BRUNSWICK CORP
Form 10-Q
August 02, 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 July 1, 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.)

1 N. Field Court, Lake Forest, Illinois 60045-4811

(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 July 31, 2017 was 88,719,780.

BRUNSWICK CORPORATION
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July 1, 2017

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

BRUNSWICK CORPORATION
Condensed Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months Ended		Six Months Ended	
(in millions, except per share data)	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net sales	$1,352.0	$1,242.2	$2,512.3	$2,312.5
Cost of sales	983.1	888.9	1,843.3	1,677.1
Selling, general and administrative expense	158.1	153.7	317.4	301.4
Research and development expense	36.5	35.1	73.1	69.7
Restructuring, exit and integration charges	5.7	2.6	20.9	6.4
Operating earnings	168.6	161.9	257.6	257.9
Equity earnings	1.4	1.0	3.7	1.8
Other income (expense), net	2.8	(0.1)	4.5	0.9
Earnings before interest and income taxes	172.8	162.8	265.8	260.6
Interest expense	(6.7)	(7.0)	(13.3)	(13.8)
Interest income	0.4	0.4	0.9	0.8
Earnings before income taxes	166.5	156.2	253.4	247.6
Income tax provision	47.1	48.1	69.1	76.3
Net earnings from continuing operations	119.4	108.1	184.3	171.3
Net earnings (loss) from discontinued operations, net of tax	—	(0.0)	—	1.6
Net earnings	$119.4	$108.1	$184.3	$172.9
Earnings (loss) per common share:				
Basic				
Earnings from continuing operations	$1.33	$1.18	$2.05	$1.87
Earnings (loss) from discontinued operations	—	(0.00)	—	0.02
Net earnings	$1.33	$1.18	$2.05	$1.89
Diluted				
Earnings from continuing operations	$1.32	$1.17	$2.03	$1.85
Earnings (loss) from discontinued operations	—	(0.00)	—	0.02
Net earnings	$1.32	$1.17	$2.03	$1.87
Weighted average shares used for computation of:				
Basic earnings per common share	89.8	91.5	90.0	91.6
Diluted earnings per common share	90.6	92.3	90.8	92.6
Comprehensive income	$123.1	$110.7	$195.2	$183.7
Cash dividends declared per common share	$0.165	$0.15	$0.33	$0.30

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

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BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)

(in millions)	July 1, 2017	December 31, 2016	July 2, 2016
Assets			
Current assets			
Cash and cash equivalents, at cost, which approximates fair value	$437.2	$ 422.4	$492.8
Restricted cash	10.7	11.2	12.7
Short-term investments in marketable securities	0.8	35.8	0.5
Total cash and short-term investments in marketable securities	448.7	469.4	506.0
Accounts and notes receivable, less allowances of $10.2, $12.8 and $14.5	524.6	417.3	482.1
Inventories			
Finished goods	489.4	502.7	455.0
Work-in-process	106.3	91.1	94.9
Raw materials	173.6	168.3	156.9
Net inventories	769.3	762.1	706.8
Prepaid expenses and other	35.2	39.7	38.0
Current assets	1,777.8	1,688.5	1,732.9
Property			
Land	26.9	24.3	23.2
Buildings and improvements	398.6	406.4	387.5
Equipment	1,001.4	979.2	931.4
Total land, buildings and improvements and equipment	1,426.9	1,409.9	1,342.1
Accumulated depreciation	(885.4)	(892.3)	(881.0)
Net land, buildings and improvements and equipment	541.5	517.6	461.1
Unamortized product tooling costs	140.7	127.7	111.5
Net property	682.2	645.3	572.6
Other assets			
Goodwill	417.6	413.8	393.1
Other intangibles, net	161.7	164.8	135.0
Equity investments	22.5	20.7	26.0
Deferred income tax asset	272.8	307.8	334.6
Other long-term assets	49.1	43.8	49.4
Other assets	923.7	950.9	938.1
Total assets	$3,383.7	$ 3,284.7	$3,243.6

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

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BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)

(in millions)	July 1, 2017	December 31, 2016	July 2, 2016
Liabilities and shareholders' equity			
Current liabilities			
Current maturities of long-term debt	$5.8	$ 5.9	$4.7
Accounts payable	393.8	392.7	366.3
Accrued expenses	586.2	566.3	559.6
Current liabilities	985.8	964.9	930.6
Long-term liabilities			
Debt	438.2	436.5	447.9
Postretirement benefits	233.7	276.3	308.7
Other	178.2	166.9	168.2
Long-term liabilities	850.1	879.7	924.8
Shareholders' equity			
Common stock; authorized: 200,000,000 shares, $0.75 par value; issued: 102,538,000 shares; outstanding: 88,776,000, 89,317,000 and 90,315,000 shares	76.9	76.9	76.9
Additional paid-in capital	365.9	382.0	385.6
Retained earnings	2,035.9	1,881.0	1,806.2
Treasury stock, at cost: 13,762,000, 13,221,000 and 12,223,000 shares	(507.2)	(465.2)	(417.2)
Accumulated other comprehensive loss, net of tax	(423.7)	(434.6)	(463.3)
Shareholders' equity	1,547.8	1,440.1	1,388.2
Total liabilities and shareholders' equity	$3,383.7	$ 3,284.7	$3,243.6

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

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BRUNSWICK CORPORATION
Condensed Consolidated Statements of Cash Flows
(unaudited)

