BRUNSWICK CORP
Form 10-Q
October 30, 2006

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 September 30, 2006
or
[ ] **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 1-1043

Brunswick Corporation
(Exact name of registrant as specified in its charter)

Delaware	**36-0848180**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1 N. Field Court, Lake Forest, Illinois	**60045-4811**
(Address of principal executive offices)	*(Zip Code)*

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Large accelerated filer [X] Accelerated filer [   ] Non-accelerated filer [   ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [   ] No [X]

The number of shares of Common Stock ($0.75 par value) of the registrant outstanding as of **October 26, 2006**, was 91,807,802.

BRUNSWICK CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 2006

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

BRUNSWICK CORPORATION
Consolidated Statements of Income
(in millions, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net sales	**$ 1,337.8**	$ 1,351.1	**$ 4,294.2**	$ 4,225.2
Cost of sales	**1,048.9**	1,045.6	**3,337.1**	3,211.9
Selling, general and administrative expense	**182.5**	173.3	**549.8**	553.7
Research and development expense	**32.1**	30.1	**96.6**	90.5
Operating earnings	**74.3**	102.1	**310.7**	369.1
Equity earnings	**2.9**	3.3	**14.7**	13.9
Investment sale gain	**-**	-	**-**	38.7
Other income (expense), net	**0.5**	(0.2)	**(2.2)**	(1.0)
Earnings before interest and income taxes	**77.7**	105.2	**323.2**	420.7
Interest expense	**(15.7)**	(13.5)	**(43.5)**	(39.6)
Interest income	**5.0**	3.9	**10.4**	10.1
Earnings before income taxes	**67.0**	95.6	**290.1**	391.2
Income tax provision	**16.6**	13.2	**71.1**	103.8
Net earnings from continuing operations	**50.4**	82.4	**219.0**	287.4
Net earnings (loss) from discontinued operations, net of tax	**(13.9)**	6.0	**(31.9)**	9.7
Net earnings	**$ 36.5**	$ 88.4	**$ 187.1**	$ 297.1
Earnings per common share:				
Basic				
Earnings from continuing operations	**$ 0.54**	$ 0.84	**$ 2.32**	$ 2.93
Earnings (loss) from discontinued operations	**(0.15)**	0.06	**(0.34)**	0.10
Net earnings	**$ 0.39**	$ 0.90	**$ 1.98**	$ 3.03
Diluted				
Earnings from continuing operations	**$ 0.54**	$ 0.83	**$ 2.30**	$ 2.90

Earnings (loss) from discontinued operations		**(0.15)**		0.06		**(0.34)**		0.10
Net earnings	**$**	**0.39**	$	0.89	**$**	**1.96**	$	3.00
Weighted average shares used for computation of:								
Basic earnings per share		**93.2**		98.1		**94.5**		97.9
Diluted earnings per share		**93.7**		99.3		**95.3**		99.2

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

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BRUNSWICK CORPORATION
Consolidated Balance Sheets
(in millions)

	September 30, 2006 (unaudited)	December 31, 2005	October 1, 2005 (unaudited)
Assets			
Current assets			
Cash and cash equivalents, at cost, which approximates market	**$ 559.5**	$ 487.7	$ 535.9
Accounts and notes receivable, less allowances of $26.0, $22.1 and $25.2	**473.3**	471.6	449.8
Inventories			
Finished goods	**398.5**	384.3	406.0
Work-in-process	**330.6**	298.5	314.4
Raw materials	**152.6**	134.1	149.4
Net inventories	**881.7**	816.9	869.8
Deferred income taxes	**282.8**	274.8	293.7
Prepaid expenses and other	**65.0**	70.3	48.8
Current assets held for sale	**111.3**	113.7	100.5
Current assets	**2,373.6**	2,235.0	2,298.5
Property			
Land	**87.8**	76.7	74.9
Buildings and improvements	**618.9**	603.2	581.8
Equipment	**1,177.9**	1,111.2	1,094.7
Total land, buildings and improvements and equipment	**1,884.6**	1,791.1	1,751.4
Accumulated depreciation	**(1,045.4)**	(987.6)	(973.6)
Net land, buildings and improvements and equipment	**839.2**	803.5	777.8
Unamortized product tooling costs	**154.0**	149.8	141.2
Net property	**993.2**	953.3	919.0
Other assets			
Goodwill	**659.4**	617.3	604.8
Other intangibles	**345.8**	331.9	347.4
Investments	**140.0**	141.4	121.2
Other long-term assets	**228.5**	249.6	236.3
Long-term assets held for sale	**94.2**	93.0	91.3
Other assets	**1,467.9**	1,433.2	1,401.0
Total assets	**$ 4,834.7**	$ 4,621.5	$ 4,618.5

