BRUNSWICK CORP
Form 10-K
February 19, 2019
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, 2018
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.)

26125 N. Riverwoods Boulevard, Mettawa, Illinois 60045-3420
(Address of principal executive offices, including zip code)

(847) 735-4700
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($0.75 par value)	New York Stock Exchange, Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 every Interactive Data File required to be submitted 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 such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405) 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
Emerging growth company	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of June 29, 2018, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the voting stock of the registrant held by non-affiliates was $5,551,034,582. 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 15, 2019 was 87,028,425.

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 8, 2019.

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PART I

Item 1. Business

Brunswick Corporation is a Delaware corporation incorporated on December 31, 1907. We are a leading global designer, manufacturer, and marketer of recreation products including marine engines, boats, fitness equipment, and active recreation products. Our engine-related products include: outboard, sterndrive, and inboard engines; trolling motors; propellers; engine control systems; electrical components and integrated systems; and marine parts and accessories. The boats we make include fiberglass sport boats, cruisers, sport fishing and center-console, offshore fishing, aluminum and fiberglass fishing, pontoon, utility, deck, inflatable, and heavy-gauge aluminum boats. Our fitness products include cardiovascular and strength training equipment for both the commercial and consumer markets. We also sell products for active aging and rehabilitation, a complete line of billiards tables, and other game room tables and accessories.

In 2018, we continued to successfully execute our growth strategy, acquiring new parts and accessories brands and investing in innovative products, productivity, and efficiency initiatives. We expect to continue our focus on growth in the combined marine business in 2019. With respect to the Fitness segment, our focus remains firmly on completing the separation of this business from the portfolio in a timely fashion, and in a manner that maximizes value to our shareholders. The spin-off process remains on plan, and we continue to evaluate other options, including a sale of the business. In 2019, our marine business will emphasize continued product leadership, targeted acquisitions, and other growth-related investments. In the longer term, our strategy remains consistent: to design, develop, and introduce high-quality products featuring innovative technology and styling; to distribute products through a model that benefits our partners - dealers and distributors; to provide world-class service to our 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 our capital strategy, which includes allocating capital to organic growth initiatives and strategic acquisition opportunities, managing debt levels and maturities, maintaining strong cash and liquidity positions, funding pension obligations, and continuing to return capital to shareholders through dividends and share repurchases; and to attract and retain skilled employees. These strategic objectives support our plans to grow by expanding our existing businesses. Our primary objective is to enhance shareholder value by achieving returns on investments that exceed our cost of capital.

Refer to Note 7 – Segment Information and Note 3 – Discontinued Operations in the Notes to Consolidated Financial Statements for additional information regarding our 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 $2,993.6 million in 2018, consists of the Mercury Marine Group (Mercury Marine). We believe our Marine Engine segment is a world leader in the manufacturing and sale of recreational marine engines and marine parts and accessories.

Mercury Marine manufactures and markets a full range of outboard, sterndrive, and inboard engine and propulsion systems under, among other brand names, Mercury, Mercury MerCruiser, Mercury Racing, and MotorGuide brands. In addition, Mercury Marine manufactures and markets parts and accessories under the Ancor, Attwood, BEP, Besto, BLA, Blue Sea Systems, CZone, FulTyme RV, Garelick, Lenco Marine, Marinco, Mastervolt, Mercury, Mercury Precision Parts, MotorGuide, Park Power, Progressive Industries, ProMariner, Quicksilver, and Seachoice brand names, including marine electronics and control integration systems, steering systems, instruments, controls, propellers, trolling motors, fuel systems, electrical systems, service parts, and lubricants, as well as specialty vehicle, mobile, and transportation aftermarket products. Mercury Marine supplies integrated propulsion systems to the worldwide recreational and commercial marine markets. To promote advanced propulsion systems with improved handling, performance, and efficiency, Mercury Marine also manufactures and markets advanced boat steering and engine control systems.

Mercury Marine's outboard, sterndrive, and inboard engines are sold to independent boat builders, local, state, and foreign governments, and to Brunswick's Boat segment. In addition, Mercury Marine sells outboard engines through a global network of more than 6,000 marine dealers and distributors, specialty marine retailers, and marine service centers. White River Marine Group, LLC and its subsidiaries (including Tracker and Ranger Boats) is Mercury Marine's most significant external customer.

Mercury Marine manufactures four-stroke outboard engine models ranging from 2.5 to 400 horsepower. These low-emission engines are in compliance with applicable U.S. Environmental Protection Agency (EPA) requirements. Mercury Marine's four-stroke outboard engines include Verado, a collection of outboards ranging from 250 to 400 horsepower, and Mercury Marine's naturally aspirated four-stroke outboards, ranging from 2.5 to 300 horsepower. Mercury Marine and Mercury Racing manufacture inboard and sterndrive engine models ranging from 115 to 1,750 horsepower. Mercury Marine also manufactures two-stroke, non-DFI engines for certain markets outside the United States. In addition, most of Mercury Marine's sterndrive and inboard engines are now available with catalyst exhaust treatment and monitoring systems, and all are compliant with applicable U.S. state and federal environmental regulations. Mercury Marine also makes engines that comply with global emissions and noise regulations.

Mercury Marine continues to develop innovative products, including its all-new V8 FourStroke outboard family of engines, winning the 2018 Most Innovative Product at the New Zealand Boat Show, and a 2018 Innovation Award from the National Marine Manufacturers Association for the 3.4L V6 FourStroke outboard engines. Mercury Marine was awarded an IBEX Innovation Award in 2018 for its tiller handle assembly for portable outboard motors. 2018 also saw Mercury Marine open a state-of-the-art NVH (Noise, Vibration, Harshness) Technical Center at its global headquarters in Fond du Lac, Wisconsin.

Mercury Marine produces its gasoline sterndrive and outboard engines domestically in Fond du Lac, Wisconsin, with outboard engines also produced internationally in China and Japan. 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 engine components from a global supply base and manufactures additional engine component parts at its Fond du Lac facility and plants in Florida and Mexico. Mercury Marine also operates a remanufacturing business for engines and service parts in Wisconsin.

For the eighth consecutive year, the Wisconsin Sustainable Business Council awarded Mercury Marine a “Green Masters” designation, a program measuring a broad range of sustainability issues including energy and water conservation, waste management, community outreach, and education. The designation highlights Mercury Marine's commitment to sustainability as discussed in its 2018 Sustainability Report, detailing specific goals related to energy, environment, products, and people, all of which goals Mercury Marine has met or exceeded. In addition, Mercury Marine won Sustainable Product of the Year from the Wisconsin Sustainable Business Council for its Active Trim technology and was presented a Wisconsin Business Friend of the Environment Award in 2018.

Mercury Marine's Parts and Accessories Group distribution businesses include: Land 'N' Sea, Kellogg Marine Supply, Lankhorst Taselaar, BLA, Payne's Marine Group, and Del City. Parts and Accessories manufacturing businesses include Attwood, Garelick Mfg. Co.,Whale, Ancor, BEP, Blue Sea Systems, CZone, Lenco Marine, Marinco, Mastervolt, Park Power, Progressive Industries, and ProMariner. These businesses are leading manufacturers and distributors of marine parts and accessories throughout North America, Europe, and Asia-Pacific, offering same-day or next-day delivery service to a broad array of marine service facilities.

On August 9, 2018, Brunswick acquired 100 percent of the Global Marine & Mobile business of Power Products Holdings, LLC (Power Products), including the global marine, specialty vehicle, mobile, industrial power, and transportation aftermarket products businesses of Power Products, for $910 million in cash from San Francisco-based private equity firm Genstar Capital. The acquisition added a broad, complementary product portfolio of 11 new brands to Mercury Marine's parts and accessories business.
Intercompany sales to Brunswick's Boat segment represented approximately 11 percent of Mercury Marine's sales in 2018. 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 types of boats: fiberglass sport boats, cruisers, sport fishing and center-console, offshore fishing, aluminum and fiberglass fishing, pontoon, utility, deck, inflatable, and heavy-gauge aluminum. We believe that the Boat Group, which had net sales of $1,471.3 million during 2018, is a world leader in the manufacturing and sale of pleasure motorboats.

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 boat manufacturing and design processes, including through its Business Acceleration initiatives.