(in millions)	Six Months Ended July 1, 2017	July 2, 2016
Cash flows from operating activities		
Net earnings	$184.3	$172.9
Less: earnings from discontinued operations, net of tax	—	1.6
Net earnings from continuing operations	184.3	171.3
Depreciation and amortization	55.2	50.6
Pension funding, net of expense	(37.5)	(29.5)
Deferred income taxes	35.0	53.4
Equity in earnings of unconsolidated affiliates	(3.7)	(1.8)
Changes in certain current assets and current liabilities	(88.8)	(36.7)
Income taxes	10.8	7.0
Other, net	16.5	7.0
Net cash provided by operating activities of continuing operations	171.8	221.3
Net cash used for operating activities of discontinued operations	(0.3)	(3.2)
Net cash provided by operating activities	171.5	218.1
Cash flows from investing activities		
Capital expenditures	(107.9)	(90.0)
Sales or maturities of marketable securities	35.0	10.7
Investments	2.0	(1.3)
Acquisition of businesses, net of cash acquired	—	(215.9)
Proceeds from the sale of property, plant and equipment	7.8	1.6
Other, net	(0.5)	1.3
Net cash used for investing activities	(63.6)	(293.6)
Cash flows from financing activities		
Payments of long-term debt including current maturities	(0.3)	(0.2)
Common stock repurchases	(60.0)	(60.0)
Cash dividends paid	(29.4)	(27.2)
Proceeds from share-based compensation activity	5.8	11.8
Tax withholding associated with shares issued for share-based compensation	(14.2)	(17.7)
Other, net	—	(1.3)
Net cash used for financing activities	(98.1)	(94.6)
Effect of exchange rate changes	4.5	5.6
Net increase (decrease) in Cash and cash equivalents and Restricted cash	14.3	(164.5)
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	447.9	505.5
Less: Restricted cash	10.7	12.7
Cash and cash equivalents at end of period	$437.2	$492.8

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

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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 two quarters of fiscal year 2017 ended on April 1, 2017 and July 1, 2017, and the first two quarters of fiscal year 2016 ended on April 2, 2016 and July 2, 2016.

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

Presentation of Benefit Costs: In March 2017, the Financial Accounting Standards Board (FASB) amended the Accounting Standards Codification (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 the Company's 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 the Company's 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 $7.6 million of net excess tax benefits related to share-based payments in the income tax provision for the six months ended July 1, 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 $8.2 million in Net cash provided by operating activities and Net cash used for financing activities for the six months ended July 2, 2016. The Company 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 the Company's condensed consolidated financial statements.

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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 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 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; however, it does not expect a change in the total amount of cumulative revenue recognized for each transaction.

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Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 2 – Restructuring, Exit and Integration Activities

In the second quarter of 2017, the Company recorded restructuring charges within the Fitness and Boat segments related to headcount reductions aimed at improving general operating efficiencies.

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 and 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. in the first quarter of 2016 and executed certain integration activities within the Fitness segment in 2016 and 2017.

The Company recorded restructuring, exit and integration charges in the Condensed Consolidated Statements of Comprehensive Income as a result of these activities. The following table is a summary of the expense associated with the restructuring, exit and integration activities for the three months ended July 1, 2017 and July 2, 2016, as discussed above:

	July 1, 2017			July 2, 2016	
(in millions)	Fitness	Boat	Total	Fitness	Total
Restructuring and exit activities:					
Employee termination and other benefits	$2.1	$0.4	$2.5	$—	$—
Other	—	0.8	0.8	—	—
Integration activities:					
Employee termination and other benefits	0.9	—	0.9	0.2	0.2
Professional fees	1.4	—	1.4	0.8	0.8
Other	0.1	—	0.1	1.6	1.6
Total restructuring, exit and integration charges	$4.5	$1.2	$5.7	$2.6	$2.6

The following table is a summary of the expense associated with the restructuring, exit and integration activities for the six months ended July 1, 2017 and July 2, 2016, as discussed above:

	July 1, 2017				July 2, 2016	
(in millions)	Corporate	Fitness	Boat	Total	Fitness	Total
Restructuring and exit activities:						
Employee termination and other benefits	$2.4	$ 2.1	$2.6	$7.1	$—	$—
Current asset write-downs	—	—	7.2	7.2	—	—
Professional fees	—	—	0.8	0.8	—	—
Other	—	—	1.0	1.0	—	—
Integration activities:						
Employee termination and other benefits	—	2.0	—	2.0	2.1	2.1
Professional fees	—	2.6	—	2.6	2.2	2.2

Other	—	0.2	—	0.2	2.1	2.1
Total restructuring, exit and integration charges	$2.4	$ 6.9	$11.6	$20.9	$6.4	$6.4

During 2017, the Company made cash payments of $8.4 million relating to all restructuring, exit and integration activities, including payments related to prior period activities. As of July 1, 2017, accruals remaining for restructuring, exit and integration activities totaled $10.3 million and are expected to be paid during 2017 and 2018.

