

WINNEBAGO INDUSTRIES INC  
Form 10-Q  
July 02, 2010

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended May 29, 2010  
or

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

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

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

Commission File Number: 001-06403

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

P. O. Box 152, Forest City, Iowa 50436  
(Address of principal executive offices) (Zip Code)

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

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

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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 July 1, 2010 was 29,112,602.

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WINNEBAGO INDUSTRIES, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Condensed Financial Statements

## Winnebago Industries, Inc.

## Unaudited Statements of Operations

| (In thousands, except per<br>share data)       | Quarter Ended   |                 | Nine Months Ended |                 |
|--|-----------------|-----------------|-------------------|-----------------|
|  | May 29,<br>2010 | May 30,<br>2009 | May 29,<br>2010   | May 30,<br>2009 |
| Net revenues                                   | \$ 134,813      | \$ 50,848       | \$ 326,359        | \$ 152,054      |
| Cost of goods sold                             | 125,058         | 59,133          | 311,296           | 181,025         |
| Gross profit (deficit)                         | 9,755           | (8,285 )        | 15,063            | (28,971 )       |
| Operating expenses:                            |                 |                 |                   |                 |
| Selling  | 3,107           | 3,083           | 9,438             | 9,564           |
| General and administrative                     | 3,244           | 3,414           | 10,056            | 11,748          |
| Total operating expenses                       | 6,351           | 6,497           | 19,494            | 21,312          |
| Operating income (loss)                        | 3,404           | (14,782 )       | (4,431 )          | (50,283 )       |
| Financial income                               | 158             | 209             | 289               | 1,366           |
| Income (loss) before income<br>taxes           | 3,562           | (14,573 )       | (4,142 )          | (48,917 )       |
| Benefit for taxes                              | (2,430 )        | (6,020 )        | (9,496 )          | (20,387 )       |
| Net income (loss)                              | \$ 5,992        | \$ (8,553 )     | \$ 5,354          | \$ (28,530 )    |
| Income (loss) per common<br>share:             |                 |                 |                   |                 |
| Basic  | \$ 0.21         | \$ (0.29 )      | \$ 0.18           | \$ (0.98 )      |
| Diluted  | \$ 0.21         | \$ (0.29 )      | \$ 0.18           | \$ (0.98 )      |
| Weighted average common<br>shares outstanding: |                 |                 |                   |                 |
| Basic  | 29,098          | 29,045          | 29,084            | 29,036          |
| Diluted  | 29,107          | 29,056          | 29,097            | 29,046          |

Dividends paid per common share      \$ —                      \$ —                      \$ —                      \$ 0.12

See unaudited notes to financial statements.

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Winnebago Industries, Inc.  
Unaudited Balance Sheets

| (In thousands, except per share data)  | May 29,<br>2010 | August 29,<br>2009 |
|--|-----------------|--------------------|
| Assets   |                 |                    |
| Current assets:  |                 |                    |
| Cash and cash equivalents  | \$ 76,296       | \$ 36,566          |
| Short-term investments   | 1,150           | 13,500             |
| Receivables, less allowance for doubtful accounts (\$93 and \$185, respectively) | 10,105          | 11,717             |
| Inventories  | 39,134          | 46,850             |
| Prepaid expenses and other assets  | 3,898           | 3,425              |
| Income taxes receivable  | 1,148           | 17,356             |
| Total current assets   | 131,731         | 129,414            |
| Property, plant, and equipment, net  | 24,536          | 28,040             |
| Assets held for sale   | 6,515           | 6,515              |
| Long-term investments  | 19,272          | 19,794             |
| Investment in life insurance   | 23,038          | 22,451             |
| Other assets   | 15,218          | 14,252             |
| Total assets   | \$ 220,310      | \$ 220,466         |
| Liabilities and Stockholders' Equity   |                 |                    |
| Current liabilities:   |                 |                    |
| Accounts payable   | \$ 15,334       | \$ 10,370          |
| Short-term ARS borrowings  | 610             | 9,100              |
| Income taxes payable   | 80              | 299                |
| Accrued expenses:  |                 |                    |
| Accrued compensation   | 11,666          | 10,204             |
| Product warranties   | 6,946           | 6,408              |
| Self-insurance   | 4,643           | 5,356              |
| Accrued loss on repurchases  | 1,595           | 1,199              |
| Promotional  | 1,972           | 2,270              |
| Other  | 4,966           | 4,748              |

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|  |            |            |
|--|------------|------------|
| Total current liabilities  | 47,812     | 49,954     |
| Long-term liabilities:   |            |            |
| Unrecognized tax benefits  | 6,090      | 9,012      |
| Postretirement health care and deferred compensation benefits                          | 70,071     | 69,169     |
| Total long-term liabilities  | 76,161     | 78,181     |
| Contingent liabilities and commitments   |            |            |
| Stockholders' equity:  |            |            |
| Capital stock common, par value \$0.50; authorized 60,000 shares, issued 51,776 shares | 25,888     | 25,888     |
| Additional paid-in capital   | 29,480     | 29,726     |
| Retained earnings  | 415,782    | 410,428    |
| Accumulated other comprehensive income   | 5,014      | 6,540      |
| Treasury stock, at cost (22,666 and 22,690 shares, respectively)                       | (379,827 ) | (380,251 ) |
| Total stockholders' equity   | 96,337     | 92,331     |
| Total liabilities and stockholders' equity   | \$ 220,310 | \$ 220,466 |

See unaudited notes to financial statements.

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Winnebago Industries, Inc.  
Unaudited Statements of Cash Flows

| (In thousands)   | Nine Months Ended |                 |
|--|-------------------|-----------------|
|  | May 29,<br>2010   | May 30,<br>2009 |
| Operating activities:  |                   |                 |
| Net income (loss)  | \$ 5,354          | \$ (28,530 )    |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                   |                 |
| Depreciation   | 4,850             | 6,015           |
| Stock-based compensation   | 414               | 760             |
| Postretirement benefit income and deferred compensation expenses                         | 927               | 1,030           |
| (Reduction) provision for doubtful accounts  | (65 )             | 58              |
| Deferred income taxes  | —                 | (463 )          |
| Increase in cash surrender value of life insurance policies                              | (962 )            | (865 )          |
| Loss on disposal of property   | 14                | 70              |
| Other  | 58                | 176             |
| Change in assets and liabilities:  |                   |                 |
| Inventories  | 7,716             | 57,366          |
| Receivables and prepaid assets   | 843               | 2,164           |

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|   |            |           |          |
|---|------------|-----------|----------|
| Income taxes receivable and unrecognized tax benefits | 13,736     | (11,929   | )        |
| Accounts payable and accrued expenses                 | 6,605      | (11,034   | )        |
| Postretirement and deferred compensation benefits     | (2,679     | )         | (2,344 ) |
| Net cash provided by operating activities             | 36,811     | 12,474    |          |
| Investing activities:                                 |            |           |          |
| Proceeds from the sale of investments, at par         | 12,900     | 8,500     |          |
| Purchases of property and equipment                   | (1,467     | )         | (2,522 ) |
| Proceeds from the sale of property                    | 58         | 294       |          |
| Other   | 127        | (736      | )        |
| Net cash provided by investing activities             | 11,618     | 5,536     |          |
| Financing activities:                                 |            |           |          |
| Payments for purchase of common stock                 | (249       | )         | (164 )   |
| Payments of cash dividends                            | —          | (3,489    | )        |
| (Payments) borrowings on ARS portfolio                | (8,490     | )         | 9,100    |
| Proceeds from exercise of stock options               | 280        | —         |          |
| Other   | (240       | )         | —        |
| Net cash (used in) provided by financing activities   | (8,699     | )         | 5,447    |
| Net increase in cash and cash equivalents             | 39,730     | 23,457    |          |
| Cash and cash equivalents at beginning of period      | 36,566     | 17,851    |          |
| Cash and cash equivalents at end of period            | \$ 76,296  | \$ 41,308 |          |
| Supplemental cash flow disclosure:                    |            |           |          |
| Income taxes (refunded) paid                          | \$ (23,390 | )         | \$ 168   |

See unaudited notes to financial statements.

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Winnebago Industries, Inc.  
Unaudited Notes to Financial Statements

General:

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

NOTE 1: Basis of Presentation

In our opinion, the accompanying condensed unaudited financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position as of May 29, 2010 and the results of operations for the quarter and nine months ended May 29, 2010 and May 30, 2009, and cash flows for the nine months

ended May 29, 2010 and May 30, 2009. The statement of operations for the nine months ended May 29, 2010 is not necessarily indicative of the results to be expected for the full year. The balance sheet data as of August 29, 2009 was derived from audited financial statements, but does not include all of the information and footnotes required by generally accepted accounting principles (GAAP) for complete financial statements. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto appearing in our Annual Report to Shareholders for the year ended August 29, 2009.

NOTE 2: New Accounting Pronouncements

On January 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, amending Accounting Standards Codification (ASC) 820 (formerly Statement of Financial Accounting Standards No. 157) to add new requirements. The new requirements are disclosures about transfers into and out of Levels 1 and 2 measurements (as defined in Note 3) and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements (as defined in Note 3). ASU 2010-06 clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The new guidance became effective for our second quarter of Fiscal 2010, except for the requirement to provide Level 3 activity on a gross basis. That requirement will be effective starting in the first fiscal year beginning after December 15, 2010 (our Fiscal 2012).

