BRUNSWICK CORP
Form 10-Q
May 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 2, 2016

or

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

For the transition period from to

Commission file number 001-01043

Brunswick Corporation

(Exact name of registrant as specified in its charter)

Delaware	36-0848180
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices, including zip code)

(847) 735-4700

(Registrant’s telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

The number of shares of Common Stock ($0.75 par value) of the registrant outstanding as of May 3, 2016 was 90,630,895.

BRUNSWICK CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
April 2, 2016

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

BRUNSWICK CORPORATION
Condensed Consolidated Statements of Comprehensive Income
(unaudited)

	Three Months Ended	
(in millions, except per share data)	April 2, 2016	April 4, 2015
Net sales	$1,070.3	$985.7
Cost of sales	788.2	726.9
Selling, general and administrative expense	147.7	140.0
Research and development expense	34.6	30.1
Restructuring and integration charges	3.8	—
Operating earnings	96.0	88.7
Equity earnings	0.8	1.0
Other income, net	1.0	1.7
Earnings before interest and income taxes	97.8	91.4
Interest expense	(6.8)	(7.0)
Interest income	0.4	0.5
Earnings before income taxes	91.4	84.9
Income tax provision	28.2	28.3
Net earnings from continuing operations	63.2	56.6
Discontinued operations:		
Earnings from discontinued operations, net of tax	1.6	0.4
Net earnings from discontinued operations, net of tax	1.6	0.4
Net earnings	$64.8	$57.0
Earnings per common share:		
Basic		
Earnings from continuing operations	$0.69	$0.60
Earnings from discontinued operations	0.02	0.01
Net earnings	$0.71	$0.61
Diluted		
Earnings from continuing operations	$0.68	$0.59
Earnings from discontinued operations	0.02	0.01
Net earnings	$0.70	$0.60
Weighted average shares used for computation of:		
Basic earnings per common share	91.8	93.8
Diluted earnings per common share	92.8	95.2
Comprehensive income	$73.0	$45.7
Cash dividends declared per share	$0.15	$0.125

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

BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)

(in millions)	April 2, 2016	December 31, 2015	April 4, 2015
Assets			
Current assets			
Cash and cash equivalents, at cost, which approximates fair value	$282.2	$ 657.3	$368.2
Short-term investments in marketable securities	0.8	11.5	57.8
Total cash, cash equivalents and short-term investments in marketable securities	283.0	668.8	426.0
Restricted cash	12.7	12.7	15.6
Accounts and notes receivable, less allowances of $14.9, $13.8 and $16.2	526.3	398.1	473.7
Inventories			
Finished goods	481.8	444.4	437.4
Work-in-process	98.3	88.4	98.5
Raw materials	157.3	152.2	143.9
Net inventories	737.4	685.0	679.8
Prepaid expenses and other	50.0	39.8	40.9
Current assets held for sale	—	—	31.0
Current assets	1,609.4	1,804.4	1,667.0
Property			
Land	22.8	24.2	23.5
Buildings and improvements	378.4	351.8	333.8
Equipment	910.4	886.8	854.9
Total land, buildings and improvements and equipment	1,311.6	1,262.8	1,212.2
Accumulated depreciation	(870.1)	(861.4)	(847.3)
Net land, buildings and improvements and equipment	441.5	401.4	364.9
Unamortized product tooling costs	108.9	103.8	99.0
Net property	550.4	505.2	463.9
Other assets			
Goodwill	380.3	298.7	296.0
Other intangibles, net	136.8	55.1	44.2
Equity investments	27.3	21.5	25.1
Non-current deferred tax asset	372.1	420.2	479.4
Other long-term assets	46.4	47.4	42.5
Long-term assets held for sale	—	—	11.9
Other assets	962.9	842.9	899.1
Total assets	$3,122.7	$ 3,152.5	$3,030.0

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

BRUNSWICK CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)

(in millions)	April 2, 2016	December 31, 2015	April 4, 2015
Liabilities and shareholders’ equity			
Current liabilities			
Current maturities of long-term debt	$4.8	$6.0	$5.0
Accounts payable	362.0	339.1	347.4
Accrued expenses	529.4	563.0	477.4
Current liabilities held for sale	—	—	15.5
Current liabilities	896.2	908.1	845.3
Long-term liabilities			
Debt	446.1	442.5	448.8
Deferred income taxes	2.3	12.3	4.1
Postretirement benefits	310.7	347.5	333.7
Other	162.1	160.8	193.6
Long-term liabilities held for sale	—	—	7.3
Long-term liabilities	921.2	963.1	987.5
Shareholders’ equity			
Common stock; authorized: 200,000,000 shares, $0.75 par value; issued: 102,538,000 shares; outstanding: 90,712,000, 90,813,000 and 92,716,000 shares	76.9	76.9	76.9
Additional paid-in capital	380.7	408.0	392.9
Retained earnings	1,711.7	1,660.4	1,512.7
Treasury stock, at cost: 11,826,000, 11,725,000 and 9,822,000 shares	(398.1)	(389.9)	(293.5)
Accumulated other comprehensive loss, net of tax	(465.9)	(474.1)	(491.8)
Shareholders’ equity	1,305.3	1,281.3	1,197.2
Total liabilities and shareholders’ equity	$3,122.7	$3,152.5	$3,030.0

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

BRUNSWICK CORPORATION
Condensed Consolidated Statements of Cash Flows
(unaudited)

