization of net actuarial loss<br>(net of tax of \$(90), \$(184), \$206 and \$0)                     | 503             | 448             | 1,006             | 768             |
| Plan amendment<br>(net of tax of \$0, \$0, \$1,613 and \$0)  | —               | —               | 2,676             | 4,598           |
| Unrealized appreciation (depreciation) of investments<br>(net of tax of \$(96), \$212, \$(63) and \$202) | 160             | (351            | ) 104             | (335            |
| Total other comprehensive (loss) income  | (190            | ) (1,927        | ) 1,413           | 1,660           |
| Comprehensive income   | \$7,471         | \$2,014         | \$22,750          | \$5,724         |

See notes to consolidated financial statements.



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Consolidated Balance Sheets  
(Unaudited)

| (In thousands, except per share data)   | June 1,<br>2013 | August 25,<br>2012 |   |
|---|-----------------|--------------------|---|
| Assets  |                 |                    |   |
| Current assets:   |                 |                    |   |
| Cash and cash equivalents   | \$42,422        | \$62,683           |   |
| Short-term investments  | 4,605           | —                  |   |
| Receivables, less allowance for doubtful accounts (\$234 and \$175)                       | 31,421          | 22,726             |   |
| Inventories   | 112,951         | 87,094             |   |
| Prepaid expenses and other assets   | 6,718           | 4,509              |   |
| Income taxes receivable and prepaid   | 2,416           | 1,603              |   |
| Deferred income taxes   | 10,515          | 8,453              |   |
| Total current assets  | 211,048         | 187,068            |   |
| Property, plant and equipment, net  | 20,158          | 19,978             |   |
| Assets held for sale  | —               | 550                |   |
| Long-term investments   | 4,385           | 9,074              |   |
| Investment in life insurance  | 24,826          | 23,127             |   |
| Deferred income taxes   | 28,112          | 30,520             |   |
| Goodwill  | 1,228           | 1,228              |   |
| Amortizable intangible assets   | 577             | 641                |   |
| Other assets  | 12,537          | 13,886             |   |
| Total assets  | \$302,871       | \$286,072          |   |
| Liabilities and Stockholders' Equity  |                 |                    |   |
| Current liabilities:  |                 |                    |   |
| Accounts payable  | \$28,398        | \$24,920           |   |
| Income taxes payable  | —               | 348                |   |
| Accrued expenses:   |                 |                    |   |
| Accrued compensation  | 19,961          | 16,038             |   |
| Product warranties  | 8,441           | 6,990              |   |
| Self-insurance  | 4,868           | 4,137              |   |
| Accrued loss on repurchases   | 1,250           | 627                |   |
| Promotional   | 2,239           | 2,661              |   |
| Other   | 4,329           | 5,297              |   |
| Total current liabilities   | 69,486          | 61,018             |   |
| Total long-term liabilities:  |                 |                    |   |
| Unrecognized tax benefits   | 4,931           | 5,228              |   |
| Postretirement health care and deferred compensations benefits                            | 70,354          | 75,135             |   |
| Total long-term liabilities   | 75,285          | 80,363             |   |
| Contingent liabilities and commitments  |                 |                    |   |
| Stockholders' equity:   |                 |                    |   |
| Capital stock common, par value \$0.50;<br>authorized 60,000 shares, issued 51,776 shares | 25,888          | 25,888             |   |
| Additional paid-in capital  | 28,960          | 28,496             |   |
| Retained earnings   | 498,827         | 477,490            |   |
| Accumulated other comprehensive loss  | (2,273          | ) (3,686           | ) |
| Treasury stock, at cost (23,854 and 23,122 shares)  | (393,302        | ) (383,497         | ) |

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|  |           |           |
|--|-----------|-----------|
| Total stockholders' equity                 | 158,100   | 144,691   |
| Total liabilities and stockholders' equity | \$302,871 | \$286,072 |

See notes to consolidated financial statements.

