WINNEBAGO INDUSTRIES INC
Form 10-Q
December 29, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 26, 2016
or

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

For the transition period from _________________ to _________________

Commission File Number: 001-06403

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

Iowa	42-0802678
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P. O. Box 152, Forest City, Iowa	50436
	(Zip Code)

(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
The number of shares of common stock, par value $0.50 per share, outstanding December 28, 2016 was 31,582,687.

Winnebago Industries, Inc.
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Glossary

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

ABL	Credit Agreement dated as of November 8, 2016 among Winnebago Industries, Inc., Winnebago of Indiana, LLC, Grand Design RV, LLC, the Other Loan Parties thereto and JPMorgan Chase Bank, N.A. as Administrative Agent
AOCI	Accumulated Other Comprehensive Income (Loss)
Amended Credit Agreement	Credit Agreement dated as of May 28, 2014 by and between Winnebago Industries, Inc. and Winnebago of Indiana, LLC, as Borrowers, and Wells Fargo Capital Finance, as Agent; terminated on November 8, 2016
ASC	Accounting Standards Codification
ASP	Average Sales Price
ASU	Accounting Standards Update
Credit Facility	Collective reference to the ABL and Term Loan
EBITDA	Earnings Before Income Taxes, Depreciation and Amortization
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
FASB	Financial Accounting Standards Board
FIFO	First In, First Out
GAAP	Generally Accepted Accounting Principles
Grand Design	Grand Design RV, LLC
IRS	Internal Revenue Service
IT	Information Technology
LIFO	Last In, First Out
LIBOR	London Interbank Offered Rate
Motorized	Business segment including motorhomes and other related manufactured products
NMF	Non-Meaningful Figure
NYFRB	New York Federal Reserve Bank
NYSE	New York Stock Exchange
OCI	Other Comprehensive Income
RV	Recreation Vehicle
RVIA	Recreation Vehicle Industry Association
SPA	Securities Purchase Agreement dated October 2, 2016
SEC	U.S. Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
Stat Surveys	Statistical Surveys, Inc.
Term Loan	Loan Agreement dated as of November 8, 2016 among Winnebago Industries, Inc., Octavius Corporation, the other loan parties thereto and JPMorgan Chase Bank, N.A. as Administrative Agent
Towable	Business segment including products which are not motorized and are towable by another vehicle
US	United States of America
XBRL	eXtensible Business Reporting Language

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

(In thousands, except per share data)	Three Months Ended November 26, 2016	November 28, 2015
Net revenues	$245,308	$ 214,223
Cost of goods sold	216,433	188,974
Gross profit	28,875	25,249
Operating expenses:		
Selling	5,870	5,015
General and administrative	9,906	8,820
Postretirement health care benefit income	(12,813)	(1,345)
Transaction costs	5,462	—
Amortization of intangible assets	2,051	—
Total operating expenses	10,476	12,490
Operating income	18,399	12,759
Interest expense	1,128	—
Non-operating income	(87)	(135)
Income before income taxes	17,358	12,894
Provision for income taxes	5,620	4,336
Net income	$11,738	$ 8,558
Income per common share:		
Basic	$0.42	$ 0.32
Diluted	$0.42	$ 0.32
Weighted average common shares outstanding:		
Basic	27,836	26,976
Diluted	27,969	27,067
Dividends paid per common share	$0.10	$ 0.10
Net income	$11,738	$ 8,558
Other comprehensive (loss) income:		
Amortization of prior service credit (net of tax of $7,914 and $653)	(12,858)	(1,060)
Amortization of net actuarial loss (net of tax of $3,036 and $142)	4,932	231
Plan amendment (net of tax of $2,402 and $10,895)	3,903	17,701
Total other comprehensive (loss) income	(4,023)	16,872
Comprehensive income	$7,715	$ 25,430

See notes to condensed consolidated financial statements.

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Winnebago Industries, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands, except per share data)	November 26, 2016	August 27, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 25,584	$ 85,583
Receivables, less allowance for doubtful accounts ($238 and $278)	81,762	66,184
Inventories	155,446	122,522
Prepaid expenses and other assets	10,561	6,300
Total current assets	273,353	280,589
Property, plant and equipment, net	66,703	55,931
Other assets:		
Goodwill	251,210	1,228
Other intangible assets, net	251,049	—
Investment in life insurance	26,653	26,492
Deferred income taxes	7,706	18,753
Other assets	6,021	7,725
Total assets	$ 882,695	$ 390,718
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 50,971	$ 44,134
Current maturities of long-term debt	7,578	—
Income taxes payable	3,541	19
Accrued expenses:		
Accrued compensation	20,452	19,699
Product warranties	24,551	12,412
Self-insurance	6,037	5,812
Accrued loss on repurchases	1,340	881
Promotional	8,078	4,756
Other	5,919	5,236
Total current liabilities	128,467	92,949
Non-current liabilities:		
Long-term debt, less current maturities	334,742	—
Unrecognized tax benefits	2,066	2,461
Deferred compensation and postretirement health care benefits, net of current portion	19,961	26,949
Total non-current liabilities	356,769	29,410
Shareholders' equity:		
Capital stock common, par value $0.50; authorized 60,000 shares, issued 51,776 shares	25,888	25,888
Additional paid-in capital	78,941	32,717
Retained earnings	629,099	620,546
Accumulated other comprehensive income	6,952	10,975
Treasury stock, at cost (20,230 and 24,875 shares)	(343,421)	(421,767)
Total shareholders' equity	397,459	268,359
Total liabilities and shareholders' equity	$ 882,695	$ 390,718

See notes to condensed consolidated financial statements.