(in millions)	Three Months Ended April 2, 2016	April 4, 2015
Cash flows from operating activities		
Net earnings	$64.8	$57.0
Less: net earnings from discontinued operations, net of tax	1.6	0.4
Net earnings from continuing operations	63.2	56.6
Depreciation and amortization	25.4	21.9
Pension funding, net of expense	(32.2)	(58.0)
Deferred income taxes	20.1	19.4
Excess tax benefits from share-based compensation	(7.4)	(6.0)
Equity in earnings of unconsolidated affiliates, net of dividends	(0.8)	(1.0)
Changes in certain current assets and current liabilities, excluding acquisitions	(153.1)	(160.6)
Income taxes	(4.0)	4.6
Other, net	(1.4)	(2.8)
Net cash used for operating activities of continuing operations	(90.2)	(125.9)
Net cash used for operating activities of discontinued operations	(3.0)	(6.4)
Net cash used for operating activities	(93.2)	(132.3)
Cash flows from investing activities		
Capital expenditures	(46.2)	(33.8)
Purchases of marketable securities	—	(15.9)
Sales or maturities of marketable securities	10.7	41.3
Investments	(3.6)	(5.3)
Acquisition of businesses, net of cash acquired	(195.0)	—
Proceeds from the sale of property, plant and equipment	0.1	1.0
Other, net	1.3	—
Net cash used for investing activities of continuing operations	(232.7)	(12.7)
Net cash used for investing activities of discontinued operations	—	(0.2)
Net cash used for investing activities	(232.7)	(12.9)
Cash flows from financing activities		
Payments of long-term debt including current maturities	(0.1)	(0.1)
Common stock repurchases	(40.0)	(20.0)
Cash dividends paid	(13.6)	(11.6)
Excess tax benefits from share-based compensation	7.4	6.0
Proceeds from share-based compensation activity	11.6	3.7
Tax withholding associated with shares issued for share-based compensation	(17.4)	(7.8)
Net cash used for financing activities	(52.1)	(29.8)
Effect of exchange rate changes on cash and cash equivalents	2.9	(9.5)
Net decrease in cash and cash equivalents	(375.1)	(184.5)
Cash and cash equivalents at beginning of period	657.3	552.7
Cash and cash equivalents at end of period	$282.2	$368.2

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

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 – Significant Accounting Policies

Interim Financial Statements. The unaudited interim condensed consolidated financial statements of Brunswick Corporation (Brunswick or the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Therefore, certain information and disclosures normally included in financial statements and related notes prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. As indicated in Note 2 – Discontinued Operations, Brunswick's results as discussed in the financial statements reflect continuing operations only, unless otherwise noted.

These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Brunswick’s 2015 Annual Report on Form 10-K for the year ended December 31, 2015 (the 2015 Form 10-K). These results include, in the opinion of management, all normal and recurring adjustments necessary to present fairly the financial position of Brunswick as of April 2, 2016, December 31, 2015 and April 4, 2015, the results of operations for the three months ended April 2, 2016 and April 4, 2015, and the cash flows for the three months ended April 2, 2016 and April 4, 2015. Due to the seasonality of Brunswick’s businesses, the interim results are not necessarily indicative of the results that may be expected for the remainder of the year.

The Company maintains its financial records on the basis of a fiscal year ending on December 31, with the fiscal quarters spanning thirteen weeks, with the first quarter ending on the Saturday closest to the end of the first thirteen-week period. The first quarter of fiscal year 2016 ended on April 2, 2016, and the first quarter of fiscal year 2015 ended on April 4, 2015.

Recent Accounting Pronouncements. The following are recent accounting pronouncements that have been adopted during 2016, or will be adopted in future periods.

Share-Based Compensation: In March 2016, the Financial Accounting Standards Board (FASB) amended the Accounting Standards Codification (ASC) to simplify the accounting for employee share-based payment transactions. Amendments related to the timing of excess tax benefit recognition, minimum statutory withholding requirements and forfeitures will be applied using a modified retrospective approach through a cumulative adjustment to equity as of the beginning of the period of adoption. Amendments to certain classifications on the statement of cash flows may be applied either prospectively or retrospectively, and amendments requiring the recognition of excess tax benefits and tax deficiencies in the income statement are to be applied prospectively. These amendments are to be applied for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the approach it will use to apply the new standard and the impact that the adoption of the new standard will have on the Company's condensed consolidated financial statements.

Recognition of Leases: In February 2016, the FASB amended the ASC to require lessees to recognize assets and liabilities on the balance sheet for all leases with terms greater than twelve months. Lessees will recognize expenses similar to current lease accounting. The amendment is to be applied using a modified retrospective method with certain practical expedients, and is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the approach it will use to apply the new standard and the impact that the adoption of the new standard will have on the Company's condensed consolidated financial statements.

Classification of Deferred Income Taxes: In November 2015, the FASB amended the ASC to require that deferred tax assets and liabilities be classified as non-current on the Condensed Consolidated Balance Sheets for all periods presented. The amendment may be applied either retrospectively or prospectively and is effective for fiscal years, and the interim periods thereafter, beginning after December 15, 2016, with early adoption permitted.

The Company early adopted this ASC amendment during the first quarter of 2016 which caused the Company to change its method of presentation for current deferred income taxes in the Condensed Consolidated Balance Sheets for all periods presented. Current deferred income tax assets of $180.5 million and $207.0 million as of December 31, 2015 and April 4, 2015, respectively, were reclassified to long-term. The reclassification of current deferred income tax liabilities did not have a material impact on the Company’s condensed consolidated financial statements.

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Measurement of Inventory: In July 2015, the FASB issued final guidance to simplify the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. The guidance applies to inventories for which cost is determined by methods other than LIFO and the retail inventory method. The amendment is to be applied prospectively and is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASC amendment, but does not expect it will have a material impact on the Company's condensed consolidated financial statements.