Note 3 – 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 July 1, 2017, December 31, 2016 and July 2, 2016 had notional contract values of $309.3 million, $263.7 million and $237.8 million, respectively. There were no option contracts outstanding at July 1, 2017. Option contracts outstanding at December 31, 2016 and July 2, 2016 had notional contract values of $30.4 million and $55.0 million, respectively. The forward contracts outstanding at July 1, 2017 mature during 2017 and 2018 and mainly relate to the Euro, Japanese yen, Canadian dollar, Australian dollar, Swedish krona, Brazilian real, British pound, Mexican peso, Norwegian krone, Hungarian forint and New Zealand dollar. As of July 1, 2017, the Company estimates that during the next 12 months, it will reclassify approximately $0.9 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 July 1, 2017, December 31, 2016 and July 2, 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 July 1, 2017, December 31, 2016 and July 2, 2016, the Company had $4.0 million, $4.5 million and $5.1 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 July 1, 2017, the Company estimates that during the next 12 months, it will reclassify approximately $1.1 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 July 1, 2017 and December 31, 2016. As of July 2, 2016, the notional value of commodity swap contracts outstanding was $4.9 million. The amount of gain or loss associated with the change in fair value of these instruments is either recorded through earnings each period as incurred or, if designated as cash flow hedges, deferred in Accumulated other comprehensive loss and recognized in Cost of sales in the same period or periods during which the hedged transaction affects earnings.

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Notes to Condensed Consolidated Financial Statements
(unaudited)

As of July 1, 2017, December 31, 2016 and July 2, 2016, the fair values of the Company’s derivative instruments were:
(in millions)

Instrument	Derivative Assets Balance Sheet Location	Fair Value July 1, 2017	Fair Value Dec. 31, 2016	Fair Value July 2, 2016	Derivative Liabilities Balance Sheet Location	Fair Value July 1, 2017	Fair Value Dec. 31, 2016	Fair Value July 2, 2016
Derivatives Designated as Cash Flow Hedges								
Foreign exchange contracts	Prepaid expenses and other	$2.0	$ 7.2	$4.4	Accrued expenses	$3.2	$ 2.6	$ 4.0
Commodity contracts	Prepaid expenses and other	—	—	—	Accrued expenses	—	—	0.1
Total		$2.0	$ 7.2	$4.4		$3.2	$ 2.6	$ 4.1
Derivatives Designated as Fair Value Hedges								
Interest rate contracts	Prepaid expenses and other	$2.1	$ 2.1	$2.1	Accrued expenses	$1.7	$ 1.7	$ 1.5
Interest rate contracts	Other long-term assets	3.3	0.7	8.3	Other long-term liabilities	—	0.2	—
Total		$5.4	$ 2.8	$10.4		$1.7	$ 1.9	$ 1.5
Other Hedging Activity								
Foreign exchange contracts	Prepaid expenses and other	$0.3	$ 1.2	$1.3	Accrued expenses	$0.3	$ 0.3	$ 1.0
Commodity contracts	Prepaid expenses and other	—	—	—	Accrued expenses	—	—	0.9
Total		$0.3	$ 1.2	$1.3		$0.3	$ 0.3	$ 1.9

The effect of derivative instruments on the Condensed Consolidated Statements of Comprehensive Income for the three months and six months ended July 1, 2017 and July 2, 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		Six Months Ended			Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016		July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Interest rate contracts	$—	$ —	$—	$—	Interest expense	$(0.2)	$(0.0)	$(0.5)	$(0.0)
Foreign exchange contracts	(2.4)	1.3	(4.9)	(3.0)	Cost of sales	1.1	0.1	2.1	2.7

Commodity contracts	—	0.0	—	0.0	Cost of sales	—	(0.2)	(0.0)	(0.4)
Total	$(2.4)	$ 1.3	$(4.9)	$(3.0)		$0.9	$(0.1)	$1.6	$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		Six Months Ended	
		July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Interest rate contracts	Interest expense	$0.5	$ 0.8	$1.1	$ 1.6

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(unaudited)

Other Hedging Activity	Location of Gain (Loss) on Derivatives Recognized in Earnings	Amount of Gain (Loss) on Derivatives Recognized in Earnings			
		Three Months Ended		Six Months Ended	
		July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Foreign exchange contracts	Cost of sales	$(3.0)	$(1.6)	$(6.9)	$(6.4)
Foreign exchange contracts	Other income, net	(0.3)	0.3	(1.0)	0.7
Commodity contracts	Cost of sales	—	0.3	—	0.2
Total		$(3.3)	$(1.0)	$(7.9)	$(5.5)

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 July 1, 2017, December 31, 2016 and July 2, 2016, the fair value of the Company’s long-term debt was approximately $499.3 million, $498.5 million and $472.8 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 $443.1 million, $444.6 million and $447.3 million as of July 1, 2017, December 31, 2016 and July 2, 2016, respectively.

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BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 4 – Fair Value Measurements

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of July 1, 2017:

(in millions)	Level 1	Level 2	Total
Assets:			
Cash equivalents	$1.4	$—	$1.4
Short-term investments in marketable securities	0.8	—	0.8
Restricted cash	10.7	—	10.7
Derivatives	—	7.7	7.7
Total assets	$12.9	$7.7	$20.6
Liabilities:			
Derivatives	$—	$5.2	$5.2
Deferred compensation	4.6	29.9	34.5
Total liabilities at fair value	$4.6	$35.1	$39.7
Liabilities measured at net asset value			11.3
Total liabilities			$51.0

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

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The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of July 2, 2016:

(in millions)	Level 1	Level 2	Total
Assets:			
Cash equivalents	$101.0	$—	$101.0
Short-term investments in marketable securities	0.5	—	0.5
Restricted cash	12.7	—	12.7
Derivatives	—	16.1	16.1
Total assets	$114.2	$16.1	$130.3
Liabilities:			
Derivatives	$—	$7.5	$7.5
Deferred compensation	3.7	36.8	40.5
Total liabilities at fair value	$3.7	$44.3	$48.0
Liabilities measured at net asset value			12.3
Total liabilities			$60.3

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 5 – 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 July 1, 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 did not grant stock awards during the three months ended July 1, 2017 or July 2, 2016. The Company granted 0.2 million and 0.3 million of stock awards during the six months ended July 1, 2017 and July 2, 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 six months ended July 1, 2017, the Company charged $2.8 million and $5.6 million, respectively, and charged $2.9 million and $4.5 million during the three months and six months ended July 2, 2016, respectively, to compensation expense for non-vested stock awards.