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

(In thousands)	Three Months Ended November 26, 2016	November 28, 2015
Operating activities:		
Net income	$11,738	$ 8,558
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,580	1,370
Amortization of intangible assets	2,051	—
Amortization of debt issuance costs	78	—
LIFO expense (income)	299	(90)
Stock-based compensation	821	623
Deferred income taxes	(1,613)	382
Postretirement benefit income and deferred compensation expense	(12,471)	(777)
Other	(271)	(295)
Change in assets and liabilities:		
Inventories	(17,923)	(24,109)
Receivables, prepaid and other assets	16,080	7,366
Income taxes and unrecognized tax benefits	8,200	1,254
Accounts payable and accrued expenses	(7,977)	(1,375)
Postretirement and deferred compensation benefits	(742)	(970)
Net cash used in operating activities	(150)	(8,063)
Investing activities:		
Purchases of property, plant and equipment	(3,562)	(3,109)
Proceeds from the sale of property	—	5
Acquisition of business, net of cash acquired	(394,835)	—
Proceeds from life insurance	—	295
Other	901	(220)
Net cash used in investing activities	(397,496)	(3,029)
Financing activities:		
Payments for repurchases of common stock	(1,318)	(705)
Payments of cash dividends	(3,185)	(2,730)
Payments of debt issuance costs	(10,758)	—
Borrowings on credit facility	353,000	—
Other	(92)	9
Net cash provided by (used in) financing activities	337,647	(3,426)
Net decrease in cash and cash equivalents	(59,999)	(14,518)
Cash and cash equivalents at beginning of period	85,583	70,239
Cash and cash equivalents at end of period	$25,584	$ 55,721
Supplement cash flow disclosure:		
Income taxes paid, net	$121	$ 2,675
Non-cash transactions:		
Issuance of Winnebago common stock for acquisition of business	$124,066	$ —

Capital expenditures in accounts payable	$695	$ 826

See notes to condensed consolidated financial statements.

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

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

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly our consolidated financial position as of November 26, 2016 and the consolidated results of income and comprehensive income and consolidated cash flows for the first three months of Fiscal 2017 and 2016. The consolidated statement of income and comprehensive income for the first three months of Fiscal 2017 is not necessarily indicative of the results to be expected for the full year. These interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the fiscal year ended August 27, 2016.

Fiscal Period
We follow a 52-/53-week fiscal year, ending the last Saturday in August. Both Fiscal 2017 and Fiscal 2016 are 52-week years.

Goodwill and Indefinite-Lived Intangible Assets
Goodwill resulted primarily from the Grand Design business combination and represents the excess of the purchase price over the fair value of tangible assets and identifiable intangible assets and liabilities assumed. Annually in the fourth quarter, or if conditions indicate an interim review is necessary, we assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount and if it is necessary to perform the quantitative two-step goodwill impairment test. If we perform the quantitative test, we compare the carrying value of the reporting unit to an estimate of the reporting unit’s fair value to identify potential impairment. The estimate of the reporting unit’s fair value is determined by weighting a discounted cash flow model and a market-related model using current industry information that involve significant unobservable inputs (Level 3 inputs). In determining the estimated future cash flow, we consider and apply certain estimates and judgments, including current and projected future levels of income based on management’s plans, business trends, prospects and market and economic conditions and market-participant considerations. If the estimated fair value of the reporting unit is less than the carrying value, a second step is performed to determine the amount of the potential goodwill impairment. If impaired, goodwill is written down to its estimated implied fair value.

As of November 26, 2016, we had an indefinite-lived intangible asset for trade name of $148.0 million, from the Grand Design acquisition. Annually in the fourth quarter, or if conditions indicate an interim review is necessary, we assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If we perform a quantitative test, projections regarding estimated discounted future cash flows and other factors are made to determine if impairment has occurred. These assumptions require

significant judgment and actual results may differ from assumed and estimated amounts. If we conclude that there has been impairment, we will write down the carrying value of the asset to its fair value.

Other Intangible and Long-Lived Assets

Long-lived assets, which include property, plant and equipment, and definite-lived intangible assets, primarily the dealer network, are assessed for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. The impairment testing involves comparing the carrying amount of the asset to the forecasted undiscounted future cash flows generated by that asset. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts. In the event the carrying amount of the asset exceeds the undiscounted future cash flows generated by that asset and the carrying amount is not considered recoverable, an impairment exists. An impairment loss is measured as the excess of the asset's carrying amount over its fair value and is recognized in the statement of income in the period that the impairment occurs. The dealer network is amortized over its estimated useful life of 12 years. The reasonableness of the useful lives of this asset and other long-lived assets is regularly evaluated.

