

WINNEBAGO INDUSTRIES INC
Form 10-Q
April 09, 2008
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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 March 1, 2008

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)

Iowa
(State or Other Jurisdiction
of Incorporation or Organization)

001-06403
(Commission File Number)

42-0802678
(IRS Employer
Identification No.)

P.O. Box 152, Forest City, Iowa
(Address of Principal Executive Offices)

50436
(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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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 on April 8, 2008 was 29,058,828.

WINNEBAGO INDUSTRIES, INC.

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Winnebago Industries, Inc.

Unaudited Consolidated Statements of Income

PART I. Financial Information

Item 1. Financial Statements.

| | Thirteen | | Twenty-Seven | Twenty-Six |
|--|--------------------|---------------------|---------------------|---------------------|
| | Weeks Ended | | Weeks Ended | |
| | March 1, | February 24, | March 1, | February 24, |
| (In thousands, except per share data) | 2008 | 2007 | 2008 | 2007 |
| Net revenues | \$ 164,203 | \$ 199,014 | \$ 379,345 | \$ 400,779 |
| Cost of goods sold | 152,034 | 180,049 | 341,536 | 360,430 |
| Gross profit | 12,169 | 18,965 | 37,809 | 40,349 |
| Operating expenses: | | | | |
| Selling | 4,258 | 4,315 | 9,863 | 9,042 |
| General and administrative | 5,457 | 5,290 | 11,908 | 11,807 |
| Total operating expenses | 9,715 | 9,605 | 21,771 | 20,849 |
| Operating income | 2,454 | 9,360 | 16,038 | 19,500 |
| Financial income | 1,236 | 1,602 | 2,476 | 3,165 |
| Income before income taxes | 3,690 | 10,962 | 18,514 | 22,665 |
| Provision for taxes | 1,173 | 3,430 | 6,035 | 7,197 |
| Net income | \$ 2,517 | \$ 7,532 | \$ 12,479 | \$ 15,468 |
| Income per common share: | | | | |
| Basic | \$ 0.09 | \$ 0.24 | \$ 0.43 | \$ 0.49 |
| Diluted | \$ 0.09 | \$ 0.24 | \$ 0.43 | \$ 0.49 |

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| | | | | |
|---|---------|---------|---------|---------|
| Weighted average common shares outstanding: | | | | |
| Basic | 28,964 | 31,459 | 29,165 | 31,354 |
| Diluted | 29,034 | 31,764 | 29,245 | 31,666 |
| Dividends paid per common share | \$ 0.12 | \$ 0.10 | \$ 0.24 | \$ 0.20 |

See unaudited notes to condensed consolidated financial statements.

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Winnebago Industries, Inc.

Unaudited Consolidated Balance Sheets

| (In thousands) | March 1, 2008 | August 25, 2007 |
|---|------------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 15,536 | \$ 6,889 |
| Short-term investments | | 102,650 |
| Receivables, less allowance for doubtful accounts (\$151 and \$133, respectively) | 31,941 | 30,285 |
| Inventories | 128,477 | 101,208 |
| Prepaid expenses and other assets | 3,870 | 3,981 |
| Deferred income taxes | 15,656 | 12,687 |
| Total current assets | 195,480 | 257,700 |
| Property and equipment, at cost: | | |
| Land | 934 | 934 |
| Buildings | 59,808 | 59,525 |
| Machinery and equipment | 98,928 | 98,026 |
| Transportation equipment | 9,433 | 9,593 |
| Total property and equipment, at cost | 169,103 | 168,078 |
| Accumulated depreciation | (120,670) | (116,689) |
| Total property and equipment, net | 48,433 | 51,389 |
| Long-term investments | 50,829 | |
| Investment in life insurance | 19,925 | 20,015 |
| Deferred income taxes | 25,791 | 19,856 |
| Other assets | 17,170 | 17,550 |
| Total assets | \$ 357,628 | \$ 366,510 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 31,257 | \$ 35,286 |
| Income taxes payable | 3,835 | 4,252 |
| Accrued expenses: | | |
| Accrued compensation | 12,877 | 16,946 |
| Unrecognized tax benefits | 11,835 | |

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| | | |
|--|------------|------------|
| Product warranties | 11,446 | 11,259 |
| Self-insurance | 7,646 | 7,919 |
| Promotional | 3,635 | 3,793 |
| Accrued dividends | 3,485 | 3,546 |
| Other | 5,997 | 5,836 |
| Total current liabilities | 92,013 | 88,837 |
| Long-term liabilities: | | |
| Unrecognized tax benefits | 8,627 | |
| Postretirement health care benefits | 32,348 | 31,581 |
| Non-qualified deferred compensation benefits | 24,921 | 25,063 |
| Executive share option benefits | 11,709 | 12,675 |
| Total long-term liabilities | 77,605 | 69,319 |
| 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 | 29,381 | 28,646 |
| Retained earnings | 506,025 | 509,056 |
| Accumulated other comprehensive income | 7,932 | 11,090 |
| Treasury stock, at cost (22,740 and 22,223 shares, respectively) | (381,216) | (366,326) |
| Total stockholders' equity | 188,010 | 208,354 |
| Total liabilities and stockholders' equity | \$ 357,628 | \$ 366,510 |

See unaudited notes to condensed consolidated financial statements.

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Winnebago Industries, Inc.

Unaudited Consolidated Statements of Cash Flows

| | Twenty-Seven Weeks Ended | Twenty-Six |
|---|-------------------------------------|---------------------|
| | March 1, | February 24, |
| | 2008 | 2007 |
| (In thousands) | | |
| Operating activities: | | |
| Net income | \$ 12,479 | \$ 15,468 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation | 5,179 | 5,331 |
| Stock-based compensation | 2,910 | 3,609 |
| Postretirement benefit income and deferred compensation expense | 716 | 830 |
| Provision for doubtful accounts | 58 | 135 |
| Deferred income taxes | 98 | (3,238) |
| Excess tax benefit of stock-based compensation | (72) | (1,587) |
| Increase in cash surrender value of life insurance policies | (459) | (390) |