As of July 1, 2017, there was $13.9 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 1.5 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 38,690 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 six months ended July 1, 2017, the Company charged $1.8 million and $3.1 million, respectively, and charged $1.8 million and $3.0 million for the three months and six months ended July 2, 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 dividend payments over the vesting period.

As of July 1, 2017, the Company had $6.4 million of total unrecognized compensation cost related to performance awards. The Company expects this cost to be recognized over a weighted average period of 1.3 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.

Note 6 – 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 six months ended July 1, 2017 and July 2, 2016 were calculated as follows:

(in millions, except per share data)	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net earnings from continuing operations	$119.4	$108.1	$184.3	$171.3
Net earnings (loss) from discontinued operations, net of tax	—	(0.0)	—	1.6
Net earnings	$119.4	$108.1	$184.3	$172.9
Weighted average outstanding shares-basic	89.8	91.5	90.0	91.6
Dilutive effect of common stock equivalents	0.8	0.8	0.8	1.0
Weighted average outstanding shares-diluted	90.6	92.3	90.8	92.6
Basic earnings (loss) per common share:				
Continuing operations	$1.33	$1.18	$2.05	$1.87
Discontinued operations	—	(0.00)	—	0.02
Net earnings	$1.33	$1.18	$2.05	$1.89
Diluted earnings (loss) per common share:				
Continuing operations	$1.32	$1.17	$2.03	$1.85
Discontinued operations	—	(0.00)	—	0.02
Net earnings	$1.32	$1.17	$2.03	$1.87

There were no anti-dilutive shares of SARs that were excluded from the computation of diluted earnings per share for the periods ended July 1, 2017 and July 2, 2016.

Note 7 – 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 June 21, 2017, a jury in the US District Court in the Eastern District of Virginia returned a verdict in Cobalt's favor in the amount of $2.7 million subject to adjustments and, at the discretion of the court, a potential award of exceptional damages (up to three times the award) and Cobalt's attorney's fees. The Company believes it has meritorious defenses, has filed post-trial motions and if necessary will pursue an appeal.

There were no other material changes during the three months and six months ended July 1, 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.

Product Warranties

The Company records a liability for product warranties at the time revenue is recognized. The liability is estimated using historical warranty experience, projected claim rates and expected costs per claim. The Company adjusts its liability for specific warranty matters when they become known and the exposure can be estimated. Product failure rates as well as material usage and labor costs incurred in correcting a product failure affect the Company's warranty liabilities. If actual costs or projected experience differ from estimated costs, the Company must make a revision to the warranty liability. Changes in the Company's warranty

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liabilities resulting from the Company's experience and adjustments related to changes in estimates are included as Aggregate changes for preexisting warranties presented in the table below.

The following activity related to product warranty liabilities was recorded in Accrued expenses during the six months ended July 1, 2017 and July 2, 2016:

(in millions)	July 1, 2017	July 2, 2016
Balance at beginning of period	$112.6	$106.3
Payments made	(34.1)	(28.4)
Provisions/additions for contracts issued/sold	38.0	34.7
Aggregate changes for preexisting warranties	(0.3)	(5.9)
Foreign currency translation	1.0	0.8
Acquisitions	—	6.4
Other	(1.7)	—
Balance at end of period	$115.5	$113.9

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 costs 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 six months ended July 1, 2017 and July 2, 2016:

(in millions)	July 1, 2017	July 2, 2016
Balance at beginning of period	$90.6	$78.3
Extended warranty contracts sold	26.0	19.5
Revenue recognized on existing extended warranty contracts	(14.5)	(13.7)
Foreign currency translation	0.3	0.2
Acquisitions	—	2.0
Balance at end of period	$102.4	$86.3

Note 8 – Goodwill and Other Intangibles

Changes in the Company's goodwill during the six months ended July 1, 2017, by segment, are summarized below:

(in millions)	December 31, 2016	Acquisitions	Impairments	Adjustments	July 1, 2017
Marine Engine	$ 25.1	$ —	$ —	$ 0.8	$25.9
Boat	2.2	—	—	—	2.2
Fitness	386.5	—	—	3.0	389.5
Total	$ 413.8	$ —	$ —	$ 3.8	$417.6

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Changes in the Company's goodwill during the six months ended July 2, 2016, by segment, are summarized below:

(in millions)	December 31, 2015	Acquisitions	Impairments	Adjustments	July 2, 2016
Marine Engine	$ 26.2	$ —	$ —	$ (0.1)	$26.1
Boat	—	12.2	—	—	12.2
Fitness	272.5	82.6	—	(0.3)	354.8
Total	$ 298.7	$ 94.8	$ —	$ (0.4)	$393.1

Adjustments for the six months ended July 1, 2017 and July 2, 2016 primarily relate to the effect of foreign currency translation on goodwill denominated in currencies other than the U.S. dollar.

