BRUNSWICK CORP
Form 10-Q
November 05, 2010

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 October 2, 2010

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 1-1043

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)

(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 ¨

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 ¨ No ¨

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	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of Common Stock ($0.75 par value) of the registrant outstanding as of November 1, 2010, was 88,656,402.

BRUNSWICK CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
October 2, 2010

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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

BRUNSWICK CORPORATION
Consolidated Statements of Operations
(unaudited)

(in millions, except per share data)	Three Months Ended October 2, 2010	Three Months Ended October 3, 2009	Nine Months Ended October 2, 2010	Nine Months Ended October 3, 2009
Net sales	$815.4	$665.8	$2,674.5	$2,118.8
Cost of sales	632.1	590.2	2,070.3	1,878.0
Selling, general and administrative expense	122.8	136.7	401.6	454.5
Research and development expense	23.1	19.5	67.8	64.7
Restructuring, exit and impairment charges	12.2	28.8	43.8	103.9
Operating earnings (loss)	25.2	(109.4)	91.0	(382.3)
Equity loss	(2.0)	(3.8)	(1.2)	(11.1)
Other income (expense), net	(2.2)	0.3	(1.6)	(1.3)
Earnings (loss) before interest, loss on early extinguishment of debt and income taxes	21.0	(112.9)	88.2	(394.7)
Interest expense	(22.7)	(23.6)	(70.9)	(60.1)
Interest income	0.9	0.7	2.5	2.2
Loss on early extinguishment of debt	(1.1)	(0.1)	(5.5)	(0.1)
Earnings (loss) before income taxes	(1.9)	(135.9)	14.3	(452.7)
Income tax provision (benefit)	5.3	(21.6)	20.8	9.5
Net loss	$(7.2)	$(114.3)	$(6.5)	$(462.2)
Loss per common share:				
Basic	$(0.08)	$(1.29)	$(0.07)	$(5.23)
Diluted	$(0.08)	$(1.29)	$(0.07)	$(5.23)
Weighted average shares used for computation of:				
Basic loss per common share	88.8	88.4	88.7	88.4
Diluted loss per common share	88.8	88.4	88.7	88.4

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

BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets

(in millions)	October 2, 2010 (unaudited)	December 31, 2009	October 3, 2009 (unaudited)
Assets			
Current assets			
Cash and cash equivalents, at cost, which approximates market	$ 676.5	$ 526.6	$ 624.1
Accounts and notes receivable, less allowances of $44.0, $47.7 and $60.7	367.4	332.4	368.2
Inventories			
Finished goods	245.8	234.4	238.8
Work-in-process	177.5	174.3	182.9
Raw materials	95.1	76.2	81.5
Net inventories	518.4	484.9	503.2
Deferred income taxes	1.8	79.3	13.1
Prepaid expenses and other	30.0	35.5	34.6
Current assets	1,594.1	1,458.7	1,543.2
Property			
Land	89.9	100.0	105.6
Buildings and improvements	654.8	678.3	682.5
Equipment	1,073.3	1,078.9	1,104.9
Total land, buildings and improvements and equipment	1,818.0	1,857.2	1,893.0
Accumulated depreciation	(1,245.8)	(1,221.8)	(1,193.7)
Net land, buildings and improvements and equipment	572.2	635.4	699.3
Unamortized product tooling costs	65.3	88.9	99.1
Net property	637.5	724.3	798.4
Other assets			
Goodwill	291.1	292.5	292.6
Other intangibles, net	59.6	75.6	78.5
Investments	59.9	56.7	57.8
Other long-term assets	89.5	101.6	109.9
Other assets	500.1	526.4	538.8
Total assets	$ 2,731.7	$ 2,709.4	$ 2,880.4

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

BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets

(in millions, except share data)	October 2, 2010 (unaudited)	December 31, 2009	October 3, 2009 (unaudited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt, including current maturities of long-term debt	$ 4.3	$ 11.5	$ 11.5
Accounts payable	274.9	261.2	232.6
Accrued expenses	623.3	633.9	628.4
Current liabilities	902.5	906.6	872.5
Long-term liabilities			
Debt	829.8	839.4	904.8
Deferred income taxes	52.8	10.1	54.4
Postretirement and postemployment benefits	527.8	535.7	517.6
Other	201.7	207.3	195.3
Long-term liabilities	1,612.1	1,592.5	1,672.1
Shareholders' equity			
Common stock; authorized: 200,000,000 shares, $0.75 par value; issued: 102,538,000 shares	76.9	76.9	76.9
Additional paid-in capital	421.9	415.1	412.6
Retained earnings	498.7	505.3	633.7
Treasury stock, at cost: 13,912,000; 14,220,000 and 14,275,000 shares	(406.5)	(412.2)	(413.3)
Accumulated other comprehensive loss, net of tax	(373.9)	(374.8)	(374.1)
Shareholders' equity	217.1	210.3	335.8
Total liabilities and shareholders' equity	$ 2,731.7	$ 2,709.4	$ 2,880.4