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| | | | |
|--|-----------|-----|-----------|
| Loss (gain) on disposal of property | 37 | (83 |) |
| Other | 13 | 2 | |
| Change in assets and liabilities: | | | |
| Inventories | (27,269 |) | (17,308 |
| Receivables and prepaid assets | (1,603 |) | (2,266 |
| Accounts payable and accrued expenses | (8,456 |) | 9,149 |
| Income taxes payable and unrecognized tax benefits | 4,451 | | 4,065 |
| Postretirement and deferred compensation benefits | (715 |) | (579 |
| Net cash (used in) provided by operating activities | (12,633 |) | 13,138 |
| Investing activities: | | | |
| Purchases of investments | (228,069 |) | (170,399 |
| Proceeds from the sale or maturity of investments | 276,519 | | 145,800 |
| Purchases of property and equipment | (2,469 |) | (2,841 |
| Proceeds from the sale of property | 219 | | 216 |
| Other | (841 |) | 532 |
| Net cash provided by (used in) investing activities | 45,359 | | (26,692 |
| Financing activities: | | | |
| Payments for purchase of common stock | (17,527 |) | |
| Payments of cash dividends | (7,024 |) | (6,254 |
| Proceeds from exercise of stock options | 400 | | 5,733 |
| Excess tax benefit of stock-based compensation | 72 | | 1,587 |
| Net cash (used in) provided by financing activities | (24,079 |) | 1,066 |
| Net increase (decrease) in cash and cash equivalents | 8,647 | | (12,488 |
| Cash and cash equivalents at beginning of period | 6,889 | | 24,934 |
| Cash and cash equivalents at end of period | \$ 15,536 | | \$ 12,446 |
| Supplemental cash flow disclosure: | | | |
| Income taxes paid | \$ 1,494 | | \$ 6,154 |

See unaudited notes to condensed consolidated financial statements.

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Winnebago Industries, Inc.

Unaudited Notes to Condensed Consolidated

Financial Statements

Forward-Looking Information

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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, including, but not limited to, the effect of global tensions, availability and price of fuel, a significant increase in interest rates, a decline in consumer confidence, a slowdown in the economy, availability of chassis and other key component parts, sales order cancellations, slower than anticipated sales of new or existing products, new product introductions by competitors and other factors which may be disclosed throughout this report. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Undue reliance should not be placed on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by law or the rules of the New York Stock Exchange.

NOTE 1: Basis of Presentation

The Company, we, our, and us are used interchangeably to refer to Winnebago Industries, Inc. or Winnebago Industries, Inc. and its subsidiaries as appropriate to the context.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the consolidated financial position as of March 1, 2008 and the consolidated results of operations for the thirteen and twenty-seven weeks ended March 1, 2008 and the thirteen and twenty-six weeks ended February 24, 2007, and consolidated cash flows for the twenty-seven weeks ended March 1, 2008 and the twenty-six weeks ended February 24, 2007. The consolidated statement of income for the twenty-seven weeks ended March 1, 2008 is not necessarily indicative of the results to be expected for the full year. The balance sheet data as of August 25, 2007 was derived from audited financial statements, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These interim consolidated 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 25, 2007. Certain prior period information in the unaudited consolidated statements of cash flows has been reclassified to conform to the current year presentation.

NOTE 2: Stock-Based Compensation Plans

We have a 2004 Incentive Compensation Plan, as amended (the Plan), in place which allows us to grant stock options and other equity compensation to key employees and to nonemployee directors. In years prior to Fiscal 2007, stock-based compensation consisted primarily of stock options. In Fiscal 2007 and 2008, we granted restricted stock awards to key employees and directors instead of stock options. The value of the restricted stock awards is determined using the intrinsic value method which, in this case, is based on the number of shares granted and the closing price of our common stock on the date of grant.

Total stock-based compensation expense included in our statements of income for the thirteen and twenty-seven weeks ended March 1, 2008 was \$641,000 and \$2.9 million, respectively, and for the thirteen and twenty-six weeks ended February 24, 2007 was \$792,000 and \$3.6 million, respectively. Of the \$2.9 million, \$2.3 million is related to the October 10, 2007 grant to employees of 109,200 shares and the December 19, 2007 grant to nonemployee directors of 10,500 shares of restricted stock. The remainder is related to the amortization of previously granted employee and nonemployee directors stock options and nonemployee directors stock units issued in lieu of their fees. We will continue to recognize compensation expense over the three-year vesting periods for awards granted prior to adoption of Statement of Financial Accounting Standards (SFAS) No. 123R, but for all awards granted after August 27, 2005, compensation expense will be recognized over the requisite service period of the award or over a period ending with an employee's eligible retirement date, if earlier.

NOTE 3: New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies to other accounting pronouncements that require or permit fair value measurements where the FASB has previously determined that under those pronouncements, fair value is the appropriate measurement. This statement does not require any new fair value measurements, but may require companies to change current practice. This statement is effective for fiscal years beginning after November 15, 2007 (our Fiscal 2009). We are currently evaluating the impact of the adoption of SFAS No. 157 where fair value measurements are used.

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In April 2007, FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*. This statement establishes that companies will be required to recognize a liability for the postretirement benefit obligation related to a collateral assignment arrangement in accordance with SFAS No. 106 *Employers Accounting for Postretirement Benefits Other Than Pensions*, (if deemed part of a postretirement plan) or Accounting Principles Board Opinion 12, *Omnibus Opinion 1967*, (if not part of a plan) if, based on the substantive agreement with the employee, the employer has agreed to maintain a life insurance policy during the postretirement period or provide a death benefit. The Task Force also reached a consensus that an employer should recognize and measure the associated asset on the basis of the terms of the collateral assignment arrangement. These requirements are effective for fiscal years beginning after December 15, 2007 (our Fiscal 2009). We are currently evaluating the impact of this pronouncement on our future consolidated financial statements.

NOTE 4: Investments

We purchase investments and marketable securities that have been designated as available-for-sale in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Available-for-sale securities are carried at fair value with the unrealized gains and losses reported in Accumulated Other Comprehensive Income, a component of stockholders equity.

At March 1, 2008, we held \$54.2 million (par value) of investments comprised of tax-exempt auction rate securities (ARSs), which are variable-rate debt securities and have a long-term maturity with the interest rate being reset through Dutch auctions that are typically held every 7, 28 or 35 days. The securities have historically traded at par and are callable at par at the option of the issuer. Interest is typically paid at the end of each auction period or semiannually. At March 1, 2008, the majority of the ARSs we held were AAA/Aaa rated, with most collateralized by student loans guaranteed by the U.S. government under the Federal Family Education Loan Program and the majority of remaining securities backed by monoline bond insurance companies. Until February 2008, the auction rate securities market was highly liquid. Starting the week of February 11, 2008, a substantial number of auctions failed, meaning that there was not enough demand to sell all of the securities that holders desired to sell at auction. The immediate effect of a failed auction is that such holders cannot sell the securities at auction and the interest rate on the security generally resets to a maximum auction rate. In the case of a failed auction, with respect to the ARSs held by the Company, the ARS is deemed not currently liquid. In the case of funds invested by the Company in ARSs which are the subject of a failed auction, we may not be able to access the funds without a loss of principal, unless a future auction on these investments is successful or the issuer calls the security pursuant to a mandatory tender or redemption prior to maturity.

