BRUNSWICK CORP
Form 10-K
February 21, 2013

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

FORM 10-K

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

For the fiscal year ended December 31, 2012

or

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

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)

N/A

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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

As of June 30, 2012, the aggregate market value of the voting stock of the registrant held by non-affiliates was $1,965,641,172. Such number excludes stock beneficially owned by officers and directors. This does not constitute an admission that they are affiliates.

The number of shares of Common Stock ($0.75 par value) of the registrant outstanding as of February 19, 2013 was 90,179,683.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Report on Form 10-K incorporates by reference certain information that will be set forth in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 1, 2013.

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PART I

Item 1. Business

Brunswick Corporation (Brunswick or the Company) is a Delaware corporation, incorporated on December 31, 1907. Brunswick is a leading global designer, manufacturer and marketer of recreation products including marine engines, boats, fitness equipment and bowling and billiards equipment. Brunswick's engine products include: outboard, sterndrive and inboard engines; trolling motors; propellers; engine control systems; and marine parts and accessories. The Company's boat offerings include: fiberglass pleasure boats; luxury motoryachts; offshore fishing boats; aluminum fishing boats; inflatable boats; pontoon boats and deck boats. Brunswick's fitness products include both cardiovascular and strength training equipment for the commercial and consumer markets. Brunswick's bowling products include capital equipment, aftermarket and consumer goods. The Company also sells a complete line of billiards tables and other gaming tables and accessories. In addition, the Company owns and operates Brunswick bowling entertainment centers in the United States and other countries.

In 2012, Brunswick's focus was growing revenue and earnings, generating positive free cash flow and maintaining its favorable cost position with growth resulting from the continuation of market share gains and the execution of organic growth initiatives. In 2013, Brunswick will again focus on executing its financial and operational strategic growth initiatives as well as on cost reductions and operating efficiencies throughout the Company in order to sustain earnings growth. In the longer term, Brunswick's strategy remains consistent: to design, develop and introduce high-quality products featuring innovative technology and styling; to distribute products through a model that benefits its partners - dealers and distributors - and to provide world-class service to its customers; to develop and maintain low-cost manufacturing processes and to continually improve productivity and efficiency; to manufacture and distribute products globally with local and regional styling; to continue implementing the Company's capital strategy which includes maintaining a strong balance sheet, lowering debt and funding pension obligations; and to attract and retain skilled and knowledgeable people. These strategic objectives support the Company's plans to grow by expanding its existing core businesses. The Company's primary objective is to enhance shareholder value by achieving returns on investments that exceed its cost of capital.

Refer to Note 5 – Segment Information and Note 2 – Discontinued Operations in the Notes to Consolidated Financial Statements for additional information regarding the Company's segments and discontinued operations, including net sales, operating earnings and total assets by segment.

Marine Engine Segment

The Marine Engine segment, which had net sales of $1,988.5 million in 2012, consists of the Mercury Marine Group (Mercury Marine). The Company believes its Marine Engine segment has the largest dollar sales and unit volume of recreational marine engines in the world, along with a leading marine parts and accessories business.

Mercury Marine manufactures and markets a full range of outboard engines, sterndrive propulsion systems and inboard engines under the Mercury, Mercury MerCruiser, Mariner, Mercury Racing, Mercury Sport Jet and Mercury Jet Drive, MotorGuide, Axius and Zeus brand names. In addition, Mercury Marine manufactures and markets marine parts and accessories under the Quicksilver, Mercury Precision Parts, Mercury Propellers, Attwood, Land 'N' Sea, Kellogg Marine Supply, Diversified Marine Products, Sea Choice and MotorGuide brand names, including marine electronics and control integration systems, steering systems, instruments, controls, propellers, trolling motors, fuel systems, service parts and marine lubricants. Mercury Marine's outboard engines, sterndrive engines and inboard engines are sold to independent boat builders, local, state and foreign governments, and to the Company's Boat segment. In addition, Mercury Marine's outboard engines are sold to end-users through a global network of more than 7,000 marine dealers and distributors, specialty marine retailers and marine service centers.

Mercury Marine also supplies integrated diesel propulsion systems to the worldwide recreational and commercial marine markets, including the Company's Boat segment. During the second quarter of 2012, the Company and Cummins Inc. transitioned to the parent companies the business activities of Cummins MerCruiser Diesel Marine LLC (CMD), the joint venture between Mercury Marine and Cummins Marine, a division of Cummins Inc. and began the liquidation process of the joint venture. As part of the transition, Mercury Marine has integrated CMD's high-speed diesel engine line into its product portfolio and sells, services and supports these products through its global sales and distribution network.

Mercury Marine manufactures four-stroke outboard engine models ranging from 2.5 to 350 horsepower and two-stroke OptiMax outboard engines, all of which feature Mercury's direct fuel injection (DFI) technology, ranging from 75 to 300 horsepower. All of these low-emission engines are in compliance with current U.S. Environmental Protection Agency (EPA) requirements. Mercury Marine's four-stroke outboard engines include Verado, a collection of supercharged outboards ranging from 150 to 350 horsepower, and Mercury Marine's naturally aspirated four-stroke outboards, ranging from 2.5 to 150 horsepower including the introduction of the 150 FourStroke, which is quickly becoming known for its light weight, fuel efficiency and performance. In addition, most of Mercury's sterndrive and inboard engines are now available with catalyst exhaust monitoring and treatment systems, and all are compliant with environmental regulations adopted by the State of California, effective January 1, 2008, and by the EPA, effective January 1, 2010.

To promote advanced propulsion systems with improved handling, performance and efficiency, Mercury Marine manufactures and markets advanced boat steering and engine control systems under the brand names of Zeus and Axius.

Mercury Marine's sterndrive and outboard engines are produced domestically in Fond du Lac, Wisconsin, with outboard engines also produced internationally in China and Japan. During the third quarter of 2009, the Company announced plans to consolidate engine production by transferring sterndrive engine manufacturing operations from its Stillwater, Oklahoma plant to its Fond du Lac, Wisconsin plant. This plant transfer was completed in the second quarter of 2012, at which time the real estate related to the former Stillwater facility was sold. Mercury Marine manufactures 40, 50 and 60 horsepower four-stroke outboard engines in a facility in China, and produces smaller outboard engines in Japan pursuant to a joint venture with its partner, Tohatsu Corporation. Mercury Marine sources certain engine components from a global supply base of Asian, European and Latin American suppliers and manufactures additional engine component parts at its Fond du Lac facility and plants in Florida and Mexico. Until April 2012, CMD manufactured diesel marine propulsion systems in South Carolina. Mercury Marine also operates a remanufacturing business for engines and service parts in Wisconsin. In addition, Mercury Marine has an equity ownership interest in a company that manufactures boats under the brand names Bella, Flipper and Aquador in Finland.

Mercury Marine's parts and accessories distribution businesses include: Land 'N' Sea, Kellogg Marine Supply and Diversified Marine Products. These businesses are the leading distributors of marine parts and accessories throughout North America, offering same-day or next-day delivery service to a broad array of marine service facilities.

Inter-company sales to the Company's Boat segment represented approximately 12 percent of Mercury Marine's sales in 2012. Domestic demand for the Marine Engine segment's products is seasonal, with sales generally highest in the second calendar quarter of the year.

Boat Segment

The Boat segment consists of the Brunswick Boat Group (Boat Group), which manufactures and markets the following products: fiberglass pleasure boats; luxury motoryachts; offshore fishing boats; aluminum fishing boats; inflatable boats; pontoon boats and deck boats. The Company believes that its Boat Group, which had net sales of $1,002.6 million during 2012, has the largest dollar sales and unit volume of pleasure motorboats in the world.

The Boat Group manages Brunswick's boat brands; evaluates and optimizes the Boat segment's boat portfolio; promotes recreational boating services and activities to enhance the consumer experience and dealer profitability; and speeds the introduction of new technologies into the boat manufacturing and design processes.

The Boat Group is comprised of the following boat brands: Sea Ray yachts, sport yachts, sport cruisers and runabouts; Bayliner sport cruisers and runabouts; Meridian motoryachts; Boston Whaler and Lund fiberglass fishing boats; and Crestliner, Cypress Cay, Harris FloteBote, Lowe, Lund and Princecraft aluminum fishing, utility, pontoon boats and deck boats. The Boat Group also includes a commercial and governmental sales unit that sells products to commercial customers, as well as the United States government and state, local and foreign governments. The Boat Group procures most of its outboard engines, gasoline sterndrive engines and gasoline inboard engines from Brunswick's Marine Engine segment.

During the first quarter of 2012, Brunswick realigned its global marine operations causing changes to the components of the Marine Engine and Boat Group reportable segments. Several Brunswick boat brands based in Europe and Asia, which include Quicksilver, Uttern and Rayglass (Protector and Legend), each of which were previously included in the Marine Engine segment, were moved under the management of the Boat Group. Boats sold and marketed under these names are typically equipped with engines manufactured by Mercury Marine and often include other parts and accessories supplied by Mercury Marine.

The Boat Group has active manufacturing facilities in Florida, Indiana, Minnesota, Missouri, Tennessee, Brazil, Canada, Mexico, New Zealand and Portugal, as well as additional inactive manufacturing facilities in Florida, North Carolina and Tennessee. The Boat Group utilizes contract manufacturing facilities in Argentina and Poland. The Boat Group has constructed a manufacturing plant in Joinville, Santa Catarina, Brazil, which has nearly 150,000 square feet of manufacturing space. Production at this new facility, which is leased, began in the third quarter of 2012. This facility will eventually employ up to 150 people and will produce several Bayliner and Sea Ray sport boat and cruiser models which, along with other Brunswick boat brands and models, will be sold through a network of local dealers.

During 2012, the Boat Group continued its restructuring activities by reducing its workforce and consolidating manufacturing operations. As a result, in the fourth quarter of 2012, the Company began the consolidation of its Knoxville, Tennessee boat plant operation into its manufacturing facilities in Vonore, Tennessee and Palm Coast, Florida. Finally, in 2012, the Boat Group divested several idle facilities including former operating facilities and other real property holdings in Cumberland, Maryland and Cape Canaveral, Florida.

