BRUNSWICK CORP
Form 10-Q
April 30, 2014

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 March 29, 2014

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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (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

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 April 29, 2014 was 92,723,574.

BRUNSWICK CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
March 29, 2014

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION		Page
Item 1.	Condensed Consolidated Financial Statements (unaudited)	
	Condensed Consolidated Statements of Comprehensive Income for the three months ended March 29, 2014, and March 30, 2013	3
	Condensed Consolidated Balance Sheets as of March 29, 2014, December 31, 2013, and March 30, 2013	4
	Condensed Consolidated Statements of Cash Flows for the three months ended March 29, 2014, and March 30, 2013	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	44
Item 4.	Controls and Procedures	44
PART II – OTHER INFORMATION		
Item 1A.	Risk Factors	45
Item 6.	Exhibits	46

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 March 29, 2014	March 30, 2013
Net sales	$969.2	$995.3
Cost of sales	704.1	733.4
Selling, general and administrative expense	141.0	139.1
Research and development expense	29.4	27.3
Restructuring, exit and impairment charges	0.0	5.6
Operating earnings	94.7	89.9
Equity loss	(0.2)	(1.2)
Other income, net	1.2	2.2
Earnings before interest, loss on early extinguishment of debt and income taxes	95.7	90.9
Interest expense	(8.5)	(14.4)
Interest income	0.2	0.4
Loss on early extinguishment of debt	—	(0.1)
Earnings before income taxes	87.4	76.8
Income tax provision	30.4	21.9
Net earnings from continuing operations	57.0	54.9
Discontinued operations:		
Loss from discontinued operations, net of tax	—	(5.1)
Net loss from discontinued operations, net of tax	—	(5.1)
Net earnings	$57.0	$49.8
Earnings (loss) per common share:		
Basic		
Earnings from continuing operations	$0.61	$0.61
Loss from discontinued operations	—	(0.06)
Net earnings	$0.61	$0.55
Diluted		
Earnings from continuing operations	$0.60	$0.59
Loss from discontinued operations	—	(0.06)
Net earnings	$0.60	$0.53
Weighted average shares used for computation of:		
Basic earnings (loss) per common share	93.3	90.6
Diluted earnings (loss) per common share	95.0	93.5
Comprehensive income	$58.5	$46.7
Cash dividends declared per share	$0.10	$—

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

BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)

(in millions)	March 29, 2014	December 31, 2013	March 30, 2013
Assets			
Current assets			
Cash and cash equivalents, at cost, which approximates market	$226.0	$ 356.5	$242.0
Short-term investments in marketable securities	0.8	12.7	34.7
Total cash, cash equivalents and short-term investments in marketable securities	226.8	369.2	276.7
Restricted cash	8.9	6.5	13.0
Accounts and notes receivable, less allowances of $22.3, $22.0 and $25.4	476.4	364.6	471.7
Inventories			
Finished goods	426.2	379.9	369.2
Work-in-process	162.9	146.1	160.4
Raw materials	91.0	73.3	75.2
Net inventories	680.1	599.3	604.8
Deferred income taxes	137.6	137.6	18.7
Prepaid expenses and other	30.0	31.4	26.5
Current assets held for sale	—	—	—
Current assets	1,559.8	1,508.6	1,411.4
Property			
Land	79.2	79.3	80.4
Buildings and improvements	543.1	538.6	565.9
Equipment	1,012.6	1,013.9	1,008.0
Total land, buildings and improvements and equipment	1,634.9	1,631.8	1,654.3
Accumulated depreciation	(1,104.5)	(1,094.7)	(1,141.8)
Net land, buildings and improvements and equipment	530.4	537.1	512.5
Unamortized product tooling costs	87.4	80.7	65.6
Net property	617.8	617.8	578.1
Other assets			
Goodwill	291.7	291.7	290.5
Other intangibles, net	34.9	35.4	37.4
Long-term investments in marketable securities	—	—	28.5
Equity investments	44.1	41.3	42.9
Non-current deferred tax asset	352.9	377.0	—
Other long-term assets	44.5	44.0	55.3
Long-term assets held for sale	—	—	—
Other assets	768.1	789.4	454.6
Total assets	$2,945.7	$ 2,915.8	$2,444.1

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

BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)

(in millions)	March 29, 2014	December 31, 2013	March 30, 2013
Liabilities and shareholders’ equity			
Current liabilities			
Short-term debt, including current maturities of long-term debt	$5.7	$ 6.4	$6.8
Accounts payable	383.4	315.6	376.9
Accrued expenses	478.4	561.1	506.6
Current liabilities held for sale	—	—	10.4
Current liabilities	867.5	883.1	900.7
Long-term liabilities			
Debt	453.5	453.4	562.9
Deferred income taxes	—	—	96.3
Postretirement benefits	344.4	347.3	549.1
Other	187.0	193.6	201.5
Long-term liabilities held for sale	—	—	3.0
Long-term liabilities	984.9	994.3	1,412.8
Shareholders’ equity			
Common stock; authorized: 200,000,000 shares, $0.75 par value; issued: 102,538,000 shares; outstanding: 92,716,000, 92,409,000 and 90,421,000 shares	76.9	76.9	76.9
Additional paid-in capital	387.2	393.0	429.4
Retained earnings	1,311.1	1,263.3	553.0
Treasury stock, at cost: 9,822,000, 10,129,000 and 12,117,000 shares	(281.9)	(293.3)	(370.5)
Accumulated other comprehensive loss, net of tax	(400.0)	(401.5)	(558.2)
Shareholders’ equity	1,093.3	1,038.4	130.6
Total liabilities and shareholders’ equity	$2,945.7	$ 2,915.8	$2,444.1

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

BRUNSWICK CORPORATION
Condensed Consolidated Statements of Cash Flows
(unaudited)

(in millions)	Three Months Ended March 29, 2014	March 30, 2013
Cash flows from operating activities		
Net earnings	$57.0	$49.8
Less: net loss from discontinued operations, net of tax	—	(5.1)
Net earnings from continuing operations	57.0	54.9
Depreciation and amortization	21.9	21.6
Pension expense, net of funding	3.1	4.0
Gains on sale of property, plant and equipment, net	—	(5.3)
Other long-lived asset impairment charges	—	2.3
Deferred income taxes	21.0	2.1
Excess tax benefits from share-based compensation	(3.5)	(10.6)
Loss on early extinguishment of debt	—	0.1
Changes in certain current assets and current liabilities	(209.7)	(175.9)
Income taxes	3.5	10.8
Other, net	(1.5)	2.2
Net cash used for operating activities of continuing operations	(108.2)	(93.8)
Net cash used for operating activities of discontinued operations	—	(14.4)
Net cash used for operating activities	(108.2)	(108.2)
Cash flows from investing activities		
Capital expenditures	(21.9)	(21.2)
Sales or maturities of marketable securities	11.9	80.6
Transfer to restricted cash	(2.4)	—
Investments	(4.2)	(2.3)
Proceeds from the sale of property, plant and equipment	0.1	6.1
Net cash (used for) provided by investing activities of continuing operations	(16.5)	63.2
Net cash (used for) provided by investing activities of discontinued operations	—	—
Net cash (used for) provided by investing activities	(16.5)	63.2
Cash flows from financing activities		
Net payments of short-term debt	—	(0.8)
Payments of long-term debt including current maturities	(0.3)	(1.4)
Net premium paid on early extinguishment of debt	—	(0.1)
Cash dividends paid	(9.3)	—
Excess tax benefits from share-based compensation	3.5	10.6
Proceeds from stock compensation activity, net of withholdings	0.3	(5.6)
Net cash (used for) provided by financing activities of continuing operations	(5.8)	2.7
Net cash (used for) provided by financing activities of discontinued operations	—	—
Net cash (used for) provided by financing activities	(5.8)	2.7
Net decrease in cash and cash equivalents	(130.5)	(42.3)
Cash and cash equivalents at beginning of period	356.5	284.3