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At March 1, 2008, there was insufficient observable ARS market information available to determine the fair value of our investments. Therefore, we estimated fair value by incorporating assumptions that market participants would use in their estimates of fair value. Some of these assumptions included credit quality, final stated maturities, estimates on the probability of the issue being called prior to final maturity, impact due to extended periods of maximum auction rates and broker quotes from independent evaluators. Based on this analysis, we recorded a temporary impairment of \$3.4 million related to our ARS investments as of March 1, 2008. We believe this temporary impairment is primarily attributable to the limited liquidity of these investments.

We have no reason to believe that any of the underlying issuers of our ARSs are presently at risk of default. Through April 4, 2008, we have continued to receive interest payments on the ARSs in accordance with their terms. We believe we will ultimately be able to liquidate our investments without significant loss primarily due to the collateral securing most of the ARSs. However, it could take until final maturity of the ARSs (up to 33 years) to realize our investments par value. Due to these recent 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 March 1, 2008.

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) | March 1, 2008 | August 25, 2007 |
|-----------------|---------------|-----------------|
| Finished goods | \$52,536 | \$45,489 |
| Work-in-process | 36,963 | 41,417 |
| Raw materials | 73,073 | 47,007 |
| | 162,572 | 133,913 |
| LIFO reserve | (34,095) | (32,705) |
| | \$128,477 | \$101,208 |

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NOTE 6: Warranty

We provide our motor home customers a comprehensive 12-month/15,000-mile warranty on the coach, and a 3-year/36,000-mile warranty on sidewalls and floors. We record a liability based on our estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Changes in our product warranty liability are as follows:

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| | Twenty-Seven Weeks Ended | | Twenty-Six |
|--------------------------------|-------------------------------------|---|---------------------|
| | March 1, | | February 24, |
| (In thousands) | 2008 | | 2007 |
| Balance at beginning of period | \$ 11,259 | | \$ 9,523 |
| Provision | 6,378 | | 6,707 |
| Claims paid | (6,191) |) | (5,575) |
| Balance at end of period | \$ 11,446 | | \$ 10,655 |

In addition to the costs associated with the contractual warranty coverage provided on our motor homes, we also occasionally incur costs as a result of additional service actions not covered by our warranties, including product recalls and customer satisfaction actions. We estimate the cost of these service actions using past claims rate experiences and the estimated cost of repairs. Estimated costs are accrued at the time the service action is implemented and included in cost of sales in our Consolidated Statements of Income and as other accrued expenses in our Consolidated Balance Sheets.

Changes in our reserve for customer service actions are as follows:

| | Twenty-Seven Weeks Ended | | Twenty-Six |
|--------------------------------|-------------------------------------|---|---------------------|
| | March 1, | | February 24, |
| (In thousands) | 2008 | | 2007 |
| Balance at beginning of period | \$ 253 | | \$ 505 |
| Provision | 24 | | 168 |
| Claims paid | (131) |) | (419) |
| Balance at end of period | \$ 146 | | \$ 254 |

NOTE 7: Income Taxes

On August 26, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes criteria for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return, among other items. In addition, FIN 48 provides guidance on classification of tax liabilities, interest and penalties, accounting interim periods, disclosure, and transition with respect to the application of the new accounting standard. As a result of adoption in the first quarter 2008, we recognized a cumulative effect adjustment of \$8.5 million as a reduction to the balance of retained earnings, an increase of \$7.1 million in deferred tax assets and an increase of \$15.6 million in tax liabilities. The amount of unrecognized tax benefits totaled \$21.8 million (\$19.6 million non-current, \$2.2 million current), of which approximately \$15.4 million could have an impact on the Company's effective tax rate, if uncertain positions are ultimately resolved. It is our policy to recognize interest and penalties accrued relative to unrecognized tax benefits into tax expense. Also as a result of adoption, \$8.3 million was accrued for interest and penalties.

During the second quarter, the Company increased its unrecognized tax benefits by approximately \$900,000. The Company also settled liabilities of approximately \$800,000 and decreased its unrecognized tax benefits by approximately \$1.4 million for positions taken related to prior periods. If the remaining uncertain positions are ultimately resolved in the manner the Company expects, approximately \$7.1 million could have a positive impact on our effective tax rate. Currently, \$7.8 million is accrued for interest and penalties, which is a reduction of approximately \$500,000 from the first quarter.

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We file tax returns in the U.S. federal jurisdiction, as well as various international and state jurisdictions. A number of years may elapse before an uncertain tax position is audited and finally resolved, and is often very difficult to predict the outcome of such audits. Our Fiscal 2005 federal tax return was recently audited by the Internal Revenue Service and as a result of this audit, the IRS recommended no changes be made. Our Federal returns are not subject to examination prior to Fiscal 2004. Periodically, various state and local jurisdictions conduct audits, therefore, a variety of years are subject to state and local jurisdiction review.

We believe that it is reasonably possible that the total amount of unrecognized tax benefits as of March 1, 2008 will decrease by \$11.8 million within the next twelve months from expected settlements or payments of uncertain tax positions. As a result, we have classified this portion as a current liability. Of this amount, approximately \$4.5 million could positively impact our effective tax rate if ultimately resolved in the manner the Company expects. Actual settlements or payments may differ materially from this estimate.

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NOTE 8: Employee and Retiree Benefits

Reserves for long-term postretirement health care and deferred compensation benefits are as follows:

| (In thousands) | March 1, 2008 | August 25, 2007 |
|---|--------------------------|----------------------------|
| Postretirement health care benefit cost (1) | \$32,348 | \$31,581 |
| Non-qualified deferred compensation (2) | 24,879 | 25,041 |
| Executive share option plan liability | 11,709 | 12,675 |
| Executive deferred compensation | 42 | 22 |
| Total postretirement health care and deferred compensation benefits | \$68,978 | \$69,319 |

- (1) The current portion of accrued postretirement benefit cost of \$1.1 million and \$979,000 as of March 1, 2008 and August 25, 2007, respectively, is included within other accrued expenses.
- (2) The current portion of deferred compensation liability of \$1.8 million and \$1.6 million as of March 1, 2008 and August 25, 2007, respectively, is included within accrued compensation.

Postretirement Health Care Benefits

We provide certain health care 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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On August 25, 2007, we adopted SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires that we recognize the overfunded or underfunded status of our retiree health care plan as an asset or liability in our Consolidated Balance Sheets as of August 25, 2007, with changes in the funded status, net of tax, being recognized through other comprehensive income.