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

BRUNSWICK CORPORATION
Consolidated Balance Sheets
(in millions, except share data)

	September 30, 2006 (unaudited)	December 31, 2005	October 1, 2005 (unaudited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt, including current maturities of long-term debt	**$ 249.7**	$ 1.1	$ 5.8
Accounts payable	**403.3**	431.7	406.8
Accrued expenses	**742.5**	803.8	778.3
Current liabilities held for sale	**69.7**	68.6	65.4
Current liabilities	**1,465.2**	1,305.2	1,256.3
Long-term liabilities			
Debt	**726.0**	723.7	726.8
Deferred income taxes	**138.4**	147.5	153.0
Postretirement and postemployment benefits	**212.4**	215.6	233.8
Other	**246.0**	245.0	249.4
Long-term liabilities held for sale	**8.1**	5.7	5.4
Long-term liabilities	**1,330.9**	1,337.5	1,368.4
Shareholders' equity			
Common stock; authorized: 200,000,000 shares, $0.75 par value; issued: 102,538,000 shares	**76.9**	76.9	76.9
Additional paid-in capital	**373.0**	368.3	369.8
Retained earnings	**1,928.9**	1,741.8	1,710.8
Treasury stock, at cost: 10,746,000; 6,881,000 and 5,485,000 shares	**(284.5)**	(136.0)	(78.7)
Unearned compensation and other	**-**	(6.1)	(6.4)
Accumulated other comprehensive loss, net of tax	**(55.7)**	(66.1)	(78.6)
Shareholders' equity	**2,038.6**	1,978.8	1,993.8
Total liabilities and shareholders' equity	**$ 4,834.7**	$ 4,621.5	$ 4,618.5

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

BRUNSWICK CORPORATION
Condensed Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	For the Nine Months Ended	
	September 30, 2006	October 1, 2005
Cash flows from operating activities		
Net earnings from continuing operations	$ **219.0**	$ 287.4
Depreciation and amortization	**123.1**	114.3
Changes in noncash current assets and current liabilities	**(143.7)**	(132.4)
Income taxes	**3.7**	4.5
Other, net	**13.9**	(34.2)
Net cash provided by operating activities of continuing operations	**216.0**	239.6
Net cash (used for) provided by operating activities of discontinued operations	**(38.2)**	13.1
Net cash provided by operating activities	**177.8**	252.7
Cash flows from investing activities		
Capital expenditures	**(139.7)**	(150.4)
Acquisitions of businesses, net of cash acquired	**(82.7)**	(127.5)
Investments	**14.5**	4.7
Proceeds from investment sale	**-**	57.9
Proceeds from the sale of property, plant and equipment	**6.8**	13.4
Other, net	**(0.4)**	(1.2)
Net cash used for investing activities of continuing operations	**(201.5)**	(203.1)
Net cash used for investing activities of discontinued operations	**(4.8)**	(12.8)
Net cash used for investing activities	**(206.3)**	(215.9)
Cash flows from financing activities		
Net (repayments) issuances of commercial paper and other short-term debt	**(0.2)**	4.4
Net proceeds from issuance of long-term debt	**250.0**	-
Payments of long-term debt including current maturities	**(0.8)**	(3.8)
Stock repurchases	**(163.1)**	(15.7)
Stock options exercised	**14.4**	14.4
Net cash provided by (used for) financing activities of continuing operations	**100.3**	(0.7)
Net cash provided by (used for) financing activities of discontinued operations	**-**	-
Net cash provided by (used for) financing activities	**100.3**	(0.7)
Net increase in cash and cash equivalents	**71.8**	36.1
Cash and cash equivalents at beginning of period	**487.7**	499.8
Cash and cash equivalents at end of period	$ **559.5**	$ 535.9

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

Brunswick Corporation
Notes to Consolidated Financial Statements
(unaudited)

Note 1 - Significant Accounting Policies

Interim Financial Statements. The unaudited interim consolidated financial statements of Brunswick Corporation (the Company) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and disclosures normally included in financial statements and notes prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Certain previously reported amounts have been reclassified to conform to the current-period presentation.