Cash and cash equivalents at end of period	$226.0	$242.0

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

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 the rules and regulations of the Securities and Exchange Commission (SEC). 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. The prior year presentation of consolidated Net earnings adjusted for the net loss from discontinued operations in the Condensed Consolidated Statements of Cash Flows has been reclassified to change the starting point of the Condensed Consolidated Statements of Cash Flows from "Net earnings from continuing operations" to "Net earnings" followed by "Less: net loss from discontinued operations, net of tax".

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 2013 Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K). These results include, in the opinion of management, all normal and recurring adjustments necessary to present fairly the financial position of Brunswick as of March 29, 2014, December 31, 2013, and March 30, 2013, the results of operations for the three months ended March 29, 2014 and March 30, 2013, and the cash flows for the three months ended March 29, 2014 and March 30, 2013. 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 thirteen weeks, with the first quarter ending on the Saturday closest to the end of the first thirteen-week period. The first quarter of fiscal year 2014 ended on March 29, 2014, and the first quarter of fiscal year 2013 ended on March 30, 2013.

Recent Accounting Pronouncements. The Company evaluates the pronouncements of various authoritative accounting organizations, primarily the Financial Accounting Standards Board (FASB), the SEC, and the Emerging Issues Task Force, to determine the impact of new pronouncements on GAAP and the impact on the Company. The following are recent accounting pronouncements that have been adopted during the three months ended March 29, 2014, or will be adopted in future periods.

Discontinued Operations: In April 2014, the FASB amended the Accounting Standards Codification (ASC) to raise the threshold for a disposal to qualify as a discontinued operation. Under the new guidance, a discontinued operation represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The guidance also expands the disclosures for discontinued operations, including new disclosures related to individually material disposals that do not meet the definition of a discontinued operation. The amendment is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2014, with early adoption permitted only for disposals that have not been reported in financial statements previously issued. The Company is currently evaluating the impact of the adoption of the ASC amendment.

Unrecognized Tax Benefit: In July 2013, the FASB amended the ASC to provide guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance states that entities should present an unrecognized tax benefit as a reduction of a deferred tax asset for an NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. The amendment is

effective for fiscal years, and the interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The Company adopted this amendment in 2014 and it did not have a material impact on the Company’s consolidated results of operations and financial condition.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 2 – Discontinued Operations

On December 31, 2012, the Board of Directors authorized the Company to exit its Hatteras and Cabo boat businesses. As a result, these businesses, which were previously reported in the Company's Boat segment, are being reported as discontinued operations and are reported in separate lines in the Condensed Consolidated Statements of Comprehensive Income for all periods presented. The assets and liabilities of these businesses to be sold at December 31, 2012 met the accounting criteria to be classified as held for sale and have been aggregated and reported on separate lines of the Condensed Consolidated Balance Sheets for all periods presented. In August 2013, the Company completed the sale of its Hatteras and Cabo boat businesses resulting in an after-tax gain of $1.6 million.

There were no sales or earnings from discontinued operations for the three months ended March 29, 2014. The following table discloses the results of operations of the Hatteras and Cabo businesses reported as discontinued operations for the three months ended March 30, 2013:

(in millions)	March 30, 2013
Net sales	$10.7
Loss from discontinued operations before income taxes	(6.5)
Income tax benefit	(1.4)
Net loss from discontinued operations, net of tax	$(5.1)

There were no assets available for sale as of March 29, 2014 and December 31, 2013. The following table reflects the summary of assets and liabilities held for sale as of March 30, 2013, for the Hatteras and Cabo businesses reported as discontinued operations:

(in millions)	March 30, 2013
Current assets held for sale	$—
Long-term assets held for sale	—
Assets held for sale (A)	$—
Accounts payable	$—
Accrued expenses	10.4
Current liabilities held for sale	10.4
Other liabilities	3.0
Long-term liabilities held for sale	3.0
Liabilities held for sale	$13.4

(A) Assets held for sale at March 30, 2013 are shown net of reserves of $53.9 million.

Note 3 – Restructuring Activities

Since November 2006, Brunswick has announced and implemented a number of restructuring initiatives designed to improve the Company’s cost structure, better utilize overall capacity and improve general operating efficiencies. These initiatives reflected the Company’s response to a difficult marine market and resulted in the recognition of restructuring, exit and impairment charges in the Condensed Consolidated Statements of

Comprehensive Income during 2014 and 2013.

The costs incurred under these initiatives include:

Restructuring Activities – These amounts mainly relate to:

- Employee termination and other benefits
- Costs to retain and relocate employees
- Consulting costs
- Consolidation of manufacturing footprint

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Exit Activities – These amounts mainly relate to:

- Employee termination and other benefits
- Lease exit costs
- Inventory write-downs
- Facility shutdown costs

Asset Disposition Actions – These amounts mainly relate to sales of assets and impairments of:

- Fixed assets
- Tooling
- Patents and proprietary technology
- Dealer networks
- Trade names

Impairments of definite-lived assets are recognized when, as a result of the restructuring activities initiated, the carrying amount of the long-lived asset is not expected to be fully recoverable. The impairments recognized were equal to the difference between the carrying amount of the asset and the estimated fair value of the asset, which was determined using observable inputs, including the use of appraisals from independent third parties when available, and, when observable inputs were not available, was determined using the Company's assumptions, including the data that market participants would use in pricing the asset, based on the best information available in the circumstances. Specifically, the Company used discounted cash flows to determine the fair value of the asset when observable inputs were unavailable.

The Company has reported restructuring and exit activities based on the specific driver of the cost and reflected the expense in the accounting period when the cost has been committed or incurred, as appropriate. The following table is a summary of the expense associated with the restructuring, exit and impairment activities for the three months ended March 29, 2014 and March 30, 2013. The 2014 charges consist of expenses related to actions initiated in 2013. The 2013 charges consist of expenses related to actions initiated in 2013 and 2012.