Net periodic postretirement benefit income consisted of the following components:

| | Thirteen Weeks Ended | | Twenty-Seven Weeks Ended | | Twenty-Six Weeks Ended | |
|--|---------------------------------|------------------------------|-------------------------------------|------------------------------|-----------------------------------|------------------------------|
| | March 1, 2008 | February 24, 2007 | March 1, 2008 | February 24, 2007 | March 1, 2008 | February 24, 2007 |
| (In thousands) | | | | | | |
| Interest cost | \$491 | \$472 | \$1,020 | \$944 | | |
| Service cost | 180 | 202 | 374 | 404 | | |
| Net amortization and deferral | (809) | (796) | (1,680) | (1,593) | | |
| Net periodic postretirement benefit (income) | \$(138) | \$(122) | \$(286) | \$(245) | | |

For accounting purposes, we recognized income from the plan for the first and second quarters of both Fiscal 2008 and Fiscal 2007 due to the amortization of the cost savings from the September 2004 amendment to the plan. However, we are still obligated to pay the cost of previously accrued and earned retiree benefits and paid approximately \$290,000 and \$293,000 of such benefits for the thirteen weeks ended March 1, 2008 and February 24, 2007, respectively, and \$533,000 and \$462,000 for the twenty-seven weeks ended March 1, 2008 and the twenty-six weeks ended February 24, 2007, respectively.

NOTE 9: Contingent Liabilities and Commitments

Repurchase Commitments

Our repurchase agreements provide that, in the event of default by a dealer under its agreement to pay the lending institution, we will repurchase the financed merchandise. The agreements provide that our liability will not exceed 100 percent of the dealer invoice and provide for periodic liability reductions based on the time since the date of the original invoice. Our contingent liability on these repurchase agreements was approximately \$339.9 million and \$308.2 million at March 1, 2008 and August 25, 2007, respectively. There were no losses under these repurchase agreements for the twenty-seven weeks ended March 1, 2008 compared to losses of \$4,000 for the twenty-six weeks ended February 24, 2007. Repurchase reserves under our repurchase agreements at March 1, 2008 and August 25, 2007 were not significant. Upon resale of the repurchased units, we do not record the transaction as revenue. The difference between the repurchase price and the net proceeds received from reselling the units is charged against our reserve for losses on repurchases.

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Guarantees For Suppliers

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During the second quarter of Fiscal 2004, we entered into a five-year limited guaranty agreement (*Guaranty Agreement*) with a leasing corporation (*Landlord*) and an unaffiliated third-party paint supplier (the *Supplier*). The Landlord constructed a paint facility through debt financing on land adjoining our Charles City manufacturing plant for the Supplier. The Landlord and the Supplier have signed a ten-year lease agreement which commenced on August 1, 2004. The Guaranty Agreement states that we will guarantee the first 60 monthly lease payments (totaling approximately \$1.6 million of which \$364,000 was remaining as of March 1, 2008). In the event of rental default before August 2009 and the Supplier's failure to correct the default, the Landlord shall give us (Guarantor) written notice of its intent to terminate said lease. At the time of that notification, we will have various options that we must exercise in a timely manner. One is to exercise an option to purchase the real estate with improvements from the Landlord. The price we would pay would be the outstanding loan owed by the Landlord to construct the paint facility, which was approximately \$1.5 million as of March 1, 2008. As of March 1, 2008, the Supplier is current with its lease payment obligations to the Landlord. In August 2004, approximately \$315,000 was recorded by us as the estimated fair value for the guarantee. As of March 1, 2008, the fair value of the guarantee was approximately \$88,000 and presented as prepaid expenses and other accrued liabilities in the accompanying consolidated balance sheets.

Litigation

We are involved in various legal proceedings which are ordinary routine litigation incident 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 are of the opinion that while the final resolution of any such litigation may have an impact on our consolidated 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 10: Dividends Declared

On December 19, 2007, the Board of Directors declared a quarterly cash dividend of \$0.12 per common share, which was paid on April 7, 2008 to shareholders of record on March 7, 2008, which has been recorded as an accrued liability in the accompanying balance sheet as of March 1, 2008.

On March 26, 2008, the Board of Directors declared a quarterly cash dividend of \$0.12 per common share, payable July 8, 2008 to shareholders of record on June 6, 2008.

NOTE 11: Repurchase of Outstanding Stock

On June 20, 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. During the first quarter of Fiscal 2008, approximately 676,000 shares were repurchased under this authorization for an aggregate consideration of approximately \$17.5 million. The repurchases during the first quarter of Fiscal 2008 completed the June 20, 2007 authorization.

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. As of March 1, 2008, there have been no repurchases under this authorization.

Table of Contents**NOTE 12: Income Per Share**

The following table reflects the calculation of basic and diluted income per share for the thirteen and twenty-seven weeks ended March 1, 2008 and the thirteen and twenty-six weeks ended February 24, 2007.

| | Thirteen Weeks Ended | | Twenty-Seven Weeks Ended | Twenty-Six Weeks Ended |
|---|----------------------|------------------|-----------------------------|---------------------------|
| | March 1, 2008 | Feb. 24, 2007 | March 1, 2008 | Feb. 24, 2007 |
| (In thousands, except per share data) | | | | |
| Income per share - basic | | | | |
| Net income | \$ 2,517 | \$ 7,532 | \$ 12,479 | \$ 15,468 |
| Weighted average shares outstanding | 28,964 | 31,459 | 29,165 | 31,354 |
| Net income per share - basic | \$ 0.09 | \$ 0.24 | \$ 0.43 | \$ 0.49 |
| Income per share - assuming dilution | | | | |
| Net income | \$ 2,517 | \$ 7,532 | \$ 12,479 | \$ 15,468 |
| Weighted average shares outstanding | 28,964 | 31,459 | 29,165 | 31,354 |
| Dilutive impact of options and awards outstanding | 70 | 305 | 80 | 312 |
| Weighted average shares and potential dilutive shares outstanding | 29,034 | 31,764 | 29,245 | 31,666 |
| Net income per share - assuming dilution | \$ 0.09 | \$ 0.24 | \$ 0.43 | \$ 0.49 |

For the thirteen weeks ended March 1, 2008 and February 24, 2007, there were options outstanding to purchase 888,981 shares and 255,800 shares, respectively, of common stock at an average price of \$29.52 and \$32.63, 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 SFAS No. 128, *Earnings Per Share* (as amended).

For the twenty-seven weeks ended March 1, 2008 and the twenty-six weeks ended February 24, 2007, there were options outstanding to purchase 888,981 and 281,132 shares, respectively, of common stock at an average price of \$29.52 and \$32.78, 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 SFAS No. 128, *Earnings Per Share* (as amended).

NOTE 13: Comprehensive Income

Comprehensive income, net of tax, consists of:

Twenty-Seven Twenty-Six

| (In thousands) | Thirteen Weeks Ended | | Weeks Ended | |
|--------------------------------------|----------------------|------------------|------------------|------------------|
| | March 1, 2008 | Feb. 24, 2007 | March 1, 2008 | Feb. 24, 2007 |
| Net income | \$2,517 | \$7,532 | \$12,479 | \$15,468 |
| Temporary impairment of investments | (2,103) | | (2,103) | |
| Amortization of prior service credit | (650) | | (1,359) | |
| Amortization of actuarial loss | 146 | | 304 | |
| Comprehensive (loss) income | \$(90) | \$7,532 | \$9,321 | \$15,468 |

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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 25, 2007.