Fair Value Disclosure: In May 2015, the FASB amended the ASC to update the presentation of certain investments measured at net asset value within the fair value hierarchy. The amendment requires these investments to be removed from the fair value hierarchy categorization and presented as a single reconciling line item between the fair value of investments reported on the Condensed Consolidated Balance Sheets and the amounts reported in the fair value hierarchy table. The amendment is to be applied retrospectively and is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The Company adopted this amendment in 2016 and it did not have a material impact on the Company's condensed consolidated financial statements.

Revenue Recognition: In May 2014, the FASB and International Accounting Standards Board jointly issued a final standard on revenue recognition which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This standard will supersede most current revenue recognition guidance. Under the new standard, entities are required to identify the contract with a customer; identify the separate performance obligations in the contract; determine the transaction price; allocate the transaction price to the separate performance obligations in the contract; and recognize the appropriate amount of revenue when (or as) the entity satisfies each performance obligation. In August 2015, the FASB amended the ASC to delay the effective date to fiscal years, and the interim periods within those years, beginning on or after January 1, 2018, from the original effective date of January 1, 2017, with early adoption permitted no earlier than January 1, 2017. Entities have the option of using either retrospective transition or a modified approach in applying the new standard. The Company is currently evaluating the approach it will use to apply the new standard and the impact that the adoption of the new standard will have on the Company's condensed consolidated financial statements.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 2 – Discontinued Operations

The following table discloses the results of operations of the businesses reported as discontinued operations for the three months ended April 2, 2016 and April 4, 2015:

(in millions)	April 2, 2016	April 4, 2015
Net sales	$ —	$ 25.2
Earnings from discontinued operations before income taxes	$ 2.6	$ 0.6
Income tax provision	1.0	0.2
Net earnings from discontinued operations, net of tax	$ 1.6	$ 0.4

There were no assets and liabilities held for sale as of April 2, 2016 or December 31, 2015. The following table reflects the summary of assets and liabilities held for sale for the businesses reported as discontinued operations as of April 4, 2015:

(in millions)	April 4, 2015
Accounts and notes receivable, net	$ 13.6
Net inventory	16.8
Prepaid expenses and other	0.6
Current assets held for sale	31.0
Net property	8.6
Other long-term assets	3.3
Long-term assets held for sale	11.9
Assets held for sale	$ 42.9
Accounts payable	$ 5.7
Accrued expenses	9.8
Current liabilities held for sale	15.5
Other liabilities	7.3
Long-term liabilities held for sale	7.3
Liabilities held for sale	$ 22.8

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 3 – Restructuring and Integration Activities

The Company executed certain integration activities within the Fitness segment related to the acquisition of Cybex International, Inc. (Cybex) in the first quarter of 2016 as discussed in Note 4 –Acquisitions, resulting in the recognition of integration charges in the Condensed Consolidated Statements of Comprehensive Income during 2016.

The following table is a summary of the net expense associated with the Fitness segment integration activities for the three months ended April 2, 2016, as discussed above.

(in millions)	April 2, 2016
Integration activities:	
Employee termination and other benefits	$ 1.9
Professional fees	1.4
Other	0.5
Total integration charges	$ 3.8

During 2016, the Company made cash payments of $2.9 million relating to all restructuring and integration activities, including payments related to prior period restructuring activities. As of April 2, 2016, accruals remaining for all restructuring and integration activities totaled $2.4 million and are expected to be paid substantially during 2016.

Note 4 – Acquisitions

On January 20, 2016, the Company acquired 100 percent of privately held Cybex, a leading manufacturer of commercial fitness equipment, which is based in Medway, Massachusetts. Cybex offers a full line of cardiovascular and strength products and had unaudited sales in 2015 of approximately $169 million. The addition of Cybex expands the Fitness segment's participation in key markets, including commercial fitness, and adds to the Company's manufacturing footprint to meet current and future demand more effectively. Cybex also increases the breadth and depth of the segment's product portfolio. Cybex is managed within the Company's Fitness segment.

The following table is a summary of the assets acquired, liabilities assumed and net cash consideration paid for the Cybex acquisition during 2016:

(in millions)	Fair Value (B)	Useful Life
Accounts and notes receivable	$25.9	
Inventory	13.5	
Goodwill (A)	81.9	
Trade names	38.6	Indefinite
Customer relationships	41.8	16 years
Patents and proprietary technology	3.1	5 years
Property and equipment	39.8	
Other assets	6.0	
Total assets acquired	250.6	

Total liabilities assumed	55.6
Net cash consideration paid	$195.0

(A) The goodwill recorded for the acquisition of Cybex is not deductible for tax purposes.
(B) Due to the recent timing of this acquisition, these amounts are preliminary and are subject to change within the measurement period as the Company finalizes its fair value estimates.

This acquisition is not material to the Company's net sales, results of operations or total assets during any period presented. Accordingly, the Company's consolidated results from operations do not differ materially from historical performance as a result of this acquisition and, therefore, pro forma results are not presented.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 5 – Financial Instruments

The Company operates globally with manufacturing and sales facilities in various locations around the world. Due to the Company’s global operations, the Company engages in activities involving both financial and market risks. The Company utilizes normal operating and financing activities, along with derivative financial instruments, to minimize these risks.