The Boat Group's products are sold to end-users through a global network of approximately 2,850 dealers and distributors, each of which carries one or more of Brunswick's boat brands. Sales to the Boat Group's largest dealer, MarineMax Inc., which has multiple locations and carries a number of the Boat Group's product lines, represented approximately 16 percent of Boat Group sales in 2012. Domestic demand for pleasure boats is seasonal, with sales generally highest in the second calendar quarter of the year.

Fitness Segment

Brunswick's Fitness segment is comprised of its Life Fitness division (Life Fitness), which designs, manufactures and markets a full line of reliable, high-quality cardiovascular fitness equipment (including treadmills, total body cross-trainers, stair climbers and stationary exercise bicycles) and strength-training equipment under the Life Fitness and Hammer Strength brands.

The Company believes that its Fitness segment, which had net sales of $635.9 million during 2012, is the world's largest manufacturer of commercial fitness equipment and a leading manufacturer of high-quality consumer fitness equipment. Life Fitness' commercial sales customers include health clubs, fitness facilities operated by professional sports teams, the military, governmental agencies, corporations, hotels, schools and universities. Commercial sales are made to customers through Life Fitness' direct sales force, domestic dealers, and international distributors. Consumer products are available at specialty retailers, select mass merchants, sporting goods stores, through international distributors, and on the Life Fitness Web site.

The Fitness segment's principal manufacturing facilities are located in Illinois, Kentucky, Minnesota and Hungary, with third party contract manufacturing utilized in China and Taiwan. Life Fitness distributes its products worldwide from regional warehouses and production facilities. Demand for Life Fitness products is seasonal, with sales generally highest in the fourth quarter of the year.

Bowling & Billiards Segment

The Bowling & Billiards segment is comprised of the Brunswick Bowling & Billiards division (BB&B), which had net sales of $322.3 million during 2012. The Company believes BB&B is a leading worldwide full-line designer, manufacturer and marketer of bowling and billiards products and operator of retail bowling centers.

BB&B's bowling products business designs, manufactures and markets a wide variety of bowling products, including capital equipment (such as automatic pinsetters and scoring devices), bowling balls and aftermarket products (such as lane machines, pinsetter parts, lane conditioners and lane cleaners). Through licensing arrangements, BB&B also offers a wide array of bowling consumer products, including bowling shoes, bags and accessories.

BB&B operates 95 bowling centers in the United States, Canada and Europe. BB&B retail bowling centers offer bowling and, depending on size and location, may also offer the following activities and facilities: restaurants, lounges, snack bars, billiards, video and redemption games, laser tag, pro shops and meeting and party rooms. Of the Company's 95 bowling centers, 42 have been converted into Brunswick Zones, which are bowling centers that offer an array of active entertainment activities for our guests. BB&B has further enhanced the Brunswick Zone concept with expanded Brunswick Zone entertainment centers, branded Brunswick Zone XL, which are larger than typical Brunswick Zones and feature multiple entertainment offerings. BB&B operates 12 Brunswick Zone XL centers.

BB&B's billiards business was established in 1845 and is Brunswick's heritage business. The Company believes it is a leading designer and marketer of billiards tables. BB&B designs and/or markets billiards tables, table tennis tables, air powered table hockey games, billiard balls, cues and other gaming tables, as well as game room furniture and related accessories, under the Brunswick and Contender brands.

BB&B's primary manufacturing and distribution facilities are located in Michigan, Wisconsin, Hungary and Mexico.

Brunswick's bowling and billiards products are sold through a variety of channels, including distributors, dealers, mass merchandisers, bowling centers and other retailers, and directly to consumers through the Internet and other outlets. BB&B's sales are seasonal with sales generally highest in the first and fourth calendar quarters of the year.

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 Consolidated Statements of Operations for all periods presented. The assets and liabilities of these businesses meet the held for sale accounting criteria and have been aggregated and reported on separate lines of the Consolidated Balance Sheets for all periods presented. Brunswick's results as discussed in this Annual Report on Form 10-K reflect continuing operations only, unless otherwise noted.

Financial Services

The Company, through its Brunswick Financial Services Corporation (BFS) subsidiary, owns a 49 percent interest in a joint venture, Brunswick Acceptance Company, LLC (BAC). CDF Ventures, LLC (CDFV), a subsidiary of GE Capital Corporation, owns the remaining 51 percent. Under the terms of the joint venture agreement, BAC provides secured wholesale inventory floorplan financing to the Company's engine and boat dealers.

The term of the BAC joint venture extends through June 30, 2014. The joint venture agreement contains provisions allowing for the renewal of the agreement or purchase of the joint venture by either of the parties at the end of this term. Alternatively, either partner may allow the agreement to terminate at the end of its term.

Additionally, Brunswick offers financial services through Brunswick Product Protection Corporation, which provides marine dealers the opportunity to offer extended product warranties to retail customers, and through Blue Water Dealer Services, Inc., which provides retail financial services to marine dealers. Each company allows Brunswick to offer a more complete line of financial services to its boat and marine engine dealers and their customers.

Refer to Note 9 – Financial Services in the Notes to Consolidated Financial Statements for more information about the Company's financial services.

Distribution

Brunswick utilizes distributors, dealers and retailers (Dealers) for the majority of its boat sales and significant portions of its sales of marine engine, fitness and bowling and billiards products. Brunswick has over 16,000 Dealers serving its business segments worldwide. Brunswick's marine Dealers typically carry one or more of the following product categories - boats, engines and related parts and accessories.

Brunswick owns Land 'N' Sea, Kellogg Marine Supply and Diversified Marine Products, the primary parts and accessories distribution platforms for the Company's Marine Engine segment. These businesses are the leading distributors of marine parts and accessories throughout North America, with 14 distribution warehouses located throughout the United States and Canada offering same-day or next-day delivery service to a broad array of marine service facilities and Dealers.

Brunswick's Dealers are independent companies or proprietors that range in size from small, family-owned businesses to a large, publicly-traded corporation with substantial revenues and multiple locations. Some Dealers sell Brunswick's products exclusively, while others also carry competitors' products. Brunswick partners with its boat dealer network to improve quality, service, distribution and delivery of parts and accessories to enhance the boating customer's experience.

Demand for a significant portion of Brunswick's products is seasonal, and a number of Brunswick's Dealers are relatively small or highly-leveraged. As a result, many Dealers require financial assistance to support their businesses, enabling them to provide stable channels for Brunswick's products. In addition to the financing offered by BAC, the

Company provides its Dealers with assistance, including incentive programs, loans, loan guarantees and inventory repurchase commitments, under which the Company is obligated to repurchase inventory from a finance company in the event of a Dealer's default. The Company believes that these arrangements are in its best interest; however, the financial support that the Company provides to its Dealers exposes the Company to credit and business risk. Brunswick's business units, along with BAC, maintain active credit operations to manage this financial exposure, and the Company continually seeks opportunities to sustain and improve the financial health of its various distribution channel partners. Refer to Note 12 – Commitments and Contingencies in the Notes to Consolidated Financial Statements for further discussion of these arrangements.

International Operations

Brunswick's sales to customers in markets other than the United States were $1,397.2 million (38 percent of net sales), $1,483.6 million (40 percent of net sales) and $1,366.6 million (41 percent of net sales) in 2012, 2011 and 2010, respectively. The Company transacts a significant portion of its sales in non-U.S. markets in local currencies, and the cost of its products is generally denominated in U.S. dollars. As a result, the strengthening or weakening of the U.S. dollar affects the financial results of Brunswick's non-U.S. operations.

Non-U.S. sales are set forth in Note 5 – Segment Information in the Notes to Consolidated Financial Statements and are also included in the table below, which details Brunswick's non-U.S. sales by region:

(in millions)	2012	2011	2010
Europe	$477.4	$596.3	$591.7
Canada	318.3	301.7	244.9
Pacific Rim	307.7	289.7	265.7
Latin America	205.5	191.6	183.6
Africa & Middle East	88.3	104.3	80.7
Total	$1,397.2	$1,483.6	$1,366.6

Marine Engine segment non-U.S. sales represented approximately 46 percent of Brunswick's non-U.S. sales in 2012. The segment's principal non-U.S. operations include the following:

- An outboard engine assembly plant in Suzhou, China;
- An outboard engine assembly plant operated by a joint venture in Japan;
- A component manufacturing facility in Mexico;
- Sales, service and applications engineering offices in Australia, Belgium, Brazil, Canada, China, Malaysia, Mexico, New Zealand and Singapore; and
- Sales or representative offices in China, Dubai, Finland, France, Italy, Norway, Russia, Sweden and Switzerland.

Boat segment non-U.S. sales comprised approximately 27 percent of Brunswick's non-U.S. sales in 2012. A portion of the Boat Group's products are manufactured or assembled in Brazil, Canada, Mexico, New Zealand and Portugal, as well as in boat plants owned and operated by third parties in Argentina and Poland that perform contract manufacturing for the Company, and are sold worldwide through Dealers. The Boat Group has sales or import offices in Belgium, Brazil, Canada, China, France, Italy, the Netherlands, New Zealand and Singapore.

Fitness segment non-U.S. sales comprised approximately 22 percent of Brunswick's non-U.S. sales in 2012. Life Fitness sells its products worldwide and has sales and distribution centers in Brazil, Germany, Hong Kong, Japan, the Netherlands, Spain and the United Kingdom. The Fitness segment manufactures strength-training equipment and select lines of cardiovascular equipment in Hungary for its international markets, and has facilities in China and Taiwan that perform contract manufacturing.

Bowling & Billiards segment non-U.S. sales comprised approximately 5 percent of Brunswick's non-U.S. sales in 2012. BB&B sells its products worldwide, has a sales office in Germany, and operates plants that manufacture automatic pinsetters in Hungary and bowling balls in Mexico. BB&B operates retail bowling centers in Austria, Canada and Germany.

