BRUNSWICK CORP
Form 10-Q
November 01, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

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 001-01043

Brunswick Corporation

(Exact name of registrant as specified in its charter)

Delaware	36-0848180
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

26125 N. Riverwoods Blvd., Suite 500, Mettawa, Illinois 60045-3420

(Address of principal executive offices, including zip code)

(847) 735-4700

(Registrant’s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o
Emerging growth company	o			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 ($0.75 par value) of the registrant outstanding as of October 30, 2017 was 87,689,887.

BRUNSWICK CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 2017

TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

BRUNSWICK CORPORATION
Condensed Consolidated Statements of Comprehensive Income
(unaudited)

(in millions, except per share data)	Three Months Ended September 30, 2017	Three Months Ended October 1, 2016	Nine Months Ended September 30, 2017	Nine Months Ended October 1, 2016
Net sales	$1,141.5	$1,093.0	$3,653.8	$3,405.5
Cost of sales	828.2	783.3	2,671.5	2,460.4
Selling, general and administrative expense	159.3	150.3	476.7	451.7
Research and development expense	35.5	34.5	108.6	104.2
Restructuring, exit and integration charges	6.8	2.4	27.7	8.8
Operating earnings	111.7	122.5	369.3	380.4
Equity earnings	1.5	1.4	5.2	3.2
Other income, net	1.5	0.8	6.0	1.7
Earnings before interest and income taxes	114.7	124.7	380.5	385.3
Interest expense	(6.6)	(7.0)	(19.9)	(20.8)
Interest income	0.9	0.4	1.8	1.2
Earnings before income taxes	109.0	118.1	362.4	365.7
Income tax provision	30.0	32.8	99.1	109.1
Net earnings from continuing operations	79.0	85.3	263.3	256.6
Net earnings from discontinued operations, net of tax	—	0.1	—	1.7
Net earnings	$79.0	$85.4	$263.3	$258.3
Earnings per common share:				
Basic				
Earnings from continuing operations	$0.89	$0.94	$2.94	$2.80
Earnings from discontinued operations	—	0.00	—	0.02
Net earnings	$0.89	$0.94	$2.94	$2.82
Diluted				
Earnings from continuing operations	$0.88	$0.93	$2.91	$2.78
Earnings from discontinued operations	—	0.00	—	0.02
Net earnings	$0.88	$0.93	$2.91	$2.80
Weighted average shares used for computation of:				
Basic earnings per common share	89.1	91.1	89.7	91.5
Diluted earnings per common share	89.8	91.9	90.5	92.4
Comprehensive income	$90.7	$88.7	$285.9	$272.4
Cash dividends declared per common share	$0.165	$0.15	$0.495	$0.45

The Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.

Table of Contents

BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)

(in millions)	September 30, 2017	December 31, 2016	October 1, 2016
Assets			
Current assets			
Cash and cash equivalents, at cost, which approximates fair value	$ 391.1	$ 422.4	$ 437.2
Restricted cash	10.7	11.2	12.7
Short-term investments in marketable securities	0.8	35.8	0.8
Total cash and short-term investments in marketable securities	402.6	469.4	450.7
Accounts and notes receivable, less allowances of $10.2, $12.8 and $14.2	476.4	417.3	454.6
Inventories			
Finished goods	530.5	502.7	476.3
Work-in-process	126.7	91.1	102.7
Raw materials	191.4	168.3	176.0
Net inventories	848.6	762.1	755.0
Prepaid expenses and other	49.1	39.7	38.5
Current assets	1,776.7	1,688.5	1,698.8
Property			
Land	25.0	24.3	24.3
Buildings and improvements	414.6	406.4	399.1
Equipment	1,008.9	979.2	948.2
Total land, buildings and improvements and equipment	1,448.5	1,409.9	1,371.6
Accumulated depreciation	(888.4)	(892.3)	(891.9)
Net land, buildings and improvements and equipment	560.1	517.6	479.7
Unamortized product tooling costs	146.3	127.7	117.0
Net property	706.4	645.3	596.7
Other assets			
Goodwill	426.3	413.8	413.0
Other intangibles, net	165.5	164.8	164.1
Equity investments	21.7	20.7	16.3
Deferred income tax asset	256.1	307.8	304.8
Other long-term assets	46.5	43.8	47.5
Other assets	916.1	950.9	945.7
Total assets	$ 3,399.2	$ 3,284.7	$ 3,241.2

The Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.