Derivative Financial Instruments. The Company uses derivative financial instruments to manage its risks associated with movements in foreign currency exchange rates, interest rates and commodity prices. Derivative instruments are not used for trading or speculative purposes. The Company formally documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking each hedge transaction. This process includes linking derivatives that are designated as hedges to specific forecasted transactions. The Company also assesses, both at the hedge’s inception and monthly thereafter, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in the anticipated cash flows of the hedged item. If the hedging relationship ceases to be highly effective, or it becomes probable that a forecasted transaction is no longer expected to occur, the Company discontinues hedge accounting prospectively and immediately recognizes the gains and losses associated with those hedges. There were no material adjustments as a result of ineffectiveness to the results of operations for the three months ended April 2, 2016 and April 4, 2015. The fair value of derivative financial instruments is determined through market-based valuations and may not be representative of the actual gains or losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they are traded. The effects of derivative financial instruments are not expected to be material to the Company’s financial position or results of operations when considered together with the underlying exposure being hedged. Use of derivative financial instruments exposes the Company to credit risk with its counterparties when the fair value of a derivative contract is an asset. The Company mitigates this risk by entering into derivative contracts with highly rated counterparties. The maximum amount of loss due to counterparty credit risk is limited to the asset value of derivative financial instruments.

Cash Flow Hedges. The Company enters into certain derivative instruments that are designated and qualify as cash flow hedges. The Company executes both forward and option contracts, based on forecasted transactions, to manage foreign currency exchange exposure mainly related to inventory purchase and sales transactions. The Company also enters into commodity swap agreements based on anticipated purchases of copper and natural gas to manage risk related to price changes. From time-to-time, the Company enters into forward-starting interest rate swaps to hedge the interest rate risk associated with the anticipated issuance of debt.

A cash flow hedge requires that as changes in the fair value of derivatives occur, the portion of the change deemed to be effective is recorded temporarily in Accumulated other comprehensive loss, an equity account, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. As of April 2, 2016, the term of derivative instruments hedging forecasted transactions ranged from one to 15 months.

Fair Value Hedges. From time-to-time, the Company enters into fixed-to-floating interest rate swaps to convert a portion of the Company's long-term debt from fixed to floating rate debt. An interest rate swap is entered into with the expectation that the change in the fair value of the interest rate swap will offset the change in the fair value of the debt instrument attributable to changes in the benchmark interest rate. Each period, the change in the fair value of the interest rate swap asset or liability is recorded in debt and the difference between the fixed interest payment and floating interest receipts is recorded as a net adjustment to interest expense.

Other Hedging Activity. The Company has entered into certain foreign currency forward contracts that have not been designated as a hedge for accounting purposes. These contracts are used to manage foreign currency exposure related to changes in the value of assets or liabilities caused by changes in foreign exchange rates. The change in the fair value of the foreign currency derivative contract and the corresponding change in the fair value of the asset or liability of the Company are both recorded through earnings, each period as incurred. In addition, other hedging activity includes commodity swap agreements that are used to hedge purchases of aluminum. These hedges do not qualify for hedge accounting. The commodity swap agreements are based on anticipated purchases of aluminum and are used to manage risk related to price changes. The change in the fair value of the aluminum derivative contract is recorded through earnings, each period as incurred.

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

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Forward exchange contracts outstanding at April 2, 2016, December 31, 2015 and April 4, 2015 had notional contract values of $232.1 million, $273.5 million and $148.0 million, respectively. Option contracts outstanding at April 2, 2016, December 31, 2015 and April 4, 2015 had notional contract values of $48.3 million, $51.0 million and $70.1 million, respectively. The forward and options contracts outstanding at April 2, 2016 mature during 2016 and 2017 and mainly relate to the Euro, Australian dollar, Canadian dollar, Japanese yen, Brazilian real, Swedish krona, Norwegian krone, Mexican peso, British pound, Hungarian forint and New Zealand dollar. As of April 2, 2016, the Company estimates that during the next 12 months, it will reclassify approximately $0.4 million of net losses (based on current rates) from Accumulated other comprehensive loss to Cost of sales.

Interest Rate. The Company enters into fixed-to-floating interest rate swaps to convert a portion of the Company's long-term debt from fixed to floating rate debt. As of April 2, 2016, December 31, 2015 and April 4, 2015, the outstanding swaps had notional contract values of $200.0 million, of which $150.0 million corresponds to the Company's 4.625 percent Senior notes due 2021 and $50.0 million corresponds to the Company's 7.375 percent Debentures due 2023. These instruments have been designated as fair value hedges, with the fair value recorded in long-term debt.

The Company also enters into forward-starting interest rate swaps from time to time to hedge the interest rate risk associated with anticipated debt issuances. There were no forward-starting interest rate swaps outstanding at April 2, 2016, December 31, 2015 or April 4, 2015.

As of April 2, 2016, December 31, 2015 and April 4, 2015, the Company had $5.1 million, $5.1 million and $5.2 million, respectively, of net deferred losses associated with all settled forward-starting interest rate swaps, which were included in Accumulated other comprehensive loss. As of April 2, 2016, the Company estimates that during the next 12 months, it will reclassify approximately $0.8 million of net losses resulting from settled forward-starting interest rate swaps from Accumulated other comprehensive loss to Interest expense.

Commodity Price. The Company uses commodity swaps to hedge anticipated purchases of aluminum, copper and natural gas. Commodity swap contracts outstanding at April 2, 2016, December 31, 2015 and April 4, 2015 had notional contract values of $7.6 million, $10.8 million and $23.9 million, respectively. The contracts outstanding mature through 2017. The amount of gain or loss associated with the change in fair value of these instruments is either recorded through earnings each period as incurred or, if designated as cash flow hedges, deferred in Accumulated other comprehensive loss and recognized in Cost of sales in the same period or periods during which the hedged transaction affects earnings. As of April 2, 2016, the Company estimates that during the next 12 months it will reclassify approximately $0.4 million in net losses (based on current prices) from Accumulated other comprehensive loss to Cost of sales.