The Boat Group includes the following boat brands: Sea Ray sport boats and cruisers; Bayliner sport cruisers, runabouts, and Heyday wake boats; Boston Whaler fiberglass offshore boats; Lund fiberglass fishing boats; Crestliner, Cypress Cay, Harris, Lowe, Lund, and Princecraft aluminum fishing, utility, pontoon boats, and deck boats; and Thunder Jet heavy-gauge aluminum boats. The Boat Group procures most of its outboard engines, gasoline sterndrive engines, and gasoline inboard engines from Brunswick's Marine Engine segment.

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The Boat Group also includes Brunswick boat brands based in Europe and Asia-Pacific, which include Quicksilver, Uttern, and Rayglass (including Protector and Legend), that are typically equipped with Mercury Marine engines and often include other parts and accessories supplied by Mercury Marine.

The Boat Group operates manufacturing facilities in Florida, Indiana, Minnesota, Missouri, Washington, Canada, Mexico, New Zealand, and Portugal, and owns an inactive manufacturing facility in North Carolina. The Boat Group also utilizes two contract manufacturing facilities in Poland.

The Boat Group sells its products through a global network of nearly 1,300 dealers and distributors, with some dealers operating in more than one location and some dealers carrying more than one of our 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 24 percent of Boat Group sales in 2018. Domestic demand for pleasure boats is seasonal, with sales generally highest in the second calendar quarter of the year.

Fitness Segment

Our Fitness segment is comprised of the Fitness division (Fitness), which designs, manufactures, and distributes a broad portfolio 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, Hammer Strength, Cybex, Indoor Cycling Group, and SCIFIT brands. The Fitness segment also includes an active recreation business, including billiards tables, accessories, and game room furniture.

We believe that our Fitness segment, which had net sales of $1,038.3 million during 2018, is one of the world's largest manufacturers of commercial fitness equipment and a leading manufacturer of high-quality consumer fitness equipment. Fitness' commercial customers include health clubs, hospitality locations, multi-unit housing, corporations, schools and universities, military and governmental agencies, retirement and assisted living facilities, professional and collegiate sports teams, and community centers. Planet Fitness Inc. is the segment's most significant customer. Fitness makes commercial sales through its 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 website. Further details about the Fitness business can be found in Amendment No. 1 to the Registration Statement on Form 10, File No. 001-38741, filed on February 8, 2019 by Life Fitness Holdings, Inc. However, we are not incorporating the Form 10 by reference into this Annual Report on Form 10-K.

The billiards business was established in 1845 and is Brunswick's heritage business. The billiards business designs and markets billiards tables, table tennis tables, and Air Hockey tables, as well as game room furniture and related accessories, under the Brunswick and Contender brands.

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

Discontinued Operations

In December 2017, the Board of Directors authorized the Company to exit its Sea Ray business, including the Meridian brand, as a result of, among other things, a material change in strategic direction and a review of the expected future cash flows, market conditions and business trends. The Company engaged in a thorough sales process and ultimately determined that the offers received did not reflect an appropriate value for the brand. As a result, in June 2018, the Board of Directors authorized the Company to end the sale process for its Sea Ray business. As part of this action, the Company decided to restructure the businesses, including discontinuing Sea Ray Sport Yacht and Yacht models and winding down yacht production, while reinventing Sea Ray Sport Boat and Sport Cruiser operations. The winding down of Sea Ray Sport Yacht and Yacht operations was largely completed in 2018. The assets and liabilities of the Sea Ray business, which were reported as held for sale in the 2017 Form 10-K, have been reclassified to assets and liabilities in the Consolidated Balance Sheets for all periods presented. Additionally, the results of these businesses are no longer presented as discontinued operations in the Consolidated Statements of Cash Flows, the Consolidated Statements of Operations and the Notes to Consolidated Financial Statements in any period presented.

In the fourth quarter of 2018, the Company made adjustments to certain liabilities that were retained as part of the sale of the retail bowling business in 2014 and the bowling products business in 2015. The Company does not have continuing involvement or cash flows associated with these businesses, which were previously reported as discontinued operations in the Consolidated

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Statements of Operations for the years ended December 31, 2016, 2015 and 2014. As a result of these adjustments, the Company recognized $2.2 million of after-tax earnings as discontinued operations in the Consolidated Statements of Operations for the year ended December 31, 2018.

Refer to Note 3 – Discontinued Operations in the Notes to Consolidated Financial Statements for additional information regarding discontinued operations.

Boating Services Network and Business Acceleration

Boating Services Network is our leading dealer finance and operations service that includes floor planning from Brunswick Acceptance Corporation (USA) and Brunswick Commercial Finance (Canada), retail finance from Blue Water Finance and Mercury Repower Finance, retail extended product protection from Passport and Passport Premier, private label limited warranties for leading boat and engine manufacturers, retail insurance from Boater's Choice Insurance, and close to 50 name brand marine dealer service providers from Brunswick Dealer Advantage.

In 2018, Boating Services Network launched OnBoard Boating Cluband Rentals, a state-of-the-art, turnkey business platform empowering marine dealers and marinas to expand their operations and serve the emerging and rapidly growing boat club and rental consumer market segments. The suite of boats, tools, and services available through OnBoard enables club and rental operators to provide club members and rental customers an exceptional boating experience with a diverse fleet of newer boats, an easy-to-use online reservation system, incentives for members to become boat owners as they become captivated by the boating lifestyle, and many more benefits over time. We also launched NAUTIC-ON, a smart technology and service system that helps boaters stay connected with their boats remotely, monitoring engine status, battery and bilge pump, and providing other advanced features, in 2018.

We provide 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 us to offer a more complete line of financial services to our boat and marine engine dealers and their customers.

Financing Joint Venture

Through our Brunswick Financial Services Corporation subsidiary, we own a 49 percent interest in a joint venture, Brunswick Acceptance Company, LLC (BAC). Under the terms of the joint venture agreement, BAC provides secured wholesale inventory floorplan financing to our boat and engine dealers. A subsidiary of Wells Fargo & Company owns the remaining 51 percent.

In February 2018, the parties entered into an amended and restated joint venture agreement (JV Agreement) to extend the term of their financial services through December 31, 2022. The JV Agreement contains a financial covenant that conforms to the maximum leverage ratio test in the Credit Facility described in Note 17 – Debt in the Notes to Consolidated Financial Statements. The joint venture agreement contains provisions allowing for the renewal of the agreement or the purchase of the other party’s interest in the joint venture at the end of its term. Alternatively, either partner may terminate the agreement at the end of its term.

Refer to Note 11 – Financing Joint Venture in the Notes to Consolidated Financial Statements for more information about our financial services.

Distribution

We utilize independent distributors, dealers, and retailers (Dealers) for the majority of our boat sales and significant portions of our sales of marine engine, fitness, and billiards products. We have over 16,000 Dealers serving our business segments worldwide. Our marine Dealers typically carry one or more of the following product categories: boats, engines, and related parts and accessories.

We own Land 'N' Sea, Kellogg Marine Supply, Payne's Marine Group, and Del City, which comprise the primary parts and accessories distribution platforms for our Marine Engine segment in North America. We believe that these businesses, collectively, are the leading distributors of marine parts and accessories throughout North America, with 21 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. We also believe we are a leading parts and accessories distributor in the Asia-Pacific region.

Our 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 our products exclusively, while a majority also carry competitor and complementary products. We partner with our boat dealer network to improve quality, service,

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distribution, and delivery of parts and accessories to enhance the boating customer's experience.

Demand for a significant portion of our products is seasonal, and a number of our Dealers are relatively small and/or highly-leveraged. As a result, many Dealers secure floor plan financing from BAC or other third party finance companies, enabling them to provide stable channels for our products. In addition to the financing BAC offers, we may also provide our Dealers with incentive programs, loan guarantees, inventory repurchase commitments, and financing receivable arrangements, under which we are obligated to repurchase inventory or receivables from a finance company in the event of a Dealer's default. We believe that these arrangements are in our best interest; however, these arrangements expose us to credit and business risk. Our business units, along with BAC, maintain active credit operations to manage this financial exposure, and we continually seek opportunities to sustain and improve the financial health of our various distribution channel partners. Refer to Note 9 – Financing Receivables and Note 14 – Commitments and Contingencies in the Notes to Consolidated Financial Statements for further discussion of these arrangements.