Table of Contents

BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)

(in millions)	September 30, 2017	December 31, 2016	October 1, 2016
Liabilities and shareholders’ equity			
Current liabilities			
Current maturities of long-term debt	$ 4.2	$ 5.9	$ 4.2
Accounts payable	397.3	392.7	364.0
Accrued expenses	578.6	566.3	549.5
Current liabilities	980.1	964.9	917.7
Long-term liabilities			
Debt	437.6	436.5	448.0
Postretirement benefits	226.5	276.3	271.9
Other	184.9	166.9	168.9
Long-term liabilities	849.0	879.7	888.8
Shareholders’ equity			
Common stock; authorized: 200,000,000 shares, $0.75 par value; issued: 102,538,000 shares; outstanding: 87,687,000, 89,317,000 and 89,835,000 shares	76.9	76.9	76.9
Additional paid-in capital	371.5	382.0	380.0
Retained earnings	2,100.2	1,881.0	1,878.0
Treasury stock, at cost: 14,851,000, 13,221,000 and 12,703,000 shares	(566.5)	(465.2)	(440.2)
Accumulated other comprehensive loss, net of tax	(412.0)	(434.6)	(460.0)
Shareholders’ equity	1,570.1	1,440.1	1,434.7
Total liabilities and shareholders’ equity	$ 3,399.2	$ 3,284.7	$ 3,241.2

The Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.

Table of Contents

BRUNSWICK CORPORATION
Condensed Consolidated Statements of Cash Flows
(unaudited)

(in millions)	Nine Months Ended September 30, 2017	Nine Months Ended October 1, 2016
Cash flows from operating activities		
Net earnings	$263.3	$ 258.3
Less: earnings from discontinued operations, net of tax	—	1.7
Net earnings from continuing operations	263.3	256.6
Depreciation and amortization	83.2	77.0
Pension funding, net of expense	(51.0)	(61.7)
Deferred income taxes	50.0	74.6
Equity in earnings of unconsolidated affiliates	(5.2)	(3.2)
Changes in certain current assets and current liabilities	(100.6)	(66.5)
Income taxes	(16.5)	7.1
Other, net	31.9	9.3
Net cash provided by operating activities of continuing operations	255.1	293.2
Net cash used for operating activities of discontinued operations	(0.3)	(3.3)
Net cash provided by operating activities	254.8	289.9
Cash flows from investing activities		
Capital expenditures	(153.4)	(131.9)
Sales or maturities of marketable securities	35.0	10.7
Investments	4.5	9.8
Acquisition of businesses, net of cash acquired	(15.5)	(269.5)
Proceeds from the sale of property, plant and equipment	8.0	1.7
Other, net	(0.5)	1.3
Net cash used for investing activities	(121.9)	(377.9)
Cash flows from financing activities		
Net proceeds from issuances of long-term debt	—	0.8
Payments of long-term debt including current maturities	(1.3)	(0.3)
Common stock repurchases	(120.0)	(90.3)
Cash dividends paid	(44.0)	(40.7)
Proceeds from share-based compensation activity	6.1	12.5
Tax withholding associated with shares issued for share-based compensation	(14.5)	(18.4)
Other, net	—	(1.3)
Net cash used for financing activities	(173.7)	(137.7)
Effect of exchange rate changes	9.0	5.6
Net decrease in Cash and cash equivalents and Restricted cash	(31.8)	(220.1)
Cash and cash equivalents and Restricted cash at beginning of period	433.6	670.0
Cash and cash equivalents and Restricted cash at end of period	401.8	449.9
Less: Restricted cash	10.7	12.7
Cash and cash equivalents at end of period	$391.1	$ 437.2

The Notes to Condensed Consolidated Financial Statements are an integral part of these consolidated statements.

Table of Contents

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Significant Accounting Policies

Interim Financial Statements. The unaudited interim condensed consolidated financial statements of Brunswick Corporation (Brunswick or the Company) have been prepared pursuant to Securities and Exchange Commission (SEC) rules and regulations. Therefore, certain information and disclosures normally included in financial statements and related notes prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. Certain previously reported amounts have been reclassified to conform to the current period presentation, including reclassifying the Deferred income tax liability in the prior period to Other long-term liabilities on the Condensed Consolidated Balance Sheets.

These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Brunswick's 2016 Annual Report on Form 10-K for the year ended December 31, 2016 (the 2016 Form 10-K). These results include, in management's opinion, all normal and recurring adjustments necessary to present fairly Brunswick's financial position, results of operations and cash flows. Due to the seasonality of Brunswick's businesses, the interim results are not necessarily indicative of the results that may be expected for the remainder of the year.

The Company maintains its financial records on the basis of a fiscal year ending on December 31, with the fiscal quarters spanning approximately thirteen weeks. The first quarter ends on the Saturday closest to the end of the first thirteen-week period. The second and third quarters are thirteen weeks in duration and the fourth quarter is the remainder of the year. The first three quarters of fiscal year 2017 ended on April 1, 2017, July 1, 2017 and September 30, 2017, and the first three quarters of fiscal year 2016 ended on April 2, 2016, July 2, 2016 and October 1, 2016.