There was no impairment loss for the period ended November 26, 2016 for goodwill, indefinite-lived intangible, or long-lived assets.

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Debt Issuance Costs
We incurred $0.8 million of costs related to our revolving credit agreement that are being amortized on a straight-line basis over the five year term of the agreement. We incurred $10.0 million of costs related to the Term Loan that are being amortized on a straight-line basis (which is not materially different from an effective interest method) over the seven year term of the agreement. If early principal payments are made on the Term Loan, a proportional portion of the unamortized issuance costs will be expensed.

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

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Topic 835), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. We adopted the standard during the first quarter of FY 2017 and, accordingly have presented unamortized debt issuance costs of $1.4 million as a direct reduction of Current maturities of long-term debt and $9.3 million as a direct reduction of Long-term debt, less current maturities on the Consolidated Balance Sheet as of November 26, 2016.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330), which requires inventory measured using any method other than last-in, first-out (“LIFO”) or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Under this ASU, subsequent measurement of inventory using the LIFO and retail inventory method is unchanged. ASU 2015-11 will become effective prospectively for fiscal years beginning after December 15, 2016 (our Fiscal 2018). We are currently evaluating the impact of this ASU on our consolidated financial statements and do not expect adoption to have a material impact.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805), to simplify the accounting for measurement-period adjustments in a business combination. Under the new standard, an acquirer must recognize adjustments to provisional amounts in a business combination in the reporting period in which the adjustment amounts are determined, rather than retrospectively adjusting the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill as under current guidance. ASU 2015-16 is effective prospectively for fiscal years, and the interim periods within those years, beginning after December 15, 2015 (our Fiscal 2017). We adopted this standard on August 28, 2016 and there was no impact from this standard for the three months ended November 26, 2016.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. The new standard is effective retrospectively or on a modified retrospective basis for fiscal years beginning after December 15, 2018 (our Fiscal 2020), including interim periods within those annual reporting periods. Early adoption is permitted. We are currently evaluating the impact of adopting this ASU on our consolidated financial statements.

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

currently evaluating the impact of this ASU on our consolidated financial statements and do not expect adoption to have a material impact.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230), which provides guidance for eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective retrospectively for annual reporting periods beginning after December 15, 2017 (our Fiscal 2019), including interim periods within those annual reporting periods. Early adoption is permitted. We are currently evaluating the impact of this ASU on our consolidated financial statements.

Note 2: Business Combination, Goodwill and Other Intangible Assets

We acquired 100% of the ownership interests of Grand Design on November 8, 2016 in accordance with the Securities Purchase Agreement for an aggregate purchase price of $520.6 million, which was paid in cash and Winnebago shares as follows:

(In thousands, except shares)	November 8, 2016
Cash	$ 396,583
Winnebago shares: 4,586,555 at $27.05 per share	124,066
Total	$ 520,649

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The cash portion was funded from cash on hand and borrowings under our ABL and Term Loan agreements. The stock was valued using our share price on the date of closing.
The acquisition has been accounted for in accordance with ASC Topic 805, Business Combinations, using the acquisition method of accounting. Under the acquisition method of accounting, the total purchase price was allocated to the net tangible and intangible assets of Grand Design acquired, based on their fair values at the date of the acquisition. The estimated fair values are preliminary and based on the information that was available as of the date of the acquisition. We believe that the information provides a reasonable basis for estimating the fair values, but we are waiting for additional information necessary to finalize these amounts, particularly with respect to the estimated fair value of intangible assets, finalization of net working capital as defined in the SPA and income taxes. Thus, the preliminary measurements of fair value reflected are subject to changes and such changes could be significant. We expect to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date. The preliminary allocation of the purchase price to assets acquired and liabilities assumed is as follows:

(in thousands)	November 8, 2016
Cash	$ 1,748
Accounts receivable	32,834
Inventories	15,300
Prepaid expenses and other assets	2,161
Property, plant and equipment	8,998
Goodwill	249,981
Other intangible assets	253,100
Total assets acquired	564,122
Accounts payable	11,151
Accrued compensation	3,615
Product warranties	12,904
Promotional	3,976
Other	1,569
Deferred tax liabilities	10,258
Total liabilities assumed	43,473
Total purchase price	$ 520,649

The acquisition of 100% of the ownership interests of Grand Design occurred in two steps: (1) direct purchase of 89.34% of Grand Design member interests and (2) simultaneous acquisition of the remaining 10.66% of Grand Design member interests via the purchase of 100% of the shares of SP GE VIII-B GD RV Blocker Corp. (Blocker Corp) which held the remaining 10.66% of the Grand Design member interests. We agreed to acquire Blocker Corp as part of the Securities Purchase Agreement and we will not receive a step-up in basis for 10.66% of the Grand Design assets. As a result, we established a deferred tax liability of $10.3 million on the opening balance sheet that primarily related to intangibles that will not be amortizable for tax purposes.