Technology and Innovation

Upon the completion of the separation of our Fitness business, Brunswick will transition into a company concentrated on leading the global marine industry with a sharpened focus and clear vision, consistently innovating the future of recreational boating. To support this goal, we have established a strong foundation of cross functional and cross business investments and initiatives to further improve customer interaction with our products, including NAUTIC-ON and OnBoard Boating Club and Rentals. We continue to partner with TechNexus Holdings, LLC to identify and incubate innovative start-up ventures with strategic marine applications to help drive long-term growth.

For its part, Fitness continues to develop digital solutions focused on providing innovative solutions to meet the needs of fitness facilities and exercisers. In addition, Fitness is collaborating with a number of technology companies to accelerate the development of its technology portfolio to satisfy growing demand for digital fitness and connectivity solutions. For further details about Fitness, see Amendment No. 1 to the Registration Statement on Form 10, File No. 001-38741, filed on February 8, 2019 by Life Fitness Holdings, Inc.

International Operations

Non-U.S. sales are set forth in Note 7 – Segment Information and Note 2 – Revenue Recognition in the Notes to Consolidated Financial Statements and are also included in the table below, which details our non-U.S. sales by region:

(in millions)	2018	2017	2016
Europe	$696.2	$610.1	$569.2
Asia-Pacific	437.0	407.9	363.1
Canada	317.3	320.3	284.6
Rest-of-World	256.8	265.8	240.1
Total	$1,707.3	$1,604.1	$1,457.0
Total International Sales as a Percentage of Net Sales	33 %	33 %	35 %

We transact a portion of our sales in non-U.S. markets in local currencies, while a meaningful portion of our product costs are denominated in U.S. dollars as a result of our U.S. manufacturing operations. As a result, the strengthening or weakening of the U.S. dollar affects the financial results of our non-U.S. operations.

Marine Engine segment non-U.S. sales represented approximately 50 percent of our non-U.S. sales in 2018. The segment's principal non-U.S. operations include the following:

- Distribution, sales, service, engineering, or representative offices in Australia, Belgium, Brazil, Canada, China, Dubai, Finland, France, Italy, Japan, the Netherlands, New Zealand, Norway, Russia, Singapore, Sweden, and Switzerland;
- Component, parts and accessories manufacturing, and light assembly facilities in Mexico, the Netherlands, New Zealand, and Northern Ireland;
- An outboard engine assembly plant in Suzhou, China; and
- An outboard engine assembly plant operated by a joint venture in Japan.

Boat segment non-U.S. sales comprised approximately 21 percent of our non-U.S. sales in 2018. The Boat Group manufactures or assembles a portion of its products in Canada, Mexico, New Zealand, and Portugal, as well as in boat plants owned and operated by third parties in Poland that perform contract manufacturing for us, which are sold mostly in international markets through Dealers. The Boat Group has sales or import offices in Belgium, Canada, France, Italy, the Netherlands, New Zealand, Norway, Poland, and Sweden. Of our boat sales in Canada and Europe, approximately 38 percent and 91 percent, respectively, were produced in the region.

Fitness segment non-U.S. sales comprised approximately 29 percent of our non-U.S. sales in 2018. 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 relationships with third-party contract manufacturing partners in Taiwan, China, Mexico, and Indonesia.

Raw Materials and Supplies

We purchase a wide variety of raw materials from our supplier base, including commodities such as aluminum, resins, oil, and steel, 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 our production costs, which could reduce profitability if we did not recoup the increased costs through higher product prices.

As our manufacturing operations continued to raise production levels in 2018, our need for raw materials and supplies also increased. During 2018, we experienced some shortages or delayed delivery of certain materials, parts, and supplies essential to our manufacturing operations, although such shortages did not materially impact operations. We have 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 our supplier base. In 2019, we anticipate our suppliers will need to increase their manufacturing capacity and investments 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 us and other customers.

Our global procurement operations continue to better leverage purchasing power across our divisions and to improve supply chain and cost efficiencies. We mitigate commodity price risk on certain raw material purchases by entering into fixed priced contracts or derivatives to mitigate exposure related to changes in commodity prices.

Intellectual Property

We have, and continue to obtain, patent rights covering certain features of our products and processes. By law, our patent rights, which consist of patents and patent licenses, have limited lives and expire periodically. We believe that our patent rights are important to our competitive position in all of our business segments. Our trademark rights have indefinite lives, and many are well known to the public and are considered to be valuable assets. Most of our intellectual property is owned by U.S. entities.

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 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, as well as billiards table designs and components.

The following are our principal trademarks:

Marine Engine Segment: Ancor, Attwood, Axius, BEP, Blue Sea Systems, CZone, Del City, FulTyme RV, Garelick, Kellogg Marine Supply, Land 'N' Sea, Lenco Marine, Marinco, Mariner, Mastervolt, MerCruiser, Mercury, Mercury Marine, Mercury Precision Parts, Mercury Propellers, Mercury Racing, MotorGuide, OptiMax, Park Power, Progressive Industries, ProMariner, Quicksilver, Seachoice, SeaPro, SmartCraft, Sport-Jet, Swivl-Eze, Talamex, Valiant, Verado, Whale, and Zeus.

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

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Fitness Segment: Air Hockey, Brunswick, Contender, Cybex, Flex Deck, Gold Crown, Hammer Strength, Indoor Cycling Group, Lifecycle, Life Fitness, and SCIFIT.

Competitive Conditions and Position

We believe that we have a reputation for quality in each of our highly competitive lines of business. We compete in various markets by: utilizing efficient production techniques; developing and strengthening our leading brands; developing and promoting innovative technological advancements; undertaking effective marketing, advertising, and sales efforts; providing high-quality, innovative products at competitive prices; and offering extensive aftermarket products.

Strong competition exists in each of our product groups, but no single enterprise competes with us in all product groups. In each product area, competitors range in size from large, highly-diversified companies to small, single-product businesses. We also indirectly compete with businesses that offer alternative leisure products or activities.

The following summarizes our competitive position in each segment:

Marine Engine Segment: We believe the Marine Engine segment is a world leader in the manufacture and sale of recreational and commercial marine engines and marine parts and accessories. The marine engine market is highly competitive among several major international companies that comprise the majority of the market, including Japanese-based outboard engine manufacturers, as well as several smaller companies including Chinese manufacturers. Competitive advantage in this segment is a function of product features, technological leadership, quality, service, pricing, performance, manufacturing capabilities, depth of product portfolio, intuitive product controls, and durability, along with effective promotion and distribution.

Boat Segment: We believe that the Boat segment is a world leader in the manufacture and sale of pleasure motorboats. There are several major manufacturers of pleasure and offshore fishing boats, along with hundreds of smaller manufacturers. However, few major manufacturers compete in the breadth of categories or geographies in which our Boat segment competes. Consequently, this business is highly competitive by category but also highly fragmented. In all of our boat operations, we compete on the basis of product features, technology, quality, brand strength, dealer service, pricing, performance, value, durability and styling, along with effective promotion and distribution.

Fitness Segment: We believe we are the world's largest manufacturer of commercial fitness equipment and a leading manufacturer of high-quality consumer fitness equipment and billiards tables. The fitness equipment industry is highly competitive among several major international companies that comprise the majority of the market, as well as many smaller manufacturers, which creates a highly fragmented, competitive landscape. Many of our fitness equipment offerings include industry-leading product features, and we place significant emphasis on introducing innovative fitness equipment to the market. Competitive focus is also placed on product quality, technology, service, pricing, state-of-the-art biomechanics, connectivity and customer solutions, and effective promotional activities. The billiards industry continues to experience competitive pressure from low-cost billiards manufacturers outside the United States.

Research and Development

We strive to improve our competitive position in all of our segments by continuously investing in research and development to drive innovation in our products and manufacturing technologies. Our research and development investments support the introduction of new products and enhancements to existing products. Research and development expenses were 2.9 percent, 3.0 percent and 3.1 percent of net sales in 2018, 2017 and 2016, respectively.

Research and development expenses by segment are discussed in Note 7 – Segment Information in the Notes to Consolidated Financial Statements.

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Number of Employees

The number of employees worldwide is shown below by segment:

	December 31, 2018		December 31, 2017	
	Total	Union (domestic)	Total	Union (domestic)
Marine Engine	7,719	2,402	6,541	2,078
Boat	4,996	—	5,365	—
Fitness	2,956	170	2,854	166
Corporate (A)	367	—	356	—
Total (B)	16,038	2,572	15,116	2,244

(A) Corporate numbers include certain information technology employees and shared service employees.
(B) All employee numbers exclude temporary employees.