Recent Accounting Pronouncements. The following are recent accounting pronouncements that have been adopted during 2017, or will be adopted in future periods.

Hedge Accounting: In August 2017, the Financial Accounting Standards Board (FASB) amended the Accounting Standards Codification (ASC) to simplify the application of hedge accounting and to better align an entity's risk management activities with the financial reporting of hedging relationships. The amendment is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASC amendment, but does not expect it will have a material impact on its condensed consolidated financial statements.

Presentation of Benefit Costs: In March 2017, the FASB amended the ASC related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments require entities to present the current-service-cost component with other current compensation costs in the income statement and present the other components outside of income from operations. The amendment is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASC amendment, but does not expect it will have a material impact on its condensed consolidated financial statements.

Statement of Cash Flows Classifications: In August 2016, the FASB amended the ASC to add and/or clarify guidance on the classification of certain transactions in the statement of cash flows. The amendment is to be applied retrospectively and is effective for fiscal years, and the interim periods within those years, beginning after December

15, 2017, with early adoption permitted. The Company is currently evaluating the impact it will have on its Condensed Consolidated Statements of Cash Flows.

Share-Based Compensation: In March 2016, the FASB amended the ASC to simplify the accounting for employee share-based payment transactions. The Company adopted this amendment during the first quarter of 2017, and recognized $7.7 million of net excess tax benefits related to share-based payments in the income tax provision for the nine months ended September 30, 2017. These net excess tax benefits were historically recorded in additional paid-in capital when recognized. Additionally, the Company adopted the amendment retrospectively for presentation of net excess tax benefits on the Condensed Consolidated Statements of Cash Flows, resulting in an increase of $11.1 million in Net cash provided by operating activities and Net cash used for financing activities for the nine months ended October 1, 2016. The Company also elected to recognize forfeitures of share-based awards as they occur. The remaining amendments, including those related to statutory withholding requirements, did not have a material impact.

Recognition of Leases: In February 2016, the FASB amended the ASC to require lessees to recognize assets and liabilities on the balance sheet for all leases with terms greater than twelve months. Lessees will recognize expenses similar to current lease accounting. The amendment is to be applied using a modified retrospective method with certain practical expedients, and is effective for fiscal years and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact that the adoption of the new standard will have on its condensed consolidated financial statements.

Revenue Recognition: In May 2014, the FASB issued a final standard on revenue recognition which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This standard will supersede current revenue recognition guidance. Under the new standard, entities are required to identify the contract with a customer; identify the separate performance obligations in the contract; determine the transaction price; allocate the transaction price to the separate performance obligations in the contract; and recognize the appropriate amount of revenue when (or as) the entity satisfies each performance obligation. In August 2015, the FASB amended the ASC to delay the effective date to fiscal years, and the interim periods within those years, beginning on or after January 1, 2018, from the original effective date of January 1, 2017, with early adoption permitted no earlier than January 1, 2017. Entities have the option of using either retrospective transition or a modified retrospective approach in applying the new standard.

The Company plans to use the modified retrospective approach in applying the new standard. The Company’s implementation process is progressing as planned and there are no significant implementation matters that have yet to be addressed. The Company does not expect the standard to have a material impact on its condensed consolidated financial statements, however, the most meaningful changes will be in the Boat and Fitness segments. In the Boat segment, certain customers are offered retail promotions that are currently recorded at the later of when the program has been communicated to the customer or at the time of sale. Under the new standard, these promotions will now be estimated and recognized at the time of sale, primarily upon shipment to customers. In the Fitness segment, certain customer contracts include product rebates recorded in cost of sales at the time of sale. Under the new standard, the Company will no longer record the rebate at the time of sale; however a portion of revenue will be deferred and not recognized until the rebate is redeemed. As a result, the Company expects a change in the timing of recording certain promotions and rebates, including but not limited to those described above, however, it does not expect a change in the total amount of cumulative revenue recognized for each transaction.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 2 – Restructuring, Exit and Integration Activities

In the third quarter of 2017, the Company recorded restructuring charges within the Fitness segment for the write-down of inventory and tooling related to the exit of the InMovement product line as a result of declining demand.

In the second and third quarters of 2017, the Company implemented headcount reductions in the Fitness and Boat segments aimed at improving general operating efficiencies. As a result of these actions, the Company recorded restructuring charges within these segments during 2017.

In the first quarter of 2017, the Company announced that it will close its boat manufacturing facility in Joinville, Santa Catarina, Brazil, as a result of continued market weakness due partially to unfavorable foreign currency impacts in the region. The facility manufactures certain Bayliner and Sea Ray boat models for the Latin American market. The long-lived assets at this facility were previously fully impaired.