Raw Materials and Supplies

Brunswick purchases a wide variety of raw materials from its supplier base, including oil, aluminum, steel and resins, as well as product parts and components, such as engine blocks and boat windshields. The prices for these raw materials, parts and components fluctuate depending on market conditions. Significant increases in the cost of such materials would raise the Company's production costs, which could reduce the Company's profitability if the Company cannot recoup the increased costs through higher product prices.

As Brunswick's manufacturing operations raised production levels in 2012, the Company's need for raw materials and supplies increased. Moving into 2013, Brunswick's suppliers will need to increase their manufacturing operations to meet the rising demand for their products and, in many cases, may need to hire additional workers in order to fulfill the orders placed by Brunswick and other customers. During 2012, the Company experienced some shortages, and delayed delivery, of certain materials, parts and supplies essential to its manufacturing operations. The Company has addressed and will continue to address this issue by identifying alternative suppliers, working to secure adequate inventories of critical supplies and continually monitoring the capabilities of its supplier base.

Additionally, some components used in Brunswick's manufacturing processes, including engine blocks and boat windshields, are available from a sole supplier or a limited number of suppliers. Operational and financial difficulties that these or other suppliers currently face or may face in the future could adversely affect their ability to supply Brunswick with the parts and components it needs, which could significantly disrupt Brunswick's operations.

The Company also continues to expand its global procurement operations to better leverage its purchasing power across its divisions and to improve supply chain and cost efficiencies. The Company mitigates its commodity price risk on certain raw material purchases by using derivatives to hedge exposure related to changes in commodity prices.

Intellectual Property

Brunswick has, and continues to obtain, patent rights covering certain features of its products and processes. By law, Brunswick's patent rights, which consist of patents and patent licenses, have limited lives and expire periodically. The Company believes that its patent rights are important to its competitive position in all of its business segments.

In the Marine Engine segment, patent rights principally relate to features of outboard engines and inboard-outboard drives, hybrid drives and pod drives, including: die-cast powerheads; cooling and exhaust systems; drivetrain, clutch and gearshift mechanisms; boat/engine mountings; shock-absorbing tilt mechanisms; ignition systems; propellers; marine vessel control systems; fuel and oil injection systems; supercharged engines; outboard mid-section structures; segmented cowls; hydraulic trim, tilt and steering; screw compressor charge air cooling systems; a range of proprietary metal alloys and airflow silencers.

In the Boat segment, patent rights principally relate to processes for manufacturing fiberglass hulls, decks and components for boat products, as well as patent rights related to interiors and other boat features and components.

In the Fitness segment, patent rights principally relate to fitness equipment designs and components, including patents covering internal processes, programming functions, displays, design features and styling.

In the Bowling & Billiards segment, patent rights principally relate to computerized bowling scorers and bowling center management systems, bowling center furniture, bowling lanes, lane conditioning machines and bowling center equipment, bowling balls, and billiards table designs and components.

The following are Brunswick's principal trademarks:

Marine Engine Segment: Attwood, Axius, Diversified Marine Products, Kellogg Marine Supply, Land 'N' Sea, Mariner, MercNET, MerCruiser, Mercury, Mercury Marine, Mercury Parts Express, Mercury Precision Parts, Mercury Propellers, Mercury Racing, MotorGuide, OptiMax, Quicksilver, Seachoice, SeaPro, SmartCraft, Sport Jet, Swivl-Eze, Valiant, Verado and Zeus.

Boat Segment: Aquapalooza, Bayliner, Boston Whaler, Crestliner, Cypress Cay, FloteBote, Harris, Lowe, Lund, Master Dealer, Meridian, Princecraft, Quicksilver, Rayglass, Sea Ray and Uttern.

Fitness Segment: Flex Deck, Hammer Strength, Lifecycle and Life Fitness.

Bowling & Billiards Segment: Air Hockey, Ballworx, Brunswick, Brunswick Pavilion, Brunswick Zone, Brunswick Zone XL, Centennial, Contender, Cosmic Bowling, Frameworx, Gold Crown, Lightworx, Pro Lane, Vector, Viz-A-Ball and Zone.

Brunswick's trademark rights have indefinite lives, and many are well known to the public and are considered to be valuable assets.

Competitive Conditions and Position

The Company believes that it has a reputation for quality in each of its highly competitive lines of business. Brunswick competes in its various markets by: utilizing efficient production techniques; developing and strengthening its leading brands; developing and promoting innovative technological advancements; undertaking effective marketing, advertising and sales efforts; providing high-quality products at competitive prices; and offering extensive aftermarket services.

Strong competition exists in each of Brunswick's product groups, but no single enterprise competes with Brunswick in all product groups. In each product area, competitors range in size from large, highly-diversified companies to small, single-product businesses. Brunswick also competes with businesses that offer alternative leisure products or activities, but do not compete directly with Brunswick's products.

The following summarizes Brunswick's competitive position in each segment:

Marine Engine Segment: The Company believes it has the largest dollar sales and unit volume of recreational marine engines in the world, along with a leading marine parts and accessories business. The marine engine market is highly competitive among several major international companies that comprise the majority of the market, as well as several smaller companies. Competitive advantage in this segment is a function of product features, technological leadership, quality, service, pricing, performance and durability, along with effective promotion and distribution.

Boat Segment: The Company believes it has the largest dollar sales and unit volume of pleasure motorboats in the world. There are several major manufacturers of pleasure and offshore fishing boats, along with hundreds of smaller manufacturers. Consequently, this business is both highly competitive and highly fragmented. The Company believes it has the broadest range of boat product offerings in the world, with boats ranging in size from 10 to 61 feet. In all of its boat operations, Brunswick competes on the basis of product features, technology, quality, dealer service, pricing, performance, value, durability and styling, along with effective promotion and distribution.

Fitness Segment: The Company believes it is the world's largest manufacturer of commercial fitness equipment and a leading manufacturer of high-quality consumer fitness equipment. There are a few large manufacturers of fitness equipment and hundreds of small manufacturers, which creates a highly fragmented, competitive landscape. Many of Brunswick's fitness equipment offerings feature industry-leading product innovations, and the Company places significant emphasis on introducing new fitness equipment to the market. Competitive focus is also placed on product quality, technology, service, pricing, state-of-the-art biomechanics, and effective promotional activities.

Bowling & Billiards Segment: The Company believes it is a leading worldwide full-line designer, manufacturer and marketer of bowling products and billiards tables. There are other manufacturers of bowling products and competitive emphasis is placed on product innovation, quality, service, marketing activities and pricing. The billiards industry continues to experience competitive pressure from low-cost billiards manufacturers outside the United States. The bowling retail market, in which the Company's bowling centers compete, is highly fragmented. Brunswick is one of the two largest bowling center operators in the North American market, with Brunswick's bowling retail business emphasizing the bowling and entertainment experience, maintaining quality facilities and providing excellent guest service.

Research and Development

The Company strives to improve its competitive position in all of its segments by continuously investing in research and development to drive innovation in its products and manufacturing technologies. Brunswick's research and development investments support the introduction of new products and enhancements to existing products. Research and development expenses as a percentage of net sales were 2.8 percent, 2.6 percent and 2.7 percent in 2012, 2011 and 2010, respectively. Research and development expenses by segment are shown below:

(in millions)	2012	2011	2010
Marine Engine	$61.5	$56.7	$51.7
Boat	20.2	17.5	18.1
Fitness	19.2	17.6	16.7
Bowling & Billiards	4.4	4.1	3.8
Total	$105.3	$95.9	$90.3

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Number of Employees

The number of employees worldwide (including those in businesses treated as discontinued operations) is shown below by segment:

	December 31, 2012		December 31, 2011	
	Total	Union (domestic)	Total	Union (domestic)
Marine Engine	5,202	1,814	4,684	1,396
Boat	4,393	—	4,125	—
Fitness	1,804	140	1,756	138
Bowling & Billiards	4,625	22	4,632	24
Corporate	153	—	159	—
Total	16,177	1,976	15,356	1,558

The Company believes that the relationships between its employees, the labor unions and the Company remain stable.

Environmental Requirements

Refer to Note 12 – Commitments and Contingencies in the Notes to Consolidated Financial Statements for a description of certain environmental proceedings.

Available Information

Brunswick maintains an Internet Web site at http://www.brunswick.com that includes links to Brunswick's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports (SEC Reports). The SEC Reports are available without charge as soon as reasonably practicable following the time that they are filed with, or furnished to, the SEC. Shareholders and other interested parties may request email notification of the posting of these documents through the Investors section of Brunswick's Web site.

Item 1A. Risk Factors

The Company's operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect the Company's business, financial condition, results of operations, cash flows and the trading price of the Company's common stock.

Worldwide economic conditions, particularly in the United States and Europe, have adversely affected the Company's industries, businesses and results of operations and may continue to do so.

General worldwide economic conditions, particularly in the United States and Europe, continue to be challenging as economies begin to recover from the effects caused by the subprime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, increased energy costs, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. In times of economic uncertainty and contraction, consumers tend to have less discretionary income and to defer expenditures for discretionary items, which adversely affects the Company's financial performance, especially in its marine businesses. A majority of the Company's businesses are cyclical in nature and are highly sensitive to personal discretionary spending levels, and their success is dependent upon favorable economic conditions, the overall level of consumer confidence and personal income levels. Other factors that can negatively affect the Company's financial results include: the impact of weak consumer and corporate credit markets; depressed marine industry demand; corporate restructurings; declines in the value of investments and residential real estate, especially in large boating markets such as Florida and California; and higher fuel prices.

Demand for the Company's marine products has been significantly influenced by weak economic conditions, low consumer confidence, high unemployment and increased market volatility worldwide, especially in the United States and Europe. Although increases have not been experienced in all product segments and geographic markets, and the Company estimates that retail unit sales of powerboats in the United States increased modestly during 2012, unit sales remain down significantly from historical levels, particularly in the fiberglass segment. Any deterioration in general economic conditions that further diminishes consumer confidence or discretionary income may further reduce the Company's sales and adversely affect its financial results, including increasing the potential for future impairment charges. The Company cannot predict the timing or strength of economic recovery, either worldwide or in the specific markets where it competes.