Executive Overview

Winnebago Industries, Inc. is a leading motor home manufacturer with a proud history of manufacturing recreation vehicles for the last 50 years. Our retail market share per Statistical Surveys, Inc. of Class A and Class C motor homes for the calendar year ended December 31, 2007 compared to calendar year ended December 31, 2006 was 18.6 percent compared to 19.0 percent, respectively. Our strategy is to manufacture quality motor homes in a profitable manner. We measure profitability by using five guidelines: return on assets, return on equity, return on invested capital, operating income as a percent of net revenues and net income as a percent of net revenues. Our primary goal is to be a leader in profitability in the recreation vehicle industry. Our performance has enabled us to return significant profits to our shareholders through stock repurchases and dividends. During the six months ended March 1, 2008, we repurchased approximately 676,000 shares of stock for \$17.5 million and paid out dividends of \$7.0 million to our shareholders.

Company Outlook

The Recreation Vehicle (RV) industry is cyclical and susceptible to slowdowns in the general economy. RV industry sales have been characterized by cycles of growth and contraction in consumer demand, reflecting prevailing economic and demographic conditions that affect disposable income for leisure-time activities. The motorized portion of the RV industry has experienced a volume decline for over two years. We continue to anticipate softness in motor home sales. A continuation of high fuel costs, low discretionary spending and low consumer confidence would adversely affect our business, results of operations and financial condition. We will continue to adjust our factory schedule as necessary to reflect the demand for our products.

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Order backlog for our motor homes was as follows:

| | As Of | | | | | | |
|--|-----------------|--------------------|---------------------|--------------------|-------------------|---------------|-------|
| | March 1, | Product Mix | February 24, | Product Mix | (Decrease) | % | |
| | 2008 | % | 2007 | % | Increase | Change | |
| Class A gas | 367 | 23.0 | 650 | 34.3 | (283 |) | (43.5 |
| Class A diesel | 103 | 6.5 | 394 | 20.8 | (291 |) | (73.9 |
| Total Class A | 470 | 29.5 | 1,044 | 55.1 | (574 |) | (55.0 |
| Class B | 178 | 11.2 | | | 178 | | |
| Class C | 944 | 59.3 | 852 | 44.9 | 92 | | 10.8 |
| Total backlog | 1,592 | 100.0 | 1,896 | 100.0 | (304 |) | (16.0 |
| Total approximate revenue dollars (in millions) | \$ 123.1 | | \$ 165.3 | | \$(42.2 |) | (25.5 |
| Dealer inventory (units) | 4,837 | | 4,924 | | (87 |) | (1.8 |

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

Long-term demographics are favorable for our industry as our target market of consumers age 50 and older is expected to substantially increase over the next 30 years due to the aging of the baby boom market. Also, according to a 2005 study conducted by the University of Michigan, the age at which the motor home consumer is purchasing motor homes has broadened. Motor home buyers are entering the market earlier than in the past, as young as 35, and living active and healthier lives with more buyers remaining in the RV lifestyle over the age of 75. The study also indicates that owners are using their motor homes for more than just traditional camping, having a positive impact on long-term motor home market growth. The study shows that motor homes are used to pursue consumers' many lifestyle passions which may include riding their ATVs in the desert, going to motor sports events or tailgating at sporting events.

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Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (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 consolidated 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.

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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 of Directors.

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) components 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.

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. Further discussion of our postretirement benefit plan and related assumptions is included in Note 8 to the Consolidated Financial Statements.

Warranty. We provide with the purchase of any new motor home, a comprehensive 12-month/15,000-mile warranty and a 3-year/36,000-mile warranty on 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. Further discussion of our warranty costs and associated accruals is included in Note 6.

Stock-Based Compensation. We have granted both stock options and restricted stock awards to our key employees and nonemployee directors as part of their compensation. In the first quarter of both Fiscal 2008 and Fiscal 2007, we granted restricted stock awards to key employees.

The amount of compensation expense incurred related to stock awards and to be incurred in future periods is dependent upon a number of factors, such as the number of awards, both options and shares granted, the timing of stock option exercises and actual forfeiture rates. We estimate the fair value of all stock option awards as of the date of grant by applying the Black-Scholes option-pricing model. The application of this valuation model involves assumptions, some of which are judgmental and highly sensitive, in determination of stock option compensation expense. These assumptions include, among others, our expected stock price volatility and the expected life of our stock options, which are based primarily on our historical experience.

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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 is because our awards typically vest over three years 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. Further discussion of our stock-based compensation is included in Note 2 to the Consolidated Financial Statements.

Other. We have reserves for unrecognized tax benefits and other loss exposures, such as litigation, product liability, repurchase commitments, worker's compensation, employee medical claims, inventory and accounts receivable. We also have loss exposure on loan guarantees. 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.

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Results of Operations

Current Quarter Compared to the Same Quarter Last Year

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The following is an analysis of changes in key items included in the consolidated statements of income for the quarter ended March 1, 2008 compared to the quarter ended February 24, 2007.

| (In thousands, except percent and per share data) | Quarter Ended | | Feb. 24, 2007 | % of Revenues | (Decrease) Increase | % Change |
|--|------------------|------------------|------------------|------------------|------------------------|-------------|
| | March 1, 2008 | % of Revenues | | | | |
| Net revenues | \$ 164,203 | 100.0 | \$ 199,014 | 100.0 | \$(34,811) | (17.5) |
| Cost of goods sold | 152,034 | 92.6 | 180,049 | 90.5 | (28,015) | (15.6) |
| Gross profit | 12,169 | 7.4 | 18,965 | 9.5 | (6,796) | (35.8) |
| Selling | 4,258 | 2.6 | 4,315 | 2.1 | (57) | (1.3) |
| General and administrative | 5,457 | 3.3 | 5,290 | 2.7 | 167 | 3.2 |
| Total operating expenses | 9,715 | 5.9 | 9,605 | 4.8 | 110 | 1.1 |
| Operating income | 2,454 | 1.5 | 9,360 | 4.7 | (6,906) | (73.8) |
| Financial income | 1,236 | 0.7 | 1,602 | 0.8 | (366) | (22.8) |
| Income before income taxes | 3,690 | 2.2 | 10,962 | 5.5 | (7,272) | (66.3) |
| Provision for taxes | 1,173 | 0.7 | 3,430 | 1.7 | (2,257) | (65.8) |
| Net income | \$ 2,517 | 1.5 | \$ 7,532 | 3.8 | \$(5,015) | (66.6) |
| Diluted income per share | \$ 0.09 | | \$ 0.24 | | \$(0.15) | (62.5) |
| Fully diluted average shares outstanding | 29,034 | | 31,764 | | (2,730) | (8.6) |