These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in the Company's 2005 Annual Report on Form 10-K (the 2005 Form 10-K), except as noted in **Note 2 - Discontinued Operations**. The Company's results as discussed in the financial statements reflect continuing operations only, unless otherwise noted. These interim results include, in the opinion of management, all normal and recurring adjustments necessary to present fairly the financial position of the Company as of September 30, 2006, December 31, 2005, and October 1, 2005, the results of operations for the three months and nine months ended September 30, 2006, and October 1, 2005, and the cash flows for the nine months ended September 30, 2006, and October 1, 2005. Due to the seasonality of the Company'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 ending on the Saturday closest to the end of the period (13-week periods). The first three quarters of fiscal year 2006 ended on April 1, 2006, July 1, 2006, and September 30, 2006, and the first three quarters of fiscal year 2005 ended on April 2, 2005, July 2, 2005, and October 1, 2005.

New Accounting Standards. In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109," (FIN 48). FIN 48 prescribes recognition threshold and measurement criteria for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return, among other items. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition with respect to the application of the new accounting standard. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that FIN 48 will have on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)," (SFAS 158). SFAS 158 requires recognition of the overfunded or underfunded status of a benefit postretirement plan in the statement of financial position, as well as recognition of changes in that funded status through comprehensive income in the year in which they occur. SFAS 158 also requires a change in the measurement of a plan's assets and benefit obligations as of the end date of the employer's fiscal year. SFAS 158 is effective for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The

Company is currently evaluating the impact that SFAS 158 will have on its financial statements.

Note 2 - Discontinued Operations

On April 27, 2006, the Company announced its intention to sell the majority of its Brunswick New Technologies (BNT) business unit, which consists of the Company's marine electronics, land-based navigation systems and fleet tracking businesses.

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Brunswick Corporation
Notes to Consolidated Financial Statements
(unaudited)

The Company is actively marketing BNT and conducting other activities required to complete the sale within the next year. Accordingly, the Company has reported these BNT businesses as discontinued operations in accordance with the criteria of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," related to the classification of assets to be disposed of by sale. These criteria include reclassifying the operations of BNT for all periods presented. The Company currently anticipates the proceeds from the sale of BNT will exceed its net book value, which totaled $127.7 million as of September 30, 2006.

The following table discloses the results of operations of the BNT businesses reported as discontinued operations for the three months and nine months ended:

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
(in millions)				
Net sales	**$ 75.6**	$ 85.3	**$ 193.0**	$ 215.1
Pre-tax earnings (loss)	**$ (13.2)**	$ 3.8	**$ (47.7)**	$ 7.6

The following table reflects the financial position of the BNT businesses reported as discontinued operations:

	September 30, 2006	December 31, 2005
(in millions)		
Accounts receivable	**$ 51.8**	$ 50.8
Inventory	**57.5**	57.7
Other current assets	**2.0**	5.2
Total current assets	**111.3**	113.7
Goodwill and intangible assets	**74.3**	74.0
Investments	**-**	2.2
Property, plant and equipment	**19.9**	16.8
Total assets	**205.5**	206.7
Accounts payable	**35.7**	40.5
Accrued expenses	**34.0**	28.1
Total current liabilities	**69.7**	68.6
Long-term liabilities	**8.1**	5.7
Total liabilities	**77.8**	74.3
Net assets	**$ 127.7**	$ 132.4

Note 3 - Share-Based Compensation

On January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), “Share-Based Payment,” (SFAS 123R), which is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation,” (SFAS 123). SFAS 123R supersedes Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees,” (APB 25) and amends SFAS No. 95, “Statement of Cash Flows.” SFAS 123R requires all share-based payments to employees, including grants of stock options and the compensatory elements of employee stock purchase plans, to be recognized in the income statement based upon their fair values. Share-based employee compensation cost (benefit) is recognized as a component of selling, general and administrative expense in the Consolidated Statements of Income.

Brunswick Corporation
Notes to Consolidated Financial Statements
(unaudited)

The Company previously accounted for its share-based compensation using the intrinsic value method as defined in APB 25. Prior to January 1, 2006, other than for nonvested stock, no share-based employee compensation cost was reflected in net earnings. SFAS 123R requires that the Company report the tax benefit from the tax deduction related to share-based compensation that is in excess of recognized compensation costs (excess tax benefits) as a financing cash flow rather than as an operating cash flow in the Condensed Consolidated Statements of Cash Flows. Total stock option expense from continuing operations was $1.4 million for the quarter ended September 30, 2006, and $4.5 million for the nine months ended September 30, 2006, and resulted in a deferred tax asset for the tax benefit to be realized in future periods.

The Company used the modified prospective transition method to adopt the provisions of SFAS 123R. Under this method, employee compensation cost recognized in the first nine months of 2006 includes: (i) compensation cost for all share-based payments granted prior to, but not yet vested, as of January 1, 2006, based on grant date fair value estimated in accordance with the original provisions of SFAS 123 and (ii) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Therefore, prior period financial statements have not been restated. In accordance with SFAS 123R, the fair value of option grants is estimated on the date of grant using the Black-Scholes-Merton option pricing model.