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

As of April 2, 2016, December 31, 2015 and April 4, 2015 the fair values of the Company’s derivative instruments were:
(in millions)

Instrument	Derivative Assets Balance Sheet Location	Fair Value April 2, 2016	Fair Value Dec. 31, 2015	Fair Value April 4, 2015	Derivative Liabilities Balance Sheet Location	Fair Value April 2, 2016	Fair Value Dec. 31, 2015	Fair Value April 4, 2015
Derivatives Designated as Cash Flow Hedges								
Foreign exchange contracts	Prepaid expenses and other	$2.8	$ 5.9	$ 6.9	Accrued expenses	$3.9	$ 1.3	$ 0.9
Commodity contracts	Prepaid expenses and other	—	—	—	Accrued expenses	0.3	0.5	2.5
Total		$2.8	$ 5.9	$ 6.9		$4.2	$ 1.8	$ 3.4
Derivatives Designated as Fair Value Hedges								
Interest rate contracts	Prepaid expenses and other	$2.9	$ 2.1	$ 3.0	Accrued expenses	$2.0	$ 1.4	$ 1.7
Interest rate contracts	Other long-term assets	6.5	4.0	4.9	Other long-term liabilities	—	—	—
Total		$9.4	$ 6.1	$ 7.9		$2.0	$ 1.4	$ 1.7
Other Hedging Activity								
Foreign exchange contracts	Prepaid expenses and other	$0.3	$ 1.5	$ 1.0	Accrued expenses	$0.6	$ 0.2	$ 0.0
Commodity contracts	Prepaid expenses and other	—	—	—	Accrued expenses	1.6	2.2	—
Total		$0.3	$ 1.5	$ 1.0		$2.2	$ 2.4	$ 0.0

The effect of derivative instruments on the Condensed Consolidated Statements of Comprehensive Income for the three months ended April 2, 2016 and April 4, 2015 was:
(in millions)

Derivatives Designated as Cash Flow Hedging Instruments	Amount of Gain (Loss) on Derivatives Recognized in Accumulated Other Comprehensive Loss (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Earnings (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Earnings (Effective Portion)	
	April 2, 2016	April 4, 2015		April 2, 2016	April 4, 2015

Foreign exchange contracts	$ (4.3)	$ 6.7	Cost of sales	$ 2.6	$ 2.6
Commodity contracts	0.0	(2.7)	Cost of sales	(0.2)	(1.8)
Total	$ (4.3)	$ 4.0		$ 2.4	$ 0.8

Derivatives Designated as Fair Value Hedging Instruments	Location of Gain (Loss) on Derivatives Recognized in Earnings	Amount of Gain (Loss) on Derivatives Recognized in Earnings	
		April 2, 2016	April 4, 2015
Interest rate contracts	Interest expense	$ 0.8	$ 1.1

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BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

Other Hedging Activity	Location of Gain (Loss) on Derivatives Recognized in Earnings	Amount of Gain (Loss) on Derivatives Recognized in Earnings	
		April 2, 2016	April 4, 2015
Foreign exchange contracts	Cost of sales	$(4.8)	$ 6.2
Foreign exchange contracts	Other income, net	0.4	0.7
Commodity contracts	Cost of sales	(0.1)	—
Total		$(4.5)	$ 6.9

Fair Value of Other Financial Instruments. The carrying values of the Company’s short-term financial instruments, including cash and cash equivalents, accounts and notes receivable and short-term debt approximate their fair values because of the short maturity of these instruments. At April 2, 2016, December 31, 2015 and April 4, 2015, the fair value of the Company’s long-term debt was approximately $462.1 million, $454.7 million and $470.7 million, respectively, and was determined using Level 1 and Level 2 inputs described in Note 6 – Fair Value Measurements, including quoted market prices or discounted cash flows based on quoted market rates for similar types of debt. The carrying value of long-term debt, including current maturities, was $447.5 million, $448.5 million and $457.6 million as of April 2, 2016, December 31, 2015 and April 4, 2015, respectively.

Note 6 – Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable.

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

- Level 2 - Inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. These are typically obtained from readily available pricing sources for comparable instruments.

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

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

(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$9.4	$—	$ —	$9.4
Short-term investments in marketable securities	0.8	—	—	0.8
Restricted cash	12.7	—	—	12.7
Derivatives	—	12.5	—	12.5
Total assets	$22.9	$12.5	$ —	$35.4
Liabilities:				
Derivatives	$—	$8.4	$ —	$8.4
Other	3.8	36.2	—	40.0
Total liabilities at fair value	$3.8	$44.6	$ —	$48.4
Liabilities measured at net asset value				11.6
Total liabilities				$60.0

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$131.3	$138.9	$ —	$270.2
Short-term investments in marketable securities	0.8	10.7	—	11.5
Restricted cash	12.7	—	—	12.7
Derivatives	—	13.5	—	13.5
Total assets	$144.8	$163.1	$ —	$307.9
Liabilities:				
Derivatives	$—	$5.6	$ —	$5.6
Other	3.8	34.6	—	38.4
Total liabilities at fair value	$3.8	$40.2	$ —	$44.0
Liabilities measured at net asset value				11.3
Total liabilities				$55.3

BRUNSWICK CORPORATION
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following table summarizes the Company’s financial assets and liabilities measured at fair value on a recurring basis as of April 4, 2015:

(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$111.3	$34.5	$ —	$145.8
Short-term investments in marketable securities	0.8	57.0	—	57.8
Restricted cash	15.6	—	—	15.6
Derivatives	—	15.8	—	15.8
Total assets	$127.7	$107.3	$ —	$235.0
Liabilities:				
Derivatives	$—	$5.1	$ —	$5.1
Other	7.0	35.0	—	42.0
Total liabilities at fair value	$7.0	$40.1	$ —	$47.1
Liabilities measured at net asset value				12.2
Total liabilities				$59.3

Refer to Note 5 – Financial Instruments for additional information related to the fair value of derivative assets and liabilities by class. Other liabilities shown in the tables above include certain deferred compensation plans of the Company. In addition to the items shown in the tables above, refer to Note 17 in the Notes to Consolidated Financial Statements in the 2015 Form 10-K for further discussion regarding the fair value measurements associated with the Company’s postretirement benefit plans.