We believe that the relationships between our employees, applicable labor unions, and the Company remain stable. Mercury Marine and its largest union, the International Association of Machinists and Aerospace Workers (IAM) Lodge 1947, agreed to a new collective bargaining agreement in February 2018 which will remain in place through August 26, 2023.

Environmental Requirements

Refer to Note 14 – Commitments and Contingencies in the Notes to Consolidated Financial Statements for a description of certain environmental proceedings.

Available Information

Brunswick maintains an Internet website at http://www.brunswick.com that includes links to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports, and Proxy Statements (SEC Filings). The SEC Filings 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 our website. Brunswick's SEC Filings are also available on the SEC's website at http://www.sec.gov.

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Item 1A. Risk Factors

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

Worldwide economic conditions significantly affect our industries and businesses, and economic decline can materially impact our financial results.

In times of economic uncertainty and contraction, consumers tend to have less discretionary income and to defer expenditures for discretionary items, which adversely affects our financial performance, especially in the marine businesses. Although we have expanded the portions of our portfolio that are dependent or substantially weighted toward the usage and maintenance of boats and engines versus the sale of new product and therefore less susceptible to economic cycles, a portion of the business remains cyclical and sensitive to personal spending levels. Deterioration in general economic conditions that in turn diminishes consumer confidence or discretionary income may reduce our sales, or we may decide to lower pricing for our products, thus adversely affecting our financial results, including increasing the potential for future impairment charges. Further, most of our products are used for recreation, and consumers' limited discretionary income in times of economic hardship may be diverted to other activities that occupy their time, such as other forms of recreation, religious, cultural, or community activities. We cannot predict the timing or continued strength of global economies, either worldwide or in the specific markets in which we compete.

Failure to successfully implement our strategic plan and growth initiatives could have a material adverse effect on our business and financial condition.

Our ability to continue generating strong cash flow and profits depends partly on the sustained successful execution of our strategic plan and growth initiatives, including optimizing our business portfolio, making acquisitions, and expanding into new adjacent markets and customers. To address risks associated with our plan and growth initiatives, we have established processes to regularly review, manage, and modify our plans, and we believe we have appropriate oversight to monitor initiatives and their impact. Our strategic plan and growth initiatives may require significant capital investment and management attention, however, which could result in the diversion of these resources from the core business and other business issues and opportunities. Additionally, any new initiative is subject to certain risks, including customer acceptance, competition, the ability to manufacture products on schedule and to specification, the ability to create the necessary supply chain, and/or the ability to attract and retain qualified management and other personnel. There is no assurance that we will be able to develop and successfully implement our strategic plan and growth initiatives in a manner that fully achieves our strategic objectives.

The inability to successfully integrate new acquisitions, including the Global Marine Business of Power Products, could negatively impact financial results.

On August 9, 2018, Brunswick acquired the Global Marine & Mobile business of Power Products, which includes the global marine, specialty vehicle, mobile, industrial power, and transportation aftermarket products businesses. Acquisitions pose risks, such as our ability to project and evaluate market demand; maximize potential synergies and cost savings; make accurate accounting estimates; and achieve anticipated business objectives. The Power Products acquisition and other, future acquisitions, present these and other integration risks, including:

- disruptions in core, adjacent, or acquired businesses that could make it more difficult to maintain business and operational relationships, including customer and supplier relationships;
- the possibility that the expected synergies and value creation will not be realized or will not be realized within the expected time period;
- the risk that unexpected costs will be incurred;
- diversion of management attention; and
- difficulties retaining employees.

If we fail to timely and successfully integrate new businesses, including Power Products, into existing operations, we may see higher production costs, lost sales, or otherwise diminished earnings and financial results.

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The anticipated Fitness business separation could be disruptive to the business and our operations, and there can be no assurance that it will provide business benefits or that it will be consummated within the anticipated time period or at all.

The Fitness business separation, whether ultimately a spin-off or a sale, like any business separation, involves risks, including difficulties associated with the separation of operations, services, and personnel, disruption in our operations or businesses, the potential loss of key employees, and adverse effects on relationships with business partners. In addition, we will incur significant expense in connection with the separation, and completion of the proposed transaction will require significant amounts of management time and effort, which may divert management's attention from other aspects of our business operations. If we do not successfully manage these risks, our business, financial condition, and results of operations could be adversely affected.

The proposed separation may not achieve the intended results, or results may take longer to realize than expected. Unanticipated developments could delay, prevent, or otherwise adversely affect the separation, including disruptions in general market conditions or other developments. The anticipated benefits of the separation are based on a number of assumptions, some of which may prove incorrect, and we cannot predict the prices at which our common stock, or the common stock of the Fitness stand-alone entity, may trade after the proposed separation. In addition, we cannot assure that we will be able to complete the business separation within the announced timeline, or at all. Delays or failure to consummate the separation could negatively affect our business and financial results.

In addition to these risks, we face other risks specific to a spin-off of the Fitness business, as opposed to a sale, including the risk that a spin-off could result in significant tax liability to the Company or our shareholders, despite the steps we have taken to avoid this result. Completion of the spin-off is conditioned on our receipt of a written legal opinion to the effect that the distribution of Life Fitness common stock will qualify for non-recognition of gain and loss for U.S. Federal income tax purposes.

The legal opinion will not address any U.S. state or local or foreign tax consequences of the spin-off, and will rely on the continuing effectiveness and validity of the favorable private letter ruling (the "IRS Ruling") from the U.S. Internal Revenue Service (the "IRS") regarding such U.S. Federal income tax consequences of the spin-off. The Company has received the IRS Ruling, which relies on certain facts, assumptions, representations, and undertakings from Fitness business and from Brunswick. If any of these facts, assumptions, representations, or undertakings is incorrect or not otherwise satisfied, we may not be able to rely on the IRS Ruling. In addition, the IRS ruling is not a comprehensive ruling from the IRS regarding all aspects of the U.S. Federal income tax consequences of the transactions. Accordingly, notwithstanding the legal opinion and the IRS Ruling, there can be no assurance that the IRS will not assert, or that a court would not sustain, a contrary position.

Further, the legal opinion will be based on certain representations as to factual matters from the Company and the Fitness business. The opinion cannot be relied on if any of the assumptions, representations, or covenants is incorrect, incomplete, or inaccurate, or is violated in any material respect. If the distribution of Life Fitness common stock were determined not to qualify for non-recognition of gain and loss for U.S. Federal income tax purposes, U.S. holders could be subject to significant tax consequences.

The final determination to proceed with a spin-off or sale is a decision of our Board of Directors, and this determination could have an adverse impact on the Company's financial results. There are many factors that could impact the structure or timing of, the anticipated benefits from, or determination to ultimately proceed with, the separation, including global economic conditions, tax considerations, market conditions, and changes in the regulatory or legal environment, any of which could adversely impact the value of the separation transaction to our shareholders. Additionally, the completion of the separation will be complex, costly, and time-consuming, and an inability to realize the full extent of the anticipated benefits, as well as delays encountered in the process, could have an adverse effect upon the revenues, costs, and operating results of the Company.

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

Goodwill and indefinite-lived intangible assets, such as our 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, we make assumptions regarding future operating performance, business trends, and market and economic conditions. Such analyses further require us to make certain assumptions about sales, operating margins, growth rates, and discount rates. Uncertainties are inherent in evaluating and applying these factors to the assessment of goodwill and trade name recoverability. We could be required to evaluate the recoverability of goodwill or trade names prior to the annual assessment if we experience business disruptions, unexpected significant declines in operating results, a divestiture of a significant component of our business, or declines in market capitalization.

As of the Company’s annual goodwill impairment testing date on October 1, 2018, the estimated fair value of the Fitness reporting unit was approximately 19 percent in excess of its carrying value, which included goodwill of $390.8 million. In making

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this determination, management made several significant assumptions that impact the estimated fair value of the Fitness reporting unit, including projected results, such as improvement of operating performance, particularly expanded gross margins, which are predicated upon the successful execution of cost reduction initiatives along with increased sales, in future years when compared with 2018 and the discount rate. While we believe current gross margin and sales projections are reasonable, the Fitness segment’s ability to expand gross margins or grow sales in line with projections could be negatively affected by its ability to execute the planned actions underlying the forecasted improvement in its performance as well as market conditions. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of the impairment test will prove to be an accurate prediction of the future. To the extent future operating results differ from those in our current forecast, or if the assumptions underlying the discount rate change, it is possible that an impairment charge could be recorded.