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Winnebago Industries, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

| (In thousands)  | Nine Months Ended |                 |
|---|-------------------|-----------------|
|   | June 1,<br>2013   | May 26,<br>2012 |
| Operating activities:   |                   |                 |
| Net income  | \$21,337          | \$4,064         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                 |
| Depreciation and amortization   | 3,190             | 3,786           |
| LIFO expense  | 438               | 844             |
| Stock-based compensation  | 1,258             | 863             |
| Deferred income taxes including valuation allowance                               | (1,243            | ) (753          |
| Postretirement benefit income and deferred compensation expense                   | 259               | 510             |
| Provision for doubtful accounts   | 62                | 28              |
| (Gain) loss on disposal of property   | (34               | ) 20            |
| Gain on life insurance  | (536              | ) (281          |
| Increase in cash surrender value of life insurance policies                       | (853              | ) (523          |
| Other   | —                 | 579             |
| Change in assets and liabilities:   |                   |                 |
| Inventories   | (26,295           | ) (1,283        |
| Receivables, prepaid and other assets   | (10,819           | ) 1,893         |
| Income taxes and unrecognized tax benefits  | (234              | ) 105           |
| Accounts payable and accrued expenses   | 9,895             | 4,950           |
| Postretirement and deferred compensation benefits                                 | (3,359            | ) (3,053        |
| Net cash (used in) provided by operating activities                               | (6,934            | ) 11,749        |
| Investing activities:   |                   |                 |
| Proceeds from the sale of investments, at par                                     | 250               | 750             |
| Proceeds from life insurance  | 1,004             | 1,404           |
| Purchases of property and equipment   | (3,322            | ) (1,527        |
| Proceeds from the sale of property  | 637               | 16              |
| Repayments of COLI borrowings   | (1,371            | ) —             |
| Other   | 692               | (558            |
| Net cash (used in) provided by investing activities                               | (2,110            | ) 85            |
| Financing activities:   |                   |                 |
| Payments for purchases of common stock  | (11,123           | ) (343          |
| Other   | (94               | ) 33            |
| Net cash used in financing activities   | (11,217           | ) (310          |
| Net (decrease) increase in cash and cash equivalents                              | (20,261           | ) 11,524        |
| Cash and cash equivalents at beginning of period                                  | 62,683            | 69,307          |
| Cash and cash equivalents at end of period  | \$42,422          | \$80,831        |
| Supplement cash flow disclosure:  |                   |                 |
| Income taxes paid, net of refunds   | \$9,946           | \$115           |

See notes to consolidated financial statements.



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

Note 1: Basis of Presentation

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

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

In our opinion, the accompanying condensed unaudited consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly our consolidated financial position as of June 1, 2013 and the consolidated results of operations and comprehensive income and consolidated cash flows for the first nine months of Fiscal 2013 and 2012. The consolidated statement of operations and comprehensive income for the first nine months of Fiscal 2013 is not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet data as of August 25, 2012 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 25, 2012.

Fiscal Period

We follow a 52-/53-week fiscal year, ending the last Saturday in August. Fiscal 2013 is a 53-week fiscal year; the first quarter ending December 1, 2012 was a 14-week quarter, and the nine months ending June 1, 2013 had 40 weeks. Fiscal 2012 was a 52 week year; the first quarter ending November 26, 2011 was a 13-week quarter, and the nine months ending May 26, 2012 had 39 weeks.

New Accounting Pronouncements

In June 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. Specifically, the new guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate but consecutive statements. While the new guidance changed the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income. ASU 2011-05 is effective for fiscal years beginning after December 15, 2011 (our Fiscal 2013). We adopted this guidance as of August 26, 2012, and have presented total comprehensive income in our Unaudited Consolidated Statements of Operations and Comprehensive Income.

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 the adoption of this ASU will have a significant impact on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which expands the presentation of changes in AOCI. The new guidance requires an entity to disaggregate the total change of each component of other comprehensive income either on the face of the net income

statement or as a separate disclosure in the notes. ASU 2013-02 is effective for fiscal years beginning after December 15, 2012 (our Fiscal 2014). We do not believe that the adoption of this ASU will have a significant impact on our consolidated financial statements.