Note 7 – Share-Based Compensation

Under the Brunswick Corporation 2014 Stock Incentive Plan (Plan), the Company may grant stock options, stock appreciation rights (SARs), non-vested stock awards and performance awards to executives, other employees and non-employee directors from treasury shares and from authorized, but unissued, shares of common stock, in addition to any shares reacquired by the Company through the forfeiture of past awards, or settlement of such awards in cash. As of April 2, 2016, 5.3 million shares remained available for grant.

Non-vested stock awards

The Company grants both stock-settled and cash-settled non-vested stock units and awards to key employees as determined by management and the Human Resources and Compensation Committee of the Board of Directors. The Company granted 0.3 million and 0.2 million of stock awards during the three months ended April 2, 2016 and April 4, 2015, respectively. The Company recognizes the cost of non-vested stock units and awards on a straight-line basis over the requisite service period. Additionally, cash-settled non-vested stock units and awards are recorded as a liability in the balance sheet and adjusted to fair value each reporting period through stock compensation expense. During the three months ended April 2, 2016 and April 4, 2015, the Company charged $1.6 million and $3.6 million, respectively, to compensation expense for non-vested stock awards.

As of April 2, 2016, there was $14.8 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. The Company expects this cost to be recognized over a weighted average period of 1.6 years.

Performance awards

In each of the first quarters of 2016 and 2015, the Company granted 0.1 million performance shares to certain senior executives. The 2016 and 2015 share awards are based on three performance measures: a cash flow return on investment (CFROI) measure, an operating margin (OM) measure and a total shareholder return (TSR) modifier. Performance shares are earned based on a three-year performance period commencing at the beginning of the calendar year of each grant. The performance shares are then subject to a TSR modifier based on stock returns measured against stock returns of a predefined comparator group over a three-year performance period which starts at the beginning of the calendar year of each grant. Additionally, in February 2016 and 2015, the Company granted 38,690 and 22,990

87.0

9,666

23.8

Gross margin

5,710

10.2

6,060

13.0

(350)

(5.8)

Selling, general and administrative expenses

4,694

8.4

4,628

9.9

66

1.4

Operating income

1,016

1.8

1,432

3.1

(416)

29.1

Interest expense

(622)

(1.1)

(698)

(1.5)

76

10.9

Deferred financing amortization

(160)

(0.3)

(165)

(0.4)

5

3.0

Other (expense) income, net

(44)

(0.1)

4

-

(48)

NM

Income before income taxes

190

0.3

573

1.2

(383)

66.8

Provision for income taxes

65

0.1

1,072

2.3

(1,007)

(93.9)

Net income (loss)

$

125

0.2

%

$

(499)

(1.1)

%

$

624

125.1

Tons shipped

9,892

9,325

567

6.1

%

Sales dollars per shipped ton

$

5,659

$

5,005

$

654

13.1

%

NM – Not meaningful

Market Segment Information

(in thousands)	Three months ended March 31, 2015		2014			
	Amount	Percentage of net sales	Amount	Percentage of net sales	Dollar variance	Percentage variance

Net sales:						
Service centers	$ 37,412	66.8 %	$ 28,791	61.7 %	$ 8,621	29.9 %
Original equipment manufacturers	6,945	12.4	3,916	8.4	3,029	77.3
Rerollers	6,657	11.9	6,225	13.3	432	6.9
Forgers	3,887	7.0	6,382	13.7	(2,495)	(39.1)
Conversion services and other sales	1,082	1.9	1,353	2.9	(271)	(20.0)
Total net sales	$ 55,983	100.0 %	$ 46,667	100.0 %	$ 9,316	20.0 %

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Melt Type Information

(in thousands)	Three months ended March 31, 2015			2014						
	Amount	Percentage of net sales		Amount	Percentage of net sales		Dollar variance	Percentage variance	
Net sales:									
Specialty alloys	$ 49,862	89.1	%	$ 42,616	91.3	%	$ 7,246	17.0	%
Premium alloys (A)	5,039	9.0		2,698	5.8		2,341	86.8	
Conversion services and other sales	1,082	1.9		1,353	2.9		(271)	(20.0)	
Total net sales	$ 55,983	100.0	%	$ 46,667	100.0	%	$ 9,316	20.0	%

(A) Premium alloys represent all VIM products.

The majority of our products are sold to service centers/processors rather than the ultimate end market customers. The end market information in this Quarterly Report is our estimate based upon our knowledge of our customers and the grade of material sold to them, that they will in-turn sell to the ultimate end market customer.

End Market Information

(in thousands)	Three months ended March 31, 2015			2014					
	Amount	Percentage of net sales		Amount	Percentage of net sales		Dollar variance	Percentage variance	
Net sales:									
Aerospace	$ 33,761	60.3	%	$ 26,707	57.2	%	$ 7,054	26.4	%
Power generation	7,324	13.1		5,415	11.6		1,909	35.3	
Oil & gas	6,101	10.9		4,249	9.1		1,852	43.6	
Heavy equipment	3,992	7.1		3,959	8.5		33	0.8	
General industrial, conversion services and other sales	4,805	8.6		6,337	13.6		(1,532)	(24.2)	
Total net sales	$ 55,983	100.0	%	$ 46,667	100.0	%	$ 9,316	20.0	%

Net sales:

Net sales for the three months ended March 31, 2015 increased $9.3 million, or 20.0%, as compared to the three months ended March 31, 2014. Our sales dollars per shipped ton increased by 13.1% from the three months ended March 31, 2014 to the three months ended March 31, 2015. The increase in both sales and sales dollars per shipped ton is primarily the result of a more favorable product mix. As noted in the table above, product sales to all of our end markets, except general industrial and conversion services, increased as overall business conditions in most of our end markets improved during the first quarter of 2015 when compared to the first three months of 2014. During the three months ended March 31, 2015, we recognized a $2.3 million, or 86.8%, increase in premium alloy sales when compared to the three months ended March 31, 2014. Our premium alloy product sales, which are primarily to the aerospace end market, have a higher average selling price than our specialty alloy product sales. In addition, our first quarter 2015 net sales increase reflects a 6.1% increase in consolidated shipments for the three months ended March 31, 2015, compared to the same prior year period.