As a result of adopting SFAS 123R on January 1, 2006, the Company's net earnings from continuing operations for the three months and nine months ended September 30, 2006, were $0.9 million and $2.8 million lower, respectively, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share from continuing operations for the three months ended September 30, 2006, were both $0.01 per share lower than if the Company had not adopted SFAS 123R. For the nine months ended September 30, 2006, basic and diluted earnings per share were both $0.03 lower than if the Company had not adopted SFAS 123R.

The following table illustrates the effect on net earnings and earnings per share for the three months and nine months ended October 1, 2005, if the fair value-based method provided by SFAS 123 had been applied for all outstanding and unvested awards for periods before the Company adopted SFAS 123R:

(in millions, except per share data)	Three Months Ended October 1, 2005	Nine Months Ended October 1, 2005
Net earnings from continuing operations, as reported	$ 82.4	$ 287.4
Add: Share-based employee compensation included in reported earnings, net of tax	0.9	2.9
Less: Total share-based employee compensation expense under fair value-based method for all awards, net of tax	1.8	9.0
Net earnings from continuing operations, pro forma	$ 81.5	$ 281.3
Basic earnings from continuing operations per common share:		
As reported	$ 0.84	$ 2.93

Pro forma	$ 0.83	$ 2.87
Diluted earnings from continuing operations per common share:		
As reported	$ 0.83	$ 2.90
Pro forma	$ 0.82	$ 2.84

Under the 2003 Stock Incentive Plan, the Company may grant stock options, stock appreciation rights, nonvested stock and other types of awards to executives and other management employees. Issuances under the plan may be from either authorized, but unissued, shares or treasury shares. On July 27, 2006, the Company registered an additional 4.0 million shares that may be issued under the plan, increasing the maximum issuance allowed by the plan to 8.1 million shares. As of September 30, 2006, shares available for grant totaled 4.6 million.

Brunswick Corporation
Notes to Consolidated Financial Statements
(unaudited)

Stock options issued are generally exercisable over a period of 10 years, or as determined by the Human Resources and Compensation Committee of the Board of Directors. Options vest over three or four years, or immediately in the event of a change in control, upon death or disability of the optionee, or, for grants issued prior to 2006, if the optionee's age and years of service equal 65 or more. Vesting of 2006 option grants will occur immediately in the event of a change in control, upon death or disability of the optionee, or upon termination of employment if the optionee has attained the age of 62 and his or her age and years of service equal 70 or more (or for grants prior to 2006, if the optionee's age and years of service equal 65 or more, regardless of the optionee's age). The option price per share cannot be less than the fair market value at the date of grant. The Company has additional stock and stock option plans to provide for compensation of non-employee directors. Stock option activity for all plans for the nine months ended September 30, 2006, was as follows:

	Stock Options Outstanding (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding on January 1	**3,844**	**$ 29.91**		
Granted	**904**	**$ 39.08**		
Exercised	**(492)**	**$ 21.51**		**$ 8,004**
Forfeited	**(149)**	**$ 38.73**		
Outstanding on September 30	**4,107**	**$ 32.62**	**6.5 years**	**$ 16,700**
Exercisable on September 30	**2,392**	**$ 26.70**	**5.0 years**	**$ 16,093**

The following table summarizes information about stock options outstanding as of September 30, 2006:

Range of Exercise Price	Number Outstanding (in thousands)	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
$17.38 to $20.00	670	3.9 years	$ 19.64	668	$ 19.64
$20.01 to $30.00	1,179	5.1 years	$ 23.59	1,100	$ 23.58

$30.01 to $40.00	1,382	7.9 years	$ 38.13	378	$ 35.77
$40.01 to $49.27	876	8.3 years	$ 45.97	246	$ 45.89

The weighted average fair value of individual options granted during 2006 was $11.88. The fair value of each option grant was estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted average assumptions used for 2006 and 2005:

	2006	**2005**
Risk-free interest rate	**4.4%**	3.7%
Dividend yield	**1.5%**	1.4%
Volatility factor	**31.2%**	34.1%
Weighted average expected life	**4.8 - 6.1 years**	5.0 years

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Brunswick Corporation
Notes to Consolidated Financial Statements
(unaudited)