Note 2: Concentration Risk

One of our dealer organizations accounted for 26.9% and 26.1% of our consolidated net revenue for the first nine months of Fiscal 2013 and Fiscal 2012, respectively. A second dealer organization, accounted for 13.6% and 8.8% of our consolidated net revenue for the first nine months of Fiscal 2013 and Fiscal 2012, respectively. The loss of these dealer organizations could have a significant adverse effect on our business. In addition, deterioration in the liquidity or creditworthiness of these dealers could negatively impact our sales and could trigger repurchase obligations under our repurchase agreements.

Note 3: 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

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fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

## Cash Equivalents

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

The following tables set forth by level within the fair value hierarchy our financial assets that were accounted for at fair value on a recurring basis at June 1, 2013 and August 25, 2012 according to the valuation techniques we used to determine their fair values:

| (In thousands)                           | Fair Value at<br>June 1,<br>2013 | Fair Value Measurements<br>Using Inputs Considered As                    |   |  |
|--|----------------------------------|--|---|--|
|  |                                  | Level 1 Quoted<br>Prices in<br>Active Markets<br>for Identical<br>Assets | Level 2<br>Significant<br>Other<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
| Short-term investments:                  |                                  |  |   |  |
| Student loan ARS with pending redemption | \$4,605                          | \$—  | \$4,605   | \$—  |
| Long-term investments:                   |                                  |  |   |  |
| Student loan ARS                         | 4,385                            | —  | —   | 4,385  |
| Assets that fund deferred compensation:  |                                  |  |   |  |
| Domestic equity funds                    | 7,171                            | 7,171  | —   | —  |
| International equity funds               | 805                              | 805  | —   | —  |
| Fixed income funds                       | 387                              | 387  | —   | —  |
| Total assets at fair value               | \$17,353                         | \$8,363  | \$4,605   | \$4,385  |

| (In thousands)                          | Fair Value at<br>August 25,<br>2012 | Fair Value Measurements<br>Using Inputs Considered As                    |   |  |
|---|-------------------------------------|--|---|--|
|   |                                     | Level 1 Quoted<br>Prices in<br>Active Markets<br>for Identical<br>Assets | Level 2<br>Significant<br>Other<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
| Long-term investments:                  |                                     |  |   |  |
| Student loan ARS                        | \$9,074                             | \$—  | \$—   | \$9,074  |
| Assets that fund deferred compensation: |                                     |  |   |  |
| Domestic equity funds                   | 7,924                               | 7,924  | —   | —  |
| International equity funds              | 957                                 | 957  | —   | —  |
| Fixed income funds                      | 487                                 | 487  | —   | —  |
| Total assets at fair value              | \$18,442                            | \$9,368  | \$—   | \$9,074  |

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

| (In thousands) | Quarter Ended   |                 | Nine Months Ended |                 |
|----------------|-----------------|-----------------|-------------------|-----------------|
|                | June 1,<br>2013 | May 26,<br>2012 | June 1,<br>2013   | May 26,<br>2012 |
|                |                 |                 |                   |                 |

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|   |         |         |          |          |
|---|---------|---------|----------|----------|
| Balance at beginning of period                    | \$8,735 | \$9,903 | \$9,074  | \$10,627 |
| Transfer to Level 2                               | (4,605  | ) (250  | ) (4,855 | ) (500   |
| Net change included in other comprehensive income | 255     | (562    | ) 166    | (536     |
| Sales   | —       | —       | —        | (500     |
| Balance at end of period                          | \$4,385 | \$9,091 | \$4,385  | \$9,091  |

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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 at June 1, 2013 using Level 3 inputs:

| (In thousands)   | Fair Value | Valuation Technique | Unobservable Input   | Range |       |
|------------------|------------|---------------------|--|-------|-------|
|                  |            |                     |  | Low   | High  |
| Student loan ARS | \$4,385    | DCF                 | Projected ARS yield<br>Discount for lack of<br>marketability | 1.92% | 2.03% |