(in millions)	March 29, 2014	March 30, 2013
Restructuring activities:		
Employee termination and other benefits	$—	$1.8
Current asset write-downs (recoveries)	(0.3)	0.3
Transformation and other costs:		
Consolidation of manufacturing footprint	0.3	1.1
Retention and relocation costs	—	0.1
Asset disposition actions:		
Definite-lived asset impairments on disposal	—	2.3
Total restructuring, exit and impairment charges	$0.0	$5.6

The Company anticipates it may incur between $2 million and $4 million of additional restructuring charges in 2014 primarily related to known restructuring activities initiated during 2013 in the Boat segment. Reductions in demand for the Company's products, further refinement of its product portfolio or further opportunities to consolidate manufacturing facilities and reduce costs, may result in additional restructuring, exit or impairment charges in future periods.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Actions Initiated in 2013

In the fourth quarter of 2013, the Company made the decision to outsource woodworking operations for its fiberglass sterndrive boats, which resulted in long-lived asset impairment charges. The Company announced in the first quarter of 2013 the consolidation of its yacht and motoryacht production at its Palm Coast, Florida manufacturing plant. As a result, the Company suspended manufacturing at its Sykes Creek boat manufacturing facility in nearby Merritt Island, Florida at the end of June 2013. The Company recorded restructuring, exit and impairment charges in 2013 and 2014 related to these actions.

The restructuring, exit and impairment charges recorded in the three months ended March 29, 2014 and March 30, 2013, related to actions initiated in 2013, by reportable segment, are summarized below:

(in millions)	March 29, 2014	March 30, 2013
Boat	$0.0	$3.1
Corporate	—	0.7
Total	$0.0	$3.8

The following is a summary of the charges by category associated with the Company’s 2013 restructuring initiatives:

(in millions)	March 29, 2014	March 30, 2013
Restructuring activities:		
Employee termination and other benefits	$—	$1.7
Current asset write-downs (recoveries)	(0.3)	0.3
Transformation and other costs:		
Consolidation of manufacturing footprint	0.3	0.1
Retention and relocation costs	—	0.1
Asset disposition actions:		
Definite-lived asset impairments	—	1.6
Total restructuring, exit and impairment charges	$0.0	$3.8

The restructuring, exit and impairment charges recorded in the three months ended March 29, 2014 related to actions initiated in 2013, by reportable segment and category, are summarized below:

(in millions)	Boat	Total
Current asset write-downs (recoveries)	$(0.3)	$(0.3)
Transformation and other costs	0.3	0.3
Total restructuring, exit and impairment charges	$0.0	$0.0

The restructuring, exit and impairment charges recorded in the three months ended March 30, 2013 related to actions initiated in 2013, by reportable segment and category, are summarized below:

(in millions)	Boat	Corporate	Total
Employee termination and other benefits	$1.0	$0.7	$1.7
Current asset write-downs	0.3	—	0.3
Transformation and other costs	0.2	—	0.2
Asset disposition actions	1.6	—	1.6
Total restructuring, exit and impairment charges	$3.1	$0.7	$3.8

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following table summarizes the activity for restructuring, exit and impairment charges during the three months ended March 29, 2014 related to actions initiated in 2013. The accrued costs as of March 29, 2014 represent cash expenditures needed to satisfy remaining obligations, the majority of which are expected to be paid by the end of 2014 and are included in Accrued expenses in the Condensed Consolidated Balance Sheets.

(in millions)	Accrued Costs as of Jan. 1, 2014	Costs/(Income)Recognized in 2014	Non-cash (Charges)/Gains	Net Cash (Payments)/Receipts	Accrued Costs as of March 29, 2014
Employee termination and other benefits	$2.3	$ —	$ —	$ (1.2)	$1.1
Current asset write-downs (recoveries)	—	(0.3)	—	0.3	—
Transformation and other costs:					
Consolidation of manufacturing footprint	—	0.3	—	(0.3)	—
Loss on sale of non-strategic assets	0.7	—	—	—	0.7
Total restructuring, exit and impairment charges	$3.0	$ 0.0	$ —	$ (1.2)	$1.8

Actions Initiated in 2012

The Company recorded restructuring and impairment charges in 2012 relating to actions initiated in connection with the continued weakness in the fiberglass sterndrive boat market segments as well as the refinement of its North American boat product portfolio. In 2012, the Company decided to exit Bayliner cruisers in the U.S. and European markets and to further reduce the Company's manufacturing footprint by closing its Knoxville, Tennessee production facility and consolidate its fiberglass cruiser manufacturing into other boat production facilities.

There were no restructuring, exit and impairment charges recorded during the three months ended March 29, 2014, related to actions initiated in 2012. The restructuring, exit and impairment charges recorded in the three months March 30, 2013, related to actions initiated in 2012, by reportable segment, are summarized below:

(in millions)	March 30, 2013
Boat	$1.8
Total	$1.8

The following is a summary of the charges by category associated with the Company’s 2012 restructuring initiatives:

(in millions)	March 30, 2013
Restructuring activities:	
Employee termination and other benefits	$0.1
Transformation and other costs:	
Consolidation of manufacturing footprint	1.0
Asset disposition actions:	
Definite-lived asset impairments	0.7
Total restructuring, exit and impairment charges	$1.8

The restructuring and impairment charges recorded in the three months ended March 30, 2013 related to actions initiated in 2012, by reportable segment and category, are summarized below:

(in millions)	Boat	Total
Employee termination and other benefits	$0.1	$0.1
Transformation and other costs	1.0	1.0
Asset disposition actions	0.7	0.7
Total restructuring, exit and impairment charges	$1.8	$1.8

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following table summarizes the activity for restructuring, exit and impairment charges during the three months ended March 29, 2014 related to actions initiated in 2012. The accrued costs as of March 29, 2014 represent cash expenditures needed to satisfy remaining obligations, the majority of which are expected to be paid by the end of 2014 and are included in Accrued expenses in the Condensed Consolidated Balance Sheets.

(in millions)	Accrued Costs as of Jan. 1, 2014	Costs Recognized in 2014	Non-cash Charges	Net Cash Payments	Accrued Costs as of March 29, 2014
Employee termination and other benefits	$0.2	$—	$—	$(0.1)	$0.1
Transformation and other costs:					
Consolidation of manufacturing footprint	2.5	—	—	(0.5)	2.0
Total restructuring, exit and impairment charges	$2.7	$—	$—	$(0.6)	$2.1

Note 4 – Financial Instruments

The Company operates globally with manufacturing and sales facilities in various locations 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.