Nonvested stock awards (nonvested stock shares were issued for grants prior to April 30, 2003, and subsequently nonvested stock units were issued) are issued to directors and key employees as determined by the Human Resources and Compensation Committee of the Board of Directors. Nonvested stock awards vest at the end of a three- to five-year period subject to continued employment, or immediately upon a change in control of the Company, or upon death or disability of the recipient. For grants issued before January 1, 2006, nonvested stock units are forfeited in the event employment terminates prior to vesting, except there is pro rata vesting if age and years of service equals 65 or more upon termination of employment. Pro rata vesting on grants issued in 2006 will occur if the recipient has attained the age of 62 and his or her age and years of service equals 70 or more upon termination of employment. Although participants' nonvested stock award dividends are automatically reinvested, nonvested stock units are non-voting, and all awards have restrictions on the sale or transfer of such awards during the nonvested period. The cost of nonvested stock awards is recognized on a straight-line basis over the requisite service period. During the three months and nine months ended September 30, 2006, $1.4 million and $4.2 million was charged to compensation expense under these plans, respectively.

The weighted average price per nonvested stock award at grant date was $39.15 for the nonvested stock awards granted in 2006. Nonvested stock award activity for all plans for the nine months ended September 30, 2006, was as follows:

(in thousands)	**Nonvested Stock Outstanding**
Outstanding at January 1	**519**
Granted	**314**
Released	**(224)**
Forfeited	**(61)**
Outstanding at September 30	**548**

As of September 30, 2006, there was $12.0 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.7 years.

Note 4 - Earnings per Common Share

The Company calculates earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings per share is calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated similarly, except that the calculation includes the dilutive effect of stock options and nonvested stock awards. Weighted average basic shares decreased by 4.9 million shares and 3.4 million shares in the three-month and nine-month periods ended September 30, 2006, respectively, versus the comparable periods in 2005, primarily due to the share repurchase program (as discussed in **Note 14 - Share Repurchase Program**) and a lower average share price, partially offset by shares issued upon the exercise of employee stock options. The decrease in common stock equivalents for the three months and nine months ended September 30, 2006, compared with the comparable periods in 2005, was primarily due to the reduction in outstanding dilutive options.

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Brunswick Corporation
Notes to Consolidated Financial Statements
(unaudited)

Basic and diluted earnings per share for the three months and nine months ended September 30, 2006, and for the comparable periods ended October 1, 2005, were calculated as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
(in millions, except per share data)				
Net earnings from continuing operations	**$ 50.4**	$ 82.4	**$ 219.0**	$ 287.4
Net earnings (loss) from discontinued operations, net of tax	**(13.9)**	6.0	**(31.9)**	9.7
Net earnings	**$ 36.5**	$ 88.4	**$ 187.1**	$ 297.1
Average outstanding shares - basic	**93.2**	98.1	**94.5**	97.9
Dilutive effect of common stock equivalents	**0.5**	1.2	**0.8**	1.3
Average outstanding shares - diluted	**93.7**	99.3	**95.3**	99.2
Basic earnings per share				
Earnings from continuing operations	**$ 0.54**	$ 0.84	**$ 2.32**	$ 2.93
Earnings (loss) from discontinued operations	**(0.15)**	0.06	**(0.34)**	0.10
Net earnings	**$ 0.39**	$ 0.90	**$ 1.98**	$ 3.03
Diluted earnings per share				
Earnings from continuing operations	**$ 0.54**	$ 0.83	**$ 2.30**	$ 2.90
Earnings (loss) from discontinued operations	**(0.15)**	0.06	**(0.34)**	0.10
Net earnings	**$ 0.39**	$ 0.89	**$ 1.96**	$ 3.00

As of September 30, 2006, there were 4.1 million options outstanding, of which 2.4 million are exercisable. There were 2.3 million and 2.0 million options outstanding for the three- and nine-month periods ended September 30, 2006, respectively, for which the exercise price of the options was greater than the average market price of the Company's shares for the period then ended. These options were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. This compares to 0.9 million and 0.8 million anti-dilutive options outstanding in the corresponding periods ended October 1, 2005.

Note 5 - Commitments and Contingencies

Financial Commitments. The Company has entered into guarantees of indebtedness of third parties, which are primarily comprised of arrangements with financial institutions in connection with customer financing programs. Under these arrangements, the Company has guaranteed customer obligations to the financial institutions in the event

of customer default, generally subject to a maximum amount, which is less than total obligations outstanding. The Company has also guaranteed payments to third parties that have purchased customer receivables from the Company, and, in certain instances, has guaranteed secured term financing of its customers. In most instances, upon repurchase of the debt obligation, the Company receives rights to the collateral securing the financing. The maximum potential liability associated with these customer financing arrangements was approximately $113.5 million as of September 30, 2006. Any potential payments by the Company related to these customer financing arrangements would extend over several years in accordance with the Company's agreements.