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

BRUNSWICK CORPORATION
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Nine Months Ended	
(in millions)	October 2, 2010	October 3, 2009
Cash flows from operating activities		
Net loss	$ (6.5)	$ (462.2)
Depreciation and amortization	98.5	119.8
Pension expense, net of funding	12.1	58.7
Provision for doubtful accounts	1.1	33.1
Deferred income taxes	5.4	9.9
Long-lived asset impairment charges	19.0	18.0
Equity in earnings of unconsolidated affiliates, net of dividends	1.4	11.4
Loss on early extinguishment of debt	5.5	0.1
Changes in certain current assets and current liabilities	(71.4)	314.3
Income taxes	114.1	90.6
Repurchase of accounts receivable	—	(84.2)
Other, net	13.4	20.8
Net cash provided by operating activities	192.6	130.3
Cash flows from investing activities		
Capital expenditures	(31.1)	(20.2)
Investments	(8.6)	7.5
Proceeds from the sale of property, plant and equipment	5.9	11.7
Other, net	8.3	1.9
Net cash provided by (used for) investing activities	(25.5)	0.9
Cash flows from financing activities		
Net issuances (payments) of short-term debt	(6.8)	8.3
Proceeds from asset-based lending facility	—	81.1
Payments of asset-based lending facility	—	(81.1)
Net proceeds from issuance of long-term debt	30.2	329.9
Payments of long-term debt including current maturities	(36.7)	(162.6)
Payments of premium on early extinguishment of debt	(5.3)	(0.2)
Net stock compensation activity	1.4	—
Net cash provided by (used for) financing activities	(17.2)	175.4

Net increase in cash and cash equivalents	149.9	306.6
Cash and cash equivalents at beginning of period	526.6	317.5
Cash and cash equivalents at end of period	$ 676.5	$ 624.1

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 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 have been condensed or omitted. Certain previously reported amounts have been reclassified to conform to the current period presentation.

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 2009 Annual Report on Form 10-K (the 2009 Form 10-K). These interim results include, in the opinion of management, all normal and recurring adjustments necessary to present fairly the financial position of Brunswick as of October 2, 2010, December 31, 2009, and October 3, 2009, the results of operations for the three months and nine months ended October 2, 2010 and October 3, 2009, and the cash flows for the nine months ended October 2, 2010 and October 3, 2009. 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 and ending on the Saturday closest to the end of that thirteen-week period. The first three quarters of fiscal year 2010 ended on April 3, 2010, July 3, 2010 and October 2, 2010 and the first three quarters of fiscal year 2009 ended on April 4, 2009, July 4, 2009 and October 3, 2009.

Recent Accounting Pronouncements. In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 166, "Accounting for Transfers of Financial Assets" (SFAS 166) (codified within the FASB Accounting Standards Codification (ASC) 860, "Transfers and Servicing"). SFAS 166 amends the derecognition guidance in SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 166 is effective for fiscal years beginning after November 15, 2009. The adoption of this statement did not have a material impact on the Company's consolidated results of operations and financial condition.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (SFAS 167) (codified within ASC 810, "Consolidation"). SFAS 167 amends the consolidation guidance applicable to variable interest entities and affects the overall consolidation analysis under FASB Interpretation No. 46(R). SFAS 167 is effective for fiscal years beginning after November 15, 2009. The adoption of this statement resulted in the Company expanding its disclosures relative to its variable interest entity, as reflected in Note 11 – Financial Services.