Derivative Financial Instruments. The Company uses derivative financial instruments to manage its risks associated with movements in foreign currency exchange rates, interest rates and commodity prices. Derivative instruments are not used for trading or speculative purposes. For certain derivative contracts, on the date a derivative contract is entered into, the Company designates the derivative as a hedge of a forecasted transaction (cash flow hedge). The Company formally documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivatives that are designated as hedges to specific forecasted transactions. The Company also assesses, both at the hedge's inception and monthly thereafter, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in the anticipated cash flows of the hedged item. If the hedging relationship ceases to be highly effective, or it becomes probable that a forecasted transaction is no longer expected to occur, gains and losses on the derivative are recorded in Cost of sales or Interest expense as appropriate. There were no material adjustments as a result of ineffectiveness to the results of operations for the three months ended March 29, 2014 and March 30, 2013. The fair value of derivative financial instruments is determined through market-based valuations and may not be representative of the actual gains or losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they are traded. The effects of derivative and financial instruments are not expected to be material to the Company's financial position or results of operations when considered together with the underlying exposure being hedged. Use of derivative financial instruments exposes the Company to credit risk with its counterparties when the fair value of a derivative contract is an asset. The Company mitigates this risk by entering into derivative contracts with highly rated counterparties. The maximum amount of loss due to counterparty credit risk is limited to the asset value of derivative financial instruments.

Cash Flow Hedges. The Company enters into certain derivative instruments that are designated and qualify as cash flow hedges. The Company executes both forward and option contracts, based on forecasted transactions, to manage foreign exchange exposure mainly related to inventory purchase and sales transactions. The Company also enters into

commodity swap agreements, based on anticipated purchases of aluminum, copper and natural gas, to manage risk related to price changes. From time-to-time, the Company enters into forward starting interest rate swaps to hedge the interest rate risk associated with the anticipated issuance of debt.

A cash flow hedge requires that as changes in the fair value of derivatives occur, the portion of the change deemed to be effective is recorded temporarily in Accumulated other comprehensive loss, an equity account, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. As of March 29, 2014, the term of derivative instruments hedging forecasted transactions ranged from one to 20 months.

Other Hedging Activity. The Company has entered into certain foreign currency forward contracts that have not been designated as a hedge for accounting purposes. These contracts are used to manage foreign currency exposure related to changes in the value of assets or liabilities caused by changes in foreign exchange rates. The change in the fair value of the foreign currency derivative contract and the corresponding change in the fair value of the asset or liability of the Company are both recorded through earnings, each period as incurred.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Foreign Currency. The Company enters into forward and option contracts to manage foreign exchange exposure related to forecasted transactions, and assets and liabilities that are subject to risk from foreign currency rate changes. These exposures include: product costs; revenues and expenses; associated receivables and payables; intercompany obligations and receivables; and other related cash flows.

Forward exchange contracts outstanding at March 29, 2014 and December 31, 2013 had notional contract values of $155.4 million and $159.1 million, respectively. Option contracts outstanding at March 29, 2014 and December 31, 2013 had notional contract values of $75.7 million and $71.9 million, respectively. The forward and options contracts outstanding at March 29, 2014, mature during 2014 and 2015 and mainly relate to the Euro, Japanese yen, Canadian dollar, Australian dollar, Brazilian real, Mexican peso, Swedish krona, Norwegian krone, British pound and New Zealand dollar. As of March 29, 2014, the Company estimates that during the next 12 months, it will reclassify approximately $0.3 million of net losses (based on current rates) from Accumulated other comprehensive loss to Cost of sales.

Interest Rate. The Company enters into forward starting interest rate swaps to hedge the interest rate risk associated with anticipated debt issuances. There were no forward starting interest rate swaps outstanding at March 29, 2014 and December 31, 2013.

As of both March 29, 2014 and December 31, 2013, the Company had $5.3 million of net deferred losses associated with all forward starting interest rate swaps, which were included in Accumulated other comprehensive loss. These amounts include gains deferred on forward starting interest rate swaps terminated in July 2006, net of losses deferred on forward starting swaps terminated in August 2008 and forward starting swaps terminated in May 2013. As of March 29, 2014, the Company estimates that during the next 12 months, it will reclassify approximately $0.1 million of net losses resulting from settled forward starting interest rate swaps from Accumulated other comprehensive loss to Interest expense.

Commodity Price. The Company uses commodity swaps to hedge anticipated purchases of aluminum, copper and natural gas. Commodity swap contracts outstanding at March 29, 2014 and December 31, 2013 had notional contract values of $32.7 million and $26.2 million, respectively. The contracts outstanding mature through 2015. The amount of gain or loss associated with these instruments are deferred in Accumulated other comprehensive loss and are recognized in Cost of sales in the same period or periods during which the hedged transaction affects earnings. As of March 29, 2014, the Company estimates that during the next 12 months it will reclassify approximately $0.3 million in net losses (based on current prices) from Accumulated other comprehensive loss to Cost of sales.

As of March 29, 2014, the fair values of the Company's derivative instruments were:
(in millions)

	Derivative Assets		Derivative Liabilities	
Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives Designated as Cash Flow Hedges				
Foreign exchange contracts	Prepaid expenses and other	$2.1	Accrued expenses	$1.5
Commodity contracts	Prepaid expenses and other	0.0	Accrued expenses	1.5
Total		$2.1		$3.0

Other Hedging Activity				
Foreign exchange contracts	Prepaid expenses and other	$0.2	Accrued expenses	$0.1
Total		$0.2		$0.1

13

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

As of December 31, 2013, the fair values of the Company's derivative instruments were:
(in millions)

Instrument	Derivative Assets: Balance Sheet Location	Fair Value	Derivative Liabilities: Balance Sheet Location	Fair Value
Derivatives Designated as Cash Flow Hedges				
Foreign exchange contracts	Prepaid expenses and other	$2.6	Accrued expenses	$2.4
Commodity contracts	Prepaid expenses and other	0.0	Accrued expenses	1.2
Total		$2.6		$3.6
Other Hedging Activity				
Foreign exchange contracts	Prepaid expenses and other	$0.1	Accrued expenses	$0.9
Total		$0.1		$0.9

The effect of derivative instruments on the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 29, 2014 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)
Foreign exchange contracts	$0.0	Cost of sales	$(0.4)
Commodity contracts	(1.1)	Cost of sales	(2.2)
Total	$(1.1)		$(2.6)

Other Hedging Activity	Location of Gain (Loss) on Derivatives Recognized in Earnings	Amount of Gain (Loss) on Derivatives Recognized in Earnings
Foreign exchange contracts	Cost of sales	$(0.5)
Foreign exchange contracts	Other income, net	(0.1)
Total		$(0.6)

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

The effect of derivative instruments on the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 30, 2013 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)
Interest rate contracts	$1.0	Interest expense	$0.3
Foreign exchange contracts	(0.2)	Cost of sales	(1.3)
Commodity contracts	(1.7)	Cost of sales	(0.4)
Total	$(0.9)		$(1.4)

Other Hedging Activity	Location of Gain (Loss) on Derivatives Recognized in Earnings	Amount of Gain (Loss) on Derivatives Recognized in Earnings
Foreign exchange contracts	Cost of sales	$0.9
Foreign exchange contracts	Other income, net	0.1
Total		$1.0

Concentration of Credit Risk. The Company enters into financial instruments and invests a portion of its cash reserves in marketable debt securities with banks and investment firms with which the Company has business relationships, and regularly monitors the credit ratings of its counterparties. The Company sells a broad range of recreational products to a worldwide customer base and extends credit to its customers based upon an ongoing credit evaluation program. The Company's business units maintain credit organizations to manage financial exposure and perform credit risk assessments on an individual account basis. Accounts are not aggregated into categories for credit risk determinations. There are no concentrations of credit risk resulting from accounts receivable that are considered material to the Company's financial position. Refer to Note 9 – Financing Receivables for more information.