The goodwill recognized is primarily attributable to the value of the workforce, reputation of founders, customer and dealer growth opportunities and expected synergies. Key areas of cost synergies include increased purchasing power for raw materials, and supply chain consolidation. Goodwill is expected to be mostly deductible for tax purposes. The goodwill resulting from the acquisition of Grand Design increased total goodwill to $251.2 million within the Towable segment as of November 26, 2016 from $1.2 million as of August 27, 2016.

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The allocation of the purchase price to the net assets acquired and liabilities assumed resulted in the recognition of intangible assets with fair value on closing date of November 8, 2016 and amortization accumulated from closing date through November 26, 2016 as follows:

(in thousands)	Weighted Average Life-Years	Fair Value Amount	Accumulated Amortization
Trade name	Indefinite	$148,000	$ —
Dealer network	12.0	80,500	331
Backlog	0.5	18,000	1,639
Non-compete agreements	4.0	4,600	69
Leasehold interest-favorable	8.1	2,000	12
Total		253,100	$ 2,051
Accumulated amortization		(2,051)	
Net book value of intangible assets		$251,049	

The fair value of the trade name and dealer network were estimated using an income approach. Under the income approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. The fair value of the trade name was estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on the hypothetical royalty stream that would be received if we were to license the trade name and was based on expected revenues. The fair value of the dealer network was estimated using an income approach, specifically the cost to recreate/cost savings method. This method uses the replacement of the asset as an indicator of the fair value of the asset. The useful life of the intangible assets was determined considering the period of expected cash flows used to measure the fair value of the intangible assets adjusted as appropriate for the entity-specific factors including legal, regulatory, contractual, competitive, economic or other factors that may limit the useful life of intangible assets.

For the three months ended November 26, 2016 and November 28, 2015, amortization of intangible assets charged to operations was $2.1 million and $0, respectively. The weighted average remaining amortization period for intangible assets as of November 26, 2016 was approximately 9.8 years. Remaining estimated aggregate annual amortization expense by fiscal year is as follows:

(in thousands)	Amount
Remainder of 2017	$22,610
2018	7,854
2019	7,733
2020	7,733
2021	7,733
2022	7,106
Thereafter	42,280

Within the Towable segment, the results of Grand Design's operations have been included in our consolidated financial statements from the close of the acquisition. The following table provides net revenues and operating income (which includes amortization expense) from the Grand Design business included in our consolidated results during the three months ended November 26, 2016 following the November 8, 2016 closing date:

(in thousands)	Three Months Ended November 26, 2016
Net revenues	$ 25,836
Operating income	760

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Unaudited pro forma information has been prepared as if the acquisition had taken place on August 30, 2015. The unaudited pro forma information is not necessarily indicative of the results that we would have achieved had the transaction actually taken place on August 30, 2015, and the unaudited pro forma information does not purport to be indicative of future financial operating results. The unaudited pro forma condensed consolidated financial information does not reflect any operating efficiencies and cost savings that may be realized from the integration of the acquisitions. Unaudited pro forma information for the three months ended November 26, 2016 and November 28, 2015 is as follows:

(In thousands, except per share data)	Three Months Ended	
	November 26, 2016	November 28, 2015
Net revenues	$340,975	$ 300,383
Net income	20,269	1,197
Income per share - basic	0.64	0.04
Income per share - diluted	0.64	0.04

The unaudited pro forma data above includes the following significant non-recurring adjustments made to account for certain costs which would have changed if the acquisition of Grand Design had been completed on August 30, 2015:

(In thousands)	Three Months Ended	
	November 26, 2016	November 28, 2015
Amortization of intangibles (1 year or less useful life)	$(1,941)	$ 8,708
Increase in amortization of intangibles	1,551	1,933
Expenses related to business combination (transaction costs) [1]	(5,519)	5,840
Interest to reflect new debt structure	3,672	4,958
Taxes related to the adjustments to the pro forma data and to the income of Grand Design	5,011	(4,323)

[1] Pro forma transaction costs include $0.1 million incurred by Grand Design prior to acquisition.

We incurred approximately $5.8 million of acquisition-related costs, of which $5.5 million were expensed during the three months ended November 26, 2016 and $0.3 million were expensed in the three months ended August 27, 2016.

Note 3: Business Segments

We report segment information based on the "management" approach defined in ASC 280, Segment Reporting. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable operating segments.

In the first quarter of Fiscal 2017, we revised our reporting segments. Previously we had one reporting segment which included all recreational vehicle products and services. With the acquisition of Grand Design in the first quarter, we expanded the number of reporting segments to two: (1) Motorized products and services and (2) Towable products and services. The Towable segment includes all products which are not motorized and are generally towed by another vehicle. The Motorized segment includes all products that include a motorized chassis as well as other related manufactured products. Prior year segment information has been restated to conform to the current reporting segment presentation.

We manage our business on a product basis. Each reportable segment is managed separately to better align to our customers, distribution partners and the unique market dynamics of the product groups. We have aggregated two operating segments into the Towable reporting segment based upon their similar products, customers, distribution methods, production processes and economic characteristics. The accounting policies of both reportable segments are the same and described in Note 1, "Summary of Significant Accounting Policies" in our annual report on Form 10-K

for the year ended August 27, 2016.