As of July 1, 2017, December 31, 2016 and July 2, 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 July 1, 2017, December 31, 2016 and July 2, 2016, are summarized below:

	July 1, 2017		December 31, 2016		July 2, 2016	
(in millions)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangible assets:						
Customer relationships	$301.2	$ (234.6)	$300.1	$ (231.1)	$281.8	$ (228.3)
Trade names	88.3	—	88.1	—	76.1	—
Other	22.3	(15.5)	22.4	(14.7)	19.4	(14.0)
Total	$411.8	$ (250.1)	$410.6	$ (245.8)	$377.3	$ (242.3)

Other intangible assets primarily consist of patents. 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 $4.1 million for the three months and six months ended July 1, 2017, respectively. Aggregate amortization expense for intangibles was $1.6 million and $3.0 million for the three months and six months ended July 2, 2016, respectively.

Note 9 – Segment Data

Operating 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 six months ended July 1, 2017 and July 2, 2016:

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	Net Sales				Operating Earnings (Loss)			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
(in millions)	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Marine Engine	$766.2	$719.7	$1,398.0	$1,315.2	$148.2	$139.0	$236.7	$217.3
Boat	412.1	368.1	794.8	704.9	24.7	22.7	27.9	39.1
Marine eliminations	(76.8)	(75.4)	(166.6)	(155.7)	—	—	—	—
Total Marine	1,101.5	1,012.4	2,026.2	1,864.4	172.9	161.7	264.6	256.4
Fitness	250.5	229.8	486.1	448.1	18.5	24.1	36.8	44.2
Pension costs	—	—	—	—	(2.4)	(3.7)	(4.7)	(7.4)
Corporate/Other	—	—	—	—	(20.4)	(20.2)	(39.1)	(35.3)
Total	$1,352.0	$1,242.2	$2,512.3	$2,312.5	$168.6	$161.9	$257.6	$257.9

The following table sets forth total assets of each of the Company's reportable segments:

	Total Assets		
(in millions)	July 1, 2017	Dec. 31, 2016	July 2, 2016
Marine Engine	$1,220.2	$1,079.5	$1,090.2
Boat	433.8	425.2	397.9
Total Marine	1,654.0	1,504.7	1,488.1
Fitness	951.3	947.5	838.6
Corporate/Other	778.4	832.5	916.9
Total	$3,383.7	$3,284.7	$3,243.6

As of July 1, 2017, December 31, 2016 and July 2, 2016, the Company had $6.3 million, $13.2 million and $14.2 million, respectively, of net assets classified as held-for-sale within Net property in the Condensed Consolidated Balance Sheets.

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Note 10 – Comprehensive Income

Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets includes prior service costs and credits and net actuarial gains and losses for defined benefit plans; foreign currency cumulative translation adjustments; and unrealized derivative gains and losses, all net of tax. Changes in the components of Accumulated other comprehensive loss, all net of tax, for the three months and six months ended July 1, 2017 and July 2, 2016 were as follows:

(in millions)	Three Months Ended July 1, 2017	Three Months Ended July 2, 2016	Six Months Ended July 1, 2017	Six Months Ended July 2, 2016
Net earnings	$119.4	$108.1	$184.3	$172.9
Other comprehensive income (loss):				
Foreign currency cumulative translation adjustment	4.0	(0.9)	11.4	9.5
Net change in unamortized prior service credits	(0.1)	(0.1)	(0.2)	(0.2)
Net change in unamortized actuarial losses	2.1	2.7	4.2	5.2
Net change in unrealized derivative losses	(2.3)	0.9	(4.5)	(3.7)
Total other comprehensive income	3.7	2.6	10.9	10.8
Comprehensive income	$123.1	$110.7	$195.2	$183.7

The following table presents the changes in Accumulated other comprehensive loss by component, all net of tax, for the three months ended July 1, 2017:

(in millions)	Foreign currency translation	Prior service credits	Net actuarial losses	Net derivative losses	Total
Beginning balance	$ (44.5)	$ (5.2)	$ (369.9)	$ (7.8)	$ (427.4)
Other comprehensive income (loss) before reclassifications (A)	4.0	—	(0.1)	(1.6)	2.3
Amounts reclassified from Accumulated other comprehensive loss (B)	—	(0.1)	2.2	(0.7)	1.4
Net current-period other comprehensive income (loss)	4.0	(0.1)	2.1	(2.3)	3.7
Ending balance	$ (40.5)	$ (5.3)	$ (367.8)	$ (10.1)	$ (423.7)

(A) The tax effects for the three months ended July 1, 2017 were $(1.6) million for foreign currency translation, $0.1 million for net actuarial losses arising during the period and $0.8 million for derivatives.
(B) See the table below for the tax effects for the three months ended July 1, 2017.

The following table presents the changes in Accumulated other comprehensive loss by component, all net of tax, for the six months ended July 1, 2017:

(in millions)	Foreign currency translation	Prior service credits	Net actuarial losses	Net derivative losses	Total
Beginning balance	$ (51.9)	$ (5.1)	$ (372.0)	$ (5.6)	$ (434.6)
Other comprehensive income (loss) before reclassifications (A)	11.4	—	(0.2)	(3.3)	7.9
Amounts reclassified from Accumulated other comprehensive loss (B)	—	(0.2)	4.4	(1.2)	3.0

Net current-period other comprehensive income (loss)	11.4	(0.2)	4.2	(4.5)	10.9
Ending balance	$ (40.5)	$ (5.3)	$ (367.8)	$ (10.1)	$ (423.7)

(A) The tax effects for the six months ended July 1, 2017 were $(3.2) million for foreign currency translation, $0.2 million for net actuarial losses arising during the period and $1.6 million for derivatives.
(B) See the table below for the tax effects for the six months ended July 1, 2017.