Unit deliveries consisted of the following:

| | Quarter Ended | | Feb. 24, 2007 | Product Mix % | (Decrease) Increase | % Change |
|------------------------------------|------------------|------------------|------------------|------------------|------------------------|-------------|
| | March 1, 2008 | Product Mix % | | | | |
| Motor home unit deliveries: | | | | | | |
| Class A gas | 551 | 32.5 | 886 | 42.1 | (335) | (37.8) |
| Class A diesel | 287 | 16.9 | 430 | 20.5 | (143) | (33.3) |
| Total Class A | 838 | 49.4 | 1,316 | 62.6 | (478) | (36.3) |
| Class B | 1 | 0.1 | | | 1 | |
| Class C | 858 | 50.5 | 787 | 37.4 | 71 | 9.0 |
| Total deliveries | 1,697 | 100.0 | 2,103 | 100.0 | (406) | (19.3) |

Net revenues for the quarter ended March 1, 2008 decreased \$34.8 million, or 17.5 percent, as a result of a 19.3 percent decrease in unit deliveries. Partially offsetting the revenue decline was an increase in our average selling price for motor homes of 1.7 percent when comparing the quarter ended March 1, 2008 to the quarter ended February 24, 2007.

Our gross profit margin was 7.4 percent for the second quarter compared to 9.5 percent for the same quarter last year. Of the 2.1 percent decrease in our margin, the most significant factor was the reduced sales volume which represented a 1.9 percent impact. Also contributing to the decrease in gross profit margin was additional promotional programs, which decrease was partially offset by increased pricing as compared to the prior period.

Selling expenses decreased \$57,000, or 1.3 percent, for the quarter ended March 1, 2008. As a percent of net revenues, selling expenses were 2.6 percent and 2.1 percent for the quarters ended March 1, 2008 and February 24, 2007, respectively. Our Louisville Show was held in the first quarter of 2008 compared to the second quarter of 2007. Other shows have shifted into the second quarter of 2008, resulting in little overall change. The decrease in dollars was due primarily to reductions in payouts under the Company's District Sales Managers' incentive programs. The increase in percent of net revenues was due to the reduced revenue dollars during the quarter ended March 1, 2008.

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General and administrative expenses increased \$167,000 for the quarter ended March 1, 2008. As a percent of net revenues, general and administrative expenses were 3.3 percent and 2.7 percent for the quarters ended March 1, 2008 and February 24, 2007, respectively. General and administrative expenses for the quarter ended March 1, 2008 included severance-related costs of approximately \$500,000 associated with layoffs that occurred during the quarter and increased legal expenses, offset partially by reversals in the Company's management incentives that had been recorded during the first quarter of Fiscal 2008. The increase in percent of net revenues was due primarily to the reduced revenue dollars.

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Financial income decreased \$366,000, or 22.8 percent, for the quarter ended March 1, 2008. The decrease in financial income was due to lower average investment balances offset partially by higher rates earned on those investments.

The overall effective income tax rate increased to 31.8 percent for the quarter ended March 1, 2008 from 31.3 percent for the quarter ended February 24, 2007. The increase was a result of an increase in state taxes.

Net income decreased by 66.6 percent and income per diluted share decreased by 62.5 percent when comparing the quarter ended March 1, 2008 to the quarter ended February 24, 2007. The reason for the higher percentage decrease in net income compared to the percentage decrease in income per diluted share was due to a lower average number of shares of common stock outstanding during the quarter ended March 1, 2008, as a result of shares of common stock repurchased by the Company.

The Current Twenty-Seven Weeks Compared to Twenty-Six Weeks Last Year

The following is an analysis of changes in key items included in the consolidated statements of income for the twenty-seven weeks ended March 1, 2008 compared to the twenty-six weeks ended February 24, 2007.

| (In thousands, except percent and per share data) | Twenty-Seven | | Twenty-Six | | (Decrease) Increase | % | % |
|---|------------------|------------------|------------------|------------------|------------------------|---------|---|
| | Weeks Ended | | Weeks Ended | | | | |
| | March 1, 2008 | % of Revenues | Feb. 24, 2007 | % of Revenues | | | |
| Net revenues | \$379,345 | 100.0 | \$400,779 | 100.0 | \$(21,434) | (5.3) | |
| Cost of goods sold | 341,536 | 90.0 | 360,430 | 89.9 | (18,894) | (5.2) | |
| Gross profit | 37,809 | 10.0 | 40,349 | 10.1 | (2,540) | (6.3) | |
| Selling | 9,863 | 2.6 | 9,042 | 2.3 | 821 | 9.1 | |
| General and administrative | 11,908 | 3.1 | 11,807 | 2.9 | 101 | 0.9 | |
| Total operating expenses | 21,771 | 5.7 | 20,849 | 5.2 | 922 | 4.4 | |
| Operating income | 16,038 | 4.3 | 19,500 | 4.9 | (3,462) | (17.8) | |
| Financial income | 2,476 | 0.6 | 3,165 | 0.8 | (689) | (21.8) | |

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| | | | | | | | | |
|--|----------|-----|----------|-----|----------|---|-------|---|
| Income before income taxes | 18,514 | 4.9 | 22,665 | 5.7 | (4,151 |) | (18.3 |) |
| Provision for taxes | 6,035 | 1.6 | 7,197 | 1.8 | (1,162 |) | (16.1 |) |
| Net income | \$12,479 | 3.3 | \$15,468 | 3.9 | \$(2,989 |) | (19.3 |) |
| Diluted income per share | \$0.43 | | \$0.49 | | \$(0.06 |) | (12.2 |) |
| Fully diluted average shares outstanding | 29,245 | | 31,666 | | (2,421 |) | (7.6 |) |

Unit deliveries consisted of the following:

| | Twenty-Seven | | Twenty-Six | | | |
|-----------------------------|--------------|---------|-------------|---------|------------|---------|
| | Weeks Ended | | Weeks Ended | | | |
| | March 1, | Product | Feb. 24, | Product | (Decrease) | % |
| Motor home unit deliveries: | 2008 | Mix % | 2007 | Mix % | Increase | Change |
| Class A gas | 1,387 | 36.0 | 1,658 | 38.4 | (271 |) (16.3 |
| Class A diesel | 650 | 16.9 | 771 | 17.9 | (121 |) (15.7 |
| Total Class A | 2,037 | 52.9 | 2,429 | 56.3 | (392 |) (16.1 |
| Class B | 1 | | | | 1 | |
| Class C | 1,814 | 47.1 | 1,883 | 43.7 | (69 |) (3.7 |
| Total deliveries | 3,852 | 100.0 | 4,312 | 100.0 | (460 |) (10.7 |

Net revenues for the twenty-seven weeks ended March 1, 2008 decreased \$21.4 million, or 5.3 percent, primarily as a result of a 10.7 percent decrease in unit deliveries. Partially offsetting the revenue decline was an increase in our average selling price for motor homes of 5.3 percent.