NOTE 3: Fair Value Measurements

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

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following tables set forth by level within the fair value hierarchy, our financial assets that were accounted for at fair value on a recurring basis at May 29, 2010 and August 29, 2009 according to the valuation techniques we used to determine their fair values:

|   | Fair Value at   | Fair Value Measurements<br>Using Inputs Considered As                    |   |  |
|---|-----------------|--|---|--|
|   |                 | Level 1<br>Quoted Prices<br>in Active<br>Markets for<br>Identical Assets | Level 2<br>Significant<br>Other<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
| (In thousands)  | May 29,<br>2010 |  |   |  |
| Short-term<br>investments<br>(includes Put<br>Rights) | \$ 1,150        | \$ —   | \$ —  | \$ 1,150   |
| Long-term<br>investments                              | 19,272          | —  | —   | 19,272   |
| Assets that<br>fund deferred<br>compensation          | 11,216          | 11,216   | —   | —  |

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| (In thousands)  | Fair Value at<br>August 29,<br>2009 | Fair Value Measurements<br>Using Inputs Considered As                    |   |  |
|---|-------------------------------------|--|---|--|
|   |                                     | Level 1<br>Quoted Prices<br>in Active<br>Markets for<br>Identical Assets | Level 2<br>Significant<br>Other<br>Observable<br>Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs |
| Short-term<br>investments<br>(includes Put<br>Rights) | \$ 13,500                           | \$ —   | \$ —  | \$ 13,500  |
| Long-term<br>investments                              | 19,794                              | —  | —   | 19,794   |
| Assets that<br>fund deferred<br>compensation          | 10,858                              | 10,858   | —   | —  |

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

| (In thousands)                                    | Quarter Ended   |                 | Nine Months Ended |                 |
|---|-----------------|-----------------|-------------------|-----------------|
|   | May 29,<br>2010 | May 30,<br>2009 | May 29,<br>2010   | May 30,<br>2009 |
| Balance at beginning of period                    | \$ 28,748       | \$ 32,750       | \$ 33,294         | \$ 37,538       |
| Net realized gain (loss) included in earnings     | —               | 167             | —                 | (27 )           |
| Net change included in other comprehensive income | (126 )          | 559             | 28                | 1,365           |
| Sales   | (8,200 )        | —               | (12,900 )         | (5,400 )        |
| Balance at end of period                          | \$ 20,422       | \$ 33,476       | \$ 20,422         | \$ 33,476       |

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

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

Our long-term and short-term investments are comprised of Auction Rate Securities (ARS) and Put Rights (each as defined and described in Note 4) and are classified as Level 3 as quoted prices were unavailable due to events described in Note 4. Due to limited market information, we utilized a discounted cash flow (DCF) model to derive an estimate of fair value at May 29, 2010. The assumptions used in preparing the DCF model included estimates with respect to the amount and timing of future interest and principal payments, forward projections of the interest rate benchmarks, the probability of full repayment of the principal considering the credit quality and guarantees in place, and the rate of return required by investors to own such securities given the current liquidity risk associated with ARS.

**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 deferred compensation program and are presented as other assets in the accompanying balance sheets.

NOTE 4: Investments

We own investments in marketable securities that have been designated as available for sale or trading securities in accordance with ASC Topic 320, Investments-Debt and Equity Securities. At May 29, 2010, we held \$20.8 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.

Since February 2008, most ARS auctions have failed for these securities and there is no assurance that future auctions will succeed and, as a result, our ability to liquidate our investment and fully recover the par value in the near term may be limited or nonexistent. We have no reason to believe that any of the underlying issuers of our ARS are presently at risk of default. As of the date of this report, 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 and the legal settlement agreement we previously entered into with UBS AG (UBS). Our UBS settlement allows for a portion of our ARS to be redeemed at par as early as June 30, 2010. However, the remaining portfolio could take until final maturity of the ARS (up to 25 years) to realize the par value of our investments. Due to the changes and uncertainty in the ARS market, we believe the recovery period for these investments is likely to be longer than 12 months and as a result, we have classified these investments as long-term as of May 29, 2010. Our short-term ARS investments of \$1.2

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million are comprised of a \$250,000 partial redemption that was paid on June 2, 2010 and \$900,000 relates to the UBS portion of our portfolio including the rights to require UBS to purchase (the Put Rights) at par value at any time during a two-year sale period beginning June 30, 2010.

The terms of the UBS settlement agreement also allowed us to borrow on a portion of our portfolio at no net cost and as a result, we borrowed \$610,000 under this arrangement, which is presented as short-term ARS borrowings on our balance sheet. We have the ability to maintain the no net cost loans until the securities are liquidated or they reach the June 2010 put date. During the second and third quarters of 2010, UBS elected to redeem securities that had a par value of \$12.6 million. Terms of the settlement agreement required us to repay a portion of the outstanding borrowings of \$8.5 million. In addition, short-term ARS investments of \$300,000 not part of the UBS portfolio were redeemed by the issuer at par in the first nine months of Fiscal 2010.

At May 29, 2010, there was insufficient observable ARS market information available to determine the fair value of our ARS investments, including the Put Rights. We recorded a temporary impairment of \$378,000 related to our long-term ARS investments of \$19.7 million (par value) that were not part of the UBS settlement as of May 29, 2010.

NOTE 5: Inventories

Inventories are valued at the lower of cost or market, with cost being determined under the last-in, first-out (LIFO) method and market defined as net realizable value.

Inventories consist of the following:

| (In thousands)    | May 29,<br>2010 | August 29,<br>2009 |
|-------------------|-----------------|--------------------|
| Finished goods    | \$ 18,752       | \$ 18,709          |
| Work-in-process   | 28,348          | 24,982             |
| Raw materials     | 22,346          | 33,505             |
|                   | 69,446          | 77,196             |
| LIFO reserve      | (30,312 )       | (30,346 )          |
| Total inventories | \$ 39,134       | \$ 46,850          |

Due to a liquidation of LIFO inventory values as a result of reduction in inventory levels, we recorded a reduction to LIFO reserves of approximately \$34,000 and \$4.1 million in the nine months ended May 29, 2010 and May 30, 2009, respectively.

#### NOTE 6: Property, Plant and Equipment

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

| (In thousands)                           | May 29,<br>2010 | August 29,<br>2009 |
|--|-----------------|--------------------|
| Land                                     | \$ 772          | \$ 772             |
| Buildings                                | 49,341          | 49,220             |
| Machinery and equipment                  | 91,002          | 92,625             |
| Transportation equipment                 | 3,412           | 3,457              |
|  | 144,527         | 146,074            |
| Less accumulated depreciation            | (119,991 )      | (118,034 )         |
| Total property, plant and equipment, net | \$ 24,536       | \$ 28,040          |

#### NOTE 7: Credit Facility

On October 13, 2009, we entered into a Loan and Security Agreement (the "Loan Agreement") with Burdale Capital Finance, Inc., as Agent. The Loan Agreement provides for an initial \$20.0 million revolving credit facility, based on eligible accounts receivable and eligible inventory, expiring on October 13, 2012, unless terminated earlier in accordance with its terms. The Loan Agreement contains no financial covenant restrictions for borrowings up to \$12.5 million; provided that borrowings cannot exceed the Asset Coverage Amount (as defined in the Loan Agreement) divided by 2.25. The Loan Agreement also includes a framework to expand the size of the facility up to

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\$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. We intend to use any loan proceeds from the Loan Agreement for working capital and for other general corporate purposes, if needed.

Interest on loans made under the Loan Agreement will be based on the greater of LIBOR or a base rate of 2.0 percent plus a margin of 4.0 percent or the greater of prime rate or 4.25 percent plus a margin of 3.0 percent. The unused line

fee associated with this Loan Agreement is 1.25 percent per annum. Additionally, under certain circumstances, we will be required to pay an early termination fee ranging from 1 - 3 percent of the maximum credit available under the Loan Agreement if we terminate the Loan Agreement prior to October 13, 2012.

#### NOTE 8: Warranty

We provide our motor home customers a comprehensive 12-month/15,000-mile warranty on the Class A, Class B and Class C coaches, and a 3-year/36,000-mile structural warranty on Class A and Class C sidewalls and floors. We have also incurred costs for certain warranty-type expenses which occurred after the normal warranty period. We have voluntarily agreed to pay such costs to help protect the reputation of our products and the goodwill of our customers. We record our warranty liabilities based on our estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. We also incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions.