The Company has also entered into arrangements with third-party lenders where it has agreed, in the event of a default by the customer, to repurchase from the third-party lender Company products repossessed from the customer. These arrangements are typically subject to a maximum repurchase amount. The Company's risk under these arrangements is mitigated by the value of the products repurchased as part of the transaction. The maximum amount of payments the Company could be required to make under these arrangements totaled approximately $210.5 million as of September 30, 2006.

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Based on historical experience and current facts and circumstances, and in accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others - An Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34" (FIN 45), the Company has recorded the fair market value of these guarantee and repurchase obligations as a liability on the consolidated balance sheets. Historical cash requirements and losses associated with these obligations have not been significant.

Financial institutions have issued standby letters of credit and surety bonds conditionally guaranteeing obligations on behalf of the Company totaling $87.0 million, including $70.7 million for continuing operations, as of September 30, 2006. This amount is primarily comprised of standby letters of credit and surety bonds issued in connection with the Company's self-insured workers' compensation program as required by its insurance companies and various state agencies. The Company has recorded reserves to cover liabilities associated with these programs. Under certain circumstances, such as an event of default under the Company's revolving credit facility, or, in the case of surety bonds, which totaled $19.4 million, all related to continuing operations, as of September 30, 2006, a ratings downgrade below investment grade, the Company could be required to post collateral to support the outstanding letters of credit and surety bonds.

Product Warranties. The Company records a liability for product warranties at the time revenue is recognized. The liability is estimated using historical warranty experience, projected claim rates and expected costs per claim. The Company adjusts its liability for specific warranty matters when they become known and the exposure can be estimated. The Company's warranty reserves are affected by product failure rates and material usage and labor costs incurred in correcting a product failure. If these estimated costs differ from actual costs, a revision to the warranty reserve would be required.

The following activity related to product warranty liabilities from continuing operations was recorded in Accrued expenses and Long-term liabilities - Other for the nine months ended September 30, 2006:

(in millions)		**2006**
Balance at January 1	$	**155.3**
Payments made		**(86.9)**
Provisions/additions for contracts issued/sold		**87.9**
Aggregate changes for preexisting warranties		**0.7**
Balance at September 30	$	**157.0**

Additionally, marine engine customers may purchase a contract from the Company that extends product protection beyond the standard product warranty period. For certain extended warranty contracts in which the Company retains the warranty obligation, a deferred liability is recorded based on the aggregate sales price for contracts sold. The deferred liability is reduced and revenue is recognized over the contract period as costs are expected to be incurred. Deferred revenue associated with contracts sold by the Company that extend product protection beyond the standard product warranty period, not included in the table above, was $22.3 million as of September 30, 2006.

Legal and Environmental. The Company accrues for litigation exposure based upon its assessment, made in consultation with counsel, of the likely range of exposure stemming from the claim. In light of existing reserves, the Company's litigation claims, when finally resolved, will not, in the opinion of management, have a material adverse

effect on the Company's consolidated financial position. If current estimates for the cost of resolving any claims are later determined to be inadequate, results of operations could be adversely affected in the period in which additional provisions are required.

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Tax Case. In February 2003, the United States Tax Court issued a ruling upholding the disallowance by the Internal Revenue Service (IRS) of capital losses and other expenses for 1990 and 1991 related to two partnership investments entered into by the Company. In April 2003, the Company elected to pay the IRS $62 million (approximately $50 million after-tax), and in April 2004, the Company elected to pay the IRS an additional $10 million (approximately $8 million after-tax), in connection with this matter pending settlement negotiations. The payments were comprised of $33 million in taxes due and $39 million of pre-tax interest (approximately $25 million after-tax). The Company elected to make these payments to avoid future interest costs.

On March 9, 2005, the Company and the IRS reached a preliminary settlement of the issues involved in and related to this case, in which the Company agreed to withdraw its appeal of the tax ruling. All amounts due as a result of the settlement were covered by the payments previously made to the IRS. In addition, all tax computations related to taxable years 1986 through 2001 were calculated and agreed to with the IRS at the examination level. The statute of limitations related to these taxable years expired on March 9, 2006. As a result of these issues and other assessments, the Company reversed approximately $19.3 million of tax reserves in the first nine months of 2006, consisting of $12.4 million in the first quarter, $5.8 million in the second quarter and $1.1 million in the third quarter, primarily related to the reassessment of underlying exposures and tax contingencies for temporary items related to these years. During the second quarter of 2006, the Company received a refund of $12.9 million from the IRS related to the final settlement for these tax years. In the third quarter of 2006, the Company recorded an additional tax receivable of $4.1 million for interest related to these tax years. Additionally, these tax years will be subject to tax audits by various state jurisdictions to determine the state tax impact of the IRS' audit adjustments.