Gross margin:

Our gross margin, as a percentage of sales, was 10.2% and 13.0% for the three months ended March 31, 2015 and 2014, respectively. The decline in our gross margin for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 is largely a result of the misalignment in surcharges as a result of falling raw material prices and also due to higher scrap rates. Approximately 69% of our first quarter 2015 sales were melted during the second half of 2014. The material costs associated with these products sold in the first quarter of 2015, which are calculated at the time of production, were considerably higher than our offsetting first quarter surcharges, which are calculated at the time of shipment. For example, nickel, a significant component in many of our products decreased on average 15% from the costs incurred melting this material in the second half of 2014 to those used to calculate our surcharges for the first quarter of 2015. Our first quarter of 2015 was also negatively impacted by higher scrap rates than what we incurred during the first quarter of 2014.

Selling, general and administrative expenses:

Our selling, general and administrative ("SG&A") expenses consist primarily of employee costs, which include salaries, payroll taxes and benefit related costs, legal and accounting services, stock compensation and insurance costs. Our SG&A expenses for the quarter ended March 31, 2015 were consistent with those incurred during the first quarter of 2014. As a percentage of sales, our SG&A expenses decreased to 8.4% during the three months ended March 31, 2015 from 9.9% for the three months ended March 31, 2014.

Interest expense and deferred financing amortization:

Our interest expense and other financing costs decreased 9.4% to $782,000 for the three months ended March 31, 2015 from $863,000 for the three months ended March 31, 2014. These costs include deferred financing amortization of $160,000 and $165,000 for the three months ended March 31, 2015 and 2014, respectively. The overall decrease is primarily due to lower interest rates incurred on our debt in 2015 when compared to 2014. Our interest rates are determined by a LIBOR-based rate plus an applicable margin based upon our quarterly leverage ratio.

Provision for income taxes:

For the three months ended March 31, 2015 and 2014, our estimated annual effective tax rates applied to ordinary income were 34.9% and 35.4%, respectively.

Including the effect of discrete tax items, our effective tax rates for the three months ended March 31, 2015 and 2014 were 34.2% and 187.1%, respectively. The effective tax rate for the three months ended March 31, 2014 was reflective of a net discrete tax expense of $869,000. The $869,000 of discrete tax expense primarily includes tax expense of $596,000 associated with the New York state tax rate reduction to 0% for New York qualified manufacturers, and tax expense of $247,000 associated with a Pennsylvania tax settlement related to certain expenses which had been deducted for state income tax purposes during the 2005-2007 tax years.

Net income (loss):

Our net income (loss) increased to $125,000, or $0.02 per diluted share, for the three months ended March 31, 2015 from a net loss of $(499,000), or $(0.07) per diluted share, for the three months ended March 31, 2014 for the reasons stated above.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09 “Revenue from Contracts with Customers (Topic 606).” This topic converges the guidance within U.S. GAAP and International Financial Reporting Standards and supersedes Accounting Standards Codification 605, Revenue Recognition. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, and early application is not permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective for annual reporting periods beginning after December 15, 2015, including interim reporting periods within that reporting period, and early application is permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

Liquidity and Capital Resources

Historically and currently, we have financed our operating activities through cash provided by operations and cash provided through our credit facilities.

Net cash (used in) provided by operating activities:

During the quarter ended March 31, 2015, our operating activities used $2.1 million of cash. Our net income adjusted for non-cash expenses generated approximately $5.2 million of cash. This was offset by an increase in our managed working capital. Our managed working capital, defined as net accounts receivable plus net inventory minus accounts payable, increased by $3.6 million to $108.7 million compared to $105.1 million at December 31, 2014. Our net accounts receivable balance increased, primarily as a result of a 5.7% increase in net sales for the quarter ended March 31, 2015 compared to the quarter ended December 31, 2014, resulting in a use of cash of $4.4 million. Our accounts payable balance decreased by $1.8 million to $23.2 million as of March 31, 2015 from $25.0 million as of December 31, 2014, due to decreased capital expenditures and the timing of vendor payments. Our inventory levels decreased during the first quarter of 2015 due to management's focus on reducing our inventory balance as well as lower raw material costs, resulting in a source of cash of $2.1 million. In addition, during the first quarter of 2015 the reduction in our accrued employment costs, primarily the result of the payout of our 2014 variable incentive compensation during the quarter, resulted in a use of cash of $2.3 million.

During the quarter ended March 31, 2014, we generated net cash from operating activities of $2.2 million. The net increase in our accounts payable and other accruals and assets provided $12.8 million in cash which was offset by the increase in our net inventory and net accounts receivable which used $9.0 million and $6.6 million of cash, respectively. In addition, during the quarter ended March 31, 2014, our net loss adjusted for non-cash expenses generated approximately $5.0 million of cash.

Net cash used in investing activity:

During the current quarter, we used $3.0 million in cash for capital expenditures compared to $1.3 million during the quarter ended March 31, 2014. We believe that overall capital expenditures in 2015 will be similar to 2014 spending levels, but we will continue to monitor and modulate it based upon the current and forecasted business conditions.