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, including current maturities of long-term debt, approximate their fair values because of the short maturity of these instruments. At March 29, 2014 and December 31, 2013, the fair value of the Company's long-term debt was approximately $468.9 million and $461.6 million, respectively, and was determined using Level 1 and Level 2 inputs described in Note 5 – Fair Value Measurements, including quoted market prices or discounted cash flows based on quoted market rates for similar types of debt. The carrying value of long-term debt, including current maturities, was $459.2 million and $459.8 million as of March 29, 2014 and December 31, 2013, respectively.

Note 5 – Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of

observable inputs and minimize the use of unobservable inputs. There is a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable.

- Level 1 - Quoted prices in active markets for identical assets or liabilities. These are typically obtained from real-time quotes for transactions in active exchange markets involving identical assets or liabilities.

- Level 2 - Inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. These are typically obtained from readily available pricing sources for comparable instruments. The Company performs additional procedures to ensure its third party pricing sources are reasonable including: reviewing documentation explaining third parties' pricing methodologies and evaluating whether those methodologies were in compliance with GAAP; performing independent testing of period-end valuations and recent transactions against other available pricing sources; and reviewing available Service Organization Controls Reports, as defined in Statement on

15

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Standards for Attestation Engagements Number 16, to understand the internal control environment at the Company's third party pricing providers.

- Level 3 - Unobservable inputs, where there is little or no market activity for the asset or liability. These inputs reflect the reporting entity's own assumptions of the data that market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

The following table summarizes Brunswick's financial assets and liabilities measured at fair value on a recurring basis as of March 29, 2014:

(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$68.8	$1.0	$—	$69.8
Short-term investments in marketable securities	0.8	—	—	0.8
Restricted cash	8.9	—	—	8.9
Derivatives	—	2.3	—	2.3
Total assets	$78.5	$3.3	$—	$81.8
Liabilities:				
Derivatives	$—	$3.1	$—	$3.1
Other	4.4	45.9	—	50.3
Total liabilities	$4.4	$49.0	$—	$53.4

The following table summarizes Brunswick's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2013:

(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$119.7	$59.7	$—	$179.4
Short-term investments in marketable securities	0.8	11.9	—	12.7
Restricted cash	6.5	—	—	6.5
Derivatives	—	2.7	—	2.7
Total assets	$127.0	$74.3	$—	$201.3
Liabilities:				
Derivatives	$—	$4.5	$—	$4.5
Other	4.6	47.8	—	52.4
Total liabilities	$4.6	$52.3	$—	$56.9

Refer to Note 4 – Financial Instruments for additional information related to the fair value of derivative assets and liabilities by class. Other liabilities shown in the tables above include certain deferred compensation plans of the Company. In addition to the items shown in the tables above, refer to Note 16 in the Company's 2013 Form 10-K for further discussion regarding the fair value measurements associated with the Company's postretirement benefit plans.

As discussed in Note 3 – Restructuring Activities, the Company has initiated various restructuring activities requiring the Company to perform fair value measurements, on a non-recurring basis, of certain asset groups to test for potential impairments. Certain of these fair value measurements indicated that the asset groups were impaired and, therefore, the assets were written down to fair value. Once an asset has been impaired, it is not remeasured at fair value on a

recurring basis; however, it is still subject to fair value measurements to test for recoverability of the carrying amount.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 6 – Share-Based Compensation

Under the 2003 Stock Incentive Plan (Plan), the Company may grant stock options, stock appreciation rights (SARs), non-vested stock and other types of share-based awards to executives and other management employees. Under the Plan, the Company may issue up to 13.1 million shares from treasury shares and from authorized, but unissued, shares of common stock. As of March 29, 2014, 1.6 million shares remained available for grant.

Stock Options and SARs

Between 2005 and 2012, the Company issued stock-settled SARs and has not issued any stock options since 2004. The Company has not issued SARs in 2014 or 2013. In the three months ended March 29, 2014 and March 30, 2013, there was $0.3 million and $1.3 million, respectively, of total expense after adjusting for forfeitures, due to amortization of SARs granted.

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 the Human Resources and Compensation Committee. During the three months ended March 29, 2014 and March 30, 2013, the Company granted 0.3 million and 0.2 million stock awards, respectively. The Company recognizes the cost of non-vested stock units and awards on a straight-line basis over the requisite service period. Additionally, cash-settled non-vested stock units and awards are recorded as a liability in the balance sheet and adjusted to fair value each reporting period through stock compensation expense. See Note 5 – Fair Value Measurements for further discussion. During the three months ended March 29, 2014 and March 30, 2013, $2.2 million and $2.5 million, respectively, was charged to compensation expense for non-vested stock awards.

As of March 29, 2014, the Company had $14.5 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 1.6 years.

Performance Awards

In both February 2014 and 2013, the Company granted 0.1 million performance shares to certain senior executives. The share awards are based on two performance measures--a cash flow return on investment (CFROI) measure and a total shareholder return (TSR) modifier. Target performance shares are earned based on a one-year CFROI performance period, commencing at the beginning of the calendar year of each grant. The performance shares earned from CFROI performance are then subject to a TSR modifier based on stock price performance measured against a predefined comparator group over a three-year performance period which starts at the beginning of the calendar year of each grant. Additionally, in February 2014 and 2013, the Company granted 24,600 and 26,000 performance shares, respectively, to non-executive officers and certain senior managers based solely on the CFROI measure utilizing the same one-year performance period mentioned above. Based on projections of probable attainment of the CFROI measure and the projected TSR modifier used to determine the performance awards, $1.6 million and $0.8 million, respectively, was charged to compensation expense for the three months ended March 29, 2014 and March 30, 2013.

The fair values of the senior executives' performance share award grants with a TSR modifier at the grant date in 2014 and 2013 were $41.38 and $35.93, respectively, which were estimated using the Monte Carlo valuation model, and incorporated the following assumptions:

	2014		2013	
Risk-free interest rate	0.6	%	0.4	%
Dividend yield (A)	—		0.1	%
Volatility factor	43.7	%	53.0	%
Expected life of award	2.9 years		2.9 years	

(A) In 2014, the Company used an assumption of dividend reinvestment to value performance share grants.

The fair value of the non-executive officers and certain senior managers' performance awards granted based solely on the CFROI performance factor was $40.44 and $34.65, respectively, which was equal to the stock price on the date of grant in 2014 and 2013, respectively.

As of March 29, 2014, 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.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

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. One-half 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 one-half paid in cash, in Brunswick common stock distributed at the time of the award, or in deferred Brunswick common stock units with a 20 percent premium.

Note 7 – Earnings (Loss) per Common Share

Basic earnings (loss) per common share is calculated by dividing Net earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated similarly, except that the calculation includes the dilutive effect of stock-settled SARs and stock options (collectively "options"), non-vested stock awards and performance awards.