We evaluate the performance of our reportable segments based on Adjusted EBITDA. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization and other adjustments made in order to present comparable results from period to period. These types of adjustments are also specified in the definition of certain measures required under the terms of our credit facility. Examples of items excluded from Adjusted EBITDA include the postretirement health care benefit results from terminating the plan and the transaction costs related to our acquisition of Grand Design.

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The following table shows information by reporting segment for the first quarter of Fiscal 2017 and Fiscal 2016:

(In thousands)	Three Months Ended November 26, 2016	Three Months Ended November 28, 2015
Net revenues		
Motorized	$195,125	$ 197,340
Towable	50,183	16,883
Consolidated	$245,308	$ 214,223
Adjusted EBITDA		
Motorized	$10,015	$ 11,724
Towable	4,664	1,060
Consolidated	$14,679	$ 12,784
Capital Expenditures		
Motorized	$3,146	$ 2,872
Towable	416	237
Consolidated	$3,562	$ 3,109
Total Assets		
Motorized	$307,125	$ 329,081
Towable	575,570	25,251
Consolidated	$882,695	$ 354,332

Reconciliation of net income to consolidated Adjusted EBITDA:

(In thousands)	Three Months Ended November 26, 2016	Three Months Ended November 28, 2015
Net income	$11,738	$ 8,558
Interest expense	1,128	—
Provision for income taxes	5,620	4,336
Depreciation	1,580	1,370
Amortization of intangible assets	2,051	—
EBITDA	22,117	14,264
Postretirement health care benefit income	(12,813)	(1,345)
Transaction costs	5,462	—
Non-operating income	(87)	(135)
Adjusted EBITDA	$14,679	$ 12,784

Note 4: Concentration Risk

One of our dealer organizations accounted for 14.2% of our consolidated net revenues for both the first three months of Fiscal 2017 and Fiscal 2016. A second dealer organization accounted for 13.7% and 20.9% of our consolidated net revenues for the first three months of Fiscal 2017 and Fiscal 2016, respectively. This second dealer declined on a relative basis due to the growth of other dealers and due to the addition of Grand Design revenue in the first quarter of Fiscal 2017. The loss of either or both of these dealer organizations could have a significant adverse effect on our business. In addition, deterioration in the liquidity or creditworthiness of these dealers could negatively impact our sales and could trigger repurchase obligations under our repurchase agreements.

Note 5: Investments and Fair Value Measurements

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

We account for fair value measurements in accordance with ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurement. The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input

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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 November 26, 2016 and August 27, 2016 according to the valuation techniques we used to determine their fair values:

		Fair Value Measurements Using Inputs Considered As		
(In thousands)	Fair Value at November 26, 2016	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Cash equivalents [1]	$ —	$—	$ —	$ —
Assets that fund deferred compensation:				
Domestic equity funds	3,482	3,395	87	—
International equity funds	243	203	40	—
Fixed income funds	272	201	71	—
Total assets at fair value	$ 3,997	$3,799	$ 198	$ —

		Fair Value Measurements Using Inputs Considered As		
(In thousands)	Fair Value at August 27, 2016	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Cash equivalents [1]	$77,234	$77,234	$ —	$ —
Assets that fund deferred compensation:				
Domestic equity funds	3,587	3,515	72	—
International equity funds	258	225	33	—
Fixed income funds	265	206	59	—
Total assets at fair value	$81,344	$81,180	$ 164	$ —

(1) Cash equivalent balances valued using Level 1 inputs include only those accounts that may fluctuate in value. Cash in disbursing accounts and on-demand accounts are not included above.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:
Cash Equivalents
The carrying value of cash equivalents approximates fair value as original maturities are less than three months. Our cash equivalents are comprised of money market funds traded in an active market with no restrictions and are included

in cash and cash equivalents on the accompanying consolidated balance sheets.

Assets that Fund Deferred Compensation

Our assets that fund deferred compensation are marketable equity securities measured at fair value using quoted market prices and primarily consist of equity-based mutual funds. The majority of securities are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available. These securities fund the Executive Share Option Plan and the Executive deferred compensation plan (see Note 10). The proportion of the assets that will fund options which expire within a year are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets. The remaining assets are classified as noncurrent and are included in other assets.

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

Our non-financial assets, which include goodwill, intangible assets, and property, plant and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required, we must evaluate the non-financial asset for impairment. If an impairment did occur, the asset is required to be recorded at the estimated fair value. During the first three months of Fiscal 2017, no impairments were recorded for non-financial assets.

The carrying value of our debt as of November 26, 2016 approximates fair value as interest is at variable market rates.

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Note 6: Inventories

Inventories consist of the following:

(In thousands)	November 26, 2016	August 27, 2016
Finished goods	$ 41,175	$ 19,129
Work-in-process	76,569	76,350
Raw materials	71,698	60,740
Total	189,442	156,219
LIFO reserve	(33,996)	(33,697)
Total inventories	$ 155,446	$ 122,522

The above value of inventories, before reduction for the LIFO reserve, approximates replacement cost at the respective dates. Of the $189.4 million and $156.2 million inventory at November 26, 2016 and August 27, 2016, respectively, $165.6 million and $149.4 million is valued on a LIFO basis; the remaining inventories of $23.8 million and $6.8 million at November 26, 2016 and August 27, 2016, respectively, are valued on a FIFO basis.