In the first quarter of 2017, the Company also recorded restructuring charges within Corporate related to the transition of certain corporate officers.

The Company acquired Cybex International, Inc. (Cybex) and Indoor Cycling Group GmbH (ICG) in the first and third quarters of 2016, respectively, and initiated certain integration activities within the Fitness segment related to these acquisitions. As a result, the Company recorded integration charges in 2017 and 2016 related to Cybex and recorded integration charges in 2016 related to ICG.

The following table is a summary of the expense associated with the restructuring, exit and integration activities for the three months ended September 30, 2017 and October 1, 2016, as discussed above:

	September 30, 2017		October 1, 2016	
(in millions)	Fitness	Total	Fitness	Total
Restructuring and exit activities:				
Employee termination and other benefits	$ 1.6	$ 1.6	$—	$—
Current asset write-downs	2.6	2.6	—	—
Other	0.4	0.4	—	—
Integration activities:				
Employee termination and other benefits	0.4	0.4	0.6	0.6
Professional fees	1.6	1.6	1.6	1.6
Other	0.2	0.2	0.2	0.2
Total restructuring, exit and integration charges	$ 6.8	$ 6.8	$2.4	$2.4

The following table is a summary of the expense associated with the restructuring, exit and integration activities for the nine months ended September 30, 2017 and October 1, 2016, as discussed above:

	September 30, 2017				October 1, 2016	
(in millions)	Corporate	Fitness	Boat	Total	Fitness	Total
Restructuring and exit activities:						
Employee termination and other benefits	$2.4	$ 3.7	$2.6	$8.7	$—	$—

Current asset write-downs	—	2.6	7.2	9.8	—	—
Professional fees	—	—	0.8	0.8	—	—
Other	—	0.4	1.0	1.4	—	—
Integration activities:						
Employee termination and other benefits	—	2.4	—	2.4	2.7	2.7
Professional fees	—	4.2	—	4.2	3.8	3.8
Other	—	0.4	—	0.4	2.3	2.3
Total restructuring, exit and integration charges	$2.4	$ 13.7	$11.6	$27.7	$8.8	$ 8.8

During 2017, the Company made cash payments of $12.5 million relating to all restructuring, exit and integration activities, including payments related to prior period activities. As of September 30, 2017, accruals remaining for restructuring, exit and integration activities totaled $10.4 million and are expected to be paid during 2017 and 2018.

Note 3 – Acquisitions

On September 1, 2017, the Company acquired 100 percent of Lankhorst Taselaar B.V. (Lankhorst Taselaar), a leading marine parts and accessories distribution company based in the Netherlands and Germany. The acquisition augments the marine parts and accessories businesses through a broader product line and an expanded distribution network. Lankhorst Taselaar is managed as part of the Company's Marine Engine segment.

The net cash consideration the Company paid to acquire Lankhorst Taselaar was $15.5 million. The preliminary recording of the fair value of the assets acquired and liabilities assumed resulted in $4.6 million of identifiable intangible assets, including customer relationships and trade names for $3.2 million and $1.4 million, respectively, along with $5.8 million for goodwill which is not deductible for tax purposes. The amount assigned to Lankhorst Taselaar's customer relationships will be amortized over its estimated useful life of approximately 15 years. These amounts recorded are preliminary and are subject to change within the measurement period as the Company finalizes its fair value estimates.

Note 4 – Financial Instruments

The Company operates globally with manufacturing and sales facilities around the world. Due to the Company’s global operations, the Company engages in activities involving both financial and market risks. The Company utilizes normal operating and financing activities, along with derivative financial instruments, to minimize these risks. See Note 14 in the Notes to Consolidated Financial Statements in the 2016 Form 10-K for further details regarding the Company's financial instruments and hedging policies.

Foreign Currency Derivatives. Forward exchange contracts outstanding at September 30, 2017, December 31, 2016 and October 1, 2016 had notional contract values of $294.7 million, $263.7 million and $248.9 million, respectively. Option contracts outstanding at September 30, 2017, December 31, 2016 and October 1, 2016 had notional contract values of $18.0 million, $30.4 million and $39.3 million, respectively. The forward and option contracts outstanding at September 30, 2017 mature during 2017 and 2018 and mainly relate to the Euro, Japanese yen, Canadian dollar, Australian dollar, Swedish krona, British pound, Brazilian real, Mexican peso, Norwegian krone, New Zealand dollar, Hungarian forint and Taiwan dollar. As of September 30, 2017, the Company estimates that during the next 12 months, it will reclassify approximately $9.6 million of net losses (based on current rates) from Accumulated other comprehensive loss to Cost of sales.