Changes in our product warranty liability are as follows:

| (In thousands)                 | Quarter Ended   |                 | Nine Months Ended |                 |
|--------------------------------|-----------------|-----------------|-------------------|-----------------|
|                                | May 29,<br>2010 | May 30,<br>2009 | May 29,<br>2010   | May 30,<br>2009 |
| Balance at beginning of period | \$ 6,567        | \$ 7,552        | \$ 6,408          | \$ 9,859        |
| Provision                      | 1,677           | 1,056           | 4,158             | 2,637           |
| Claims paid                    | (1,298 )        | (1,772 )        | (3,620 )          | (5,660 )        |
| Balance at end of period       | \$ 6,946        | \$ 6,836        | \$ 6,946          | \$ 6,836        |

#### NOTE 9: Employee and Retiree Benefits

Postretirement health care and deferred compensation benefits are as follows:

| (In thousands)  | May 29,<br>2010 | August 29,<br>2009 |
|---|-----------------|--------------------|
| Postretirement health care benefit cost                                 | \$ 36,465       | \$ 35,312          |
| Non-qualified deferred compensation                                     | 25,543          | 26,092             |
| Executive share option plan liability                                   | 8,860           | 8,444              |
| SERP benefit liability  | 3,137           | 3,259              |
| Executive deferred compensation   | 74              | 59                 |
| Total postretirement health care and deferred compensation benefits     | 74,079          | 73,166             |
| Less current portion  | (4,008 )        | (3,997 )           |
| Long-term postretirement health care and deferred compensation benefits | \$ 70,071       | \$ 69,169          |

#### Postretirement Health Care Benefits

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

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Net periodic postretirement health care benefit income consisted of the following components:

| (In thousands)                                   | Quarter Ended   |                 | Nine Months Ended |                 |
|--|-----------------|-----------------|-------------------|-----------------|
|  | May 29,<br>2010 | May 30,<br>2009 | May 29,<br>2010   | May 30,<br>2009 |
| Interest cost                                    | \$ 495          | \$ 529          | \$ 1,484          | \$ 1,589        |
| Service cost                                     | 139             | 147             | 416               | 442             |
| Net amortization<br>and deferral                 | (831 )          | (874 )          | (2,493 )          | (2,623 )        |
| Net periodic<br>postretirement<br>benefit income | \$ (197 )       | \$ (198 )       | \$ (593 )         | \$ (592 )       |
| Payments for<br>postretirement<br>health care    | \$ 286          | \$ 201          | \$ 747            | \$ 610          |

For accounting purposes, we recognized income from the plan for both the third quarter and nine months of both Fiscal 2010 and Fiscal 2009 due to the amortization of the cost savings from an amendment effective September 2004, which amended our postretirement health care benefit by establishing a maximum employer contribution amount.

## NOTE 10: Contingent Liabilities and Commitments

## Repurchase Commitments

Generally, companies in the RV industry enter into repurchase agreements with lending institutions which have provided wholesale floorplan financing to dealers. Most dealers' motor homes are financed on a "floorplan" basis under which a bank or finance company lends the dealer all, or substantially all, of the purchase price, collateralized by a security interest in the motor homes purchased.

Our repurchase agreements provide that, in the event of default by the dealer on the agreement to pay the lending institution, we will repurchase the financed merchandise. The terms of these agreements, which can last up to 18 months, provide that our liability will be the lesser of remaining principal owed by the dealer or dealer invoice less periodic reductions based on the time since the date of the original invoice. Our liability cannot exceed 100 percent of the dealer invoice. Our contingent liability on these repurchase agreements was approximately \$139.6 million and \$90.6 million at May 29, 2010 and August 29, 2009, respectively.

In certain instances, we also repurchase inventory from our dealers due to state law or regulatory requirements that govern voluntary or involuntary relationship terminations. Although laws vary from state to state, some states have laws in place that require manufacturers of motor vehicles to repurchase current inventory if a dealership exits the business. Incremental repurchase exposure beyond existing repurchase agreements, related to dealer inventory in states that we have had historical experience of repurchasing inventory, totaled \$3.3 million and \$3.1 million at May 29, 2010 and August 29, 2009, respectively.

Based on the repurchase exposure as previously described, we established an associated loss reserve. Accrued loss on repurchases was \$1.6 million as of May 29, 2010 and \$1.2 million as of August 29, 2009.

A summary of repurchase activity is as follows:

|                       | Quarter Ended   |                 | Nine Months Ended |                 |
|-----------------------|-----------------|-----------------|-------------------|-----------------|
|                       | May 29,<br>2010 | May 30,<br>2009 | May 29,<br>2010   | May 30,<br>2009 |
| Inventory repurchased |                 |                 |                   |                 |
| Units                 | 1               | 51              | 4                 | 123             |
| Dollars               | \$ 80           | \$ 4,880        | \$ 300            | \$ 11,348       |
| Inventory resold      |                 |                 |                   |                 |
| Units                 | 1               | 58              | 5                 | 128             |
| Cash collected        | \$ 77           | \$ 4,625        | \$ 329            | \$ 9,868        |
| Loss recognized       | \$ 3            | \$ 1,011        | \$ 44             | \$ 1,967        |

#### 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

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litigation may have an impact on our results for a particular reporting period, the ultimate disposition of such litigation will not have any material adverse effect on our financial position, results of operations or liquidity.

#### NOTE 11: Income Taxes

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

Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. Valuation allowances arise due to uncertainty of realizing deferred tax assets. As of May 29, 2010, and August 29, 2009, we have applied a full valuation allowance of

\$43.1 million and \$45.3 million, respectively, against our deferred tax assets. ASC 740 requires that companies assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence, using a “more-likely-than-not” standard. In making such assessments, significant weight is given to evidence that can be objectively verified. A company's current or previous losses are given more weight than its future outlook. Under that standard, our three-year historical cumulative loss was a significant negative factor. This loss, combined with uncertain near-term market and economic conditions, reduced our ability to rely on our projections of any future taxable income in determining whether a valuation allowance is appropriate. Accordingly, we have concluded that a full valuation allowance on our deferred tax assets was needed. We will continue to assess the likelihood that our deferred tax assets will be realizable, and our valuation allowance will be adjusted accordingly, which could materially impact our financial position and results of operations.

On November 6, 2009, the President of the United States signed into law the Worker, Homeownership, and Business Assistance Act of 2009, which expands the net operating loss (NOL) carryback period from two to five years, allowing us to carryback all Fiscal 2009 NOLs. We filed our original carryback tax return in December 2009 and received our federal refund of \$21.9 million during our second quarter of Fiscal 2010. During the third quarter of Fiscal 2010, we filed a superseding federal tax return and amended our original carryback request, recording an additional benefit of approximately \$1.0 million. As a result, we recorded a total tax benefit of \$5.8 million in Fiscal 2010 related to the portion of the 2009 NOL that was previously not able to be carried back and reduced the associated valuation allowance. We anticipate receiving the refund of our amended carryback return sometime in the fourth quarter of Fiscal 2010.

We file tax returns in the U.S. federal jurisdiction, as well as various international and state jurisdictions. Our federal income tax returns for Fiscal 2006 through Fiscal 2008 were under examination by the IRS as of the end of the second quarter of Fiscal 2010. During our third quarter of Fiscal 2010, we finalized the IRS audit with a cash payment of \$130,000. As a result of this audit, we have reduced the reserve for unrecognized tax benefits by approximately \$1.7 million. Although certain years are no longer subject to examinations by the IRS and various state taxing authorities, NOL carryforwards generated in those years may still be adjusted upon examination by the IRS or state taxing authorities if they either have been or will be used in a future period. A number of years may elapse before an uncertain tax position is audited and finally resolved, and it is often very difficult to predict the outcome of such audits. Periodically, various state and local jurisdictions conduct audits, therefore, a variety of years are subject to state and local jurisdiction review.

As of May 29, 2010, our total unrecognized tax benefits were \$6.1 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 29, 2010, we had accrued \$2.6 million in interest and penalties.

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Changes in our total unrecognized tax benefits are as follows:

| (In thousands)                                    | Nine Months Ended |                 |
|---|-------------------|-----------------|
|   | May 29,<br>2010   | May 30,<br>2009 |
| Balance at beginning of period                    | \$ (9,012 )       | \$ (9,469 )     |
| Gross increases - tax positions in a prior period | (253 )            | 31              |

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|   |             |             |
|---|-------------|-------------|
| Gross decreases - tax positions in a prior period | 3,157       | 490         |
| Gross increases - current period tax positions    | (136 )      | (83 )       |
| Settlements                                       | 154         | —           |
| Lapse of statute of limitations                   | —           | —           |
| Balance at end of period                          | \$ (6,090 ) | \$ (9,031 ) |

We do not anticipate any significant changes in unrecognized tax benefits within the next twelve months. Actual results may differ materially from this estimate.

NOTE 12: Income Per Share

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

| (In thousands, except per share data)                             | Quarter Ended |              | Nine Months Ended |              |
|---|---------------|--------------|-------------------|--------------|
|   | May 29, 2010  | May 30, 2009 | May 29, 2010      | May 30, 2009 |
| Income (loss) per share - basic:                                  |               |              |                   |              |
| Net income (loss)   | \$ 5,992      | \$ (8,553 )  | \$ 5,354          | \$ (28,530 ) |
| Weighted average shares outstanding                               | 29,098        | 29,045       | 29,084            | 29,036       |
| Net income (loss) per share - basic                               | \$ 0.21       | \$ (0.29 )   | \$ 0.18           | \$ (0.98 )   |
| Income (loss) per share - assuming dilution:                      |               |              |                   |              |
| Net income (loss)   | \$ 5,992      | \$ (8,553 )  | \$ 5,354          | \$ (28,530 ) |
| Weighted average shares outstanding                               | 29,098        | 29,045       | 29,084            | 29,036       |
| Dilutive impact of options and awards outstanding                 | 9             | 11           | 13                | 10           |
| Weighted average shares and potential dilutive shares outstanding | 29,107        | 29,056       | 29,097            | 29,046       |
| Net income (loss) per share - assuming dilution                   | \$ 0.21       | \$ (0.29 )   | \$ 0.18           | \$ (0.98 )   |

At the end of the third quarters of Fiscal 2010 and Fiscal 2009, there were options outstanding to purchase 934,173 shares and 1,016,564 shares, respectively, of common stock at an average price of \$28.07 and \$27.29, respectively, which were not included in the computation of diluted income per share because they are considered anti-dilutive under the treasury stock method per ASC 260.