Fiscal concerns in the United States and Europe, including the downgrade of the U.S. government's credit rating, may negatively impact the worldwide economy, and could have an adverse effect on the Company's industries, businesses and financial condition.

Concerns regarding the U.S. debt ceiling and budget deficit, as well as the European debt crisis, could have an adverse effect on worldwide economic conditions. These concerns also include the potential impact of additional credit agency downgrades. Such fiscal concerns and the resulting downgrade of the U.S. government's credit rating could have a material adverse impact on worldwide economic conditions, the financial markets and the availability of credit and, consequently, may negatively affect the Company's industries, businesses and overall financial condition.

Although consumer credit markets have improved, consumer credit market conditions continue to influence demand, especially for marine products, and may continue to do so.

Customers often finance purchases of the Company's marine products, particularly boats. Credit market conditions continued to improve in 2012, but remained less favorable overall than those experienced prior to the decline in marine retail demand. While interest rates are generally lower, there continue to be fewer lenders, tighter underwriting and loan approval criteria and greater down payment requirements. If credit conditions worsen, and adversely affect the ability of customers to finance potential purchases at acceptable terms and interest rates, it could result in a decrease in sales of the Company's products or delay any improvement in its sales.

The inability of the Company's dealers and distributors to secure adequate access to capital could adversely affect the Company's sales.

The Company's dealers require adequate liquidity to finance their operations, including purchases of the Company's products. Dealers are subject to numerous risks and uncertainties that could unfavorably affect their liquidity positions, including, among other things, continued access to adequate financing sources on a timely basis on reasonable terms. These sources of financing are vital to the Company's ability to sell products through the Company's distribution network, particularly to its boat and engine dealers. During the credit crisis which ensued during and after the 2009 recession, several third-party floorplan lenders ceased their lending operations or materially reduced their exposure. A significant portion of the Company's domestic and international boat and engine sales to dealers are financed through entities affiliated with GE Capital Corporation (GECC), including BAC (the Company's 49 percent owned joint venture, with the other 51 percent being owned by CDFV, a subsidiary of GECC), which provides floorplan financing to domestic marine dealers.

The availability and terms of financing offered by the Company's dealer floorplan financing providers will continue to be influenced by: their ability to access certain capital markets, including the securitization and the commercial paper markets, and to fund their operations in a cost effective manner; the performance of their overall credit portfolios; their willingness to accept the risks associated with lending to marine dealers; and the overall creditworthiness of those dealers. The Company's sales could be adversely affected if BAC were to be terminated, if further declines in floorplan financing availability occur, or if financing terms change unfavorably. This could require the Company to find alternative sources of financing, including the Company providing this financing directly to dealers, which could require additional capital to fund the associated receivables.

The Company's financial results may be adversely affected if it is unable to maintain effective distribution.

The Company relies on third-party dealers and distributors to sell the majority of its products, particularly in the marine business. The ability to maintain a reliable network of dealers is essential to the Company's success. The Company faces competition from other boat manufacturers in attracting and retaining distributors and independent boat dealers. A significant deterioration in the number or effectiveness of the Company's dealers and distributors could have a material adverse effect on the Company's financial results.

Weakening demand for marine products could adversely affect the financial performance of the Company's dealers. In particular, reduced cash flow from decreases in sales and tightening credit markets may impair a dealer's ability to fund operations. Inability to fund operations can force dealers to cease business, and the Company may not be able to obtain alternate distribution in the vacated market. An inability to obtain alternate distribution could unfavorably affect the Company's net sales through reduced market presence. If conditions were to worsen, the Company anticipates that dealer failures or voluntary market exits could increase, especially if overall retail demand for boats declines.

Adverse economic, credit and capital market conditions could have a negative impact on the Company's financial results.

The Company does not frequently rely on short-term capital markets to meet its working capital requirements, fund capital expenditures, pay dividends, or fund employee benefit programs; however, the Company does maintain short-term borrowing facilities which can be used to meet these capital requirements. In addition, over the long term, the Company may determine that it is necessary to access the capital markets to refinance existing long-term indebtedness or for other initiatives.

Adverse global economic conditions, market volatility and heightened governmental regulation could lead to volatility and disruptions in the capital and credit markets. This could adversely affect the Company's ability to access capital and credit markets or increase the cost to do so, which could have a negative impact on its business, financial results and competitive position.

Inventory reductions by major dealers, retailers and independent boat builders could adversely affect the Company's financial results.

The Company's dealers, retailers and other distributors could decide to reduce the number of units they hold, especially in the large fiberglass boat segment. Such efforts would likely result in lower production levels of the Company's products, thus resulting in lower rates of absorption of fixed costs in the Company's manufacturing facilities and lower margins. While actions taken continue to keep dealer inventories at appropriate levels, the potential need for future inventory reductions by dealers and independent boatbuilder customers could impair the Company's future sales and results of operations.

The Company may be required to repurchase inventory or accounts of certain dealers.

The Company has agreements with certain third-party finance companies to provide financing to the Company's customers to enable the purchase of its products. In connection with these agreements, the Company either may have obligations to repurchase the Company's products from the finance company, or may have recourse obligations to the finance company on the dealer's receivables. These obligations are triggered if the Company's dealers default on their debt obligations to the finance companies.

The Company's maximum contingent obligation to repurchase inventory and its maximum contingent recourse obligations on customer receivables are less than the total balances of dealer financings outstanding under these programs, as the Company's obligations under certain of these arrangements are subject to caps, or are limited based on the age of product. The Company's risk related to these arrangements is mitigated by the proceeds it receives on the resale of repurchased product to other dealers, or by recoveries on receivables purchased under the recourse obligations.

The Company's inventory repurchase obligations relate primarily to the inventory floorplan credit facilities of the Company's boat and engine dealers. The Company's actual historical repurchase experience related to these repurchase arrangements has been substantially less than the Company's maximum contractual obligations. If dealers file for bankruptcy or cease operations, losses associated with the repurchase of the Company's products could be incurred. In addition, as the repurchases may be triggered by dealer bankruptcies, the Company's net sales and earnings may be unfavorably affected as a result of reduced market coverage and the associated decline in sales.

Declines in marine industry demand could cause an increase in future repurchase activity, or could require the Company to incur losses in excess of established reserves. In addition, the Company's cash flow and loss experience could be adversely affected if repurchased inventory is not successfully distributed to other dealers in a timely manner, or if the recovery rate on the resale of the product declines. In addition, the finance companies could require changes in repurchase or recourse terms that would result in an increase in the Company's contractual contingent obligations.

The loss of key accounts or critical suppliers could harm the Company's business.

If the Company were to experience the loss of a key account, its business could be negatively affected in a significant way. Similarly, if one of the Company's most critical suppliers were to close its operations, cease manufacturing or otherwise fail to deliver an essential component necessary to the Company's manufacturing operations, it could have a detrimental effect on the Company's ability to manufacture and sell its products, resulting in an interruption in business operations and/or a loss of sales. In an effort to mitigate the risk associated with the Company's reliance on such accounts and suppliers, it continually works to monitor such relationships, maintain a complete and competitive product lineup and identify alternative suppliers for key components.

The Company's success depends upon the continued strength of its brands.

The Company believes that its brands, including Brunswick, Mercury, Sea Ray, Boston Whaler and Life Fitness, are significant contributors to the success of the Company's business and that maintaining and enhancing the brands are important to expanding the Company's customer base. Failure to continue to promote and protect the Company's brands may adversely affect the Company's business and results of operations.

The Company has a large fixed cost base that can affect its profitability in a declining sales environment.

The fixed cost levels of operating marine production plants can put pressure on profit margins when sales and production decline. The Company's profitability is dependent, in part, on its ability to spread fixed costs over an increasing number of products sold and shipped, and if the Company makes a decision to reduce its rate of production, gross margins could be negatively affected. Consequently, decreased demand or the need to reduce inventories can lower the Company's ability to absorb fixed costs and materially impact its results of operations.

Successfully managing its manufacturing footprint is critical to the Company's operating and financial results.

A significant component of the Company's cost-reduction efforts has been a focus on reducing its manufacturing footprint by consolidating boat and engine production into fewer plants. In the second quarter of 2012, the Company completed the consolidation of engine production by transferring sterndrive engine manufacturing operations from its Stillwater, Oklahoma plant to its Fond du Lac, Wisconsin plant. In addition, in the fourth quarter of 2012, the Company began the consolidation of its Knoxville, Tennessee boat plant operation into its manufacturing facilities in Vonore, Tennessee and Palm Coast, Florida. This transition is expected to conclude in 2013.

Moving production to a different plant involves risks, including the inability to start up production within the cost and timeframe estimated, supply product to customers when expected and attract a sufficient number of skilled workers to handle the additional production demands. The inability to successfully implement the Company's manufacturing footprint initiatives could adversely affect its ability to meet customer demand for products and could increase the cost of production versus projections, both of which could result in a significant adverse impact on operating and financial results. Additionally, expenses associated with plant consolidation, including severance costs and loss of trained employees with knowledge of the Company's business and operations, could exceed projections and negatively impact financial results.

To successfully manage its manufacturing footprint, the Company also must enable growth through strategic capital investments including facility and capacity expansion projects. These capital improvement projects and expansions must be carefully managed to ensure cost targets are met, environmental, safety and other regulations are followed and high-quality workmanship is maintained.

If the Company is not able to successfully implement its restructuring and growth initiatives, this could have a material adverse effect on the Company's business and financial condition.

The Company's ability to successfully generate cash flow will depend on its continued successful execution of the Company's restructuring and growth initiatives. Demand for certain of the Company's marine products continues at historically low levels, mainly as a result of a deterioration in economic conditions. As a result, the Company has taken, and may in the future take additional global restructuring activities to realign its cost structure with existing demand. The occurrence of restructuring activities could result in impairment charges and other expenses, which could adversely impact the Company's cash flow, results of operations or financial condition.

The Company relies on third-party suppliers for the supply of the raw materials, parts and components necessary to manufacture its products. The Company's financial results may be adversely affected by an increase in cost, disruption of supply or shortage of or defect in raw materials, parts or product components.