Interest Rate Derivatives. The Company enters into fixed-to-floating interest rate swaps to convert a portion of the Company's long-term debt from fixed to floating rate debt. As of September 30, 2017, December 31, 2016 and October 1, 2016, the outstanding swaps had notional contract values of $200.0 million, of which $150.0 million corresponds to the Company's 4.625 percent Senior notes due 2021 and $50.0 million corresponds to the Company's 7.375 percent Debentures due 2023.

As of September 30, 2017, December 31, 2016 and October 1, 2016, the Company had $3.7 million, $4.5 million and $4.8 million, respectively, of net deferred losses associated with all settled forward-starting interest rate swaps, which were included in Accumulated other comprehensive loss. As of September 30, 2017, the Company estimates that during the next 12 months, it will reclassify approximately $1.0 million of net losses resulting from settled forward-starting interest rate swaps from Accumulated other comprehensive loss to Interest expense.

Commodity Price Derivatives. There were no commodity swap contracts outstanding at September 30, 2017 and December 31, 2016. As of October 1, 2016, the notional value of commodity swap contracts outstanding was $2.3 million.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

As of September 30, 2017, December 31, 2016 and October 1, 2016, the fair values of the Company's derivative instruments were:
(in millions)

Instrument	Derivative Assets Balance Sheet Location	Fair Value Sep 30, 2017	Dec 31, 2016	Oct 1, 2016	Derivative Liabilities Balance Sheet Location	Fair Value Sep 30, 2017	Dec 31, 2016	Oct 1, 2016
Derivatives Designated as Cash Flow Hedges								
Foreign exchange contracts	Prepaid expenses and other	$1.7	$ 7.2	$ 3.1	Accrued expenses	$10.5	$ 2.6	$ 3.1
Commodity contracts	Prepaid expenses and other	—	—	—	Accrued expenses	—	—	0.1
Total		$1.7	$ 7.2	$ 3.1		$10.5	$ 2.6	$ 3.2
Derivatives Designated as Fair Value Hedges								
Interest rate contracts	Prepaid expenses and other	$2.9	$ 2.1	$ 2.9	Accrued expenses	$2.3	$ 1.7	$ 2.1
Interest rate contracts	Other long-term assets	2.3	0.7	7.0	Other long-term liabilities	—	0.2	—
Total		$5.2	$ 2.8	$ 9.9		$2.3	$ 1.9	$ 2.1
Other Hedging Activity								
Foreign exchange contracts	Prepaid expenses and other	$0.3	$ 1.2	$ 0.2	Accrued expenses	$0.3	$ 0.3	$ 0.5
Commodity contracts	Prepaid expenses and other	—	—	—	Accrued expenses	—	—	0.3
Total		$0.3	$ 1.2	$ 0.2		$0.3	$ 0.3	$ 0.8

The effect of derivative instruments on the Condensed Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2017 and October 1, 2016 was:
(in millions)

Derivatives Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) on Derivatives Recognized in Accumulated Other Comprehensive Loss (Effective Portion)				Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Earnings (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Earnings (Effective Portion)			
	Three Months Ended		Nine Months Ended			Three Months Ended		Nine Months Ended	
	Sep 30, 2017	Oct 1, 2016	Sep 30, 2017	Oct 1, 2016		Sep 30, 2017	Oct 1, 2016	Sep 30, 2017	Oct 1, 2016
Interest rate contracts	$—	$—	$—	$—	Interest expense	$(0.3)	$(0.3)	$(0.8)	$(0.3)
Foreign exchange contracts	(10.4)	(0.2)	(15.3)	(3.2)	Cost of sales	(0.9)	0.4	1.2	3.1
	—	0.0	—	0.0	Cost of sales	—	(0.1)	(0.0)	(0.5)

Commodity contracts								
Total	$(10.4)	$(0.2)	$(15.3)	$(3.2)	$(1.2)	$0.0	$0.4	$2.3

Derivatives Designated as Fair Value Hedging Instruments	Location of Gain on Derivatives Recognized in Earnings	Amount of Gain on Derivatives Recognized in Earnings			
		Three Months Ended		Nine Months Ended	
		Sep 30, 2017	Oct 1, 2016	Sep 30, 2017	Oct 1, 2016
Interest rate contracts	Interest expense	$0.5	$ 0.6	$1.6	$ 2.2