NOTE 13: Comprehensive Income

Comprehensive income, net of tax, consists of:

| (In thousands)  | Quarter Ended |              | Nine Months Ended |              |
|---|---------------|--------------|-------------------|--------------|
|   | May 29, 2010  | May 30, 2009 | May 29, 2010      | May 30, 2009 |
| Net income (loss)   | \$ 5,992      | \$ (8,553 )  | \$ 5,354          | \$ (28,530 ) |
| Change in temporary impairment of investments, net of tax | (78 )         | 79           | 19                | 930          |

|                                      |          |             |          |              |
|--------------------------------------|----------|-------------|----------|--------------|
| Amortization of prior service credit | (652 )   | (656 )      | (1,956 ) | (1,945 )     |
| Amortization of actuarial loss       | 137      | 109         | 411      | 325          |
| Comprehensive income (loss)          | \$ 5,399 | \$ (9,021 ) | \$ 3,828 | \$ (29,220 ) |

## NOTE 14: Subsequent Event

We evaluated all events or transactions occurring between the balance sheet date and the date of issuance of the financial statements that would require recognition or disclosure in the financial statements. There were no material subsequent events.

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

It is suggested that this management's discussion be read in conjunction with the Management's Discussion and Analysis included in our Annual Report to Shareholders for the year ended August 29, 2009.

## Forward-Looking Information

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

## Executive Overview

Winnebago Industries, Inc. is the leading U.S. manufacturer of motor homes with a proud history of manufacturing recreation vehicles for more than 50 years. Our strategy is to manufacture quality motor homes in a profitable manner. We produce all of our motor homes in highly vertically integrated manufacturing facilities in the state of Iowa. We primarily distribute our products through independent dealers throughout the United States and Canada, who then retail the products to the end consumer. We have led the industry with the highest retail market share in the U.S. of combined Class A and Class C motor homes for the past nine calendar years and through April in Calendar 2010. We began producing Class B motor homes in February 2008 and we held the number three position in U.S. retail unit market share for Class B motor homes in Calendar 2009 and through April in Calendar 2010.

Our retail market share, as reported by Statistical Surveys, Inc. (Statistical Surveys), for the past three calendar years is as follows:



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|                     | Through April |   |      |   | Calendar Year |   |      |   |      |   |
|---------------------|---------------|---|------|---|---------------|---|------|---|------|---|
|                     | 2010          |   | 2009 |   | 2009          |   | 2008 |   | 2007 |   |
| Class A gas         | 24.4          | % | 23.0 | % | 23.0          | % | 23.3 | % | 22.1 | % |
| Class A diesel      | 13.4          | % | 9.4  | % | 11.2          | % | 8.1  | % | 9.0  | % |
| Total Class A       | 18.4          | % | 15.7 | % | 16.6          | % | 15.4 | % | 15.3 | % |
| Class C             | 21.0          | % | 22.1 | % | 22.9          | % | 22.9 | % | 24.0 | % |
| Total Class A and C | 19.5          | % | 18.4 | % | 19.2          | % | 18.4 | % | 18.7 | % |
| Class B             | 18.1          | % | 16.2 | % | 18.2          | % | 3.7  | % | —    | % |

Industry Outlook

As evidenced below, the motorized RV market has been significantly impacted by highly unstable market conditions in the past two years, both from a wholesale and a retail perspective. The tightening of the wholesale and retail credit markets, low consumer confidence, the effect of the global recession and uncertainty related to fuel prices have placed pressure on retail sales and as a result, dealers have significantly reduced their inventory levels.

We believe that the bottom level of dealer inventories was reached during the fourth calendar quarter of 2009, as industry shipments finally began to increase over the prior year. Retail registrations did not show that same trend, but were approaching nearly flat comparisons in the first four months of 2010. The current industry outlook for Calendar 2010 per the Recreational Vehicle Industry Association (RVIA) is for wholesale shipments to be higher than retail activity was in Calendar 2009. Prospective retail demand must improve to support this wholesale shipment forecast.

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Key statistics for the motor home industry are as follows:

|                | Industry A & C Motor Homes         |        |          |          |                                     |        |          |          |
|----------------|------------------------------------|--------|----------|----------|-------------------------------------|--------|----------|----------|
|                | Wholesale Shipments <sup>(1)</sup> |        |          |          | Retail Registrations <sup>(2)</sup> |        |          |          |
|                | Calendar Year                      |        | Decrease | Change   | Calendar Year                       |        | Decrease | Change   |
| 2008           | 2007                               | 2008   |          |          | 2007                                |        |          |          |
| (In units)     |                                    |        |          |          |                                     |        |          |          |
| First quarter  | 10,400                             | 13,600 | (3,200 ) | (23.5 )% | 8,400                               | 11,000 | (2,600 ) | (23.6 )% |
| Second quarter | 8,600                              | 15,000 | (6,400 ) | (42.7 )% | 9,400                               | 14,600 | (5,200 ) | (35.6 )% |

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|                |        |        |           |          |        |        |           |          |
|----------------|--------|--------|-----------|----------|--------|--------|-----------|----------|
| Third quarter  | 4,600  | 12,400 | (7,800 )  | (62.9 )% | 6,100  | 11,700 | (5,600 )  | (47.9 )% |
| Fourth quarter | 2,800  | 11,300 | (8,500 )  | (75.2 )% | 3,900  | 8,000  | (4,100 )  | (51.2 )% |
| Total          | 26,400 | 52,300 | (25,900 ) | (49.5 )% | 27,800 | 45,300 | (17,500 ) | (38.6 )% |

| (In units)     | 2009   | 2008   | (Decrease)<br>Increase | Change   | 2009   | 2008   | Decrease | Change   |
|----------------|--------|--------|------------------------|----------|--------|--------|----------|----------|
| First quarter  | 2,200  | 10,400 | (8,200 )               | (78.8 )% | 4,200  | 8,400  | (4,200 ) | (50.0 )% |
| Second quarter | 2,900  | 8,600  | (5,700 )               | (66.3 )% | 5,800  | 9,400  | (3,600 ) | (38.3 )% |
| Third quarter  | 2,900  | 4,600  | (1,700 )               | (37.0 )% | 4,700  | 6,100  | (1,400 ) | (23.0 )% |
| Fourth quarter | 4,000  | 2,800  | 1,200                  | 42.9 %   | 3,500  | 3,900  | (400 )   | (10.3 )% |
| Total          | 12,000 | 26,400 | (14,400 )              | (54.5 )% | 18,200 | 27,800 | (9,600 ) | (34.5 )% |

| (In units)         | 2010   | 2009       | Increase | Change  | 2010  | 2009       | Decrease | Change  |
|--------------------|--------|------------|----------|---------|-------|------------|----------|---------|
| First quarter      | 5,300  | 2,200      | 3,100    | 140.9 % | 4,000 | (4) 4,200  | (200 )   | (4.8 )% |
| April              | 2,400  | 900        | 1,500    | 166.7 % | 2,100 | (4) 2,200  | (100 )   | (4.5 )% |
| May                | 2,600  | 1,100      | 1,500    | 136.4 % |       | 1,700      |          |         |
| June -<br>December | 10,700 | (3) 7,800  | 2,900    | 37.2 %  |       | 10,100     |          |         |
| Total              | 21,000 | (3) 12,000 | 9,000    | 75.0 %  | 6,100 | (4) 18,200 |          |         |

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

Class A and C U.S. retail registrations as reported by Statistical Surveys, rounded to the nearest hundred. Note

(2) that retail registrations for Georgia and New Mexico are no longer included for 2009, 2008 and 2007 as complete data was not reported.

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

(4) Retail registrations for Calendar 2010 year to date as reported by Statistical Surveys do not include data for Georgia and New Mexico. Statistical Surveys has not issued a projection for 2010 retail demand.

#### Company Outlook

Similar to the overall motor home industry, after two years of declining motor home shipments, we have seen improvements in recent quarters in our business as dealers began to re-order product. During the second half of Calendar 2009, we saw a substantial growth in our backlog, which we attributed to the very low level of dealer inventories and the strong acceptance of our Model Year 2010 product lineup. As a result of the increased order activity, we hired approximately 350 hourly employees during the first quarter of Fiscal 2010 and began to increase our weekly production rates in October 2009. This production ramp-up allowed us to ship additional units in our second and third quarters as compared to our first quarter of Fiscal 2010. Note that our dealers' inventories increased for the first time in two years during our second quarter of Fiscal 2010 and they have maintained these levels throughout our third quarter. While we are encouraged with these improvements, the economic outlook remains uncertain and we believe retail sales will be the key driver to sustain our recovery and for continued growth going

forward.