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The following table presents the changes in Accumulated other comprehensive loss by component, all net of tax, for the three months ended July 2, 2016:

(in millions)	Foreign currency translation	Prior service credits	Net actuarial losses	Net derivative losses	Total
Beginning balance	$ (46.0)	$ (4.8)	$ (404.6)	$ (10.5)	$ (465.9)
Other comprehensive income (loss) before reclassifications (A)	(0.9)	—	(0.0)	0.9	—
Amounts reclassified from Accumulated other comprehensive loss (B)	—	(0.1)	2.7	0.0	2.6
Net current-period other comprehensive income (loss)	(0.9)	(0.1)	2.7	0.9	2.6
Ending balance	$ (46.9)	$ (4.9)	$ (401.9)	$ (9.6)	$ (463.3)

(A) The tax effects for the three months ended July 2, 2016 were $(2.8) million for foreign currency translation, $0.0 million for net actuarial losses arising during the period and $(0.4) million for derivatives.
(B) See the table below for the tax effects for the three months ended July 2, 2016.

The following table presents the changes in Accumulated other comprehensive loss by component, all net of tax, for the six months ended July 2, 2016:

(in millions)	Foreign currency translation	Prior service credits	Net actuarial losses	Net derivative losses	Total
Beginning balance	$ (56.4)	$ (4.7)	$ (407.1)	$ (5.9)	$ (474.1)
Other comprehensive income (loss) before reclassifications (A)	9.5	—	(0.5)	(2.0)	7.0
Amounts reclassified from Accumulated other comprehensive loss (B)	—	(0.2)	5.7	(1.7)	3.8
Net current-period other comprehensive income (loss)	9.5	(0.2)	5.2	(3.7)	10.8
Ending balance	$ (46.9)	$ (4.9)	$ (401.9)	$ (9.6)	$ (463.3)

(A) The tax effects for the six months ended July 2, 2016 were $2.2 million for foreign currency translation, $(0.2) million for net actuarial losses arising during the period and $1.0 million for derivatives.
(B) See the table below for the tax effects for the six months ended July 2, 2016.

The following table presents reclassification adjustments out of Accumulated other comprehensive loss during the three months and six months ended July 1, 2017 and July 2, 2016:

(in millions)	Three Months Ended		Six Months Ended		
Details about Accumulated other comprehensive income (loss) components	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016	Affected line item in the statement where net income is presented
Amortization of defined benefit items:					
Prior service credits	$0.2	$0.1	$0.4	$0.3	(A)
Net actuarial losses	(3.6)	(4.3)	(7.2)	(8.7)	(A)
	(3.4)	(4.2)	(6.8)	(8.4)	Total before tax
	1.3	1.6	2.6	2.9	Tax benefit
	$(2.1)	$(2.6)	$(4.2)	$(5.5)	Net of tax
Amount of gain (loss) reclassified into earnings on derivative contracts:					
Interest rate contracts	$(0.2)	$—	$(0.5)	$0.0	Interest expense
Foreign exchange contracts	1.1	0.1	2.1	2.7	Cost of sales
Commodity contracts	—	(0.2)	(0.0)	(0.4)	Cost of sales
	0.9	(0.1)	1.6	2.3	Total before tax
	(0.2)	0.1	(0.4)	(0.6)	Tax (provision) benefit
	$0.7	$(0.0)	$1.2	$1.7	Net of tax

(A) These Accumulated other comprehensive loss components are included in the computation of net pension and other benefit costs. See Note 12 – Postretirement Benefits for additional details.

Note 11 – Income Taxes

The Company recognized an income tax provision from continuing operations for the three months and six months ended July 1, 2017 of $47.1 million and $69.1 million, respectively, and included a net tax benefit of $2.3 million and $7.6 million respectively, associated with the net excess tax benefits related to share-based compensation which was recognized as an income tax benefit in accordance with recent changes in accounting guidance. The Company recognized an income tax provision from continuing operations for the three months and six months ended July 2, 2016 of $48.1 million and $76.3 million. The effective tax rate from continuing operations, which is calculated as the income tax provision as a percentage of pre-tax income, for the three months and six months ended July 1, 2017 was 28.3 percent and 27.3 percent, respectively. The effective tax rate from continuing operations for both the three months and six months ended July 2, 2016 was 30.8 percent.

No deferred income taxes have been provided as of July 1, 2017, December 31, 2016 or July 2, 2016 on the applicable undistributed earnings of the non-U.S. subsidiaries where the indefinite reinvestment assertion has been applied. If at some future date these earnings cease to be indefinitely reinvested and are repatriated, the Company may be subject to additional U.S. income taxes and foreign withholding and other taxes on such amounts. The Company continues to provide deferred taxes, as required, on the undistributed net earnings of foreign subsidiaries and unconsolidated affiliates that are not deemed to be indefinitely reinvested in operations outside the United States.

As of July 1, 2017, December 31, 2016 and July 2, 2016, the Company had $3.5 million, $3.5 million and $5.5 million of gross unrecognized tax benefits, including interest, respectively. The Company believes it is reasonably possible that the total amount of gross unrecognized tax benefits as of July 1, 2017 could decrease by approximately $1.4 million in the next 12 months due to settlements with taxing authorities or lapses in the applicable statute of limitations. Due to the various jurisdictions in which the Company files tax returns and the uncertainty regarding the timing of the settlement of tax audits, it is possible that there could be significant changes in the amount of unrecognized tax benefits in 2017, but the amount cannot be estimated.