Basic and diluted earnings (loss) per common share for the three months ended March 29, 2014 and March 30, 2013, were calculated as follows:

(in millions, except per share data)	March 29, 2014	March 30, 2013
Net earnings from continuing operations	$57.0	$54.9
Net loss from discontinued operations, net of tax	—	(5.1)
Net earnings	$57.0	$49.8
Weighted average outstanding shares – basic	93.3	90.6
Dilutive effect of common stock equivalents	1.7	2.9
Weighted average outstanding shares – diluted	95.0	93.5
Basic earnings (loss) per common share:		
Continuing operations	$0.61	$0.61
Discontinued operations	—	(0.06)
Net earnings	$0.61	$0.55
Diluted earnings (loss) per common share:		
Continuing operations	$0.60	$0.59
Discontinued operations	—	(0.06)
Net earnings	$0.60	$0.53

As of March 29, 2014, the Company had 3.5 million options outstanding, of which 3.0 million were exercisable. This compares with 6.9 million options outstanding, of which 5.1 million were exercisable, as of March 30, 2013. During the three months ended March 29, 2014 and March 30, 2013, there were 0.3 million and 1.0 million average shares of options outstanding, respectively, for which the exercise price was greater than the average market price of the Company's shares for the period then ended. These options were not included in the computation of diluted earnings per common share because the effect would have been anti-dilutive. Changes in average outstanding basic shares from March 30, 2013 to March 29, 2014, reflect the impact of options exercised and the vesting of stock and performance awards since the beginning of 2013.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 8 – Commitments and Contingencies

Financial Commitments

The Company has entered into guarantees of indebtedness of third parties, primarily in connection with customer financing programs. Under these arrangements, the Company has guaranteed customer obligations to the financial institutions in the event of customer default, generally subject to a maximum amount that is less than total obligations outstanding. The Company has also extended guarantees to third parties that have purchased customer receivables from Brunswick and, in certain instances, has guaranteed secured term financing of its customers. Potential payments in connection with these customer financing arrangements generally extend over several years. The potential cash obligations associated with these customer financing arrangements as of March 29, 2014 and December 31, 2013 were:

	Single Year Obligation		Maximum Obligation	
(in millions)	March 29, 2014	December 31, 2013	March 29, 2014	December 31, 2013
Marine Engine	$8.9	$8.8	$8.9	$8.8
Boat	2.7	3.1	2.7	3.1
Fitness	25.7	24.4	29.6	28.9
Bowling & Billiards	0.4	0.5	0.7	0.9
Total	$37.7	$36.8	$41.9	$41.7

In most instances, upon repurchase of the receivable or note, the Company receives rights to the collateral securing the financing. The Company's risk under these arrangements is partially mitigated by the value of the collateral that secures the financing. The Company had $1.6 million accrued for potential losses related to recourse exposure at both March 29, 2014 and December 31, 2013. The Company's recourse accrual represents the expected losses that could result from requirements to repurchase receivables or notes, after giving affect to anticipated proceeds from collections.

The Company has also entered into arrangements with third-party lenders where it has agreed, in the event of a default by the customer, to repurchase from the third-party lender those Brunswick products repossessed from the customer. These arrangements are typically subject to a maximum repurchase amount. The potential cash payments the Company could be required to make to repurchase collateral as of March 29, 2014 and December 31, 2013 were:

	Single Year Obligation		Maximum Obligation	
(in millions)	March 29, 2014	December 31, 2013	March 29, 2014	December 31, 2013
Marine Engine	$2.3	$2.2	$2.3	$2.2
Boat	61.5	62.5	61.5	62.5
Bowling & Billiards	0.2	0.3	0.2	0.3
Total	$64.0	$65.0	$64.0	$65.0

The Company's risk under these repurchase arrangements is partially mitigated by the value of the products repurchased as part of the transaction. The Company had $1.6 million and $1.7 million accrued for potential losses related to repurchase exposure at March 29, 2014 and December 31, 2013, respectively. The Company's repurchase accrual represents the expected losses that could result from obligations to repurchase products, after giving effect to proceeds anticipated to be received from the resale of those products to alternative dealers.

The Company has recorded its estimated net liability associated with losses from these guarantee and repurchase obligations on its Condensed Consolidated Balance Sheets based on historical experience and current facts and circumstances. Historical cash requirements and losses associated with these obligations have not been significant, but could increase if dealer defaults exceed current expectations.

The Company has accounts receivable sale arrangements with third parties which are included in the guarantee arrangements discussed above. The Company treats the sale of receivables in which the Company retains an interest as a secured obligation as the transfers of the receivables under these arrangements do not meet the requirements of a "true sale." Accordingly, the current portion of receivables underlying these arrangements of $33.5 million and $36.2 million was recorded in Accounts and notes receivable and Accrued expenses as of March 29, 2014 and December 31, 2013, respectively. Further, the long-term portion of

these arrangements of $18.9 million as of both March 29, 2014 and December 31, 2013, was recorded in Other long-term assets and Other long-term liabilities.

Financial institutions have issued standby letters of credit and surety bonds conditionally guaranteeing obligations on behalf of the Company totaling $18.9 million and $15.8 million, respectively, as of March 29, 2014. A large portion of these standby letters of credit and surety bonds are related to the Company's self-insured workers' compensation program as required by its insurance companies and various state agencies. The Company has recorded reserves to cover the anticipated liabilities associated with these programs. Under certain circumstances, such as an event of default under the Company's revolving credit facility, or, in the case of surety bonds, a ratings downgrade, the Company could be required to post collateral to support the outstanding letters of credit and surety bonds. The Company was not required to post letters of credit as collateral against surety bonds as of March 29, 2014.

The Company has a collateral trust arrangement with insurance carriers and a trustee bank. The trust is owned by the Company, but the assets are pledged as collateral against workers' compensation related obligations in lieu of other forms of collateral including letters of credit. In connection with this arrangement, the Company had $8.9 million and $6.5 million of cash in the trust, as of March 29, 2014 and December 31, 2013, respectively, which was classified as Restricted cash in the Company's Condensed Consolidated Balance Sheets. In the first quarter of 2014, there was a $2.4 million transfer of cash from Cash and cash equivalents to Restricted cash in the Company's Condensed Consolidated Balance Sheets related to annual collateral requirements for the current policy year.

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. The Company's warranty liabilities are affected by product failure rates as well as material usage and labor costs incurred in correcting a product failure. If actual costs differ from estimated costs, the Company must make a revision to the warranty liability.