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Certain key metrics for our Class A, B and C motor homes, as previously discussed, are evidenced in the table below:

| (In units and presented in fiscal quarters)                    | As of Quarter End    |                      |                  |               |
|--|----------------------|----------------------|------------------|---------------|
|  | Wholesale Deliveries | Retail Registrations | Dealer Inventory | Order Backlog |
| 4th Quarter 2008   | 928                  | 1,606                | 3,663            | 596           |
| 1st Quarter 2009   | 656                  | 1,050                | 3,269            | 338           |
| 2nd Quarter 2009   | 315                  | 666                  | 2,918            | 335           |
| 3rd Quarter 2009   | 620                  | 1,214                | 2,324            | 382           |
| Rolling 12 months (June 2008 Through May 2009)                 | 2,519                | 4,536                |                  |               |
| 4th Quarter 2009   | 605                  | 1,235                | 1,694            | 940           |
| 1st Quarter 2010   | 794                  | 921                  | 1,567            | 1,521         |
| 2nd Quarter 2010   | 1,109                | 654                  | 2,022            | 1,159         |
| 3rd Quarter 2010   | 1,366                | 1,388                | 2,000            | 935           |
| Rolling 12 months (June 2009 Through May 2010)                 | 3,874                | 4,198                |                  |               |
| Key Comparison Increases (Decreases):                          | Wholesale Deliveries | Retail Registrations | Dealer Inventory | Order Backlog |
| Rolling 12 month comparison (May 2010 to May 2009)             | 1,355                | (338 )               | (324 )           | 553           |
|  | 53.8 %               | (7.5 )%              | (13.9 )%         | 144.8 %       |
| 3rd quarter Fiscal 2010 as compared to 3rd quarter Fiscal 2009 | 746                  | 174                  | (324 )           | 553           |
|  | 120.3 %              | 14.3 %               | (13.9 )%         | 144.8 %       |
| 3rd quarter Fiscal 2010 as compared to 2nd quarter Fiscal 2010 | 257                  | 734                  | (22 )            | (224 )        |
|  | 23.2 %               | 112.2 %              | (1.1 )%          | (19.3 )%      |

Our motor home order backlog is as follows:

|                | As Of        |              | As Of        |              | Increase (Decrease) | Change  |
|----------------|--------------|--------------|--------------|--------------|---------------------|---------|
|                | May 29, 2010 | May 29, 2010 | May 30, 2009 | May 30, 2009 |                     |         |
|                | Units        | Product Mix* | Units        | Product Mix* |                     |         |
| Class A gas    | 323          | 34.6 %       | 104          | 27.2 %       | 219                 | 210.6 % |
| Class A diesel | 234          | 25.0 %       | 72           | 18.9 %       | 162                 | 225.0 % |

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|               |     |       |   |     |       |   |     |         |   |
|---------------|-----|-------|---|-----|-------|---|-----|---------|---|
| Total Class A | 557 | 59.6  | % | 176 | 46.1  | % | 381 | 216.5   | % |
| Class B       | 34  | 3.6   | % | 2   | 0.5   | % | 32  | 1,600.0 | % |
| Class C       | 344 | 36.8  | % | 204 | 53.4  | % | 140 | 68.6    | % |
| Total backlog | 935 | 100.0 | % | 382 | 100.0 | % | 553 | 144.8   | % |

|   |           |  |  |           |  |  |           |       |   |
|---|-----------|--|--|-----------|--|--|-----------|-------|---|
| Total approximate revenue dollars (in thousands) <sup>(1)</sup> | \$ 93,214 |  |  | \$ 33,556 |  |  | \$ 59,658 | 177.8 | % |
|---|-----------|--|--|-----------|--|--|-----------|-------|---|

\* 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.

(1) Orders in backlog can be canceled or postponed at the option of the purchaser at any time without penalty and, therefore, backlog may not necessarily be an accurate measure of future sales.

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Results of Operations

Current Quarter Compared to the Comparable Quarter Last Year

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

| (In thousands, except percent and per share data) | Quarter Ended |                |   | Quarter Ended |                | Increase (Decrease) | %         |        |   |
|---|---------------|----------------|---|---------------|----------------|---------------------|-----------|--------|---|
|   | May 29, 2010  | % of Revenues* |   | May 30, 2009  | % of Revenues* |                     |           |        |   |
| Net revenues                                      | \$ 134,813    | 100.0          | % | \$ 50,848     | 100.0          | %                   | \$ 83,965 | 165.1  | % |
| Cost of goods sold                                | 125,058       | 92.8           | % | 59,133        | 116.3          | %                   | 65,925    | 111.5  | % |
| Gross profit (deficit)                            | 9,755         | 7.2            | % | (8,285)       | (16.3)         | %                   | 18,040    | 217.7  | % |
| Selling   | 3,107         | 2.3            | % | 3,083         | 6.1            | %                   | 24        | 0.8    | % |
| General and administrative                        | 3,244         | 2.4            | % | 3,414         | 6.7            | %                   | (170)     | (5.0)  | % |
| Total operating expenses                          | 6,351         | 4.7            | % | 6,497         | 12.8           | %                   | (146)     | (2.2)  | % |
| Operating income (loss)                           | 3,404         | 2.5            | % | (14,782)      | (29.1)         | %                   | 18,186    | 123.0  | % |
| Financial income                                  | 158           | 0.1            | % | 209           | 0.4            | %                   | (51)      | (24.4) | % |
| Income (loss) before income taxes                 | 3,562         | 2.6            | % | (14,573)      | (28.7)         | %                   | 18,135    | 124.4  | % |
| Benefit for taxes                                 | (2,430)       | (1.8)          | % | (6,020)       | (11.8)         | %                   | 3,590     | 59.6   | % |
| Net income (loss)                                 | \$ 5,992      | 4.4            | % | \$ (8,553)    | (16.8)         | %                   | \$ 14,545 | 170.1  | % |
| Diluted income (lose) per share                   | \$ 0.21       |                |   | \$ (0.29)     |                |                     | \$ 0.50   | 172.4  | % |
| Fully diluted average shares outstanding          | 29,107        |                |   | 29,056        |                |                     | 51        | 0.2    | % |

\* Percentages may not add due to rounding differences.

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

| (In units)         | Quarter Ended |         | Product Mix* | May 30, 2009 | Product Mix* | Increase | % Change |
|--------------------|---------------|---------|--------------|--------------|--------------|----------|----------|
|                    | May 29, 2010  |         |              |              |              |          |          |
| Class A gas        | 417           | 30.5 %  | 114          | 18.4 %       | 303          | 265.8 %  |          |
| Class A diesel     | 273           | 20.0 %  | 62           | 10.0 %       | 211          | 340.3 %  |          |
| Total Class A      | 690           | 50.5 %  | 176          | 28.4 %       | 514          | 292.0 %  |          |
| Class B            | 76            | 5.6 %   | 56           | 9.0 %        | 20           | 35.7 %   |          |
| Class C            | 600           | 43.9 %  | 388          | 62.6 %       | 212          | 54.6 %   |          |
| Total deliveries   | 1,366         | 100.0 % | 620          | 100.0 %      | 746          | 120.3 %  |          |
| ASP (in thousands) | \$ 93         |         | \$ 77        |              | \$ 16        | 22.0 %   |          |

\* Percentages may not add due to rounding differences.

Net revenues for the third quarter of Fiscal 2010 increased \$84.0 million, or 165.1 percent, compared to the third quarter of Fiscal 2009, due to the following:

- Volume increase: The primary reason for the net revenue increase was due to an increase in unit deliveries of 120.3 percent.
- Pricing and mix: Our motor home ASP increased 22.0 percent. This increase was due to a shift to higher-priced product as our sales mix was more heavily weighted to Class A product and a decrease of product discounts offered at the wholesale level as compared to the comparable quarter last year.
- Promotional incentives: Our retail and other incentives, which are deductions from gross revenues, decreased 4.7 percent (as a percent of net revenues). In the prior year, we had more retail incentive programs in place to help stimulate dealer retail demand. Dealer inventory levels at third quarter end of Fiscal 2010 were down 13.9 percent (2,000 versus 2,324) as compared to the end of the third quarter of Fiscal 2009 and the age of Winnebago product on our dealers lots is much improved. Better retail market conditions are the key reason these types of promotional incentives are lower this year.
- Other revenue: Revenues for motor home parts and services and other manufacturing products increased \$2.6 million, or 40.0 percent.

Cost of products sold was \$125.1 million, or 92.8 percent of net revenues for the third quarter of Fiscal 2010

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compared to \$59.1 million, or 116.3 percent of net revenues for the comparable period a year ago. Variable costs (material, labor, variable overhead, delivery, and warranty) increased \$65.1 million as a result of the increased number of motor homes sold. As a percent of net revenues, however, variable costs decreased to 84.2 percent of net revenues for the third quarter of Fiscal 2010 from 95.1 percent for the third quarter of Fiscal 2009. This decrease in percentage is due to reduced material and labor costs and improved labor efficiencies, both resulting from production volume increases. Fixed overhead (manufacturing support labor, depreciation and facility costs) and research and development-related costs increased \$804,000 for the third quarter of Fiscal 2010. As a percent of net revenues, however, fixed overhead costs decreased to 8.6 percent for the third quarter of Fiscal 2010 from 21.2 percent of net revenues for the third quarter of Fiscal 2009. The decrease in percentage was due to greater absorption of fixed costs resulting from higher production volume. Due to the significant reduction of inventory levels, there was a positive benefit to cost of goods sold in the third quarters ended May 29, 2010 and May 30, 2009 of \$431,000 and \$3.6 million, respectively from the liquidation of LIFO inventory values. When all factors described previously are considered, gross profit was 7.2 percent of net revenues for the third quarter of Fiscal 2010 compared to a gross deficit of 16.3 percent during the third quarter of Fiscal 2009.