Outside suppliers and contract manufacturers provide the Company with raw materials used in its manufacturing processes including oil, aluminum, copper, steel and resins, as well as product parts and components, such as engine blocks and boat windshields. The prices for these raw materials, parts and components fluctuate depending on market conditions and in some instances, commodity prices. Substantial increases in the prices of the Company's raw materials, parts and components would increase the Company's operating costs, and could reduce its profitability if the Company cannot recoup the increased costs through increased product prices.

In addition, some components used in the Company's manufacturing processes, including engine blocks and boat windshields, are available from a sole supplier or a limited number of suppliers. Operational and financial difficulties that these or other suppliers may face in the future could adversely affect their ability to supply the Company with the parts and components it needs, which could significantly disrupt the Company's operations. It may be difficult to find a replacement supplier for a limited or sole source raw material, part or component without significant delay or on commercially reasonable terms. In addition, an uncorrected defect or supplier's variation in a raw material, part or component, either unknown to the Company or incompatible with the Company's manufacturing process, could harm the Company's ability to manufacture products.

Some of the risks that could disrupt the Company's operations, impair the Company's ability to deliver products to the Company's customers and negatively affect the Company's financial results include: an increase in the cost of, defects in or a sustained interruption in the supply or shortage of some of these raw materials, parts or products that may be caused by delayed start-up periods experienced by the Company's suppliers as they increase production efforts; financial pressures on the Company's suppliers due to a weakening economy; and a deterioration of the Company's relationships with suppliers or by events such as natural disasters, power outages or labor strikes. In addition to the risks described above regarding interruption of supplies, which are exacerbated in the case of single-source suppliers, the exclusive supplier of a key component potentially could exert significant bargaining power over price, quality, warranty claims, or other terms relating to a component.

The Company's manufacturing operations increased production in 2012 and are expected continue to do so in 2013, and consequently, the Company's need for raw materials and supplies will increase. The Company's suppliers must be prepared to ramp up operations and, in many cases, hire additional workers and/or expand capacity in order to fulfill the orders placed by the Company and other customers. The Company experienced periodic supply shortages in 2010, 2011 and 2012. The Company continues to work to address this issue by identifying alternative suppliers, working to secure adequate inventories of critical supplies and continually monitoring the capabilities of its supplier base. In the future, however, the Company may continue to experience shortages of, delayed delivery of and/or increased prices for key materials, parts and supplies that are essential to its manufacturing operations.

The Company's pension funding requirements and expenses are affected by certain factors outside its control, including the performance of plan assets, the discount rate used to value liabilities, actuarial data and experience and legal and regulatory changes.

The Company's funding obligations and pension expense for its four qualified pension plans are driven by the performance of assets set aside in trusts for these plans, the discount rate used to value the plans' liabilities, actuarial data and experience and legal and regulatory funding requirements. Changes in these factors could have an adverse impact on the Company's results of operations, liquidity or shareholders' equity. In addition, a portion of the Company's pension plan assets are invested in equity securities, which can experience significant declines if financial markets weaken. The level of the Company's funding of its qualified pension plan liabilities was approximately 67 percent as of December 31, 2012. The Company's future pension expenses and funding requirements could increase significantly due to the effect of adverse changes in the discount rate and asset levels along with a decline in the estimated return on plan assets. In addition, as a result of changes in regulations, the Company could be legally required to make increased contributions to the pension plans, and these contributions could be material and negatively affect the Company's cash flow.

Higher energy and fuel costs can adversely affect the Company's results.

Higher energy and fuel costs result in increases in operating expenses at the Company's manufacturing facilities and in the cost of shipping products to customers. In addition, increases in energy costs can adversely affect the pricing and availability of petroleum-based raw materials such as resins and foam that are used in many of the Company's marine products. Also, higher fuel prices may have an adverse effect on demand for marine retail products as they increase the cost of boat ownership, and may have a negative impact on operating margins, particularly in the Fitness segment, as transportation costs increase. Finally, because heating and air conditioning comprise a significant part of the cost of operating a bowling center, any increase in the price of energy could adversely affect the operating margins of the Company's bowling centers.

The Company's profitability may suffer as a result of competitive pricing and other pressures.

The introduction of lower-priced alternative products by other companies can hurt the Company's competitive position in all of its businesses. The Company is constantly subject to competitive pressures, particularly in the outboard engine market, in which predominantly Asian manufacturers often have pursued a strategy of aggressive pricing particularly during periods when the Japanese yen weakens versus the U.S. dollar. Such pricing pressure may limit the Company's ability to increase prices for its products in response to raw material and other cost increases and negatively affect the Company's profit margins.

In addition, the Company's independent boat builder customers may react negatively to potential competition for their products from Brunswick's own boat brands, which can lead them to purchase marine engines and marine engine supplies from competing marine engine manufacturers and may negatively affect demand for the Company's products.

The Company's ability to remain competitive depends on the successful introduction of new product offerings and the ability to meet its customers' expectations.

The Company believes that its customers rigorously evaluate their suppliers on the basis of product quality along with new product innovation and development capability. The Company's ability to remain competitive may be adversely affected by difficulties or delays in product development, such as an inability to develop viable new products, gain market acceptance of new products, generate sufficient capital to fund new product development or obtain adequate intellectual property protection for new products. To meet ever-changing consumer demands, the timing of market entry and pricing of new products are critical. As a result, the Company may not be able to introduce new products necessary to remain competitive in all markets that it serves. Furthermore, the Company must deliver quality products that meet or exceed its customers' expectations regarding product quality and after-sales service.

The Company competes with a variety of other activities for consumers' scarce discretionary income and leisure time.

The vast majority of the Company's products are used for recreational purposes, and demand for the Company's products can be adversely affected by competition from other activities that occupy consumers' time, including other forms of recreation as well as religious, cultural and community activities. Additionally, the decrease in consumers' discretionary income as a result of the recent economic environment has influenced consumers' willingness to purchase and enjoy the Company's products.

The Company manufactures and sells products that create exposure to potential product liability, warranty liability, personal injury and property damage claims and litigation.

The Company's products may expose it to potential product liability, warranty liability, personal injury or property damage claims relating to the use of those products. The Company's manufacturing consolidation efforts and production of new products could result in product quality issues, thereby increasing the risk of litigation and potential liability. To address this risk, the Company has established a global, enterprise-wide organization charged with the responsibility of reviewing and addressing product quality issues. Historically, the resolution of such claims has not materially adversely affected the Company's business, and the Company maintains insurance coverage to mitigate a portion of these risks, which it believes to be adequate. However, the Company may experience material losses in the future, incur significant costs to defend claims or experience claims in excess of its insurance coverage or claims that will not be covered by insurance. Furthermore, the Company's reputation may be adversely affected by such claims, whether or not successful, including potential negative publicity about its products. The Company records reserves for known potential liabilities, but there is the possibility that actual losses may exceed these reserves and therefore negatively impact earnings.

Environmental laws and zoning and other requirements can inhibit the Company's ability to grow its marine businesses.

Environmental restrictions, boat plant emission restrictions and permitting and zoning requirements can limit access to water for boating, as well as marina and storage space. In addition, certain jurisdictions both inside and outside the United States require or are considering requiring a license to operate a recreational boat. While such licensing requirements are not expected to be unduly restrictive, they may deter potential customers, thereby reducing the Company's sales. Furthermore, regulations allowing the sale of fuel containing higher levels of ethanol for automobiles, which is not approved or intended for use in marine engines, may nonetheless result in increased warranty, service and other claims against the Company if boaters mistakenly use this fuel in marine engines, causing damage to and the degradation of components in their marine engines.

Compliance with environmental regulations affecting marine engines will increase costs and may reduce demand for the Company's products.

The U.S. Environmental Protection Agency's emission regulations require certain gasoline sterndrive and inboard engines to be equipped with a catalyst exhaust monitoring and treatment system. It is possible that environmental regulatory bodies may impose higher emissions standards in the future for marine engines. Compliance with these standards would increase the cost to manufacture and the price to the customer for the Company's engines, which could in turn reduce consumer demand for the Company's marine products and potentially reduce operating margins. An increase in the cost of marine engines, an increase in the retail price to consumers or unforeseen delays in compliance with environmental regulations affecting these products could have an adverse effect on the Company's results of operations.

The Company's businesses may be adversely affected by compliance obligations and liabilities under various laws and regulations.

The Company is subject to federal, state, local and foreign laws and regulations, including product safety, environmental, health and safety laws and other regulations. While the Company believes that it maintains all requisite licenses and permits and that it is in material compliance with all applicable laws and regulations, a failure to satisfy these and other regulatory requirements could cause the Company to incur fines or penalties, and compliance could increase its cost of operations. The adoption of additional laws, rules and regulations could also increase the Company's capital or operating costs.

The Company's manufacturing processes involve the use, handling, storage and contracting for recycling or disposal of hazardous or toxic substances or wastes. Accordingly, the Company is subject to regulations regarding these substances, and the misuse or mishandling of such substances could expose it to liabilities, including claims for property or natural resources damages or personal injury, or fines. The Company is also subject to laws requiring the cleanup of contaminated property. If a release of hazardous substances occurs at or from any of the Company's current or former properties or another location where it has disposed of hazardous materials, the Company may be held liable for the contamination, regardless of knowledge or whether it was at fault in connection with the release, and the amount of such liability could be material.

Additionally, the Company is subject to laws governing its relationship with its employees, including, but not limited to, employee wage, hour and benefit issues, such as pension funding and health care benefits. Changes to such legislation could increase the cost of the Company's operations. Specifically, the effects of The Patient Protection and Affordable Care Act, once ultimately determined and implemented, may have an adverse effect on the financial operations of the Company, primarily in the bowling retail business.

Increases in income tax rates or changes in income tax laws or enforcement could have a material adverse impact on the Company's financial results.

Changes in domestic and international tax legislation could expose the Company to additional tax liability. Although the Company carefully monitors changes in tax laws and works to mitigate the impact of proposed changes, such changes may negatively impact the Company's financial results. In addition, any increase in individual income tax rates, such as those implemented at the beginning of 2013, would negatively affect the Company's potential customers' discretionary income and could decrease the demand for its products. Finally, governments in certain foreign jurisdictions are increasing their audit activity in an effort to obtain additional funds. This increased audit activity involves increased costs to the Company to determine the final outcome and the potential for additional taxes to be assessed.