The following activity related to product warranty liabilities was recorded in Accrued expenses during the three months ended March 29, 2014 and March 30, 2013:

(in millions)	March 29, 2014	March 30, 2013
Balance at beginning of period	$120.8	$127.7
Payments made	(11.4)	(13.3)
Provisions/additions for contracts issued/sold	11.2	13.5
Aggregate changes for preexisting warranties	(3.6)	(1.1)
Balance at end of period	$117.0	$126.8

Additionally, end users of the Company's Marine Engine, Boat and Fitness segments' 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 liability is recorded based on the aggregate sales price for contracts sold. The deferred liability is reduced and revenue is recognized on a straight-line basis over the contract period during which costs are expected to be incurred. Deferred revenue associated with contracts sold by the Company that extend product protection beyond the standard product warranty period, not included in the table above, was $57.6 million at both March 29, 2014 and December 31, 2013, and is

recorded in Accrued expenses and Other long-term liabilities.

Legal and Environmental

The Company accrues for litigation exposure when it is probable that future costs will be incurred and such costs can be reasonably estimated. Adjustments to estimates are recorded in the period the adjustments are identified. Management does not believe that there is a reasonable possibility that a material loss exceeding the amounts already recognized for the Company's litigation claims and matters, if any, has been incurred. However, the ultimate resolutions of these proceedings and matters are inherently unpredictable. As such, our financial condition, results of operations and cash flows could be adversely affected in any particular period by the unfavorable resolution of one or more of these proceedings or matters.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

There were no significant changes during the three months ended March 29, 2014, to the legal and environmental commitments that were discussed in Note 12 to the consolidated financial statements in the 2013 Form 10-K.

Note 9 – Financing Receivables

The Company has recorded financing receivables, which are defined as a contractual right to receive money, recognized as assets on its Condensed Consolidated Balance Sheets as of March 29, 2014, December 31, 2013 and March 30, 2013. Substantially all of the Company's financing receivables are for commercial customers. The Company classifies its financing receivables into three categories: receivables repurchased under recourse provisions (Recourse Receivables); receivables sold to third-party finance companies (Third-Party Receivables); and customer notes and other (Other Receivables). Recourse Receivables are the result of the contingent recourse arrangements discussed in Note 8 – Commitments and Contingencies. Third-Party Receivables are accounts that have been sold to third-party finance companies, but do not meet the definition of a true sale, and are therefore recorded as an asset with an offsetting balance recorded as a secured obligation in Accrued expenses and Other long-term liabilities as discussed in Note 8 – Commitments and Contingencies. Other Receivables are mostly comprised of notes from customers, which are originated by the Company in the normal course of business. Financing receivables are carried at their face amounts less an allowance for doubtful accounts.

The Company sells a broad range of recreational products to a worldwide customer base and extends credit to its customers based upon an ongoing credit evaluation program. The Company's business units maintain credit organizations to manage financial exposure and perform credit risk assessments on an individual account basis. Accounts are not aggregated into categories for credit risk determinations. Due to the composition of the account portfolio, the Company does not believe that the credit risk posed by the Company's financing receivables is significant to its operations, financial condition or cash flows. There were no significant troubled debt restructurings during the three months ended March 29, 2014 and March 30, 2013.

The following are the Company's financing receivables, excluding trade accounts receivable contractually due within one year, by segment as of March 29, 2014:

(in millions)	Marine Engine	Boat	Fitness	Bowling & Billiards	Corporate	Total
Recourse Receivables:						
Short-term	$—	$—	$0.7	$5.0	$—	$5.7
Long-term	—	—	0.2	2.7	—	2.9
Allowance for doubtful accounts	—	—	(0.3)	(4.4)	—	(4.7)
Total	—	—	0.6	3.3	—	3.9
Third-Party Receivables:						
Short-term	11.4	2.3	19.8	—	—	33.5
Long-term	—	—	18.9	—	—	18.9
Allowance for doubtful accounts	—	—	—	—	—	—
Total	11.4	2.3	38.7	—	—	52.4
Other Receivables:						
Short-term	9.0	0.3	0.5	—	0.2	10.0

Long-term	0.9	0.1	0.1	—	1.3	2.4
Allowance for doubtful accounts	—	(0.3)	—	—	—	(0.3)
Total	9.9	0.1	0.6	—	1.5	12.1
Total Financing Receivables	$21.3	$2.4	$39.9	$3.3	$1.5	$68.4

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following are the Company's financing receivables, excluding trade accounts receivable contractually due within one year, by segment as of December 31, 2013:

(in millions)	Marine Engine	Boat	Fitness	Bowling & Billiards	Corporate	Total
Recourse Receivables:						
Short-term	$—	$—	$0.7	$5.2	$—	$5.9
Long-term	—	—	0.2	2.7	—	2.9
Allowance for doubtful accounts	—	—	(0.4)	(4.4)	—	(4.8)
Total	—	—	0.5	3.5	—	4.0
Third-Party Receivables:						
Short-term	12.0	3.1	21.1	—	—	36.2
Long-term	—	—	18.9	—	—	18.9
Allowance for doubtful accounts	—	—	—	—	—	—
Total	12.0	3.1	40.0	—	—	55.1
Other Receivables:						
Short-term	10.2	0.3	0.6	—	0.2	11.3
Long-term	0.9	0.2	0.1	—	—	1.2
Allowance for doubtful accounts	—	(0.3)	—	—	—	(0.3)
Total	11.1	0.2	0.7	—	0.2	12.2
Total Financing Receivables	$23.1	$3.3	$41.2	$3.5	$0.2	$71.3

The following table sets forth activity related to the allowance for doubtful accounts on financing receivables during the three months ended March 29, 2014:

(in millions)	Boat	Fitness	Bowling & Billiards	Total
Recourse Receivables:				
Beginning balance	$—	$0.4	$4.4	$4.8
Current period provision	—	—	(0.1)	(0.1)
Direct write-downs	—	(0.1)	—	(0.1)
Recoveries	—	—	0.1	0.1
Ending balance	$—	$0.3	$4.4	$4.7
Other Receivables:				
Beginning balance	$0.3	$—	$—	$0.3
Current period provision	—	—	—	—
Direct write-downs	—	—	—	—
Recoveries	—	—	—	—
Ending balance	$0.3	$—	$—	$0.3

22

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following table sets forth activity related to the allowance for doubtful accounts on financing receivables during the three months ended March 30, 2013:

(in millions)	Boat	Fitness	Bowling & Billiards	Total
Recourse Receivables:				
Beginning balance	$—	$0.9	$5.4	$6.3
Current period provision	—	0.1	0.1	0.2
Direct write-downs	—	—	—	—
Recoveries	—	(0.1)	—	(0.1)
Ending balance	$—	$0.9	$5.5	$6.4
Other Receivables:				
Beginning balance	$2.8	$0.2	$—	$3.0
Current period provision	—	—	—	—
Direct write-downs	(1.5)	—	—	(1.5)
Recoveries	—	—	—	—
Ending balance	$1.3	$0.2	$—	$1.5

Note 10 – Segment Data

Brunswick is a manufacturer and marketer of leading consumer brands and operates in four reportable segments: Marine Engine, Boat, Fitness and Bowling & Billiards. The Company's segments are defined by management's reporting structure and operating activities.

The Company evaluates performance based on business segment operating earnings. Operating earnings of segments do not include the expenses of corporate administration, non-service related pension costs, earnings from unconsolidated equity affiliates, other expenses and income of a non-operating nature, interest expense and income, loss on early extinguishment of debt or provisions for income taxes.