In October 2009, the FASB issued ASU No. 2009-13, "Multiple Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force" (ASU 2009-13) (codified within ASC Topic 605, "Revenue Recognition"). ASU 2009-13 addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the impact that the adoption of the amendments to the ASC resulting from ASU 2009-13 may have on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements" (ASU 2010-06) (codified within ASC 820, "Fair Value Measurements and Disclosures" (ASC 820)). ASU 2010-06 improves disclosures originally required under SFAS No. 157, "Fair Value Measurements" (codified under ASC 820). ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those years. The adoption of this ASU resulted in the Company expanding its disclosures, as reflected in Note 4 – Fair Value Measurements.

In February 2010, the FASB issued ASU No. 2010-09, "Amendments to Certain Recognition and Disclosure Requirements" (ASU 2010-09) (codified within ASC 855, "Subsequent Events" (ASC 855)). ASU 2010-09 amended SFAS No. 165, "Subsequent Events" (codified within ASC 855) to resolve conflicts with SEC reporting requirements. The adoption of this ASU did not have a material impact on the Company's consolidated results of operations and financial condition.

In July 2010, the FASB issued ASU No. 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (ASU 2010-20) (codified within ASC 310, "Receivables"). ASU 2010-20 amends the codification to include additional disclosure requirements related to the Company's financing receivables and associated credit risk. The disclosure requirements presented as of the end of a reporting period are effective for interim and annual periods ending on or after December 15, 2010. The disclosure requirements about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this ASU is expected to result in the Company expanding its disclosures.

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Notes to Condensed Consolidated Financial Statements
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Note 2 – Restructuring Activities

In November 2006, Brunswick announced restructuring initiatives 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. As the marine market continued to decline, Brunswick expanded its restructuring activities during 2007, 2008, 2009 and 2010 in order to improve performance and better position the Company for current market conditions and longer-term profitable growth. These initiatives have resulted in the recognition of restructuring, exit and impairment charges in the Consolidated Statement of Operations during 2009 and 2010.

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

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 definite-lived asset impairments of:

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

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

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, in accordance with ASC 360, "Property, Plant, and Equipment." The impairments recognized were equal to the difference between the carrying amount of the asset and the 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, based on the Company's assumptions of the data that market participants would use in pricing the asset or liability, 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 to or incurred. The Company considers actions related to the divestiture of its Triton fiberglass boat business, the sale of certain Baja boat business assets, the closure of its bowling pin manufacturing facility, the sale of the Valley-Dynamo and Integrated Dealer Systems businesses and the divestiture of MotoTron, to be exit activities. All other actions taken are considered to be restructuring activities.

The following table is a summary of the expense associated with the restructuring, exit and impairment activities for the three months and nine months ended October 2, 2010 and October 3, 2009. The 2010 charge consists of expenses related to actions initiated in 2010, 2009 and 2008:

	Three Months Ended		Nine Months Ended	
(in millions)	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Restructuring activities:				
Employee termination and other benefits	$ 1.5	$ 9.8	$ 7.3	$ 39.4
Current asset write-downs	1.7	0.3	1.7	3.7
Transformation and other costs:				
Consolidation of manufacturing footprint	4.1	16.7	10.3	39.9
Retention and relocation costs	0.2	—	0.2	0.1
Consulting costs	—	—	—	0.3
Exit activities:				
Employee termination and other benefits	—	0.3	0.7	0.7
Current asset write-downs (adjustments)	(0.2)	—	0.7	1.1
Transformation and other costs (adjustments):				
Consolidation of manufacturing footprint	5.9	(1.7)	5.9	1.3
Asset disposition actions:				
Trade name impairments	—	—	1.1	—
Definite-lived asset impairments (adjustments)	(1.0)	3.4	15.9	17.4
	$ 12.2	$ 28.8	$ 43.8	$ 103.9

Total restructuring, exit and impairment charges

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The Company anticipates it will incur approximately $17 million of additional restructuring charges in 2010. Approximately $3 million of this amount relates to known restructuring activities that have been or will be initiated in 2010, and approximately $14 million relates to continued restructuring activities initiated in 2009 and 2008. The Company expects most of these charges will be incurred in the Marine Engine and Boat segments. Further reductions in demand for the Company's products, or further opportunities to reduce costs, may result in additional restructuring, exit or impairment charges in 2010.

Actions initiated in 2010

During 2010, the Company continued its restructuring activities by disposing of non-strategic assets, consolidating manufacturing operations and reducing the Company's global workforce. During the second quarter of 2010, the Company finalized plans to divest its Triton fiberglass boat brand and completed an asset sale transaction in the third quarter of 2010. The Company also reached a decision to consolidate its Cabo Yachts production into its Hatteras facility in New Bern, North Carolina. The Company also recorded impairment charges for its Ashland City, Tennessee, facility in connection with the divestiture of its Triton fiberglass boat brand.