If the Company's intellectual property protection is inadequate, others may be able to use its technologies and thereby reduce the Company's ability to compete, which could have a material adverse effect on the Company, its financial condition and results of operations.

The Company regards much of the technology underlying its products as proprietary. The steps the Company takes to protect its proprietary technology may be inadequate to prevent misappropriation of the Company's technology, or third parties may independently develop similar technology. The Company relies on a combination of patents, trademark, copyright and trade secret laws; employee and third-party non-disclosure agreements; and other contracts to establish and protect its technology and other intellectual property rights. The agreements may be breached or terminated, the Company may not have adequate remedies for any such breach, and existing patent, trademark, copyright and trade secret laws afford it limited protection. Policing unauthorized use of the Company's intellectual property is difficult, particularly in many regions outside the United States. A third party could copy or otherwise obtain and use the Company's products or technology without authorization. Litigation may be necessary for the Company to defend against claims of infringement or to protect its intellectual property rights and could result in substantial cost. Further, the Company might not prevail in such litigation, which could harm its business.

Some of the Company's operations are conducted by joint ventures that are not operated solely for its benefit.

Some of the Company's operations are carried on through jointly owned companies such as BAC and Tohatsu Marine Corporation. With respect to these joint ventures, the Company shares ownership and management responsibility of these companies with one or more parties who may not have the same goals, strategies, priorities or resources as the Company. These joint ventures are intended to be operated for the equal benefit of all co-owners, rather than for the Company's exclusive benefit.

Changes in currency exchange rates can adversely affect the Company's results.

The Company derives a portion of its revenues from outside the United States (38 percent in 2012). The Company manufactures its products primarily in the United States and the costs of the Company's products are generally denominated in U.S. dollars, although the increase in manufacturing and sourcing of products and materials outside the United States continues to be a strategic focus. The Company sells a significant portion of these products in currencies other than the U.S. dollar. Consequently, a strong U.S. dollar can make the Company's products less price-competitive relative to products manufactured outside the United States, and can adversely affect its financial performance.

Although the Company enters into currency exchange contracts to reduce its risk related to currency exchange fluctuations, it is impossible to hedge against all currency risk, especially over the long term, and changes in the relative values of currencies may occur from time to time and, in some instances, affect the Company's results of operations. The Company is also exposed to the risk that its counterparties to hedging contracts could default on their obligations, which may have an adverse effect on the Company.

A growing portion of the Company's revenue may be derived from international sources, which exposes it to additional uncertainty.

Approximately 38 percent of the Company's 2012 sales were derived from sources outside the United States and the Company intends to continue to expand its international operations and customer base as part of its growth strategy. Sales outside the United States, especially in emerging markets, are subject to various risks including government embargoes or foreign trade restrictions, tariffs, fuel duties, inflation, difficulties in enforcing agreements and collecting receivables through foreign legal systems, compliance with international laws, treaties and regulations and unexpected changes in regulatory environments, disruptions in distribution, dependence on foreign personnel and unions, as well as economic and social instability. In addition, there may be tax inefficiencies in repatriating cash from non-U.S. subsidiaries. If the Company continues to expand its business globally, its success will depend, in part, on the Company's ability to anticipate and effectively manage these and other risks. These and other factors may have a material impact on the Company's international operations or its business as a whole.

An impairment in the carrying value of goodwill, trade names and other long-lived assets could negatively affect the Company's consolidated results of operations and net worth.

Goodwill and indefinite-lived intangible assets, such as the Company's trade names, are recorded at fair value at the time of acquisition and are not amortized, but are reviewed for impairment at least annually or more frequently if impairment indicators arise. In evaluating the potential for impairment of goodwill and trade names, the Company makes assumptions regarding future operating performance, business trends and market and economic conditions. Such analyses further require the Company to make certain assumptions about sales, operating margins, growth rates and discount rates. There are inherent uncertainties related to these factors and in applying these factors to the assessment of goodwill and trade name recoverability. Goodwill reviews are prepared using estimates of the fair value of reporting units based on the estimated present value of future discounted cash flows. The Company could be required to evaluate the recoverability of goodwill or trade names prior to the annual assessment if it experiences disruptions to the business, unexpected significant declines in operating results, a divestiture of a significant component of the Company's business or market capitalization declines.

The Company also continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful lives of its definite-lived intangible assets, excluding goodwill, and other long-lived assets may warrant revision or whether the remaining balance of such assets may not be recoverable. The Company uses an estimate of the related undiscounted cash flow over the remaining life of the asset in measuring whether the asset is recoverable.

If the future operating performance of the Company's reporting units is not consistent with the Company's assumptions, the Company could be required to record non-cash impairment charges. Impairment charges could substantially affect the Company's reported earnings in the periods such charges are recorded. In addition, impairment charges could indicate a reduction in business value which could limit the Company's ability to obtain adequate financing in the future. As of December 31, 2012, goodwill was approximately 12 percent of total assets and included $270.6 million of goodwill related to the Life Fitness segment and $21.1 million of goodwill related to the Marine Engine segment.

Adverse weather conditions can have a negative effect on marine and retail bowling center revenues.

Weather conditions can have a significant effect on the Company's operating and financial results, especially in the marine and retail bowling center businesses. Sales of the Company's marine products are generally stronger just before and during spring and summer, and favorable weather during these months generally has a positive effect on consumer demand. Conversely, unseasonably cool weather, excessive rainfall or drought conditions during these periods can reduce demand. Hurricanes and other storms can result in the disruption of the Company's distribution channel. In addition, severely inclement weather on weekends and holidays, particularly during the winter months, can adversely affect patronage of the Company's bowling centers and, therefore, revenues in the retail bowling center business. Additionally, in the event that climate change occurs, which could result in environmental changes including, but not limited to, severe weather, rising sea levels or reduced access to water, the Company's business could be disrupted and negatively affected.

Instability in locations where the Company maintains a significant presence could adversely impact the Company's business operations.

The Company has established a global presence, with manufacturing, sales, distribution and retail locations around the world. Changing conditions in those locations, including, but not limited to, political instability, civil unrest and an increase in criminal activity, could have a negative impact on the Company's local manufacturing and other business operations. Decreased stability in those regions where the Company conducts business poses a risk of business interruption and delays in shipments of materials, components and finished goods, as well as a risk of decreased local retail demand for the Company's products in those regions.

Catastrophic events, including natural and environmental disasters, could have a negative effect on the Company's operations and financial results.

The occurrence of natural and environmental disasters, including hurricanes, floods, earthquakes and environmental spills, could decrease consumer demand for and sales of the Company's products. If such an occurrence takes place in one of Brunswick's major sales markets, the Company could experience a decrease in sales. Additionally, if such an event occurs near the Company's business, manufacturing facilities or key suppliers' facilities, the affected locations could experience an interruption in business operations and/or their operating systems.

The Company's operations are dependent upon the services of key individuals, the loss of whom may have an adverse effect.

The Company's operations depend, in part, on the efforts of the Company's executive officers and other key employees. In addition, the Company's future success will depend on, among other factors, its ability to attract and retain other qualified personnel. The loss of the services of any of the Company's key employees or the failure to attract or retain employees could have an adverse effect on the Company. The Company's restructuring activities, which have resulted in substantial employee terminations, may make it more difficult for the Company to attract or retain employees and it may be adversely affected for some time by the loss of trained employees with knowledge of the Company's business and industries. If the Company is unable to attract and retain qualified individuals, or the Company's costs to do so increase significantly, the Company's operations could be adversely affected.

The Company's business operations could be negatively impacted by the failure of its information technology systems.

The Company's global business operations are managed through a variety of information technology (IT) systems. These systems govern all aspects of the company's operations around the world. The Company is dependent on these systems for all commercial transactions, customer interactions, and image projection. Some of the systems are based on legacy technology and operate with a minimal level of available support. If one of these legacy systems or another of the Company's key IT systems were to suffer a failure, or if the Company's IT systems were unable to communicate effectively, this could result in missed or delayed sales, or lost opportunities for cost reduction or efficient cash management. The Company exchanges information with hundreds of trading partners across all aspects of it's commercial operations. Any breach in security or disruption of the communications could result in erroneous transactions or loss of reputation and confidence. The company has numerous portals to engage in e-commerce and e-marketing; therefore, the company must remain diligent in protecting itself from malicious cyber attacks. A successful cyber attack could result in a disruption of services, fraudulent transactions, or disclosure of confidential information. This could negatively affect the Company's relationships with its trading partners and damage its image and reputation.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Brunswick's headquarters are located in Lake Forest, Illinois. Brunswick has numerous manufacturing plants, distribution warehouses, bowling entertainment centers, sales offices and product test sites around the world. Research and development facilities are primarily located at manufacturing sites.

The Company believes its facilities are suitable and adequate for its current needs and are well maintained and in good operating condition. Most plants and warehouses are of modern, single-story construction, providing efficient manufacturing and distribution operations. The Company believes its manufacturing facilities have the capacity to meet current and anticipated demand. Brunswick owns its Lake Forest, Illinois headquarters and most of its principal plants.

The principal facilities used in Brunswick's operations are in the following locations:

Marine Engine Segment: Fresno, California; Old Lyme, Connecticut; Miramar, Panama City, Pompano Beach and St. Cloud, Florida; Atlanta, Georgia; Lowell, Michigan; Brookfield and Fond du Lac, Wisconsin; Melbourne, Australia; Petit Rechain, Belgium; Toronto, Ontario, Canada; Suzhou, China; Kuala Lumpur, Malaysia; Juarez, Mexico; and Singapore. The Fresno, California; Old Lyme, Connecticut; Miramar and Pompano Beach, Florida; Lowell, Michigan; Toronto, Ontario, Canada; and Singapore facilities are leased. The remaining facilities are owned by Brunswick.