As a result of freezing benefit accruals in its defined benefit pension plans, the Company allocates only service-related costs to the operating segment results and reports all other components of pension expense, such as Interest cost, Expected return on plan assets and Amortization of net actuarial losses, in Pension - non-service costs.

Corporate/Other results include items such as corporate staff and administrative costs. Corporate/Other total assets consist of mainly cash, cash equivalents and investments in marketable securities, restricted cash, income tax balances and investments in unconsolidated affiliates. Marine eliminations adjust for sales between the Marine Engine and Boat segments, primarily for the sale of engines to various boat brands, which are consummated at established arm's length transfer prices as the intersegment pricing for these engines are based upon and consistent with selling prices to the Company's third party customers.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Operating Segments

The following table sets forth net sales and operating earnings (loss) of each of the Company's operating segments, which are also the Company's reportable segments, for the three months ended March 29, 2014 and March 30, 2013:

(in millions)	Net Sales March 29, 2014	Net Sales March 30, 2013	Operating Earnings (Loss) March 29, 2014	Operating Earnings (Loss) March 30, 2013
Marine Engine	$505.1	$521.8	$61.7	$71.5
Boat	282.8	289.7	8.4	2.4
Marine eliminations	(73.1)	(67.6)	—	—
Total Marine	714.8	743.9	70.1	73.9
Fitness	175.6	166.2	29.8	24.5
Bowling & Billiards	78.8	85.2	12.7	14.9
Pension - non-service costs	—	—	(3.7)	(4.9)
Corporate/Other	—	—	(14.2)	(18.5)
Total	$969.2	$995.3	$94.7	$89.9

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

(in millions)	Total Assets March 29, 2014	Total Assets December 31, 2013
Marine Engine	$975.2	$803.6
Boat	366.1	330.3
Total Marine	1,341.3	1,133.9
Fitness	545.0	551.2
Bowling & Billiards	248.6	250.6
Corporate/Other	810.8	980.1
Total	$2,945.7	$2,915.8

Note 11 – Investments

Investments in Marketable Securities

The Company invests a portion of its cash reserves in marketable debt securities. These investments, which have an original maturity of up to two years, are reported in either Short-term or Long-term investments in marketable securities on the Condensed Consolidated Balance Sheets. Furthermore, the debt securities have readily determinable market values and are being accounted for as available-for-sale investments. These investments are recorded at fair market value with unrealized gains and losses reflected in Accumulated other comprehensive loss, a component of Shareholders' equity on the Company's Condensed Consolidated Balance Sheets, on an after-tax basis.

The following is a summary of the Company's available-for-sale securities as of March 29, 2014:

(in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value (net carrying amount)
U.S. Treasury Bills	$0.8	$—	$—	$0.8
Total available-for-sale securities	$0.8	$—	$—	$0.8

24

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following is a summary of the Company's available-for-sale securities as of December 31, 2013:

(in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value (net carrying amount)
Corporate Bonds	$11.9	$—	$—	$11.9
U.S. Treasury Bills	0.8	—	—	0.8
Total available-for-sale securities	$12.7	$—	$—	$12.7

The net carrying value and estimated fair value of debt securities at March 29, 2014, by contractual maturity, are shown below:

(in millions)	Amortized cost	Fair value (net carrying amount)
Available-for-sale debt securities:		
Due in one year or less	$0.8	$0.8
Total available-for-sale debt securities	$0.8	$0.8

The net carrying value and estimated fair value of debt securities at December 31, 2013, by contractual maturity, are shown below:

(in millions)	Amortized cost	Fair value (net carrying amount)
Available-for-sale debt securities:		
Due in one year or less	$12.7	$12.7
Total available-for-sale debt securities	$12.7	$12.7

The Company had $11.9 million and $80.6 million in redemptions of available-for-sale securities during the three months ended March 29, 2014 and March 30, 2013, respectively. The net adjustment to Unrealized investment losses on available-for-sale securities included in Accumulated other comprehensive loss on the Condensed Consolidated Balance Sheets was $0.0 million for both the three months ended March 29, 2014 and March 30, 2013.

At each reporting date, management reviews the debt securities to determine if any loss in the value of a security below its amortized cost should be considered "other-than-temporary." For the evaluation, management determines whether it intends to sell or if it is more likely than not that it will be required to sell the securities. This determination considers current and forecasted liquidity requirements, regulatory and capital requirements and the strategy for managing the Company's securities portfolio. For all impaired debt securities for which there was no intent or expected requirement to sell, the evaluation considers all available evidence to assess whether it is likely the amortized cost value will be recovered. The Company also considers the nature of the securities, the credit rating or financial condition of the issuer, the extent and duration of the unrealized loss, market conditions and whether the Company intends to sell or whether it is more likely than not the Company will be required to sell the debt securities. As of March 29, 2014, there were no unrealized losses related to debt securities that required management evaluation.

Equity Investments

The Company has certain unconsolidated international and domestic affiliates that are accounted for using the equity method. Refer to Note 13 – Financial Services for more details on the Company's Brunswick Acceptance Company,

LLC joint venture. Refer to Note 8 to the consolidated financial statements in the 2013 Form 10-K for further detail relating to the Company's investments.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 12 – 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; unrealized derivative gains and losses; and unrealized investment gains and losses, all net of tax. Changes in the components of Accumulated other comprehensive loss for the three months ended March 29, 2014 and March 30, 2013 were as follows:

(in millions)	March 29, 2014	March 30, 2013
Net earnings	$57.0	$49.8
Other comprehensive income (loss):		
Foreign currency cumulative translation adjustment	(1.6)	(7.0)
Net change in unamortized prior service credits	(0.3)	(1.7)
Net change in unamortized actuarial losses	2.5	5.9
Net change in unrealized derivative losses	0.9	(0.3)
Total other comprehensive income (loss)	1.5	(3.1)
Comprehensive income	$58.5	$46.7

The following table presents the changes in Accumulated other comprehensive loss by component, all net of tax, for the three months ended March 29, 2014:

(in millions)	Foreign currency translation	Prior service credits	Actuarial losses	Derivative losses	Total
Beginning balance	$11.0	$(2.6)	$(398.6)	$(11.3)	$(401.5)
Other comprehensive income (loss) before reclassifications	(1.6)	—	0.2	(0.7)	(2.1)
Amounts reclassified from Accumulated other comprehensive loss	—	(0.3)	2.3	1.6	3.6
Net current-period other comprehensive income (loss)	(1.6)	(0.3)	2.5	0.9	1.5
Ending balance	$9.4	$(2.9)	$(396.1)	$(10.4)	$(400.0)

The following table presents the changes in Accumulated other comprehensive loss by component, all net of tax, for the three months ended March 30, 2013:

(in millions)	Foreign currency translation	Prior service credits	Actuarial losses	Derivatives losses	Total
Beginning balance	$18.4	$4.4	$(567.2		