The restructuring, exit and impairment charges recorded in the three months and nine months ended October 2, 2010, related to actions initiated in 2010 for each of the Company's reportable segments, are summarized below:

(in millions)	Three Months Ended October 2, 2010	Nine Months Ended October 2, 2010
Boat	$ 7.2	$ 25.9
Bowling & Billiards	0.1	0.3
Total	$ 7.3	$ 26.2

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following is a summary of the charges by category associated with the 2010 restructuring initiatives for the three months and nine months ended October 2, 2010:

(in millions)	Three Months Ended October 2, 2010	Nine Months Ended October 2, 2010
Restructuring activities:		
Employee termination and other benefits	$ 0.1	$ 0.4
Current asset write-downs	1.1	1.1
Transformation and other costs		
Consolidation of manufacturing footprint	1.5	1.5
Exit activities:		
Employee termination and other benefits	—	0.7
Current asset write-downs (adjustments)	(0.2)	0.7
Transformation and other costs		
Consolidation of manufacturing footprint	6.0	6.0
Asset disposition actions:		
Trade name impairments	—	1.1
Definite-lived asset impairments (adjustments)	(1.2)	14.7
Total restructuring, exit and impairment charges	$ 7.3	$ 26.2

The restructuring charges related to actions initiated in 2010, for each of the Company's reportable segments for the nine months ended October 2, 2010, are summarized below:

(in millions)	Boat	Bowling & Billiards	Total
Employee termination and other benefits	$ 0.8	$ 0.3	$ 1.1
Current asset write-downs	1.8	—	1.8
Transformation and other costs	7.5	—	7.5
Asset disposition actions	15.8	—	15.8
Total restructuring, exit and impairment charges	$ 25.9	$ 0.3	$ 26.2

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Notes to Condensed Consolidated Financial Statements
(unaudited)

The following table summarizes the 2010 charges taken for restructuring, exit and impairment charges related to actions initiated in 2010 and the related status as of October 2, 2010. The accrued amounts remaining as of October 2, 2010 represent cash expenditures needed to satisfy remaining obligations. The majority of accrued costs expected to be paid by the end of 2010 and included in Accrued expenses in the Condensed Consolidated Balance Sheets.

(in millions)	Costs Recognized in 2010	Non-cash Charges	Net Cash Payments	Accrued Costs as of October 2, 2010
Employee termination and other benefits	$ 1.1	$ —	$ (0.4)	$ 0.7
Current asset write-downs	1.8	(1.8)	—	—
Transformation and other costs	7.5	(3.6)	(2.5)	1.4
Asset disposition actions:				
Trade name impairments	1.1	(1.1)	—	—
Definite-lived asset impairments	14.7	(14.7)	—	—
Total restructuring, exit and impairment charges	$ 26.2	$ (21.2)	$ (2.9)	$ 2.1

Actions initiated in 2009

During the third quarter of 2009, the Company announced plans to reduce excess manufacturing capacity by relocating inboard and sterndrive production to Fond du Lac, Wisconsin, and closing its Stillwater, Oklahoma plant. This plant consolidation effort is expected to occur through 2011. In connection with this action, the Company's hourly union workforce in Fond du Lac ratified a new collective bargaining agreement on August 31, 2009, which resulted in net restructuring charges as a result of employee incentives and changes to employees' current benefits and postretirement benefits. The Company continued to consolidate the Boat segment's manufacturing footprint in 2009 and began marketing for sale certain previously closed boat production facilities in the fourth quarter of 2009, including the previously mothballed plants in Navassa and Swansboro, North Carolina, and its Riverview plant in Knoxville, Tennessee. The Company also recorded impairments during 2009 on tooling, its Cape Canaveral, Florida, and Little Falls, Minnesota properties and a marina in St. Petersburg, Florida, to record these assets at their fair value. These actions in the Company's marine businesses are expected to provide long-term cost savings by reducing its fixed-cost structure.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

The restructuring, exit and impairment charges recorded in the three months and nine months ended October 2, 2010 and October 3, 2009, related to actions initiated in 2009 for each of the Company's reportable segments, are summarized below:

	Three Months Ended		Nine Months Ended
(in millions)	October 2, 2010	October 3, 2009	October 2, 2010