Chinese Supplier Dispute. The Company is involved in an arbitration proceeding in Hong Kong arising out of a commercial dispute with a former contract manufacturer in China, Shanghai Zhonglu Industrial Company Limited (Zhonglu). The Company filed the arbitration seeking damages based on Zhonglu's breach of a supply and distribution agreement pursuant to which Zhonglu agreed to manufacture bowling equipment for the Company. Zhonglu has asserted counterclaims seeking damages for alleged breach of contract and the resolution of other claims. The arbitration tribunal heard final arguments in August 2005 and the Company is awaiting a decision in the matter. The Company does not believe that this dispute will have a material adverse effect on the Company's consolidated financial condition or results of operations.

Refer to Note 9 to the consolidated financial statements of the 2005 Form 10-K for disclosure of the potential cash requirements of environmental proceedings and a discussion of other legal matters as of December 31, 2005.

Note 6 - Segment Data

The Company is a manufacturer and marketer of leading consumer brands. The Company operates in four reportable segments: Boat, Marine Engine, Fitness and Bowling & Billiards. The Company’s management evaluates individual segment performance based on operating earnings. Marine eliminations are for sales transactions consummated at arm’s length between the Marine Engine and Boat segments. As discussed in **Note 2 - Discontinued Operations**, during the second quarter of 2006, the Company began reporting the majority of its BNT businesses as discontinued operations. These businesses were previously reported in the Marine Engine segment. Segment results have been restated for all periods presented to reflect the change in the Company’s reported segments. Additionally, the BNT businesses that are being retained are now reported as part of the Boat, Marine Engine and Fitness segments, consistent with the manner in which the Company’s management now views these businesses.

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The following table sets forth net sales and operating earnings of each of the Company's reportable segments for the three months ended September 30, 2006, and October 1, 2005:

	Net Sales		Operating Earnings	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
(in millions)				
Boat	**$ 679.2**	$ 685.5	**$ 24.8**	$ 37.9
Marine Engine	**536.5**	555.0	**50.4**	61.2
Marine eliminations	**(127.8)**	(128.7)	**-**	-
Total Marine	**1,087.9**	1,111.8	**75.2**	99.1
Fitness	**136.6**	127.4	**12.6**	14.2
Bowling & Billiards	**113.4**	111.9	**3.1**	5.7
Eliminations	**(0.1)**	-	**-**	-
Corporate/Other	**-**	-	**(16.6)**	(16.9)
Total	**$ 1,337.8**	$ 1,351.1	**$ 74.3**	$ 102.1

The following table sets forth net sales and operating earnings of each of the Company's reportable segments for the nine months ended September 30, 2006, and October 1, 2005:

	Net Sales		Operating Earnings	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
(in millions)				
Boat	**$ 2,199.9**	$ 2,111.7	**$ 126.3**	$ 161.9
Marine Engine	**1,760.0**	1,780.8	**190.0**	216.7
Marine eliminations	**(404.0)**	(379.6)	**-**	-
Total Marine	**3,555.9**	3,512.9	**316.3**	378.6
Fitness	**400.3**	375.3	**28.9**	25.7
Bowling & Billiards	**338.2**	338.3	**16.5**	22.0
Eliminations	**(0.2)**	(1.3)	**-**	-
Corporate/Other	**-**	-	**(51.0)**	(57.2)
Total	**$ 4,294.2**	$ 4,225.2	**$ 310.7**	$ 369.1

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Note 7 - Acquisitions

All acquisitions are accounted for under the purchase method and in accordance with SFAS No. 141, “Business Combinations.”

In the first nine months of 2006, consideration paid for acquisitions, net of cash acquired, was as follows:

(in millions)

Date	Description	Net Cash Consideration (A)
2/16/06	Cabo Yachts, Inc.	$ 60.6
3/24/06	Marine Innovations Warranty Corporation	2.3
4/26/06	Diversified Marine Products, L.P.	14.2
9/20/06	Protokon LLC (13.3 percent)	5.6
		$ 82.7

(A) Net cash consideration is subject to subsequent changes resulting from final purchase agreement adjustments.