Selling expenses increased \$24,000, or 0.8 percent, during the third quarter of Fiscal 2010. As a percentage of net revenues, selling expenses decreased from 6.1 percent to 2.3 percent for the third quarters of Fiscal 2009 and Fiscal 2010, respectively.

General and administrative expenses decreased \$170,000, or 5.0 percent, during the third quarter of Fiscal 2010 and, as a percentage of net revenues were 2.4 percent and 6.7 percent for the third quarters of Fiscal 2010 and Fiscal 2009, respectively. The decrease in dollars was due to reductions of \$405,000 in legal expenses and \$68,000 less expense associated with our idled facilities, partially offset by an increase of \$370,000 in product liability expense.

Financial income decreased \$51,000, or 24.4 percent, during the third quarter of Fiscal 2010. This was primarily due to decreased investment earnings (a result of reduction in interest rates and reduction in investment balances) and increased credit facility costs, partially offset by increased company owned life insurance earnings.

The overall effective income tax rate for the third quarter of Fiscal 2010 was a benefit of 68.2 percent compared to a benefit rate of 41.3 percent for the third quarter of Fiscal 2009. The following table breaks down the two aforementioned tax rates:

| (In thousands)                                      | Quarter Ended |                 |              |                 |
|---|---------------|-----------------|--------------|-----------------|
|   | May 29, 2010  |                 | May 30, 2009 |                 |
|   | Amount        | Effective Rate* | Amount       | Effective Rate* |
| Tax expense (benefit) before discrete items         | \$ 692        | 19.4 %          | \$ (5,434 )  | (37.3 )%        |
| Discrete items:                                     |               |                 |              |                 |
| Valuation allowance                                 |               |                 |              |                 |
| Decrease (Fiscal 2009 carryback)                    | (1,008 )      | (28.3 )%        | —            | —               |
| Other adjustments                                   | (258 )        | (7.2 )%         | —            | —               |
| Uncertain tax positions settlements and adjustments | (1,683 )      | (47.2 )%        | —            | —               |
| Tax planning initiatives                            | (173 )        | (4.9 )%         | (500 )       | (3.4 )%         |
| Other   | —             | — %             | (86 )        | (0.6 )%         |
| Total benefit for taxes                             | \$ (2,430 )   | (68.2 )%        | \$ (6,020 )  | (41.3 )%        |

\*Percentages may not add due to rounding differences.

#### Tax benefit before discrete items

The overall effective income tax rate for the third quarter ended May 29, 2010 was 19.4 percent compared to the effective tax benefit rate of 37.3 percent for the third quarter ended May 30, 2009. The primary reason for the difference in the overall effective rate for the third quarter ended May 29, 2010 as compared to the third quarter ended May 30, 2009 is the relationship between our small pre-tax income compared to a larger pre-tax loss relative to the permanent financial accounting to taxable income (loss) adjustments. Our significant permanent adjustments are tax-free income from company-owned life insurance and ARS.

#### Valuation allowance decrease

The valuation allowance established in our third quarter of Fiscal 2010 on the deferred tax assets was decreased by \$1.0 million primarily due to filing a superseding Fiscal 2009 federal tax return. During our first quarter of Fiscal

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2010, the President of the United States signed into law the Worker, Homeownership, and Business Assistance Act of 2009, which expands the carryback period from two to five years, allowing us to carryback all Fiscal 2009 NOL. During the third quarter of Fiscal 2010, we filed a superseding federal tax return to accelerate certain tax deductions and amended our original carryback request. This resulted in a benefit of approximately \$1.0 million, which we anticipate receiving during the fourth quarter of Fiscal 2010. For further discussion of income taxes, see Note 11.

#### Uncertain tax positions settlements and adjustments

Benefits of \$1.7 million were recorded during the third quarter of Fiscal 2010 primarily as a result of positive resolution of federal tax IRS audits which resulted in a reduction of the reserve for unrecognized tax benefits. For further discussion of income taxes, see Note 11.

#### Tax planning initiatives

Benefits of \$173,000 and \$500,000 were recorded during the third quarters of Fiscal 2010 and Fiscal 2009, respectively as a result of tax planning initiatives.

Net income was \$6.0 million, or \$.21 per diluted share, for the third quarter of Fiscal 2010 compared to a net loss of \$8.6 million, or \$.29 per diluted share, for the third quarter of Fiscal 2009. See Note 12.

#### First Nine Months of Fiscal 2010 Compared to the First Nine Months of Fiscal 2009

The following is an analysis of changes in key items included in the statements of operations for the nine months ended May 29, 2010 compared to May 30, 2009:

| (In thousands, except percent and per share data) | Nine Months Ended |                   |                 |                   |            |          | Increase<br>(Decrease) | %<br>Change |
|---|-------------------|-------------------|-----------------|-------------------|------------|----------|------------------------|-------------|
|   | May 29,<br>2010   | % of<br>Revenues* | May 30,<br>2009 | % of<br>Revenues* |            |          |                        |             |
| Net revenues                                      | \$ 326,359        | 100.0 %           | \$ 152,054      | 100.0 %           | \$ 174,305 | 114.6 %  |                        |             |
| Cost of goods sold                                | 311,296           | 95.4 %            | 181,025         | 119.1 %           | 130,271    | 72.0 %   |                        |             |
| Gross profit (deficit)                            | 15,063            | 4.6 %             | (28,971 )       | (19.1 )%          | 44,034     | 152.0 %  |                        |             |
| Selling   | 9,438             | 2.9 %             | 9,564           | 6.3 %             | (126 )     | (1.3 )%  |                        |             |
| General and administrative                        | 10,056            | 3.1 %             | 11,748          | 7.7 %             | (1,692 )   | (14.4 )% |                        |             |
| Total operating expenses                          | 19,494            | 6.0 %             | 21,312          | 14.0 %            | (1,818 )   | (8.5 )%  |                        |             |

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|   |          |         |              |          |           |          |
|---|----------|---------|--------------|----------|-----------|----------|
| Operating loss                          | (4,431 ) | (1.4 )% | (50,283 )    | (33.1 )% | 45,852    | 91.2 %   |
| Financial income                        | 289      | 0.1 %   | 1,366        | 0.9 %    | (1,077 )  | (78.8 )% |
| Loss before income taxes                | (4,142 ) | (1.3 )% | (48,917 )    | (32.2 )% | 44,775    | 91.5 %   |
| Benefit for taxes                       | (9,496 ) | (2.9 )% | (20,387 )    | (13.4 )% | 10,891    | 53.4 %   |
| Net income (loss)                       | \$ 5,354 | 1.6 %   | \$ (28,530 ) | (18.8 )% | \$ 33,884 | 118.8 %  |
| Diluted income (loss) per share \$ 0.18 |          |         | \$ (0.98 )   |          | \$ 1.16   | 118.4 %  |
| Fully diluted average share outstanding | 29,097   |         | 29,046       |          | 51        | 0.2 %    |

\* Percentages may not add due to rounding differences.

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

| (In units)         | Nine Months Ended |                |              |                |          |         | % Change |
|--------------------|-------------------|----------------|--------------|----------------|----------|---------|----------|
|                    | May 29, 2010      | Product Mix %* | May 30, 2009 | Product Mix %* | Increase |         |          |
| Class A gas        | 1,030             | 31.5 %         | 356          | 22.4 %         | 674      | 189.3 % |          |
| Class A diesel     | 707               | 21.6 %         | 225          | 14.1 %         | 482      | 214.2 % |          |
| Total Class A      | 1,737             | 53.1 %         | 581          | 36.5 %         | 1,156    | 199.0 % |          |
| Class B            | 202               | 6.2 %          | 99           | 6.2 %          | 103      | 104.0 % |          |
| Class C            | 1,330             | 40.7 %         | 911          | 57.3 %         | 419      | 46.0 %  |          |
| Total deliveries   | 3,269             | 100.0 %        | 1,591        | 100.0 %        | 1,678    | 105.5 % |          |
| ASP (in thousands) | \$ 95             |                | \$ 86        |                | \$ 9     | 9.7 %   |          |

\* Percentages may not add due to rounding differences.

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Net revenues for the nine months ended May 29, 2010 increased \$174.3 million, or 114.6 percent, due to the following:

- Volume increase: The primary reason for the net revenue increase was due to an increase in unit deliveries of 105.5 percent.
- Pricing and mix: Our motor home ASP increased 9.7 percent. This increase was due to a shift to higher-priced product as our sales mix was more heavily weighted to Class A product and a decrease of product discounts offered at the



wholesale level as compared to the comparable period last year.