Gross profit margin decreased to 10.0 percent for the twenty-seven weeks ended March 1, 2008 from 10.1 percent, or by \$2.5 million, for the twenty-six weeks ended February 24, 2007. The reduction in margin was primarily due to lower sales volume and additional promotional programs partially offset by increased pricing as compared to the prior period.

Selling expenses increased \$821,000, or 9.1 percent, for the twenty-seven weeks ended March 1, 2008. As a percent of net revenues, selling expenses were 2.6 percent and 2.3 percent for the twenty-seven weeks ended March 1, 2008 and twenty-six weeks ended February 24, 2007, respectively. The increases were primarily due to an increase in advertising expenses of \$628,000 and to the reduced revenue dollars.

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General and administrative expenses increased \$101,000, or 0.9 percent, for the twenty-seven weeks ended March 1, 2008. As a percent of net revenues, general and administrative expenses were 3.1 percent and 2.9 percent for the twenty-seven weeks ended March 1, 2008 and twenty-six weeks ended February 24, 2007, respectively. The increases were due primarily to severance-related costs and increased legal expense offset partially by reduced stock-based compensation and reversals of the management incentives recorded during the twenty-seven weeks ended March 1, 2008.

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Financial income decreased \$689,000, or 21.8 percent, for the twenty-seven weeks ended March 1, 2008. The decrease in financial income was due to lower average investment balances offset partially by higher rates earned on these investments.

The overall effective income tax rate increased to 32.6 percent for the twenty-seven weeks ended March 1, 2008 from 31.8 percent for the twenty-six weeks ended February 24, 2007. The increase was a result of an increase in state taxes.

Net income decreased by 19.3 percent and income per diluted share decreased by 12.2 percent when comparing the twenty-seven weeks ended March 1, 2008 to the twenty-six weeks ended February 24, 2007. The smaller percentage decrease in income per diluted share was due to a lower average number of shares of common stock outstanding during the twenty-seven weeks ended March 1, 2008, as a result of shares of common stock repurchased by the Company.

Analysis of Financial Condition, Liquidity and Resources

In prior fiscal years, we have generated substantial cash from operations, which has enabled us to meet our working capital needs and make appropriate investments in manufacturing equipment and facilities, as well as pay increased cash dividends and repurchase stock. Cash and cash equivalents totaled \$15.5 million and \$6.9 million as of March 1, 2008 and August 25, 2007, respectively.

Investments were \$50.8 million as of March 1, 2008 and \$102.7 million as of August 25, 2007. These investments were comprised of ARSs. For additional information on the Company's investments, please refer to Note 4.

Until February 2008, the ARS market was highly liquid. Starting the week of February 11, 2008, a substantial number of auctions failed, meaning that there was not enough demand to sell all of the securities that holders desired to sell at auction. From February 11, 2008 through our fiscal quarter end, March 1, 2008, we successfully sold \$5.8 million of our \$60 million portfolio. The securities for which auctions have failed will continue to accrue interest at the contractual rate and be auctioned generally every 35 days until the auction succeeds, the issuer calls the securities or they mature. We continue to believe that we will ultimately recover all amounts invested in these ARSs. Management does not believe that the current illiquidity of these securities will have a material impact on our ability to execute the current business plan.

Working capital at March 1, 2008 and August 25, 2007 was \$103.5 million and \$168.9 million, respectively, a decrease of \$65.4 million. We have no long-term debt. If necessary, we believe the Company would be able to obtain a revolving credit facility to provide additional cash to support our business plan. However, we currently expect our cash on hand and funds generated from operations to be sufficient to cover both short- and long-term operation requirements.

Operating Activities

Cash used in operating activities was \$12.6 million for the twenty-seven weeks ended March 1, 2008 compared to cash provided of \$13.1 million for the twenty-six weeks ended February 24, 2007. A significant increase in inventory of \$27.3 million for the six months ended March 1, 2008 was the primary reason for the cash used in operating activities. For the six months ended February 24, 2007, inventory and accounts receivables levels increased \$19.6 million. This was offset by an increase in accounts payable and accrued expenses of \$9.1 million and net income of \$15.5 million.

Investing Activities

Cash provided by investing activities was due to proceeds from the sale or maturity of investments for the twenty-seven weeks ended March 1, 2008, whereas during the twenty-six weeks ended February 24, 2007, the Company used cash to purchase investments.

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Financing Activities

The Company used cash for financing activities by repurchasing Company common stock and paying dividends during the twenty-seven weeks ended March 1, 2008. Conversely, during the twenty-six weeks ended February 24, 2007, the Company received cash for the exercise of stock options offset partially by the payment of cash dividends. (See Unaudited Condensed Consolidated Statements of Cash Flows.)

Anticipated Use of Funds

At March 1, 2008, estimated uses of our liquid assets for the remainder of Fiscal 2008 include \$7.0 million for payments of cash dividends (assuming dividends continue to be paid at the current rate and the number of outstanding shares does not change significantly from the number outstanding at March 1, 2008). We expect spending for capital expenditures will be approximately \$2 million for the remainder of Fiscal 2008.

On December 19, 2007, the Board of Directors declared a quarterly cash dividend of \$0.12 per common share which was paid on April 7, 2008 to shareholders of record as of March 7, 2008.

On March 26, 2008, the Board of Directors declared a quarterly cash dividend of \$0.12 per common share, payable July 8, 2008 to shareholders of record on June 6, 2008.

The total liability for uncertain tax positions under FIN 48 at March 1, 2008 was approximately \$21 million (refer to Note 7). We believe that it is reasonably possible that the total amount of unrecognized tax benefits as of March 1, 2008 will decrease by \$11.8 million within the next twelve months from expected settlements or payments of uncertain tax positions. As a result, we have classified this portion as a current liability.

Other than as noted above, there have been no material changes with respect to the contractual obligations as described in our 2007 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our investments are comprised of ARSs. These securities have historically traded at par and are callable at par at the option of the issuer. Interest is typically paid at the end of each auction period or semiannually. At March 1, 2008, the majority of the ARSs we held were AAA/Aaa rated with most collateralized by student loans guaranteed by the U.S. government under the Federal Family Education Loan Program and a majority of the remaining securities backed by monoline bond insurance companies. Until February 2008, the auction rate securities market was highly liquid. Starting the week of February 11, 2008, a substantial number of auctions failed, meaning that there was not enough demand to sell all of the securities that holders desired to sell at auction. The immediate effect of a failed auction is that such holders cannot sell the securities at auction and the interest rate on the security generally resets to a maximum auction rate. In the case of a failed auction, with respect to the ARSs held by the Company, the ARS is deemed not currently liquid. In the case of funds invested by the Company in ARSs which are the subject of a failed auction, we may not be able to access the funds without a loss of principal, unless a future auction on these investments is successful or the issuer calls the security pursuant to a mandatory tender or redemption prior to maturity.