Boat Segment: Edgewater, Merritt Island (Sykes Creek) and Palm Coast, Florida; Fort Wayne, Indiana; New York Mills, Minnesota; Lebanon, Missouri; Vonore and Knoxville, Tennessee; Petit Rechain, Belgium; Joinville, Santa Catarina, Brazil; Princeville, Quebec, Canada; Reynosa, Mexico; Auckland, New Zealand; and Vila Nova de Cerveira, Portugal. The Santa Catarina, Brazil facility and the Brunswick Commercial and Government Products facility in Edgewater, Florida are both leased. The remaining facilities are owned by Brunswick.

Fitness Segment: Franklin Park and Schiller Park, Illinois; Falmouth, Kentucky; Ramsey, Minnesota; and Kiskoros, Hungary. The Schiller Park office and a portion of the Franklin Park facility are leased. The remaining facilities are owned by Brunswick.

Bowling & Billiards Segment: Lake Forest, Illinois; Muskegon, Michigan; Bristol, Wisconsin; Szekesfehervar, Hungary; Reynosa, Mexico; and 95 bowling recreation centers in the United States, Canada and Europe. The Reynosa manufacturing facility and 32 percent of BB&B's bowling centers are leased. The remaining facilities are owned by Brunswick.

Item 3. Legal Proceedings

Refer to Note 12 – Commitments and Contingencies in the Notes to Consolidated Financial Statements for information about the Company's legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Brunswick's Executive Officers are listed in the following table:

Officer	Present Position	Age
Dustan E. McCoy	Chairman and Chief Executive Officer	63
Peter B. Hamilton	Senior Vice President and Chief Financial Officer	66
Christopher E. Clawson	Vice President and President - Life Fitness	49
Kristin M. Coleman	Vice President, General Counsel and Secretary	44
Andrew E. Graves	Vice President and President - Brunswick Boat Group	53
Kevin S. Grodzki	Vice President and President - Global Sales and Marketing - Mercury Marine	57
B. Russell Lockridge	Vice President and Chief Human Resources Officer	63
Alan L. Lowe	Vice President and Controller	61
Mark D. Schwabero	Vice President and President - Mercury Marine	60

There are no familial relationships among these officers. The term of office of all Executive Officers expires May 1, 2013. The Executive Officers are elected by the Board of Directors each year.

On December 4, 2012, the Company announced that Peter B. Hamilton will be retiring from his position as Senior Vice President and Chief Financial Officer of Brunswick effective March 1, 2013. On December 4, 2012, Brunswick also announced that it has appointed William L. Metzger to the position of Senior Vice President and Chief Financial Officer effective March 1, 2013.

Dustan E. McCoy was named Chairman and Chief Executive Officer of Brunswick in December 2005. He was Vice President of Brunswick and President - Brunswick Boat Group from 2000 to 2005. From 1999 to 2000, he was Vice President, General Counsel and Secretary of Brunswick.

Peter B. Hamilton was named Senior Vice President and Chief Financial Officer of Brunswick in September 2008. He served as Vice Chairman of the Board of Brunswick from 2000 until his retirement in 2007; Executive Vice President and Chief Financial Officer of Brunswick from 1998 to 2000; and Senior Vice President and Chief Financial Officer of Brunswick from 1995 to 1998.

Christopher E. Clawson was named Vice President and President - Life Fitness in August of 2010. Prior to this appointment, Mr. Clawson served as Chief Executive Officer and President of Johnson Health Tech - North America, a fitness equipment designer and manufacturer. Previously, Mr. Clawson had been with Life Fitness from 1994 to 2004, where he held a number of positions of increasing responsibility in product development and marketing, eventually serving as Vice President Sales and Marketing - Consumer.

Kristin M. Coleman was named Vice President, General Counsel and Secretary of Brunswick in May 2009. Prior to her appointment, she was Vice President and Associate General Counsel for Mead Johnson Nutrition Company, a producer of infant and children's nutritional products. She had previously been with Brunswick Corporation from 2003 to 2008, serving in a number of positions of increasing responsibility.

Andrew E. Graves was named Vice President and President - Brunswick Boat Group in October 2009. Previously, he was Vice President and President - US Marine and Outboard Boats from 2008 to 2009 and President - Brunswick Boat Group Freshwater Group from 2005 to 2008. From 2003 to 2005, Mr. Graves was President of Dresser Flow Solutions, a global energy infrastructure company.

Kevin S. Grodzki was named Vice President and President - Global Sales and Marketing - Mercury Marine in September 2012. Previously, Mr. Grodzki, who has been with Mercury since 2005, served as President - Sales, Marketing and Commercial Operations since November 2008. Prior to that assignment, he was President of Brunswick's Life Fitness Division.

B. Russell Lockridge has been Vice President and Chief Human Resources Officer of Brunswick since 1999.

Alan L. Lowe has been Vice President and Controller of Brunswick since September 2003.

Mark D. Schwabero was named Vice President and President - Mercury Marine in December 2008. Previously, he was
President - Mercury Outboards from 2004 to 2008.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Brunswick's common stock is traded on the New York and Chicago Stock Exchanges. Quarterly information with respect to the high and low prices for the common stock and the dividends declared on the common stock is set forth in Note 20 – Quarterly Data (unaudited) in the Notes to Consolidated Financial Statements. As of February 19, 2013, there were 10,751 shareholders of record of the Company's common stock.

In October 2012 and October 2011, Brunswick announced its annual dividend on its common stock of $0.05 per share, payable in December 2012 and December 2011, respectively. Brunswick expects to continue to pay annual dividends at the discretion of the Board of Directors, subject to continued capital availability and a determination that cash dividends continue to be in the best interest of the Company's shareholders.

Brunswick's dividend and share repurchase policies may be affected by, among other things, the Company's views on future liquidity, potential future capital requirements and restrictions contained in certain credit agreements.

Performance Graph

Comparison of Five-Year Cumulative Total Return among Brunswick, S&P 500 Index and S&P 500 Global Industry Classification Standard (GICS) Consumer Discretionary Index

	2007	2008	2009	2010	2011	2012
Brunswick	100.00	24.81	75.34	111.43	107.68	173.82
S&P 500 Index	100.00	61.51	75.94	85.65	85.65	97.13
S&P 500 GICS Consumer Discretionary Index	100.00	65.28	89.27	113.84	118.77	144.35

The basis of comparison is a $100 investment at December 31, 2007 in each of: (i) Brunswick, (ii) the S&P 500 Index, and (iii) the S&P 500 GICS Consumer Discretionary Index. All dividends are assumed to be reinvested. The S&P 500 GICS Consumer Discretionary Index encompasses industries including automotive, household durable goods, textiles and apparel, and leisure equipment. Brunswick believes the companies included in this index provide the most representative sample of enterprises that are in primary lines of business that are similar to Brunswick's.

Item 6. Selected Financial Data

The selected historical financial data presented below as of and for the years ended December 31, 2012, 2011 and 2010 has been derived from, and should be read in conjunction with, the historical consolidated financial statements of the Company, including the notes thereto, and Item 7 of this report, including the Matters Affecting Comparability section. The selected historical financial data presented below as of and for the years ended December 31, 2009 and 2008 has been derived from the consolidated financial statements of the Company for the years that are not included herein.

(in millions, except per share data)	2012	2011	2010	2009	2008
Results of operations data					
Net sales	$3,717.6	$3,670.0	$3,338.0	$2,729.5	$4,546.4
Operating earnings (loss) (A)	264.1	213.7	62.9	(503.6)	(460.0)
Earnings (loss) before interest, loss on early extinguishment of debt and income taxes (A)	262.5	208.4	58.4	(521.7)	(433.1)
Earnings (loss) before income taxes (A)	181.0	110.7	(38.1)	(617.7)	(480.6)
Net earnings (loss) from continuing operations (A)	147.4	90.6	(64.0)	(513.1)	(663.7)
Discontinued operations:					
Net loss from discontinued operations, net of tax (B) (C)	(97.4)	(18.7)	(46.6)	(73.1)	(124.4)
Net earnings (loss) (A) (B) (C)	$50.0	$71.9	$(110.6)	$(586.2)	$(788.1)
Basic earnings (loss) per common share:					
Earnings (loss) from continuing operations (A)	$1.64	$1.02	$(0.72)	$(5.80)	$(7.52)
Discontinued operations:					
Net loss from discontinued operations, net of tax (B) (C)	(1.08)	(0.21)	(0.53)	(0.83)	(1.41)
Net earnings (loss) (A) (B) (C)	$0.56	$0.81	$(1.25)	$(6.63)	$(8.93)
Average shares used for computation of basic earnings (loss) per share	89.8	89.3	88.7	88.4	88.3
Diluted earnings (loss) per common share:					
Earnings (loss) from continuing operations (A)	$1.59	$0.98	$(0.72)	$(5.80)	$(7.52)
Discontinued operations:					
Net loss from discontinued operations, net of tax (B) (C)	(1.05)	(0.20)	(0.53)	(0.83)	(1.41)
Net earnings (loss) (A) (B) (C)	$0.54	$0.78	$(1.25)	$(6.63)	$(8.93)
Average shares used for computation of diluted earnings (loss) per share	92.4	92.2	88.7	88.4	88.3

(A) 2012 results include $25.8 million of pretax restructuring, exit and impairment charges. 2011 results include $21.3 million of pretax restructuring, exit and impairment charges. 2010 results include $54.2 million of pretax restructuring, exit and impairment charges. 2009 results include $158.3 million of pretax restructuring, exit and impairment charges. 2008 results include $546.1 million of pretax goodwill impairment charges, trade name impairment charges and restructuring, exit and impairment charges.

(B)

Net loss from discontinued operations in 2012 includes an impairment charge on assets held for sale, net of tax of $53.2 million ($52.7 million pre-tax) as discussed in Note 2 – Discontinued Operations.

(C) Net loss from discontinued operations includes other restructuring and impairment charges, net of tax of $14.5 million, $1.4 million, $8.1 million, $14.2 million and $121.4 million in 2012, 2011, 2010, 2009 and 2008, respectively.