- Repurchases: Our repurchase loss provision, which is a deduction from gross revenues, decreased 2.0 percent (as a percentage of net revenues), or \$2.7 million. We repurchased four motor homes and resold five motor homes, incurring losses of \$44,000. Further discussion of our repurchase activity is included in Note 10.

- Promotional incentives: Although retail and other incentives were flat compared to last year, as a percent of net revenues, these incentives decreased 2.3 percent. In the prior year, we had more retail incentive programs in place to help stimulate dealer retail demand.

Cost of products sold was \$311.3 million, or 95.4 percent of net revenues for the first nine months of Fiscal 2010 compared to \$181.0 million, or 119.1 percent of net revenues for the comparable period a year ago. Variable costs (material, labor, variable overhead, delivery and warranty) increased \$131.0 million as a result of the increased number of motor homes sold. As a percent of revenues, however, variable costs decreased to 85.9 percent for the first nine months of Fiscal 2010 from 98.1 percent for the same period a year ago. This decrease in percentage is due to reduced material and labor costs and improved labor efficiencies as a result of production volume increases. Fixed overhead (manufacturing support labor, depreciation and facility costs) and research and development-related costs decreased \$774,000, and were 9.5 percent of net revenues for the first nine months of Fiscal 2010 compared to 21.0 percent of net revenues in the comparable period a year ago. The decrease in percentage was due to greater absorption of fixed costs resulting from higher production volumes. Due to the significant reduction of inventory levels, there was a positive benefit to cost of goods sold in the nine months ended May 29, 2010 and May 30, 2009 of \$34,000 and \$4.1 million, respectively from the liquidation of LIFO inventory values. When all factors as described above are considered, gross profit was \$15.1 million, or 4.6 percent, of net revenues for the first nine months of Fiscal 2010 compared to a gross deficit of \$29.0 million, or 19.1 percent, of net revenues during the comparable period a year ago.

Selling expenses decreased \$126,000, or 1.3 percent, for the nine months ended May 29, 2010 and, as a percent of net revenues, were 2.9 percent and 6.3 percent during the nine months of Fiscal 2010 and Fiscal 2009, respectively.

General and administrative expenses decreased \$1.7 million, or 14.4 percent, for the first nine months of Fiscal 2010 and, as a percent of net revenues, were 3.1 percent and 7.7 percent during the first nine months of Fiscal 2010 and Fiscal 2009, respectively. The decrease in dollars was due to reductions of \$1.3 million in legal expenses, \$570,000 labor-related expenses, and \$535,000 less expense associated with our idled and leased facilities, partially offset by increased product liability expense of \$1.2 million.

Financial income decreased \$1.1 million, or 78.8 percent, for the nine months ended May 29, 2010. The decrease in financial income was due primarily to increased credit facility costs and a reduction in investment interest rates.

The overall effective income tax rate for the nine months ended May 29, 2010 was a benefit of 229.3 percent compared to a benefit of 41.7 percent for the nine months ended May 30, 2009.

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The following table breaks down the two aforementioned tax rates:

|                | Nine Months Ended |                 |              |                 |
|----------------|-------------------|-----------------|--------------|-----------------|
|                | May 29, 2010      |                 | May 30, 2009 |                 |
| (In thousands) | Amount            | Effective Rate* | Amount       | Effective Rate* |

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|   |             |           |              |          |
|---|-------------|-----------|--------------|----------|
| Tax benefit before discrete items                   | \$ (2,775 ) | (67.0 )%  | \$ (19,151 ) | (39.1 )% |
| Discrete items:                                     |             |           |              |          |
| Valuation allowance:                                |             |           |              |          |
| Decrease (Fiscal 2009 carryback)                    | (5,792 )    | (139.8 )% | —            | —        |
| Other adjustments                                   | 3,470       | 83.8 %    | —            | —        |
| Uncertain tax positions settlements and adjustments | (2,565 )    | (61.9 )%  | (500 )       | (1.0 )%  |
| Tax planning initiatives                            | (1,749 )    | (42.2 )%  | (736 )       | (1.5 )%  |
| Other   | (85 )       | (2.1 )%   | —            | —        |
| Total benefit for taxes                             | \$ (9,496 ) | (229.3 )% | \$ (20,387 ) | (41.7 )% |

\*Percentages may not add due to rounding differences

#### Tax benefit before discrete items

The overall effective income tax benefit rate for the nine months ended May 29, 2010 was 67.0 percent compared to the overall effective tax benefit rate of 39.1 percent for the nine months ended May 30, 2009. The primary reason for the difference in the overall effective rate is the relationship between our lower pre-tax loss relative to the permanent financial accounting to taxable income (loss) adjustments for the nine months ended May 29, 2010 as compared to the nine months ended May 30, 2009. Our significant permanent adjustments are tax-free income from company-owned life insurance and student loan-related assets.

#### Valuation allowance decrease

At the end of Fiscal 2009, we had established a valuation allowance on all deferred tax assets and NOL carryforward assets associated with Fiscal 2009. During our first quarter of Fiscal 2010, the President of the United States signed into law the Worker, Homeownership, and Business Assistance Act of 2009, which expands the carryback period from two to five years, allowing us to carryback all Fiscal 2009 NOL. During the third quarter of Fiscal 2010, we filed a superseding federal tax return to accelerate certain tax deductions and amended our original carryback request. This resulted in an additional benefit of approximately \$1.0 million, which we anticipate receiving during the fourth quarter of Fiscal 2010. As a result, we recorded a total tax benefit of \$5.8 million and reduced the associated valuation allowance due to this beneficial tax law change.

#### Valuation allowance - other adjustments

A full valuation allowance of \$3.5 million was established in the first nine months of Fiscal 2010 on our increase in deferred tax assets. As a result, no tax benefit was recorded attributable to NOLs occurring during the first nine months of Fiscal 2010. For further discussion of income taxes, see Note 11.

#### Uncertain tax positions settlements and adjustments

During the first nine month of Fiscal 2010, benefits of \$2.6 million were recorded as a result of positive settlements of uncertain tax positions with taxing authorities and other adjustments to uncertain tax positions. Of this amount, \$1.7 million resulted from the reduction of reserves associated with unrecognized tax benefits as a result of a favorable settlement of the federal IRS tax audit. During the first nine months of Fiscal 2009, benefits of \$500,000 were recorded as a result of favorable settlements and other adjustments to uncertain tax positions.

#### Tax planning initiatives

Benefits of \$1.7 million and \$736,000 were recorded as a result of tax planning initiatives recognized during the first nine months of Fiscal 2010 and 2009, respectively.

Net income was \$5.4 million, or \$.18 per diluted share, for the first nine months of Fiscal 2010 compared to net loss

of \$28.5 million, or \$.98 per diluted share, for the first nine months of of Fiscal 2009. See Note 12.

#### Analysis of Financial Condition, Liquidity and Resources

Cash and cash equivalents totaled \$76.3 million and \$36.6 million as of May 29, 2010 and August 29, 2009, respectively. Short-term and long-term investments, net of temporary impairments, totaled \$20.4 million as of May 29, 2010 and \$33.3 million as of August 29, 2009. See Notes 3 and 4.

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Working capital at May 29, 2010 and August 29, 2009 was \$83.9 million and \$79.5 million, respectively, an increase of \$4.4 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 2010 of approximately \$500,000, primarily for manufacturing equipment and facilities which will be funded with cash on hand.

Significant liquidity events in the first nine months of Fiscal 2010 include:

- Receipt of tax refunds (net of payments) of \$23.4 million: As previously discussed, we filed a carryback federal tax return in December 2009 and received our federal refund of \$21.9 million in January 2010. During our third quarter, we made federal payments associated with the resolution of outstanding federal tax audits of \$130,000. We also received state refunds of approximately \$1.6 million in the first nine months of Fiscal 2010. During the third quarter of Fiscal 2010, we amended our 2009 federal tax return to accelerate certain tax deductions which resulted in an additional tax receivable of \$1.0 million that we expect to receive in the fourth quarter of Fiscal 2010.

- ARS redemptions of \$4.4 million: Through May 2010, UBS elected to redeem a portion of our securities and as a result, we received \$4.1 million in net proceeds. We have the ability to put the remaining \$290,000 of unencumbered ARS held by UBS to UBS in the fourth quarter of Fiscal 2010. In addition, short-term ARS investments of \$300,000, not part of the UBS portfolio, were redeemed by the issuer at par during the fiscal year through May 2010 and \$250,000 was redeemed at par in June 2010, subsequent to the end of the third quarter of Fiscal 2010.

We have multiple assets held for sale, including our plane and two manufacturing facilities. Total listing price of these assets is in excess of \$10 million.

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

We filed a Registration Statement on Form S-3, which was declared effective by the SEC on March 31, 2010. Subject to market conditions, we have the ability to offer and sell up to \$35 million of our common stock in one or more offerings pursuant to the Registration Statement. The Registration Statement will be available for use for three years. We currently have no plans to offer and sell the common stock registered under the Registration Statement; however, it does provide another source of liquidity in addition to the alternatives already in place.