We also continually evaluate whether events or circumstances have occurred that indicate the remaining estimated useful lives of our definite-lived intangible assets and other long-lived assets may warrant revision or whether the remaining balance of such assets may not be recoverable. We use an estimate of the related undiscounted cash flow over the remaining life of the asset in measuring whether the asset is recoverable.
As of December 31, 2018, goodwill was approximately 13 percent of total assets and included $391 million of goodwill related to the Fitness segment, $32 million of goodwill related to the Marine Engine segment, and $2 million of goodwill related to the Boat segment. If the future operating performance of the Company's reporting units is not sufficient, we could be required to record non-cash impairment charges. Impairment charges could substantially affect our reported earnings in the periods such charges are recorded. In addition, impairment charges could indicate a reduction in business value which could limit our ability to obtain adequate financing in the future.

Changes to U.S. trade policy, tariffs, and import/export regulations may have a material adverse effect on our business, financial condition, and results of operations.

Changes in laws and policies governing foreign trade could adversely affect our business. As a result of recent policy changes, there may be greater restrictions and economic disincentives on international trade. The new tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods, such as aluminum and steel. Although we were recently granted exclusion from Section 301 tariffs for Mercury Marine 40, 50, and 60 horsepower engines, these exclusions are only in effect through the end of 2019, we continue to be subject to meaningful other tariffs, and there is no assurance that we will be granted similar exclusions for these or other products in the future, or that we will not be subject to additional tariffs. Like many other multinational corporations, we do a significant amount of business that would be affected by changes to the trade policies of the U.S. and foreign countries (including governmental action related to tariffs and international trade agreements). Such changes have the potential to adversely impact the U.S. economy, our industry, and global demand for our products and, as a result, could have a material adverse effect on our business, financial condition and results of operations.

An inability to identify and complete targeted acquisitions could negatively impact financial results.

Our growth initiatives include making strategic acquisitions, which depend on the availability of suitable targets at acceptable terms and our ability to complete the transactions. In managing our acquisition strategy, we conduct rigorous due diligence, involve various functions, and continually review target acquisitions, all of which we believe mitigates some of our acquisition risks. However, we cannot assure that suitable acquisitions will be identified or consummated or that, if consummated, they will be successful. Acquisitions include a number of risks, including our ability to project and evaluate market demand, potential synergies, and cost savings, and our ability to make accurate accounting estimates, as well as diversion of management attention. Uncertainties exist in assessing the value, risks, profitability, and liabilities associated with certain businesses or assets, negotiating acceptable terms, obtaining financing on acceptable terms, and receiving any necessary regulatory approvals. As we continue to grow, in part, through acquisitions, our success depends on our ability to anticipate and effectively manage these risks. Any failure to do so could have a material adverse effect on our financial condition and results of operations.

There can be no assurance that strategic divestitures will provide business benefits.

As part of our strategy, we continuously evaluate our portfolio of businesses. Recent results of this evaluation include the planned separation of the Fitness business, the discontinuation of Sea Ray Sport Yacht and Yacht models, and winding down yacht production. We have previously and may in the future make other changes to our portfolio as well, which may be material. Divestitures involve risks, including difficulties in the separation of operations, services, products and personnel, disruption in our operations or businesses, finding a suitable purchaser, the diversion of management's attention from our other businesses, the potential loss of key employees, adverse effects on relationships with our dealer or supplier partners or their businesses, the erosion

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of employee morale or customer confidence, and the retention of contingent liabilities related to the divested business. If we do not successfully manage the risks associated with divestitures, our business, financial condition, and results of operations could be adversely affected as the potential strategic benefits may not be realized or may take longer to realize than expected.

Changes in currency exchange rates can adversely affect our results.

Some of our sales are denominated in a currency other than the U.S. dollar. Consequently, a strong U.S. dollar may adversely affect reported revenues and our profitability. We have hedging programs in place to reduce our risk to currency fluctuations; however, we cannot hedge against all currency risks, especially over the long term. We maintain a portion of our cost structure in currencies other than the U.S. dollar, which partially mitigates the impact of a strengthening U.S. dollar. This includes manufacturing operations for boats in Europe and Canada, fitness equipment in Europe, and smaller outboard engines manufactured and purchased from our joint venture in Japan. We also continue to evaluate the supply chain and cost structure for opportunities to further mitigate foreign currency risks.

We sell products manufactured in the U.S. into certain international markets in U.S. dollars, including to Canada, Europe, and Latin America. Demand for our products in these markets may be diminished by a strengthening U.S. dollar, or we may need to lower prices to remain competitive. Some of our competitors with cost positions based outside the U.S., including Asian-based outboard engine and fitness equipment manufacturers, European-based large fiberglass boat manufacturers, and a European-based fitness equipment manufacturer, may have an improved cost position due to a strengthening U.S. dollar, which could result in pricing pressures on our products. Although these factors have existed for several years, we do not believe they have had a material adverse effect on our competitive position.

Fiscal concerns may negatively impact worldwide credit conditions and adversely affect our industries, businesses, and financial condition.

Fiscal policy could have a material adverse impact on worldwide economic conditions, the financial markets, and availability of credit and, consequently, may negatively affect our industries, businesses, and overall financial condition. Customers often finance purchases of our products, particularly boats, and as interest rates rise, the cost of financing the purchase also increases. Credit market conditions, while improved, are still less favorable overall than those in existence prior to the global recession in 2008. While credit availability is adequate to support demand and interest rates remain relatively low, they have recently increased, and there are fewer lenders, tighter underwriting and loan approval criteria, as well as 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 or delay improvement in sales.

Dealer or distributor inability to secure adequate access to capital could adversely affect our sales.

Our dealers require adequate liquidity to finance their operations, including purchasing our 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 financing sources are vital to our ability to sell products through our distribution network, particularly to boat and engine dealers. Entities affiliated with Wells Fargo & Company, including BAC, the Company’s 49 percent owned joint venture, finance a significant portion of our boat and engine sales to dealers through floorplan financing to marine dealers.

Many factors continue to influence the availability and terms of financing that our dealer floorplan financing providers offer, including:

- their ability to access certain capital markets, such as 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;
- the overall creditworthiness of those dealers; and
- the overall aging and level of pipeline inventories.

Our sales could be adversely affected if financing terms change unfavorably or if BAC were to be terminated. This could require dealers to find alternative sources of financing, including our direct financing to dealers, which could require additional capital to fund the associated receivables.

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Our financial results could be adversely affected if we are unable to maintain effective distribution.

We rely on third-party dealers and distributors to sell most of our products, particularly in the marine businesses. Maintaining a reliable network of dealers is essential to our success. We face competition from other manufacturers in attracting and retaining distributors and independent boat dealers. For example, in 2017, Bass Pro Shops acquired Cabela's, a meaningful channel for the Lowe boat brand, and Cabela's subsequent transition away from Lowe boats required Lowe enhance its sales and distribution network by identifying alternative dealers. However, a significant deterioration in the number or effectiveness of our dealers and distributors could have a material adverse effect on our financial results.

Although at present we believe dealer health to be generally favorable, weakening demand for marine products could hurt our dealers' financial performance. In particular, reduced cash flow from decreases in sales and tightening credit markets may impair dealers' ability to fund operations. Inability to fund operations can force dealers to cease business, and we may be unable to obtain alternate distribution in the vacated market. An inability to obtain alternate distribution could unfavorably affect our net sales through reduced market presence. If economic conditions deteriorate, we anticipate that dealer failures or voluntary market exits would increase, especially if overall retail demand materially declines.

Adverse economic, credit, and capital market conditions could have a negative impact on our financial results.

We may rely on short-term capital markets to meet our working capital requirements, fund capital expenditures, pay dividends, or fund employee benefit programs and we maintain short-term borrowing facilities that can be used to meet these capital requirements. In addition, over the long term, we 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 regulatory uncertainty could lead to volatility and disruptions in the capital and credit markets. This could adversely affect our ability to access capital and credit markets or increase the cost to do so, which could have a negative impact on our business, financial results and competitive position.

In addition, our variable rate indebtedness may use LIBOR as a benchmark for establishing the rate. As announced in July 2017, LIBOR is expected to be phased out by the end of 2021. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely impact the availability and cost of borrowings.