11

Other Hedging Activity	Location of Gain (Loss) on Derivatives Recognized in Earnings	Amount of Gain (Loss) on Derivatives Recognized in Earnings			
		Three Months Ended		Nine Months Ended	
		Sep 30, 2017	Oct 1, 2016	Sep 30, 2017	Oct 1, 2016
Foreign exchange contracts	Cost of sales	$(4.9)	$(2.2)	$(11.8)	$(8.6)
Foreign exchange contracts	Other income, net	(0.1)	0.3	(1.1)	1.0
Commodity contracts	Cost of sales	—	0.1	—	0.3
Total		$(5.0)	$(1.8)	$(12.9)	$(7.3)

Fair Value of Other Financial Instruments. The carrying values of the Company’s short-term financial instruments, including cash and cash equivalents, accounts and notes receivable and short-term debt approximate their fair values because of the short maturity of these instruments. At September 30, 2017, December 31, 2016 and October 1, 2016, the fair value of the Company’s long-term debt was approximately $492.8 million, $498.5 million and $485.4 million, respectively, and was determined using Level 1 and Level 2 inputs described in Note 7 – Fair Value Measurements, in the Notes to Consolidated Financial Statements in the 2016 Form 10-K. The carrying value of long-term debt, including current maturities, was $441.8 million, $444.6 million and $447.9 million as of September 30, 2017, December 31, 2016 and October 1, 2016, respectively.

Note 5 – Fair Value Measurements

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2017:

(in millions)	Level 1	Level 2	Total
Assets:			
Cash equivalents	$0.4	$34.0	$34.4
Short-term investments in marketable securities	0.8	—	0.8
Restricted cash	10.7	—	10.7
Derivatives	—	7.2	7.2
Total assets	$11.9	$41.2	$53.1
Liabilities:			
Derivatives	$—	$13.1	$13.1
Deferred compensation	4.0	28.4	32.4
Total liabilities at fair value	$4.0	$41.5	$45.5
Liabilities measured at net asset value			11.2
Total liabilities			$56.7

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

(in millions)	Level 1	Level 2	Total
Assets:			
Cash equivalents	$4.6	$14.3	$18.9
Short-term investments in marketable securities	0.8	35.0	35.8
Restricted cash	11.2	—	11.2
Derivatives	—	11.2	11.2
Total assets	$16.6	$60.5	$77.1
Liabilities:			
Derivatives	$—	$4.8	$4.8
Deferred compensation	4.2	28.1	32.3
Total liabilities at fair value	$4.2	$32.9	$37.1
Liabilities measured at net asset value			11.6
Total liabilities			$48.7

Table of Contents

The following table summarizes the Company’s financial assets and liabilities measured at fair value on a recurring basis as of October 1, 2016:

(in millions)	Level 1	Level 2	Total
Assets:			
Cash equivalents	$0.6	$—	$0.6
Short-term investments in marketable securities	0.8	—	0.8
Restricted cash	12.7	—	12.7
Derivatives	—	13.2	13.2
Total assets	$14.1	$13.2	$27.3
Liabilities:			
Derivatives	$—	$6.1	$6.1
Deferred compensation	3.9	27.6	31.5
Total liabilities at fair value	$3.9	$33.7	$37.6
Liabilities measured at net asset value			15.0
Total liabilities			$52.6

In addition to the items shown in the tables above, refer to Note 17 in the Notes to Consolidated Financial Statements in the 2016 Form 10-K for further discussion regarding the fair value measurements associated with the Company’s postretirement benefit plans.

Note 6 – Share-Based Compensation

Under the Brunswick Corporation 2014 Stock Incentive Plan, the Company may grant stock options, stock appreciation rights (SARs), non-vested stock awards and performance awards to executives, other employees and non-employee directors from treasury shares and from authorized, but unissued, shares of common stock, in addition to: (i) the forfeiture of past awards; (ii) shares not issued upon the net settlement of SARs; or (iii) shares delivered to or withheld by the Company to pay the withholding taxes related to awards. As of September 30, 2017, 5.4 million shares remained available for grant.

Non-vested stock awards

The Company grants both stock-settled and cash-settled non-vested stock units and awards to key employees as determined by management and the Human Resources and Compensation Committee of the Board of Directors. The Company granted a nominal number of stock awards during the three months ended September 30, 2017 and did not grant any stock awards during the three months ended October 1, 2016. The Company granted 0.2 million and 0.3 million of stock awards during the nine months ended September 30, 2017 and October 1, 2016, respectively. The Company recognizes the cost of non-vested stock units and awards on a straight-line basis over the requisite vesting period. Additionally, cash-settled non-vested stock units and awards are recorded as a liability on the balance sheet and adjusted to fair value each reporting period through stock compensation expense. During the three months and nine months ended September 30, 2017, the Company charged $2.9 million and $8.5 million, respectively, and charged $2.9 million and $7.4 million during the three months and nine months ended October 1, 2016, respectively, to compensation expense for non-vested stock awards.