Note 7: Property, Plant and Equipment

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

(In thousands)	November 26, 2016	August 27, 2016
Land	$ 4,047	$ 3,864
Buildings and building improvements	69,329	62,073
Machinery and equipment	98,285	95,087
Software	17,396	15,878
Transportation	9,153	8,956
Total property, plant and equipment, gross	198,210	185,858
Less accumulated depreciation	(131,507)	(129,927)
Total property, plant and equipment, net	$ 66,703	$ 55,931

On November 8, 2016, with the acquisition of Grand Design, we acquired $9.0 million of property, plant and equipment.

Note 8: Warranty

We provide service and warranty policies on our products. From time to time, we also voluntarily incur costs for certain warranty-type expenses occurring after the normal warranty period to help protect the reputation of our products and the goodwill of our customers. Warranty expense is affected by dealership labor rates, the cost of parts and the frequency of claims. Estimated costs related to product warranty are accrued at the time of sale and are based upon historical warranty and service claims experience. Adjustments are made to accruals as claim data and cost experience becomes available.

Changes in our product warranty liability are as follows:

(In thousands)	Three Months Ended	
	November 26, 2016	November 28, 2015
Balance at beginning of period	$ 12,412	$ 11,254
Provision	3,898	3,594
Claims paid	(4,663)	(3,263)
Acquisition of Grand Design	12,904	—
Balance at end of period	$ 24,551	$ 11,585

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Note 9: Long-Term Debt

The components of long-term debt are as follows:

(In thousands)	November 26, 2016	August 27, 2016
ABL	$ 53,000	$ —
Term Loan	300,000	—
	353,000	—
Less: debt issuance cost, net	(10,680)	—
	342,320	—
Less: current maturities	(7,578)	—
Long-term debt, less current maturities	$ 334,742	$ —

On November 8, 2016, we entered into the ABL and Term Loan agreements with JPMorgan Chase. The Credit Facility replaced the prior Amended Credit Agreement which was terminated that same day. Under the terms of the Credit Facility, we have a $125.0 million ABL credit facility and a $300.0 million Term Loan.
Under the ABL agreement, we have a five year credit facility available on a revolving basis, subject to availability under a borrowing base consisting of 85% of eligible accounts receivable and generally 75% of eligible inventory. The line is available for issuance of letters of credit to a specified limit of $10.0 million.
Under the ABL agreement, to determine interest due, we can elect to base the rate on the alternate base rate (prime rate, NYFRB rate or adjusted LIBOR for one-month period) plus 0.5% to 1.0%, depending on the amount of borrowings outstanding, or an adjusted LIBOR rate for a period of one, two, three or six months as selected by us plus 1.50% to 2.0%, depending on the amount of borrowings outstanding. The interest rate we paid as of November 26, 2016 was 2.4%. We also pay a commitment fee equal to 0.375% if the average utilized portion is less than or equal to 50%, or 0.25% if the utilized portion is greater than 50%.
Under the Term Loan agreement, we have a seven year credit facility repayable in quarterly installments in an aggregate amount equal to 1.0% of the original amount of the Term Loan on March 31, June 30 and September 30, 2017; 1.25% each calendar quarter end thereafter; with the balance payable at the end of seven years on November 8, 2023. There are mandatory prepayments for proceeds of new debt, sale of significant assets or subsidiaries and annually for 50% of excess cash flow beginning with Fiscal 2017 (the 50% is subject to step-downs to 25% and 0% if the total net leverage ratio, as defined in the Term Loan agreement, is less than 2.5 to 1.00 and 2.0 to 1.00, respectively, as of the last day of the period). Incremental term loans of up to $125.0 million are available if certain financial ratios and other conditions are met.
Under the Term Loan agreement, to determine interest due, we can elect to base the rate on the alternate base rate (prime rate, NYFRB rate or adjusted LIBOR for one-month period with a floor of 2%) plus 3.50% or an adjusted LIBOR rate for the interest period selected plus 4.50%. The interest rate as of November 26, 2016 was 5.5%.
Under the Credit Facility, we are required to enter into a hedging arrangement to effectively fix the LIBOR component of interest cost at the prevailing swap rate with a notional amount of at least 50% of the projected outstanding principal amount of the Term Loan. The hedging arrangement needs to be maintained until the later of 3 years from closing date or the date the leverage ratio is less than 2.0 to 1.0. In accordance with this requirement, we plan to enter into interest swap contracts in January 2017.
The Term Loan includes financial covenants requiring that the fixed charge coverage ratio at the end of any four fiscal quarters be not less than 1.0 to 1.0, defined as consolidated EBITDA (as defined) less capital expenditures (as defined), over fixed charges, generally defined as cash interest, cash income taxes, principal payments on loans, and dividends, and that the senior secured net leverage ratio at the end of each fiscal quarter be not greater than 3.5 to 1.0 prior to the fiscal quarter ending November 24, 2018 and 3.25 to 1.0 for each quarter thereafter, defined generally as the ratio of total secured indebtedness minus cash and permitted investments, to consolidated EBITDA (as defined). The ABL generally contain similar covenants, and include restrictions on indebtedness, liens, mergers, consolidations, investments, guarantees, acquisitions, sales of assets, and transactions with affiliates. Dividends, redemptions and