Loss of key customers could harm our business.

In each segment, we have important relationships with key customers and, from time to time, contracts with these customers come up for renewal. We cannot be certain we will renew such contracts, or renew them on favorable terms. For example, in 2018, we were involved in a competitive request for proposal and contract negotiations with Planet Fitness, a significant customer of our Fitness business. The resulting new contract with Planet Fitness is not exclusive to Fitness, and allows Planet Fitness to purchase from Fitness or two of our competitors. If we lose a key customer, or a significant portion of its business, we could be adversely affected. In addition, certain customers could try to negotiate more favorable pricing of our products, which could depress earnings. In an effort to mitigate the risk associated with reliance on key customer accounts, we continually monitor such relationships and maintain a complete and competitive product lineup.

Our business and operations are dependent on the expertise of our key contributors, our successful implementation of succession plans, and our ability to attract and retain management employees and skilled labor.

The talents and efforts of our employees, particularly key managers, are vital to our success. Our management team has significant industry experience and would be difficult to replace. We may be unable to retain them or to attract other highly qualified employees. Failure to hire, develop, and retain highly qualified and diverse employee talent and to develop and implement an adequate succession plan for the management team could disrupt our operations and adversely affect our business and our future success. Although we cannot ensure that all transitions will be implemented successfully, we perform an annual review of management succession plans with the Board of Directors, including reviewing executive officer and other important positions to substantially mitigate the risk associated with key contributor transitions.

In October, 2018 we announced that our Chief Executive Officer, Mark Schwabero, would be retiring effective December 31, 2018, and his successor would be David Foulkes, our current CEO. In a separate action, we named a new President of the Fitness division. Our ability to continue to execute our growth strategy could potentially be adversely affected by uncertainty associated with these transitions or other, currently unanticipated, executive changes that may be disruptive to, or cause uncertainty in, our business and future strategic direction. Any such disruption or uncertainty could have a material adverse impact on our business, results of operations, and financial condition.

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Much of our future success depends on, among other factors, our ability to attract and retain skilled labor. If we are not successful in these efforts, we may be unable to meet our operating goals and plans, which may impact our financial results. We continually invest in automation and improve our efficiency, but with unemployment rates at low levels in many of the geographic areas in which we manufacture or distribute goods, availability of skilled hourly workers remains critical to our operations. In order to manage this risk, we regularly monitor and make improvements to wages and benefit programs, as well as develop and improve recruiting and training programs to attract and retain an experienced and skilled workforce.

Inventory reductions by major dealers, retailers, and independent boat builders could adversely affect our financial results.

The Company and our dealers, retailers, and other distributors could decide to reduce the number of units they hold, particularly if demand trails forecasted levels or if new product introductions are expected to replace existing products. Such efforts tend to result in wholesale sales reductions in excess of retail sales reductions and would likely result in lower production levels of certain of our products, potentially causing lower rates of absorption of fixed costs in our manufacturing facilities and lower margins. While we have processes in place to help manage dealer inventories at appropriate levels, potential inventory reductions remain a risk to our future sales and results of operations.

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

We have agreements with certain third-party finance companies to provide financing to our customers, enabling them to purchase our products. In connection with these agreements, we may either have obligations to repurchase our products from the finance company, or may have recourse obligations to the finance company on the dealer's receivables. These obligations may be triggered if our dealers default on their payment or other obligations to the finance companies.

Our maximum contingent obligation to repurchase inventory and our maximum contingent recourse obligations on customer receivables are less than the total balances of dealer financings outstanding under these programs, because our obligations under certain of these arrangements are subject to caps, or are limited based on the age of product. Our risk related to these arrangements is mitigated by the proceeds we receive on the resale of repurchased product to other dealers, or by recoveries on receivables purchased under the recourse obligations.

Our inventory repurchase obligations relate primarily to the inventory floorplan credit facilities of our boat and engine dealers. Our actual historical repurchase experience related to these arrangements has been substantially less than our maximum contractual obligations. If dealers default on their obligations, file for bankruptcy, or cease operations, however, we could incur losses associated with the repurchase of our products. As a result, our net sales and earnings may be unfavorably affected due to reduced market coverage and an associated decline in sales.

Declines in marine industry demand could cause an increase in future repurchase activity, or could require us to incur losses in excess of established reserves. In addition, our 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. The finance companies could require changes in repurchase or recourse terms that would result in an increase in our contractual contingent obligations.

Our financial results may be adversely affected by our third party suppliers' increased costs or inability to meet required production levels due to tariff impacts or defects or disruption of supply of raw materials, parts, and product components.

We rely on third parties to supply raw materials used in the manufacturing process, including oil, aluminum, copper, steel, and resins, as well as product parts and components. The prices for these raw materials, parts, and components fluctuate depending on market conditions and, in some instances, commodity prices or trade policies. Substantial increases in the prices of raw materials, parts, and components would increase our operating costs, and could reduce our profitability if we are unable to recoup the increased costs through higher product prices. Similarly, if a critical supplier were to close its operations, cease manufacturing, or otherwise fail to deliver an essential component necessary to our manufacturing operations, that could detrimentally affect our ability to manufacture and sell our products, resulting in an interruption in business operations and/or a loss of sales.

In addition, some components used in our manufacturing processes, including certain engine components, furniture, upholstery, 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 us with the parts and components we need, which could significantly disrupt our 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 us or incompatible with our manufacturing process, could jeopardize our ability to manufacture products.

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Some additional supply risks that could disrupt our operations, impair our ability to deliver products to customers, and negatively affect our financial results include:

- financial pressures on our suppliers due to a weakening economy or unfavorable conditions in other end markets;
- a deterioration of our relationships with suppliers;
- events such as natural disasters, power outages or labor strikes;
- supplier manufacturing constraints and investment requirements; or
- labor disruption at major global ports and shipping hubs.

These risks are exacerbated in the case of single-source suppliers, and the exclusive supplier of a key component potentially could exert significant bargaining power over price, quality, warranty claims, or other terms.

We continue to increase production; consequently, our need for raw materials and supplies continues to increase. Our suppliers must be prepared to ramp up operations and, in many cases, hire additional workers and/or expand capacity in order to fulfill our orders and those of other customers. Cost increases, defects, or sustained interruptions in the supply of raw materials, parts, or components due to delayed start-up periods our suppliers experience as they increase production efforts create risks to our operations and financial results. The Company experienced periodic supply shortages and increases in costs to certain materials, such as aluminum, in 2018. We continue to address these issues by identifying alternative suppliers for key materials and components, working to secure adequate inventories of critical supplies, and continually monitoring the capabilities of our supplier base. In the future, however, we may experience shortages, delayed delivery, and/or increased prices for key materials, parts, and supplies that are essential to our manufacturing operations.

Higher energy and fuel costs can affect our results.

Higher energy and fuel costs increase operating expenses at our manufacturing facilities and 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 our marine products. Higher fuel prices may also have an adverse effect on demand for our marine parts and accessories businesses, as they increase the cost of boat ownership and possibly affect product use.

Our success depends upon the continued strength of our brands.

We believe that our brands, particularly including Mercury Marine, Sea Ray, Boston Whaler, Lund, and Life Fitness, significantly contribute to our success, and that maintaining and enhancing these brands is important to expanding our customer base. A failure to adequately promote and protect our brands could adversely affect our business and results of operations. Further, in connection with the divestiture of the bowling businesses, we licensed certain trademarks and servicemarks, including use of the name “Brunswick,” to the acquiring companies. Our reputation may be adversely affected by the purchasers' inappropriate use of the marks or of the name Brunswick, including potential negative publicity, loss of confidence, or other damage to our image due to this licensed use.

Either inadequate intellectual property protection that could allow others to use our technologies and impair our ability to compete, or failure to successfully defend against patent infringement claims could have a material adverse effect on our financial condition and results of operations.

We regard much of the technology underlying our products as proprietary. We rely 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 our technology and other intellectual property rights. However, we remain subject to risks, including:

- the steps we take to protect our proprietary technology may be inadequate to prevent misappropriation of our technology;
- third parties may independently develop similar technology;
- agreements containing protections may be breached or terminated;
- we may not have adequate remedies for breaches;
- existing patent, trademark, copyright, and trade secret laws may afford limited protection;
- a third party could copy or otherwise obtain and use our products or technology without authorization; or

- we may be required to litigate to enforce our intellectual property rights, and we may not be successful.