As of September 30, 2017, there was $10.8 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. The Company expects this cost to be recognized over a weighted average period of 1.3 years.

Performance awards

In February of both 2017 and 2016, the Company granted 0.1 million performance shares to certain senior executives. The 2017 and 2016 share awards are based on three performance measures: a cash flow return on investment (CFROI) measure, an operating margin (OM) measure and a total shareholder return (TSR) modifier. Performance shares are earned based on a three-year performance period commencing at the beginning of the calendar year of each grant. The performance shares earned are then subject to a TSR modifier based on stock returns measured against stock returns of a predefined comparator group over a three-year performance period. Additionally, in February 2017 and 2016, the Company granted 26,300 and 37,430 performance shares, respectively, to certain officers and certain senior managers based on the respective measures and performance periods described above but excluding the TSR modifier. During the three months and nine months ended September 30, 2017, the Company charged $2.8 million and $5.9 million, respectively, and charged $1.4 million and $4.4 million for the three months and nine months ended October 1, 2016, respectively, to compensation expense based on projections of probable attainment of the performance measures and the projected TSR modifier used to determine the performance awards.

The fair values of the senior executives' performance share award grants with a TSR modifier for grants in 2017 and 2016 were $64.82 and $38.54, respectively, which were estimated using the Monte Carlo valuation model, and incorporated the following assumptions:

	2017		2016	
Risk-free interest rate	1.5	%	0.8	%
Dividend yield	1.1	%	1.0	%
Volatility factor	38.3	%	40.8	%
Expected life of award	2.9 years		2.9 years	

The fair value of the certain officers' and certain senior managers' performance awards granted based solely on the CFROI and OM performance factors was $58.77 and $37.76 in 2017 and 2016, respectively, which was equal to the stock price on the date of grant in 2017 and 2016, respectively, less the present value of expected dividend payments over the vesting period.

As of September 30, 2017, the Company had $4.7 million of total unrecognized compensation cost related to performance awards. The Company expects this cost to be recognized over a weighted average period of 1.1 years.

Director Awards

The Company issues stock awards to non-employee directors in accordance with the terms and conditions determined by the Nominating and Corporate Governance Committee of the Board of Directors. A portion of each director’s annual fee is paid in Brunswick common stock, the receipt of which may be deferred until a director retires from the Board of Directors. Each director may elect to have the remaining portion paid in cash, in Brunswick common stock distributed at the time of the award or in deferred Brunswick common stock with a 20 percent premium.

Table of Contents
BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 7 – Earnings per Common Share

Basic earnings per common share is calculated by dividing Net earnings by the weighted average outstanding shares which includes certain vested, unissued equity awards. Diluted earnings per common share is calculated similarly, except that the calculation includes the dilutive effect of stock-settled SARs, non-vested stock awards and performance awards.

Basic and diluted earnings per common share for the three months and nine months ended September 30, 2017 and October 1, 2016 were calculated as follows:

(in millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net earnings from continuing operations	$ 79.0	$ 85.3	$ 263.3	$ 256.6
Net earnings from discontinued operations, net of tax	—	0.1	—	1.7
Net earnings	$ 79.0	$ 85.4	$ 263.3	$ 258.3
Weighted average outstanding shares-basic	89.1	91.1	89.7	91.5
Dilutive effect of common stock equivalents	0.7	0.8	0.8	0.9
Weighted average outstanding shares-diluted	89.8	91.9	90.5	92.4
Basic earnings per common share:				
Continuing operations	$ 0.89	$ 0.94	$ 2.94	$ 2.80
Discontinued operations	—	0.00	—	0.02
Net earnings	$ 0.89	$ 0.94	$ 2.94	$ 2.82
Diluted earnings per common share:				
Continuing operations	$ 0.88	$ 0.93	$ 2.91	$ 2.78
Discontinued operations	—	0.00	—	0.02
Net earnings	$ 0.88	$ 0.93	$ 2.91	$ 2.80

There were no anti-dilutive shares of SARs that were excluded from the computation of diluted earnings per share for the periods ended September 30, 2017 and October 1, 2016.

Note 8 – Commitments and Contingencies

On January 21, 2015, Cobalt Boats, LLC (Cobalt) filed a patent infringement lawsuit against the Company alleging that certain of the Company’s Sea Ray branded boats include a feature that infringes a Cobalt patent relating to a submersible swim step. On October 31, 2017, the US District Court in the Eastern District of Virginia entered an amended judgment on the jury verdict awarding total damages, including enhanced damages, in the amount of $5.4 million plus attorneys' fees of $2.5 million and applicable interest. The Company believes it has meritorious defenses and will pursue an appeal.