The auction feature for each instrument is an opportunity to accept the reset rate or liquidate the instrument at its face value. In the past, the auction process has allowed investors to roll over their holdings or obtain immediate liquidity by selling the securities at par. We do not intend to hold these securities to maturity, but rather to use the auction feature to provide liquidity as the auction process permits. We continue to believe that we will ultimately recover all amounts invested in these ARSs. We have no reason to believe that any of the underlying issuers of our auction rate securities are presently at risk of default. However, the above recent developments have resulted in the classification of all of these securities as long-term investments in our consolidated financial statements and a temporary impairment of \$3.4 million or 6 percent of our initial investment. If we are unable to successfully sell the ARS we hold at auction and the issuers' credit ratings deteriorate, we may, in the future, be required to record additional impairment charges on these investments. We believe we will ultimately be able to liquidate our investment without significant loss primarily due to the collateral securing most of the ARSs. However, it could take until final maturity of the ARS (up to 33 years) to realize our investments' par value.

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Item 4. Controls and Procedures.

As of the end of the period covered by this report, we, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Securities Exchange Act of 1934, as amended (the Exchange Act) Rule 13a-15(f). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's (SEC) rules and forms.

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We, including the Chief Executive Officer and the Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f). We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of March 1, 2008. During our assessment, we did not identify any material weaknesses in our internal control over financial reporting.

There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls over financial reporting subsequent to the date we carried out its evaluation.

In connection with the evaluation of internal control over financial reporting described above, no changes in our internal control over financing reporting were identified that occurred during the first or second quarters of Fiscal 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Winnebago Industries, Inc.

Forest City, Iowa

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We have reviewed the accompanying condensed consolidated balance sheet of Winnebago Industries, Inc. and subsidiaries (the Company) as of March 1, 2008, and the related condensed consolidated statements of income for the thirteen and twenty-seven weeks ended March 1, 2008 and the thirteen and twenty-six weeks ended February 24, 2007 and the related condensed consolidated statements of cash flows for the twenty-seven weeks ended March 1, 2008 and the twenty-six weeks ended February 24, 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the condensed consolidated interim financial statements, the Company changed its method of accounting for unrecognized tax benefits to conform to *Statement of Financial Accounting Standards Interpretation No. 48* effective August 26, 2007.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of August 25, 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated October 22, 2007, we expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Minneapolis, Minnesota

April 8, 2008

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in various legal proceedings which are ordinary routine litigation incident 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 are of the opinion that while the final resolution of any such litigation may have an impact on our consolidated 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.

Other than with respect to the risk factor below, there have been no material changes from the risk factors previously disclosed on Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended August 25, 2007.

Auction Rate Securities

Our investments are comprised of ARSs. The securities have historically traded at par and are callable at par on any interest payment date at the option of the issuer. Interest is typically paid at the end of each auction period or semiannually. At the end of the fiscal quarter, the majority of the ARSs we held were AAA/Aaa rated with most collateralized by student loans guaranteed by the U.S. government under the Federal Family Education Loan Program and a majority of the remaining securities backed by monoline bond insurance companies. Until February 2008, the auction rate securities market was highly liquid. Starting the week of February 11, 2008, a substantial number of auctions failed, meaning that there was not enough demand to sell all of the securities that holders desired to sell at auction. In the case of a failed auction, with respect to the ARSs held by the Company, the ARS is deemed not currently liquid. In the case of funds invested by the Company in ARSs which are the subject of a failed auction, we may not be able to access the funds without a loss of principal, unless a future auction on these investments is successful or the issuer calls the security pursuant to a mandatory tender or redemption prior to maturity.

The auction feature for each instrument is an opportunity to accept the reset rate or sell the instrument at its face value. In the past, the auction process has allowed investors to roll over their holdings or obtain immediate liquidity by selling the securities at par. We do not intend to hold these securities to maturity, but rather to use the auction feature to provide liquidity as the auction process permits. We continue to believe that we will ultimately recover all amounts invested in these ARSs. We have no reason to believe that any of the issuers of our ARS investments are presently at risk of default. However, the above recent developments have resulted in the classification of all of these securities as long-term investments in our consolidated financial statements and a temporary impairment as detailed in Note 4. If we are unable to successfully sell the ARS we hold at auction and the issuers' credit ratings deteriorate, we may, in the future, be required to record additional impairment charges on these investments.

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

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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. As of March 1, 2008, there had been no repurchases under this authorization.

Item 4. **Submission of Matters to a Vote of Security Holders.**

(a) The Annual Meeting of Shareholders was held December 18, 2007.

(b) Jerry N. Currie, Lawrence A. Erickson and John E. Herlitz were elected directors at the Annual Meeting. Directors whose terms continued after the shareholders meeting:

| | |
|-------------------|--------|
| John V. Hanson | (2008) |
| Bruce D. Hertzke | (2008) |
| Gerald C. Kitch | (2008) |
| Irvin E. Aal | (2009) |
| Joseph W. England | (2009) |

() Represents year of Annual Meeting that individual's term will expire.

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(c) The breakdown of votes for the election of three directors was as follows:*

| | Votes Cast For | Authority Withheld |
|-----------------------------|-----------------------|---------------------------|
| Jerry N. Currie (2010) | 23,166,573 | 2,471,547 |
| Lawrence A. Erickson (2010) | 24,816,887 | 821,233 |
| John E. Herlitz (**) | 23,166,373 | 2,471,747 |

* There were no broker nonvotes.

** An 8-K filed on March 25, 2008 reported that John E. Herlitz, an independent director of Winnebago Industries, Inc., died on March 23, 2008. The Board of Directors of the Company has made no decision to when the resulting vacancy will be filled.

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Company's proposal regarding ratification of the appointment of Deloitte & Touche, LLP, as our independent registered public accountants for the fiscal year ending August 30, 2008.*

| Votes Cast for | Votes Cast Against | Abstentions |
|-----------------------|---------------------------|--------------------|
| 24,855,368 | 773,446 | 9,306 |

* There were no broker nonvotes.

Item 6. **Exhibits.**

(a) Exhibits See Exhibit Index on page 22.

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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 April 8, 2008

/s/ Bruce D. Hertzke
Bruce D. Hertzke

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

Date April 8, 2008

/s/ Sarah N. Nielsen
Sarah N. Nielsen

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Exhibit Index

- 15. Letter regarding Unaudited Interim Financial Information.

- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated April 8, 2008.

- 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated April 8, 2008.

- 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 April 8, 2008.

- 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 April 8, 2008.

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