Policing unauthorized use of our intellectual property is difficult, particularly outside the U.S., and litigating intellectual property claims may result in substantial cost and divert management’s attention.

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In addition, we may be required to defend our products against patent or other intellectual property infringement claims or litigation. In addition to defense expenses and costs, we may not prevail in such cases, forcing us to seek licenses or royalty arrangements from third parties, which we may not be able to obtain on reasonable terms, or subjecting us to an order or requirement to stop manufacturing, using, selling, or distributing products that included challenged intellectual property, which could harm our business and financial results.

We have a fixed cost base that can affect our profitability in a declining sales environment.

The fixed cost levels of operating production facilities can put pressure on profit margins when sales and production decline. We have maintained discipline over our fixed cost base during the economic recovery, and improvements in gross margin can help mitigate the risks related to a fixed cost base. However, our profitability is dependent, in part, on our ability to absorb fixed costs over an increasing number of products sold and shipped. Decreased demand or the need to reduce inventories can lower our production levels and impact our ability to absorb fixed costs, consequently materially impacting our results.

Successfully managing our manufacturing footprint is critical to our operating and financial results.

Over the past several years, we have made strategic capital investments in capacity expansion activities to successfully capture growth opportunities and enhance product offerings, including expansions at Boston Whaler in Edgewater, Florida and Mercury Marine in Fond du Lac, Wisconsin. We may also make decisions to reduce our manufacturing footprint in accordance with our business strategy. We must carefully manage these capital improvement projects, expansions, and any manufacturing consolidation efforts to ensure they meet cost targets, comply with applicable environmental, safety, and other regulations, and uphold high-quality workmanship.

Moving production to a different plant, expanding capacity at an existing facility, or ceasing production at a facility involves risks, including difficulties initiating production within the cost and timeframe estimated, supplying product to customers when expected, integrating new products, and attracting sufficient skilled workers to handle additional production demands. If we fail to meet these objectives, it could adversely affect our ability to meet customer demand for products and increase the cost of production versus projections, both of which could result in a significant adverse impact on operating and financial results. Additionally, plant consolidation or expansion can result in manufacturing inefficiencies, additional expenses, including higher wages or severance costs, and cost inefficiencies, which could exceed projections and negatively impact financial results.

Our business operations could be negatively impacted by an outage or breach of our information technology systems or a cybersecurity event.

We manage our global business operations through a variety of information technology (IT) systems which we continually enhance to increase efficiency and security. We depend on these systems for commercial transactions, customer interactions, manufacturing, branding, employee tracking, and other applications. Some of the systems are based on legacy technology and operate with a minimal level of available support, and recent acquisitions using other systems have added to the complexity of our IT infrastructure. In addition, the Fitness business separation will require separation of business and IT systems, and new systems implementations across the enterprise also pose risks of outages or disruptions, which could affect our suppliers, commercial operations, and customers. We are working to upgrade, streamline, and integrate these systems and have invested in strategies to prevent a failure or breach but, like those of other companies, our systems are susceptible to outages due to natural disasters, power loss, computer viruses, security breaches, hardware or software vulnerabilities, disruptions, and similar events. If a legacy system or another of the Company's key systems were to fail or if our 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.

We exchange information with hundreds of trading partners across all aspects of our commercial operations through our IT systems. A breakdown, outage, malicious intrusion, breach, random attack, or other disruption of communications could result in erroneous or fraudulent transactions, disclosure of confidential information, loss of reputation and confidence, and may also result in legal claims or proceedings, penalties and remediation costs. We have numerous e-commerce and e-marketing portals and our systems may contain personal information of customers or employees; therefore, we must continue to be diligent in protecting against malicious cyber attacks. We have been the target of attempted cyber-attacks and other security threats and we may be subject to breaches of our IT systems. We have programs in place that are intended to detect, contain, and respond to data security incidents and that provide employee awareness training regarding phishing, malware and other cyber risks. However, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect, we may be unable to anticipate these techniques or implement adequate preventive measures. If our security measures are breached or fail, unauthorized persons may be able to obtain access to or acquire personal data. Depending on the nature of the information compromised, we may also have obligations to notify consumers and/or employees about the incident, and we may need to provide some form of remedy, such as a subscription to a credit monitoring service, for the individuals

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affected by the incident. This could negatively affect our relationships with customers or trading partners, lead to potential claims against the Company, and damage our image and reputation.

Our pension funding requirements and expenses are affected by certain factors outside our control.

Our funding obligations and pension expense for our two U.S. qualified pension plans are largely 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 our results of operations, liquidity, or shareholders' equity. The level of the Company's funding of our qualified pension plan liabilities was approximately 102 percent as of December 31, 2018. We continue to minimize our risks through pension de-risking actions, including investing in almost entirely fixed income investments and recently initiating the termination of both remaining U.S. qualified pension plans in 2018, which will be completed in 2019. However, our future pension expense and funding requirements could increase 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. Changes to legal regulations could require us to make increased contributions to the pension plans in 2019. In addition, the settlement will require us to recognize a substantial part of our unamortized actuarial losses as well as certain income tax consequences.

The timing and amount of our share repurchases are subject to a number of uncertainties.

The Board of Directors has authorized the Company's discretionary repurchase of outstanding common stock, to be systematically completed in the open market or through privately negotiated transactions. In 2018, we repurchased $75 million of shares, and we plan to revisit additional share repurchases in 2019 after the planned Fitness business separation is completed. The amount and timing of share repurchases are based on a variety of factors. Important considerations that could cause us to limit, suspend, or delay future stock repurchases include:

- unfavorable market and economic conditions;
- the trading price of our common stock;
- the nature of other investment opportunities available to us from time to time; and
- the availability of cash.

Delaying, limiting, or suspending our stock repurchase program may negatively affect our stock price and performance versus earnings per share targets.

Our profitability may suffer as a result of competitive pricing and other pressures.

The introduction of lower-priced alternative products or services by other companies can hurt our competitive position in all of our businesses. We are constantly subject to competitive pressures in which predominantly international manufacturers may pursue a strategy of aggressive pricing, particularly during periods when their local currency weakens versus the U.S. dollar. Such pricing pressure may limit our ability to increase prices for our products in response to raw material and other cost increases and negatively affect our profit margins.

In addition, our 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 our products.

Our ability to remain competitive depends on successfully introducing new products and services that meet customer expectations.

We believe that our customers look for and expect quality, innovation, and advanced features when evaluating and making purchasing decisions about products and services in the marketplace. Our ability to remain competitive and meet our growth objectives may be adversely affected by difficulties or delays in product development, such as an inability to develop viable new products or customer solutions, 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, both timing of market entry and pricing of new products are critical. As a result, we may not be able to introduce new products that are necessary to remain competitive in all markets that we serve. Furthermore, we must continue to meet or exceed customers' expectations regarding product quality and after-sales service.

We manufacture and sell products that create exposure to potential claims and litigation.

Our manufacturing operations and the products we produce could result in product quality, warranty, personal injury, property damage, and other issues, thereby increasing the risk of litigation and potential liability, as well as regulatory fines. To manage

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this risk, we have established a global, enterprise-wide program charged with the responsibility for addressing, reviewing, and reporting on product integrity issues. Historically, the resolution of such claims has not had a materially adverse effect on our business, and we maintain what we believe to be adequate insurance coverage to mitigate a portion of these risks. However, we may experience material losses in the future, incur significant costs to defend claims or issue product recalls, experience claims in excess of our insurance coverage or that are not covered by insurance, or be subjected to fines or penalties. For example, in the last two years we have reported certain Cybex products designed prior to the Cybex acquisition as well as a Life Fitness PowerMill product to the Consumer Product Safety Commission ("CPSC") and those matters remain open. Our reputation may be adversely affected by such claims, whether or not successful, including potential negative publicity about our products. We record accruals for known potential liabilities, but there is the possibility that actual losses may exceed these accruals and therefore negatively impact earnings.

Compliance with environmental, zoning, data protection, and other laws and regulations may increase costs and reduce demand for our products.

We are subject to federal, state, local, and foreign laws and regulations, including product safety, environmental, health and safety, privacy, and other regulations. While we believe that we maintain the requisite licenses and permits and that we are in material compliance with applicable laws and regulations, a failure to satisfy these and other regulatory requirements could result in fines or penalties, and compliance could increase the cost of operations. The adoption of additional laws, rules, and regulations, including stricter emissions standards, could increase our manufacturing costs, increase consumer pricing, and reduce consumer demand for our products.