Net cash provided by (used in) financing activities:

During the three months ended March 31, 2015, our financing activities provided $5.1 million in cash. Net cash provided from borrowings under our credit facility was approximately $4.9 million. Additionally, we received $197,000 in receipts from the exercise of stock options. Our borrowings increased primarily due to the timing of vendor payments and the payout of our 2014 variable incentive compensation.

During the three months ended March 31, 2014, we used $1.1 million in cash for our financing activities. Of that amount, approximately $1.7 million of our cash was utilized to reduce our bank debt. This outflow was partially offset by the receipt of $648,000 from the exercise of stock options.

We believe that our cash flows from continuing operations as well as available borrowings under our credit facility are adequate to satisfy our working capital, capital expenditure requirements, and other contractual obligations for the foreseeable future, including at least the next 12 months.

We continuously monitor market price fluctuations of key raw materials. The market values for these raw materials continue to fluctuate based on supply and demand, market disruptions, and other factors. We maintain sales price surcharge mechanisms on certain of our products, priced at time of shipment, to mitigate the risk of raw material cost fluctuations. There can be no assurance that these sales price adjustments will completely offset our raw material costs.

The following table reflects the average market values per pound for selected months during the last 16-month period:

	March 2015	December 2014	March 2014	December 2013
Nickel	$ 6.23	$ 7.22	$ 7.10	$ 6.31
Chrome	$ 1.12	$ 1.12	$ 1.12	$ 1.04
Molybdenum	$ 8.28	$ 9.53	$ 10.13	$ 9.73
Carbon scrap	$ 0.11	$ 0.16	$ 0.18	$ 0.19

Sources: Nickel is the daily average LME Cash Settlement Price; Chrome and Molybdenum is the final monthly average as published by Ryan's Notes; Carbon is the consumer price for #1 Industrial Bundles in the Pittsburgh, PA area as reported in American Metal Market.

We have a Credit Agreement (as amended to date, the “Credit Agreement”) with a syndication of banks which provides for a $105.0 million senior secured revolving credit facility (the “Revolver”) and a $20.0 million senior secured term loan facility (the “Term Loan” and together with the Revolver, the “Facilities”) that expire in March 2017. Under the Credit Agreement, our loan availability under the Revolver (“Borrowing Base”) is calculated monthly based upon our accounts receivable and inventory balances.

We are required to pay a commitment fee of 0.25% based on the daily unused portion of the Revolver. The Revolver also provides for up to $7.0 million of swing loans so long as the sum of the outstanding swing loans and the outstanding borrowings under the Revolver do not exceed our Borrowing Base. The Term Loan is payable in quarterly installments in the principal amount of $750,000 which began on July 1, 2013, with the balance of the Term Loan payable in full on March 19, 2017.

Amounts outstanding under the Facilities, at our option, will bear interest at either a base rate or a LIBOR-based rate (the “LIBOR Option”), in either case calculated in accordance with the terms of the Credit Agreement. We elected to use the LIBOR Option during the three months ended March 31, 2015, which was 2.18% at March 31, 2015. Interest on the Facilities is payable monthly.

We are required to maintain a leverage ratio not exceeding a ratio decreasing from 3.75 to 1.00 at March 31, 2015, 3.50 to 1.00 for the period June 30, 2015 to September 30, 2015, 3.25 to 1.00 at December 31, 2015 and 3.00 to 1.00 from March 31, 2016 through maturity. We were also required to maintain a fixed charge coverage ratio of 1.1 to 1.0 to maturity. We were in compliance with all our covenants at March 31, 2015.

In connection with the acquisition of the North Jackson facility, in August 2011, we issued $20.0 million in convertible notes (the “Notes”) to the sellers of the North Jackson facility as partial consideration of the acquisition. The Notes are subordinated obligations and rank junior to the Facilities. The Notes bear interest at a fixed rate of 4.0% per annum, payable in cash semi-annually in arrears on each June 18 and December 18, beginning on December 18, 2011. Unless earlier converted, the Notes mature and the unpaid principal balance is due on August 17, 2017. The Notes and any accrued and unpaid interest are convertible into shares of our common stock at the option of the holder at an initial conversion price of $47.1675 per share of common stock. The conversion price associated with the Notes may be adjusted in certain circumstances. We may prepay any outstanding Notes, in whole or in part, during a fiscal quarter if our share price is greater than 140% of the then current conversion price for at least 20 of the trading days in the 30 consecutive trading day period ending on the last trading day of the immediately preceding quarter.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has reviewed its market risk and believes there are no significant changes from that disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, except as provided in this Form 10-Q in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 4. CONTROLS AND PROCEDURES

The Company’s management, including the Company’s Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer, performed an evaluation of the effectiveness of the Company’s disclosure controls and procedures. Based on that evaluation, the Company’s Chairman, President and Chief Executive Officer and its Vice President of Finance, Chief Financial Officer and Treasurer concluded that, as of the end of the fiscal period covered by this quarterly report, the Company’s disclosure controls and procedures are effective. During the fiscal quarter ended March 31, 2015 there were no changes in the Company’s internal control over financial reporting which have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There are no material changes from the legal proceedings disclosed in Item 3. of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Item 1A. RISK FACTORS

There are no material changes from the risk factors disclosed in Item 1A. of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES
Not Applicable.

Item 5. OTHER INFORMATION
None.

Item 6. EXHIBITS

Exhibit Number	Exhibit
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to the Consolidated Financial Statements (filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: April 29, 2015

/s/ Dennis M. Oates
Dennis M. Oates
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Michael D. Bornak
Michael D. Bornak
Vice President of Finance,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)