### Operating Activities

Cash provided by operating activities was \$36.8 million and \$12.5 million for the nine months ended May 29, 2010 and May 30, 2009, respectively. The combination of a net income of \$5.4 million in the current year and an improvement in non-cash charges (e.g., depreciation, stock-based compensation) provided \$10.6 million of operating cash compared to a usage of \$21.7 million in the prior year period. In Fiscal 2010, changes in assets and liabilities (primarily income tax refunds and inventory reductions) provided an additional \$26.2 million of operating cash. In Fiscal 2009, changes in assets and liabilities (primarily inventory reductions) provided an additional \$34.2 million operating cash.

### Investing Activities

Cash provided by investing activities was due primarily to ARS redemptions of \$12.9 million in the nine months ended May 29, 2010, partially offset by capital spending of \$1.5 million. During the nine months ended May 30, 2009, cash provided by investing activities of \$5.5 million was due to ARS redemptions of \$8.5 million partially offset by capital spending of \$2.5 million.

### Financing Activities

Cash used in financing activities of \$8.7 million for the nine months ended May 29, 2010 was primarily due to a payment of our borrowings on our ARS portfolio of \$8.5 million. Cash provided by financing activities for the nine months ended May 30, 2009 was due to borrowings on our ARS portfolio of \$9.1 million, partially offset by dividends paid of \$3.5 million.

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### Critical Accounting Policies

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

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

### Revenue Recognition

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

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

### Sales Promotions and Incentives

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

### Repurchase Commitments

It is customary practice for companies in the recreation vehicle industry to enter into repurchase agreements with financing institutions that provide financing to their dealers. Our repurchase agreements generally provide that, in the event of a default by a dealer in its obligation to these lenders, we will repurchase vehicles sold to the dealer that have not been resold to retail customers. The terms of these agreements, which can last up to 18 months, provide that our liability will be the lesser of remaining principal owed by the dealer or dealer invoice less periodic reductions based on the time since the date of the original invoice. Our liability cannot exceed 100 percent of the dealer invoice. In certain instances, we also repurchase inventory from our dealers due to state law or regulatory requirements that govern voluntary or involuntary relationship terminations. Our risk of loss is reduced by the potential resale value of any products that are subject to repurchase and is spread over numerous dealers and lenders. The aggregate contingent liability related to our repurchase agreements represents all financed dealer inventory at the period reporting date subject to a repurchase agreement, net of the greater of periodic reductions per the agreement or dealer principal payments.

Based on these repurchase agreements, we establish an associated loss reserve. This loss reserve is disclosed separately in the balance sheets. Repurchased sales are not recorded as a revenue transaction, but the net difference between the original repurchase price and the resale price is recorded against the loss reserve, which is a deduction from gross revenue. 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. Prior to Fiscal 2009, losses under these agreements were not material. However, the substantial decrease in retail demand for recreation vehicles in the past two years and tightened credit standards by lenders have

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resulted in a significant increase in defaults by our dealers. To the extent that dealers are reducing their inventories, our overall exposure under repurchase agreements is likewise reduced. The percentage of dealer inventory we estimate we will repurchase is based on historical information, current trends and an analysis of dealer inventory aging for all dealers with inventory subject to this obligation. The estimated loss per repurchased unit was based primarily on recent history because until Fiscal 2009, we were generally able to sell repurchased units for minimal losses. During the first three quarters of Fiscal 2009, we incurred significant losses associated with repurchases due to the challenging motor home industry conditions. As a result, we revised our underlying loss reserve estimate assumptions and increased our repurchase loss reserve during Fiscal 2009 based on rapidly changing circumstances. Further discussion of our repurchase commitments is included in Note 10.

### Warranty

We provide with the purchase of any new motor home, a comprehensive 12-month/15,000-mile warranty on Class A, Class B and Class C motor homes and a 3-year/36,000-mile warranty on Class A and Class C sidewalls and floors.

Estimated costs related to product warranty are accrued at the time of sale and are based upon past warranty claims and unit sales history and adjusted as required to reflect actual costs incurred, as information becomes available. A significant increase in dealership labor rates, the cost of parts or the frequency of claims could have a material adverse impact on our operating results for the period or periods in which such claims or additional costs materialize. We also incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions. Estimated costs are accrued at the time the service action is implemented and are based upon past claim rate experiences and the estimated cost of the repairs.

#### Stock-Based Compensation

Prior to Fiscal 2007, we granted stock options to our key employees and nonemployee directors as part of their compensation. In Fiscal 2007 and 2008, we granted restricted stock awards to key employees and nonemployee directors instead of stock options. No stock options or restricted stock awards were granted in Fiscal 2009 or during the first three quarters of Fiscal 2010.

The amount of stock-based compensation expense incurred and to be incurred in future periods is dependent upon a number of factors, such as the number of options and shares granted, the timing of stock option exercises, the age of the recipient and actual forfeiture rates.

The value of the restricted stock is based on the closing price of our common stock on the date of grant. The fair value of each award is amortized on a straight-line basis over the requisite service period or to an employee's eligible retirement date, if earlier. This amortization method is used because our awards typically vest over three years, beginning one year after date of grant or upon retirement if earlier; thus, options and restricted stock awards are expensed immediately upon grant for retirement-eligible employees. This feature accelerates expense in the period of grant (typically our first fiscal quarter) and creates an uneven pattern of stock-based compensation that results in relatively higher expense in our first fiscal quarter and relatively lower expense in our second through fourth quarters. The impact of this feature is significant since a majority of our awards are made to retirement-eligible employees.

#### Unrecognized Tax Benefits

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

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

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

#### Income Taxes

We account for income taxes in accordance with ASC 740. As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. Valuation allowances arise due to the uncertainty of realizing deferred tax assets. ASC 740 requires that companies assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence, using a "more likely than not" standard. In making such assessments, significant weight is to be given to evidence that can be objectively verified. A company's current or previous losses are given more weight than its future outlook. Under that standard, our three-year historical cumulative loss was a significant negative factor. We have evaluated the sustainability of our deferred tax assets on our balance sheet which includes the assessment of cumulative income or losses over recent prior periods. Based on ASC 740 guidelines, we determined a full valuation allowance to be appropriate. We will continue to assess the likelihood that our deferred tax assets will be realizable at each reporting period and our valuation allowance will be adjusted accordingly, which could materially impact our financial position and results of operations.

#### Postretirement Benefits Obligations and Costs

We provide certain health care and other benefits for retired employees hired before April 1, 2001, who have fulfilled eligibility requirements at age 55 with 15 years of continuous service. Postretirement benefit liabilities are determined by actuaries using assumptions about the discount rate and health care cost-trend rates. Thus, a significant increase or decrease in interest rates could have a significant impact on our operating results.

#### Other

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

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

We have market risk exposure to our ARS and the related Put Rights, which is described in further detail in Note 4.

### ITEM 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

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

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

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### 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 1A. Risk Factors

Except as set forth below, there have been no material changes in the risk factors disclosed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended August 29, 2009.

#### Dependence on Suppliers

Most of our RV components are readily available from numerous sources. However, a few of our components are produced by a small group of quality suppliers. Decisions by our suppliers to decrease production, production delays, or work stoppages by the employees of such suppliers could have a material adverse effect on our ability to produce motor homes and ultimately, on our results of operations. In addition, the current general global economic downturn and the volatility in the credit and capital markets may have caused or may in the future cause a significant decline in sales and revenues and limited liquidity for our suppliers. If these conditions continue or worsen, many of our suppliers' financial condition could be adversely impacted. As a result, their ability to continue supplying component products for the manufacture of our products could be significantly undermined, which, in turn, could negatively impact our ability to meet our customers' demand for our products and our results of operations.

In the case of motor home chassis, Ford Motor Company, Freightliner Custom Chassis Corporation and Mercedes-Benz USA, LLC are our major suppliers. Our relationship with our chassis suppliers is similar to our other supplier relationships in that no special contractual commitments are engaged in by either party. Historically, chassis suppliers resort to an industry-wide allocation system during periods when supply is restricted. These allocations have been based on the volume of chassis previously purchased. Sales of motor homes rely on chassis and are affected accordingly. As economic conditions improve and dealers begin to replenish their inventory, there may be a shortage of chassis for a period of time, which would adversely affect our production capacity and results of operations.



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

On December 19, 2007, the Board of Directors authorized the repurchase of outstanding shares of our common stock, depending on market conditions, for an aggregate consideration of up to \$60 million. There is no time restriction on this authorization. During the third quarter of Fiscal 2010, there were no shares of our common stock repurchased pursuant to this authorization or otherwise. As of May 29, 2010, there was approximately \$59.3 million remaining under this authorization to be used for future repurchases of our common stock.

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ITEM 6. Exhibits

- 10.dd Executive Change of Control Agreement dated May 3, 2010 between Winnebago Industries, Inc. and Daryl W. Krieger.\*
- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated July 2, 2010.
- 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated July 2, 2010.
- 32.1 Certification by the Chief Executive Officer pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated July 2, 2010.
- 32.2 Certification by the Chief Financial Officer pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated July 2, 2010.

\* Management contract or compensatory plan or arrangement.

SIGNATURES

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

WINNEBAGO INDUSTRIES, INC.  
(Registrant)

Date July 2, 2010

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

Date July 2, 2010

/s/ Sarah N. Nielsen

Sarah N. Nielsen

Chief Financial Officer (Principal Financial Officer)