Environmental restrictions, boat plant emission restrictions, and permitting and zoning requirements can limit production capacity, access to water for boating and marinas, and storage space. While future licensing requirements, including any licenses imposed on recreational boating, are not expected to be unduly restrictive, they may deter potential customers, thereby reducing our sales. Furthermore, regulations allowing the sale of fuel containing higher levels of ethanol for automobiles, which is not appropriate or intended for use in marine engines, may nonetheless result in increased warranty, service costs, customer dissatisfaction with products, 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.

Our manufacturing processes involve the use, handling, storage and contracting for recycling or disposal of hazardous or toxic substances or wastes. Accordingly, we are subject to regulations regarding these substances, and the misuse or mishandling of such substances could expose us to liabilities, including claims for property, personal injury, or natural resources damages, or fines. We are also subject to laws requiring the cleanup of contaminated property, including cleanup efforts currently underway. If a release of hazardous substances occurs at or from one of our current or former properties or another location where we have disposed of hazardous materials, we may be held liable for the contamination, regardless of knowledge or whether we were at fault, and the amount of such liability could be material.

We are subject to various data protection and privacy laws and regulations in the foreign countries where we operate because we collect, store, process, and use personal information, and we rely on third parties that are not directly under our control to do so as well. The General Data Protection Regulation (GDPR) in the European Union (EU) went into effect in May 2018 and, although we have implemented plans to comply with the law, it could impose an even greater compliance burden and risk with respect to privacy and data security than prior laws. The EU (through the GDPR) and a growing number of legislative and regulatory bodies elsewhere in the world have adopted consumer notification requirements in the event of unauthorized access to or acquisition of certain types of personal data. These breach notification laws continue to evolve and may be inconsistent from one jurisdiction to another. Complying with these obligations could cause us to incur substantial costs and could increase negative publicity surrounding any incident that compromises personal data.

Additionally, we are subject to laws governing our relationships with employees, including, but not limited to, employment obligations as a federal contractor and employee wage, hour, and benefits issues, such as pension funding and health care benefits. Compliance with these rules and regulations, and compliance with any changes to current regulations, could increase the cost of our operations.

Changes in income tax laws or enforcement could have a material adverse impact on our financial results.
Although domestic tax reform legislation in the form of the Tax Cuts and Jobs Act (TCJA), signed into law on December 22, 2017, has had an overall positive impact on our financial statements, the impact of the legislation could change as we analyze and apply additional regulations or guidance issued by the government. In addition, other changes in international and domestic tax laws, including the reaction by states to the corporate tax changes in the TCJA, and changes in tax law enforcement, could negatively impact our tax provision, cash flow, and/or tax related balance sheet amounts, including our deferred tax asset values. Changes in U.S. tax law will likely have broader implications, including impacts to the economy, currency markets, inflation environment,

consumer behavior, and/or competitive dynamics, which are difficult to predict, and may positively or negatively impact the Company and our results.

Certain activist shareholder actions could cause us to incur expense and hinder execution of our strategy.

We actively engage in discussions with our shareholders regarding further strengthening our Company and creating long-term shareholder value. This ongoing dialogue can include certain divisive activist tactics, which can take many forms. Some shareholder activism, including potential proxy contests, could result in substantial costs, such as legal fees and expenses, and divert management's and our Board's attention and resources from our businesses and strategic plans. Additionally, public shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with dealers, distributors, or customers, make it more difficult to attract and retain qualified personnel, and cause our stock price to fluctuate based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business. These risks could adversely affect our business and operating results.

Some of our operations are conducted by joint ventures that are not operated solely for our benefit.

We share ownership and management responsibilities with jointly owned companies such as BAC and Tohatsu Marine Corporation. These joint ventures may not have the same goals, strategies, priorities, or resources as the Company because they are intended to be operated for the benefit of all co-owners, rather than for our exclusive benefit. If such a conflict occurred, it could negatively impact our sales or financial results.

A significant portion of our revenue is derived from international sources, which creates additional uncertainty.

We intend to continue to expand our international operations and customer base as part of our growth strategy. Sales outside the United States, especially in emerging markets, are subject to various risks, including government embargoes or foreign trade restrictions, foreign currency effects, tariffs, customs 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, and 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, or tax laws that affect this process may change. Instability, including, but not limited to, political events, civil unrest, and an increase in criminal activity, in locations where we maintain a significant presence could adversely impact our manufacturing and business operations. Decreased stability 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 our products.

In addition, global political and economic uncertainty and shifts, such as the ongoing negotiations to determine the future terms of the U.K.'s relationship with the EU (Brexit), pose risks of volatility in global markets, which could affect our operations and financial results. Changes in U.S. policy regarding foreign trade or manufacturing may create negative sentiment about the U.S. among non-U.S. customers, employees, or prospective employees, which could adversely affect our business, sales, hiring, and employee retention. If we continue to expand our business globally, our success will depend, in part, on our ability to anticipate and effectively manage these and other risks, which could materially impact international operations or the business as a whole.

Adverse weather conditions and climate events can have a negative effect on marine revenues.

Changes in seasonal weather conditions can have a significant effect on our operating and financial results, especially in the marine businesses. Sales of our marine products are typically stronger just before and during spring and summer, and favorable weather during these months generally has had a positive effect on consumer demand. Conversely, unseasonably cool weather, excessive rainfall, or drought conditions during these periods can reduce or change the timing of demand. Additionally, climate changes, regardless of the cause, resulting in environmental changes including, but not limited to, severe weather, changing sea levels, poor water conditions, or reduced access to water, could disrupt or negatively affect our business.

Catastrophic events, including natural and environmental disasters, could have a negative effect on our operations and financial results.

Hurricanes, floods, earthquakes, storms, and catastrophic natural or environmental disasters could disrupt our distribution channel, operations, or supply chain and decrease consumer demand. If a catastrophic event takes place in one of our major sales markets, our sales could be diminished. Additionally, if such an event occurs near our business locations, manufacturing facilities or key suppliers' facilities, business operations and/or operating systems could be interrupted. We could be uniquely affected by a catastrophic event due to the location of certain of our boat facilities in coastal Florida and the size of the manufacturing operation in Fond du Lac, Wisconsin.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are in Mettawa, Illinois. We have numerous manufacturing plants, distribution warehouses, sales offices, and product test sites around the world. Research and development facilities are primarily located at manufacturing sites.

We believe our facilities are suitable and adequate for our 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. We believe our manufacturing facilities have the capacity, or we are investing to increase capacity, to meet current and anticipated demand. We own most of our principal plants.

The principal facilities used in our operations are in the following locations:

Marine Engine Segment
Leased facilities include: Fresno, California; Old Lyme, Connecticut; Largo, Miramar, and Pompano Beach, Florida; Lowell, Michigan; St. Paul Park, Minnesota; Brisbane and Melbourne, Australia; Toronto, Ontario, Canada; Auckland, New Zealand; Bangor, Northern Ireland; Amsterdam and Heerenveen, Netherlands; and Singapore.

Owned facilities include: Panama City and St. Cloud, Florida; Atlanta, Georgia; Brookfield, Fond du Lac, and Oshkosh, Wisconsin; Petit Rechain, Belgium; Victoria and Burnaby, British Columbia, Canada; Milton and Oakville, Ontario, Canada; Suzhou, China; and Juarez, Mexico.

Boat Segment
Leased facilities include: Greeneville, Tennessee and Auckland, New Zealand.

Owned facilities include: Edgewater and Merritt Island (Sykes Creek), Florida; Fort Wayne, Indiana; New York Mills, Minnesota; Lebanon, Missouri; Vonore, Tennessee; Clarkston, Washington; Petit Rechain, Belgium; Princeville, Quebec, Canada; Reynosa, Mexico; and Vila Nova de Cerveira, Portugal.

Fitness Segment
Leased facilities include: Rosemont, Illinois; a portion of the Franklin Park, Illinois facility; Tulsa, Oklahoma; Nuremberg, Germany.

Owned facilities include: a portion of the Franklin Park, Illinois facility; Falmouth, Kentucky; Owatonna and Ramsey, Minnesota; Bristol and Delavan, Wisconsin; and Kiskoros, Hungary.

Item 3. Legal Proceedings

Refer to Note 14 – 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.

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Executive Officers of the Registrant

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