other payments on equity are generally limited to $20.0 million in any fiscal year; higher amounts may be paid if the total net leverage ratio does not exceed 3.0 to 1.0. Customary events of default (with customary grace periods, notice and cure periods and thresholds) include payment default, breach of representation in any material respect, breach of covenants, default to material indebtedness, bankruptcy, ERISA violations, material judgments, change in control and termination of invalidity of guaranty or security documents. As of November 26, 2016, we are in compliance with the financial covenants of the Credit Facility agreements.
The ABL and Term Loan are guaranteed by Winnebago Industries, Inc. and all material direct and indirect domestic subsidiaries, and are secured by a security interest in all property of ours, except minor excluded assets.

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As of November 26, 2016, $10.8 million of debt issuance costs, net of amortization of $0.1 million, were recorded as a direct deduction from long-term debt, $1.4 million from the current portion and $9.3 million from the long-term portion. Unamortized debt issuance costs of $0.1 million related to the prior Amended Credit Agreement were expensed in the three months ended November 26, 2016.

Aggregate contractual maturities of debt in future fiscal years, are as follows:

(In thousands)		Amount
Year:	2017	$6,000
	2018	14,250
	2019	15,000
	2020	15,000
	2021	15,000
	2022	68,000
	2023	15,000
	2024	204,750
	Total debt	$353,000

Note 10: Employee and Retiree Benefits

Postretirement health care and deferred compensation benefits are as follows:

(In thousands)	November 26, 2016	August 27, 2016
Postretirement health care benefit cost	$ 32	$ 6,346
Non-qualified deferred compensation	17,616	18,003
Executive share option plan liability	3,181	3,341
SERP benefit liability	2,701	2,681
Executive deferred compensation	467	389
Officer stock-based compensation	657	763
Total deferred compensation and postretirement health care benefits	24,654	31,523
Less current portion	(4,693)	(4,574)
Long-term deferred compensation and postretirement health care benefits	$ 19,961	$ 26,949

Postretirement Health Care Benefits

Historically, we provided certain health care and other benefits for retired employees hired before April 1, 2001, who had fulfilled eligibility requirements at age 55 with 15 years of continuous service. We used a September 1 measurement date for this plan and our postretirement health care plan was not funded.

In Fiscal 2005, through a plan amendment, we established dollar caps on the amount that we paid for postretirement health care benefits per retiree on an annual basis so that we were not exposed to continued medical inflation. Retirees were required to pay a monthly premium in excess of the employer dollar caps for medical coverage based on years of service and age at retirement. Each year from 2012 to 2015, the employer established dollar caps were reduced by 10% through plan amendments. On January 1, 2016, postretirement health care benefits were discontinued for retirees age 65 and over. The plan amendment also included a 10% reduction in employer paid premiums for retirees under age 65. On October 26, 2016, we announced the termination of the remaining postretirement health care benefits to all participants. Beginning January 1, 2017, postretirement health care benefits will be discontinued for retirees under age 65. As a result of these amendments, our liability for postretirement health care was reduced as presented in the following table.

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Date	Event	Dollar Cap Reduction	Liability Reduction (In thousands)	Amortization Period[1]	
Fiscal 2005	Established employer dollar caps		$ 40,414	11.5	years
January 2012	Reduced employer dollar caps	10%	4,598	7.8	years
January 2013	Reduced employer dollar caps	10%	4,289	7.5	years
January 2014	Reduced employer dollar caps	10%	3,580	7.3	years
January 2015	Reduced employer dollar caps	10%	3,960	7.1	years
January 2016	Reduced employer dollar caps for retirees under age 65; discontinued retiree benefits for retirees age 65 and over	10%	28,596	6.9	years
January 2017 [2]	Terminated plan		6,338	0.2	years

[1] Plan amendments are amortized on a straight-line basis over the expected remaining service period of active plan participants.
[2] In accordance with ASC 715, the effects of the plan amendment are accounted for at the date the amendment is adopted and the date the amendment has been communicated to plan participants. The effective date for this plan amendment was October 26, 2016.