There were no other material changes during the three months and nine months ended September 30, 2017 to the financial commitments or the legal and environmental commitments that were discussed in Note 13 in the Notes to

Consolidated Financial Statements in the 2016 Form 10-K.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Product Warranties

The following activity related to product warranty liabilities was recorded in Accrued expenses during the nine months ended September 30, 2017 and October 1, 2016:

(in millions)	September 30, 2017	October 1, 2016
Balance at beginning of period	$ 112.6	$ 106.3
Payments made	(53.5)	(50.7)
Provisions/additions for contracts issued/sold	54.8	55.6
Aggregate changes for preexisting warranties	(1.1)	(8.1)
Foreign currency translation	2.3	0.8
Acquisitions	—	6.7
Other	(1.3)	—
Balance at end of period	$ 113.8	$ 110.6

Additionally, end users of the Company's products may purchase a contract from the Company that extends product warranty beyond the standard period. For certain extended warranty contracts in which the Company retains the warranty or administration obligation, a deferred revenue liability is recorded based on the aggregate sales price for contracts sold. The liability is reduced and revenue is recognized on a straight-line basis over the contract period during which corresponding costs are expected to be incurred.

The following activity related to deferred revenue for extended product warranty contracts was recorded in Accrued expenses and Other long-term liabilities during the nine months ended September 30, 2017 and October 1, 2016:

(in millions)	September 30, 2017	October 1, 2016
Balance at beginning of period	$ 90.6	$ 78.3
Extended warranty contracts sold	39.3	28.6
Revenue recognized on existing extended warranty contracts	(23.8)	(20.7)
Foreign currency translation	1.1	(0.1)
Acquisitions	—	2.6
Balance at end of period	$ 107.2	$ 88.7

Note 9 – Goodwill and Other Intangibles

Changes in the Company's goodwill during the nine months ended September 30, 2017, by segment, are summarized below:

(in millions)	December 31, 2016	Acquisitions	Impairments	Adjustments	September 30, 2017
Marine Engine	$ 25.1	$ 5.8	$ —	$ 1.4	$ 32.3
Boat	2.2	—	—	—	2.2
Fitness	386.5	—	—	5.3	391.8
Total	$ 413.8	$ 5.8	$ —	$ 6.7	$ 426.3

Table of Contents
BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Changes in the Company's goodwill during the nine months ended October 1, 2016, by segment, are summarized below:

(in millions)	December 31, 2015	Acquisitions	Impairments	Adjustments	October 1, 2016
Marine Engine	$ 26.2	$ —	$ —	$ (0.3)	$ 25.9
Boat	—	2.5	—	—	2.5
Fitness	272.5	112.5	—	(0.4)	384.6
Total	$ 298.7	$ 115.0	$ —	$ (0.7)	$ 413.0

Adjustments for the nine months ended September 30, 2017 and October 1, 2016 primarily relate to the effect of foreign currency translation on goodwill denominated in currencies other than the U.S. dollar. See Note 3 - Acquisitions for further details on the Company's acquisitions.

As of September 30, 2017, December 31, 2016 and October 1, 2016, the Company had no accumulated impairment loss.

The Company's intangible assets, included within Other intangibles, net on the Condensed Consolidated Balance Sheets as of September 30, 2017, December 31, 2016 and October 1, 2016, are summarized below:

	September 30, 2017		December 31, 2016		October 1, 2016	
(in millions)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangible assets:						
Customer relationships	$305.7	$ (236.5)	$300.1	$ (231.1)	$298.2	$ (229.6)
Trade names	89.9	—	88.1	—	87.4	—
Other	22.5	(16.1)	22.4	(14.7)	22.5	(14.4)
Total	$418.1	$ (252.6)	$410.6	$ (245.8)	$408.1	$ (244.0)

Other intangible assets primarily consist of patents. See Note 3 - Acquisitions for further details on intangibles acquired during 2017. Gross amounts and related accumulated amortization amounts include adjustments related to the impact of foreign currency translation. Aggregate amortization expense for intangibles was $2.1 million and $6.2 million for the three months and nine months ended September 30, 2017, respectively. Aggregate amortization expense for intangibles was $1.7 million and $4.7 million for the three months and nine months ended October 1, 2016, respectively.

Note 10 – Segment Data

Reportable Segments

The following table sets forth net sales and operating earnings (loss) of each of the Company's reportable segments, for the three months and nine months ended September 30, 2017 and October 1, 2016:

	Net Sales		Operating Earnings (Loss)	
	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended
(in millions)				

	Sep 30, 2017	Oct 1, 2016	Sep 30, 2017	Oct 1, 2016	Sep 30, 2017	Oct 1, 2016	Sep 30, 2017	Oct 1, 2016
Marine Engine	$669.2	$						