The Company is regularly audited by federal, state and foreign tax authorities. The Internal Revenue Service (IRS) has completed its field examination and has issued its Revenue Agents Report through the 2012 tax year and all open issues have been resolved. The Company is currently open to tax examinations by the IRS for the 2013 through 2015 tax years. The 2014 tax year is currently under examination and the Company has been notified by the IRS that it will also be examining the 2015 tax year. Primarily as a result of filing amended returns, which were generated by the closing of federal income tax audits, the Company is still open to state and local tax audits in major tax jurisdictions dating back to the 2011 taxable year. The Company is no longer subject to income tax examinations by any major foreign tax jurisdiction for years prior to 2013.

Note 12 – Postretirement Benefits

The Company has defined contribution plans, qualified and nonqualified defined benefit pension plans and other postretirement benefit plans covering substantially all of its employees. The Company's contributions to its defined contribution plans include matching and annual discretionary contributions which are based on various percentages of compensation, and in some instances are based on the amount of the employees' contributions to the plans. See Note 17 in the Notes to Consolidated Financial Statements in the 2016 Form 10-K for further details regarding these plans.

Pension and other postretirement benefit costs included the following components for the three months and six months ended July 1, 2017 and July 2, 2016:

	Pension Benefits				Other Postretirement Benefits			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
(in millions)	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Interest cost	$7.1	$ 9.0	$14.2	$17.9	$0.4	$ 0.4	$0.7	$ 0.7
Expected return on plan assets	(8.3)	(9.6)	(16.7)	(19.2)	—	—	—	—
Amortization of prior service credits	—	—	—	—	(0.2)	(0.1)	(0.4)	(0.3)
Amortization of net actuarial losses	3.6	4.3	7.2	8.7	—	—	—	—
Net pension and other benefit costs	$2.4	$ 3.7	$4.7	$7.4	$0.2	$ 0.3	$0.3	$ 0.4

Portions of Net pension and other benefit costs are recorded in Cost of sales as well as Selling, general and administrative expenses in the Condensed Consolidated Statements of Comprehensive Income.

Employer Contributions and Benefit Payments. During the six months ended July 1, 2017 and July 2, 2016, the Company contributed $40.0 million and $35.0 million, respectively, to its qualified pension plans. Company contributions are subject to change based on funding regulations and Company discretion. During the six months ended July 1, 2017 and July 2, 2016, the Company contributed $2.1 million and $1.8 million, respectively, to fund benefit payments to its nonqualified pension plan.

Note 13 – Debt

There was no significant activity in Long-term debt during the six months ended July 1, 2017 and July 2, 2016. See Note 16 in the Notes to Consolidated Financial Statements in the 2016 Form 10-K for details regarding the Company's debt.

In June 2016, the Company entered into an Amended and Restated Credit Agreement (Credit Facility). The Credit Facility amends and restates the Company's existing credit agreement, dated as of March 2011, as amended and restated as of June 2014. The Credit Facility provides for $300 million of borrowing capacity and is in effect through June 2021. No borrowings were outstanding as of or during the six months ended July 1, 2017, and available borrowing capacity totaled $295.7 million, net of $4.3 million of letters of credit outstanding under the Credit Facility. As of July 1, 2017, the Company was in compliance with the financial covenants in the Credit Facility. See Note 16 in the Notes to Consolidated Financial Statements in the 2016 Form 10-K for details regarding the Company's Credit Facility.

Note 14 – Subsequent Events

On July 18, 2017, the Company's Board of Directors declared a quarterly dividend on its common stock of $0.165 per share. The dividend will be payable September 15, 2017 to shareholders of record as of August 22, 2017.

On July 19, 2017, the Company signed an agreement to acquire Lankhorst Taselaar B.V., a leading marine parts and accessories distribution company based in the Netherlands and Germany. The acquisition will augment the marine parts and accessories businesses through a broader product line and an expanded distribution network. Lankhorst Taselaar will be managed as part of the Company's Marine Engine segment.

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

Certain statements in Management’s Discussion and Analysis are based on non-GAAP financial measures. Specifically, the discussion of Brunswick Corporation's (Brunswick or the Company) cash flows includes an analysis of free cash flows and total liquidity, the discussion of the Company's net sales includes comparisons of net sales on a constant currency basis and excluding acquisitions, and the discussion of the Company's earnings includes comparisons of diluted earnings per common share, as adjusted. A “non-GAAP financial measure” is a numerical measure of a registrant’s historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statements of comprehensive income, balance sheets or statements of cash flows of the issuer; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. Non-GAAP financial measures do not include operating and statistical measures.

The Company includes non-GAAP financial measures in Management’s Discussion and Analysis, as Brunswick’s management believes that these measures and the information they provide are useful to investors because they permit investors to view Brunswick’s performance using the same tools that management uses and to better evaluate the Company’s ongoing business performance.

Certain statements in Management’s Discussion and Analysis are forward-looking as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations that are subject to risks and uncertainties. Actual results may differ materially from expectations as of the date of this filing because of factors discussed in Part I, Item 1A – Risk Factors in Brunswick’s 2016 Annual Report on Form 10-K for the year ended December 31, 2016 (the 2016 Form 10-K).