Net periodic postretirement benefit income consisted of the following components:

(In thousands)	Three Months Ended November 26, 2016	November 28, 2015
Interest cost	$29	$ 153
Service cost	16	41
Amortization of prior service benefit	(20,772)	(1,713)
Amortization of net actuarial loss	7,959	368
Net periodic postretirement benefit income	$(12,768)	$ (1,151)
Payments for postretirement health care	$53	$ 228

Note 11: Shareholders' Equity
Stock-Based Compensation
We have a 2014 Omnibus Equity, Performance Award, and Incentive Compensation Plan (as amended, the "Plan") in place as approved by shareholders, which allows us to grant or issue non-qualified stock options, incentive stock options, share awards and other equity compensation to key employees and to non-employee directors.
On October 11, 2016 and October 13, 2015 the Human Resources Committee of the Board of Directors granted an aggregate of 97,600 and 204,200 shares, respectively, of restricted common stock to our key employees and non-employee directors under the Plan. The value of the restricted stock award is determined using the intrinsic value method which, in this case, is based on the number of shares granted and the closing price of our common stock on the date of grant.
Stock-based compensation expense was $0.8 million and $0.6 million during the first quarters of Fiscal 2017 and 2016, respectively. Compensation expense is recognized over the requisite service period of the award.
Dividends

On October 12, 2016, the Board of Directors declared a quarterly cash dividend of $0.10 per share of common stock, which was paid on November 23, 2016 to shareholders of record at the close of business on November 9, 2016.

On December 14, 2016, the Board of Directors declared a quarterly cash dividend of $0.10 per share of common stock, payable on January 25, 2017 to shareholders of record at the close of business on January 11, 2017.

Pending Share Registration

As a result of the acquisition of Grand Design, Winnebago has agreed to register the 4,586,555 shares of common stock issued to the Summit Sellers and the RDB Sellers pursuant to the terms of a registration rights agreement. Under the registration rights agreement, Winnebago has agreed to file a shelf registration statement on the second business day following the filing of an amendment to Winnebago’s Current Report on Form 8-K reporting the completion of the acquisition of Grand Design containing the financial statements and pro forma financial information concerning the acquisition. Winnebago has agreed to keep the registration statement effective for up to three years. We intend to register these shares on Form S-3 in January of 2017.

Note 12: Contingent Liabilities and Commitments

Repurchase Commitments

Generally, manufacturers in the RV industry enter into repurchase agreements with lending institutions which have provided wholesale floorplan financing to dealers. Most dealers' RVs are financed on a "floorplan" basis under which a bank or finance

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company lends the dealer all, or substantially all, of the purchase price, collateralized by a security interest in the recreation vehicles purchased.

Our repurchase agreements provide that, in the event of default by the dealer on the agreement to pay the lending institution, we will repurchase the financed merchandise. The terms of these agreements, which generally can last up to 18 months, provide that our liability will be the lesser of remaining principal owed by the dealer to the lending institution, or dealer invoice less periodic reductions based on the time since the date of the original invoice. Our total contingent liability on all repurchase agreements was approximately $553.1 million and $409.3 million at November 26, 2016 and August 27, 2016, respectively, with the increase attributed primarily to Grand Design.

In certain instances, we also repurchase inventory from our dealers due to state law or regulatory requirements that govern voluntary or involuntary relationship terminations. Although laws vary from state to state, some states have laws in place that require manufacturers of recreation vehicles to repurchase current inventory if a dealership exits the business. Incremental repurchase exposure beyond existing repurchase agreements, related to dealer inventory in states that we have had historical experience of repurchasing inventory, totaled $9.0 million and $7.9 million at November 26, 2016 and August 27, 2016, respectively, with the increase attributed primarily to Grand Design.

Our risk of loss related to our repurchase commitments is significantly reduced by the potential resale value of any products that are subject to repurchase and is spread over numerous dealers and lenders although two dealer organizations account for approximately 28% of our revenues in the three months ended November 26, 2016. 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 the repurchase exposure as previously described, we established an associated loss reserve. Our accrued losses on repurchases were $1.3 million as of November 26, 2016 and $0.9 million as of August 27, 2016. Repurchase risk is affected by the credit worthiness of our dealer network and we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to establish the loss reserve for repurchase commitments.

A summary of repurchase activity is as follows:

(In thousands)	Three Months Ended November 26, 2016	Three Months Ended November 28, 2015
Inventory repurchased	$ —	$ —
Cash collected on resold inventory	$ —	$ 36
Gain realized on resold inventory	$ —	$ (1)

Litigation

We are involved in various legal proceedings which are ordinary litigation incidental to our business, some of which are covered in whole or in part by insurance. While we believe the ultimate disposition of litigation will not have material adverse effect on our financial position, results of operations or liquidity, there exists the possibility that such litigation may have an impact on our results for a particular reporting period in which litigation effects become probable and reasonably estimable. Though we do not believe there is a reasonable likelihood that there will be a material change related to these matters, litigation is subject to inherent uncertainties and management's view of these matters may change in the future.

Lease Commitments

As part of our acquisition of Grand Design, we acquired leases to two properties which hold Grand Design's current principal facilities, and facilities under construction for expansion. The lessor under these leases is an Indiana limited liability company, Three Oaks, LLC, owned by three of Grand Design's selling shareholders. One of the selling shareholders, Mr. Don Clark, has assumed the position of Vice President for Winnebago and is the President of Grand Design. Upon joining our company, Mr. Clark has agreed that as long as he is an employee of Grand Design he has relinquished his voting rights in Three Oaks, LLC while retaining all other economic rights in Three Oaks, LLC. Future commitments under these related party leases are as follows:

(In thousands)	Amount
Year Ended: 2017	