(in millions, except per share and other data)	2012	2011	2010	2009	2008
Balance sheet data					
Total assets of continuing operations	$2,424.2	$2,420.8	$2,610.4	$2,608.7	$3,072.4
Debt					
Short-term	$8.2	$2.4	$2.2	$11.5	$3.2
Long-term	563.6	690.4	828.4	839.4	728.5
Total debt	571.8	692.8	830.6	850.9	731.7
Common shareholders' equity	77.7	30.9	70.4	210.3	729.9
Total capitalization	$649.5	$723.7	$901.0	$1,061.2	$1,461.6
Cash flow data					
Net cash provided by operating activities of continuing operations	$183.6	$135.2	$195.6	$150.2	$26.6
Depreciation and amortization	90.0	99.4	123.9	150.8	168.9
Capital expenditures	115.2	87.1	53.6	31.8	99.7
Investments	1.7	(0.9)	(7.2)	(6.2)	(20.0)
Cash dividends paid	4.5	4.5	4.4	4.4	4.4
Other data					
Dividends declared per share	$0.05	$0.05	$0.05	$0.05	$0.05
Book value per share	0.87	0.35	0.79	2.38	8.27
Return on beginning shareholders' equity	161.8%	102.1%	(52.6)%	(80.3)%	(41.6)%
Effective tax rate from continuing operations	18.6%	18.2%	(68.0)%	16.9%	(38.1)%
Debt-to-capitalization rate	88.0%	95.7%	92.2%	80.2%	50.1%
Number of employees	16,177	15,356	15,290	15,003	19,760
Number of shareholders of record	10,900	11,550	12,134	12,602	12,842
Common stock price (NYSE)					
High	$29.09	$26.93	$22.62	$13.11	$19.28
Low	18.49	13.46	10.34	2.18	2.01
Close (last trading day)	29.09	18.06	18.74	12.71	4.21

The Notes to Consolidated Financial Statements should be read in conjunction with the above summary.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in Management's Discussion and Analysis are based on non-GAAP financial measures. Specifically, the discussion of the Company's cash flows includes an analysis of free cash flows, net debt and total liquidity, and the discussion of the Company's earnings includes a presentation of operating earnings excluding restructuring, exit and impairment charges and diluted earnings per common share, as adjusted. GAAP refers to generally accepted accounting principles in the United States. A "non-GAAP financial measure" is a numerical measure of a registrant's historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the consolidated statements of operations, balance sheets or statements of cash flows of the issuer; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. Non-GAAP financial measures do not include operating and statistical measures.

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

Certain statements in Management's Discussion and Analysis are forward-looking as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include words such as "expect," "anticipate," "believe," "may," "should," "could" or "estimate." These statements involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this filing. These risks include, but are not limited to, those set forth under Item 1A of this Annual Report on Form 10-K.

Overview and Outlook

General

In 2012, the Company successfully navigated through extreme variability in markets and business conditions, which resulted in the third consecutive year of strong improvement in operating earnings. Despite global economic challenges, the Company looked to achieve the following objectives in 2012:

- Deliver revenue growth;
- Experience strong increases in operating earnings; and
- Continue to generate strong free cash flow, retire debt and make significant contributions into the Company's defined benefit pension plans in pursuit of fully funding these plans.

Achievement against the Company's objectives in 2012 were as follows:

Deliver revenue growth:

- Ended the year with a one percent increase in net sales when compared with 2011 despite the following unfavorable comparisons:

- Net sales to European markets in 2012 declined by $118.9 million, or 19.9 percent, when compared with 2011, due mainly to weak economic conditions in Europe, the divestiture of the Sealine boat brand, and unfavorable currency translation;

- Weaker global demand for fiberglass sterndrive boats; and
- The absence of a large order from one of Fitness' major customer categories.

- Capitalized on near-term growth opportunities such as the launch of the Marine Engine segment's new 150 horsepower FourStroke outboard engine, strong growth in marine service, parts and accessories businesses and continually introducing new products in the Boat and Fitness segments.

- Experienced strong demand and increasing sales in aluminum and outboard powered fiberglass boats as well as the rapidly growing pontoon boat category.

Experience strong increases in operating earnings:

- Reported operating earnings of $264.1 million in 2012 compared with operating earnings of $213.7 million in 2011 and $62.9 million in 2010;
- Operating earnings increased by $50.4 million in 2012 when compared with 2011 on an increase in net sales of $47.6 million; and
- Continued reducing costs, achieving targets for operating efficiency improvements and realizing the benefits of past restructuring activities.

Continue to generate strong free cash flow, retire debt and make significant contributions into the Company's defined benefit pension plans in pursuit of fully funding these plans:

- Ended the year with $428.7 million of cash and marketable securities;
- Operating cash flows from continuing operations totaled $183.6 million during 2012, benefitting from improved operating results, partially offset by cash used for changes in certain current assets and current liabilities;
- Contributed $69.0 million to the Company's defined benefit pension plans to bring the aggregate funded status of its pension plans to approximately 65 percent;
- Selectively increased capital expenditures to support growth initiatives and for profit-maintaining investments; and
- Retired $124.2 million of debt during 2012, contributing to a $13.7 million decrease in interest expense.

The Company reported an increase in net sales to $3,717.6 million from $3,670.0 million in 2011. The overall increase in sales was mainly due to improved performance in the Company's Marine Engine segment, primarily a result of strong growth in the U.S. outboard engine and boat markets, and the marine service, parts and accessories businesses. Net sales to the Company's European markets in 2012 declined 19.9 percent when compared with 2011, due mainly to weak economic conditions and the divestiture of Sealine in 2011. Net sales in the Marine Engine and Boat segments were also negatively affected by weaker global demand for fiberglass sterndrive boats. The Fitness segment experienced slightly higher sales due to increased sales to North American health club customers, improved sales to Asian markets and stronger U.S. consumer sales whereas the Bowling & Billiards segment saw a decrease in sales primarily resulting from operating fewer retail bowling centers.

Operating earnings during 2012 were $264.1 million, with an operating margin of 7.1 percent. Operating earnings in 2011 were $213.7 million, with an operating margin of 5.8 percent. The 2012 results included $25.8 million of restructuring, exit and impairment charges, while the 2011 results included $21.3 million of restructuring, exit and impairment charges. Improved operating earnings during 2012 mainly resulted from cost reduction activities, operating efficiency improvements and increased sales volumes in certain segments.

Outlook for 2013

The Company expects that 2013 revenues will grow 3 percent to 5 percent when compared with 2012 with all four segments experiencing growth. In the marine segments, the Company expects to benefit from the continuing, albeit uneven, recovery in the overall U.S. powerboat market. Solid growth is expected to continue in the outboard product categories while weak market conditions may continue to challenge the sterndrive engine and fiberglass sterndrive boat products. Positive health and fitness trends have positioned the Company's Fitness segment to continue to deliver excellent results as the segment will benefit from the full year effect of 2012 product introductions. Additionally, the

Company's Bowling & Billiards segment will benefit from increasing investments to modernize existing bowling centers while exploring new concepts and formats to drive sales in an evolving bowling retail market.

The Company expects to have higher earnings per share in 2013 resulting from increased revenues while maintaining the strong gross margins achieved in 2012. Operating expenses, including research and development expenditures, are projected to be higher in 2013 when compared with 2012 as the Company increases spending on growth initiatives. The Company expects net earnings in 2013 to benefit from previously announced marine plant consolidation activities, and lower restructuring, exit and impairment charges, net interest and pension expenses.

The Company is also planning for its effective tax rate in 2013 to be in the range of 16 percent to 18 percent after adjusting for the impact of one-time pretax charges such as debt extinguishment losses and restructuring charges, as well as non-recurring special tax items. The Company has substantially reserved its deferred tax assets due to being in a cumulative three-year loss position in the United Sates and other jurisdictions. It is possible the Company may be out of a cumulative three-year loss position in 2013 and will be evaluating the need to continue to maintain these valuation reserves against the deferred tax assets. It is possible that a significant portion of the Company's December 31, 2012 valuation allowance balances could be reversed by the end of 2013, which would be considered a special tax item excluded from the Company's projected effective tax rate range for 2013 noted above.

The discussion above contains the Company's outlook for its business in 2013. This outlook, and the statements contained therein, is based on current expectations, estimates, plans and projections about the Company's business which are not guarantees of future performance and involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this filing. This outlook and the related forward-looking view of the Company's business speaks only as of the date of this filing and the Company does not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of this filing.

Discontinued Operations

In connection with continued weakness in the luxury sportfishing convertible and motoryacht boat market segments, the Company recorded $14.5 million of restructuring charges during 2012 associated with its Hatteras and Cabo boat brands primarily related to the determination that the carrying value of their long-lived assets was not expected to be recovered through future cash flows. On December 31, 2012, the Board of Directors authorized the Company to exit its Hatteras and Cabo boat businesses. Based on the performance of the Hatteras and Cabo boat businesses, the Company has concluded that proceeds from the sale will be less than its book value. These circumstances resulted in a non-cash asset impairment charge of $52.7 million, $53.2 million after-tax, in the fourth quarter of 2012.

In this Annual Report on Form 10-K, the Company has begun reporting the results of the Hatteras and Cabo businesses, which were previously reported in the Boat segment, as discontinued operations for all periods presented. The Company's results, as discussed in Management's Discussion and Analysis, reflect continuing operations only, unless otherwise noted.

Restructuring Activities

The restructuring, exit and impairment charges recorded in the Consolidated Statements of Operations during 2012, 2011 and 2010 by reportable segment, are summarized below:

(in millions)	2012	2011	2010
Marine Engine	$4.2	$11.0	$12.5
Boat	21.3	8.3	39.0
Fitness	0.1	0.1	0.2
Bowling & Billiards	0.4	1.9	1.8
Corporate	(0.2)	—	0.7
Total	$25.8	$21.3	$54.2

See Note 3 – Restructuring Activities in the Notes to Consolidated Financial Statements for further details. The Company anticipates it will incur between $5 million and $6 million of additional restructuring charges in 2013 primarily related to known restructuring activities initiated in 2012, 2010 and 2009.

Matters Affecting Comparability

The following events hav