Brunswick does not provide forward-looking guidance for certain financial measures on a GAAP basis because it is unable to predict certain items contained in the GAAP measures without unreasonable efforts. These items may include pension settlement charges, restructuring, exit, integration and impairment costs, special tax items and certain other unusual adjustments.

Overview and Outlook

General

Net sales increased 9 percent during the second quarter of 2017 when compared with the second quarter of 2016. Excluding the impact of acquisitions, net sales increased 7 percent over the comparative period. Marine Engine segment net sales increased due to strong growth in outboard engines and solid growth in the marine parts and accessories businesses, partially offset by declines in sterndrive engines. Boat segment net sales increased due to strong growth across all three primary boat categories. Fitness segment net sales increased, reflecting overall growth in international markets which included benefits from the Indoor Cycling Group GmbH (ICG) acquisition. International net sales for the Company increased 12 percent in the second quarter of 2017 on a GAAP basis when compared with the second quarter of 2016. Excluding acquisitions, international sales increased 8 percent, driven by increases in Asia-Pacific, Latin America, Canada and Europe.

Net sales during the first six months of 2017 increased 9 percent on a GAAP basis and 7 percent excluding the impact of acquisitions when compared with the same prior year period. The increases reflect the same factors as the quarterly period above. International net sales increased 11 percent on a GAAP basis and increased 7 percent when excluding the impact of acquisitions. Increases were mainly driven by Asia-Pacific, Latin America, Europe and Canada.

Operating earnings in the second quarter of 2017 were $168.6 million with an operating margin of 12.5 percent, which included restructuring, exit and integration charges of $5.7 million. In the second quarter of 2016, the Company reported operating earnings of $161.9 million with an operating margin of 13.0 percent, which included restructuring, exit and integration charges of $2.6 million. The increase in operating earnings reflected benefits from higher net sales, net favorable cost efficiencies and strong discipline over operating expenses. These items were partially offset by a number of factors in the Fitness segment, including unfavorable changes in sales mix, as well as unfavorable warranty adjustments and legal costs in the fiberglass sterndrive/inboard boat business, unfavorable impacts of foreign exchange and increased restructuring, exit and integration charges.

Operating earnings in the first half of 2017 were $257.6 million with an operating margin of 10.3 percent, which included restructuring, exit and integration charges of $20.9 million. In the first half of 2016, the Company reported operating earnings of $257.9 million, which included restructuring, exit and integration charges of $6.4 million. The slight decline in operating earnings was due to the same factors described in the quarterly period above, except restructuring, exit and integration charges had a much greater unfavorable impact.

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The Company continues to expect that 2017 will be another year of outstanding earnings growth with excellent cash flow generation. The Company is targeting approximately 7 percent to 8 percent net sales growth when compared with 2016. The Company's plan reflects the continuation of solid marine market growth in the U.S. and international markets and the success of new products, which will result in growth in average selling prices and market share gains. The Fitness segment is expected to benefit from overall growth in commercial fitness markets and contributions from new products, particularly in the second half of 2017. Acquisitions are estimated to account for approximately one percentage point of the growth rate in 2017, reflecting the impact of completed transactions in 2016.

The Company expects to have increased revenue and a slight improvement in operating margin levels in 2017 including benefits from volume leverage and cost reductions, including efficiency improvements. The Company anticipates a slight decline in gross margin levels in 2017 with gross margin trends improving over the second half of the year. The Company projects operating expenses, including research and development expenses, to be higher in 2017 when compared with 2016 as the Company continues to increase investment spending to support growth including new products, productivity initiatives and information technology. Operating expenses are projected to be slightly lower on a percentage of sales basis in 2017 versus 2016.

The Company is planning for its effective tax rate in 2017 to be approximately 28 percent on a GAAP basis and 29 percent as adjusted to exclude the impact of restructuring, exit and integration charges and special tax items. Effective tax rates are based on existing tax law and the adoption of recent accounting guidance related to net excess tax benefits or deficiencies resulting from share-based compensation activity.

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Matters Affecting Comparability

Certain events have occurred during the three months and six months ended July 1, 2017 and July 2, 2016 which the Company believes affect the comparability of the results of operations. The tables below summarize the impact of changes in currency exchange rates as well as the impact of recent acquisitions on the Company's net sales:

	Three Months Ended Net Sales		2017 vs. 2016		
(in millions)	July 1, 2017	July 2, 2016	GAAP	Constant Currency	Acquisition Contribution
Marine Engine	$766.2	$719.7	6.5 %	7.1 %	0.9 %
Boat	412.1	368.1	12.0%	12.4 %	1.5 %
Marine eliminations	(76.8)	(75.4)			
Total Marine	1,101.5	1,012.4	8.8 %	9.4 %	1.2 %
Fitness	250.5	229.8	9.0 %	9.9 %	4.0 %
Total	$1,352.0	$1,242.2	8.8 %	9.5 %	1.7 %

	Six Months Ended Net Sales		2017 vs. 2016		
(in millions)	July 1, 2017	July 2, 2016	GAAP	Constant Currency	Acquisition Contribution
Marine Engine	$1,398.0	$1,315.2	6.3 %	6.6 %	1.0 %
Boat	794.8	704.9	12.8%	13.0 %	1.3 %
Marine eliminations	(166.6)	(155.7)			
Total Marine	2,026.2	1,864.4	8.7 %	9.0 %	1.2 %
Fitness	486.1	448.1	8.5 %		