The Company acquired certain assets of Cabo Yachts, Inc. (Cabo) for $60.6 million. Cabo manufactures offshore sportfishing boats ranging from 31 to 52 feet. The purchase of Cabo complements the Company’s previous acquisitions of Hatteras Yachts, Inc. and Albemarle Boats, Inc. (Albemarle), discussed below, and allows the Company to offer a full range of sportfishing convertibles from 24 to 90 feet. The post-acquisition results of Cabo are included in the Boat segment.

The Company made an additional payment of $2.3 million for the April 1, 2004, acquisition of Marine Innovations Warranty Corporation (Marine Innovations). This payment was required under the purchase agreement as Marine Innovations fulfilled earnings targets. The post-acquisition results of Marine Innovations are included in the Boat segment.

On April 26, 2006, the Company acquired the outstanding stock of Diversified Marine Products, L.P. (Diversified) for $14.2 million. Diversified is a leading wholesale distributor of marine parts and accessories headquartered in Los Angeles, California. The acquisition of Diversified complements the Company’s previous acquisitions of Benrock, Inc. (Benrock), Land ‘N’ Sea Corporation and Kellogg Marine, Inc. (Kellogg) and allows the Company to provide same- and next-day delivery of marine parts and accessories nationwide by expanding the Company’s parts and accessories business to the West Coast of the United States. The post-acquisition results of Diversified are included in the Boat Segment.

On September 20, 2006, the Company acquired an additional 13.3 percent of the outstanding stock of Protokon LLC (Protokon), a Hungarian equipment manufacturer, for $5.6 million. The Company previously purchased 80 percent of the outstanding stock of Protokon in 2003. The Company has the option to acquire the remaining 6.7 percent interest in Protokon under certain circumstances. The acquisition of Protokon has allowed the Company to manufacture fitness equipment closer to the European marketplace, thereby reducing freight costs and offering better service to fitness customers in Europe. The post-acquisition results of Protokon are included in the Fitness Segment.

These acquisitions were not and would not have been material to the Company's net sales, results of operations or total assets in the quarterly and year-to-date periods ended September 30, 2006, and October 1, 2005. Accordingly, the Company's consolidated results from operations do not differ materially from historical performance as a result of these acquisitions, and therefore, pro forma results are not presented.

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In the first nine months of 2005, consideration paid for acquisitions, net of cash acquired, was as follows:

(in millions)

Date	Description	Net Cash Consideration (A)	Other Consideration	Total Consideration
2/7/05	Benrock, Inc.	$ 4.2	$ -	$ 4.2
2/28/05	Albemarle Boats, Inc.	9.2	-	9.2
4/21/05	Sea Pro, Sea Boss and Palmetto boats	1.0	-	1.0
5/27/05	Triton Boat Company	58.4	4.4	62.8
6/20/05	Supra-Industria Textil, Lda. (51 percent)	7.8	0.9	8.7
6/27/05	Marine Innovations Warranty Corporation	2.3	-	2.3
7/7/05	Kellogg Marine, Inc.	39.7	-	39.7
9/16/05	Harris Kayot Marine, LLC	4.8	-	4.8
		$ 127.4	$ 5.3	$ 132.7

(A) Net cash consideration is subject to subsequent changes resulting from final purchase agreement adjustments.

The Company acquired the receivables, inventory, property and equipment of Benrock, Inc. for $4.2 million. Benrock is a distributor of marine parts and expands the Company’s geographic coverage of its parts and accessories businesses distribution network. The post-acquisition results of Benrock are included in the Boat segment.

The Company acquired the outstanding stock of Albemarle Boats, Inc. for $9.2 million. Albemarle produces offshore sportfishing boats ranging in length from 24 to 41 feet. The acquisition of Albemarle provides the Company with the opportunity to offer a more complete range of offshore sportfishing boats and complements the sportfishing convertibles offered by Hatteras, where products start at 50 feet. The post-acquisition results of Albemarle are included in the Boat segment.

The Company made a final payment of $1.0 million for the December 31, 2004 acquisition of Sea Pro, Sea Boss and Palmetto boats. This payment was based on finalization of the closing balance sheet.

The Company acquired the outstanding stock of Triton Boat Company, L.P. (Triton), a manufacturer of fiberglass bass and saltwater boats, and aluminum fishing boats ranging in length from 12 to 35 feet. The Company funded this acquisition through cash consideration of $58.4 million and the assumption of $4.4 million of debt. The acquisition of Triton adds bass boats to the Company’s product lineup, as well as a broader range of saltwater and aluminum fishing boats. The post-acquisition results of Triton are included in the Boat segment.

The Company exercised its contractual right to acquire its joint venture partner’s 51.0 percent interest in Supra-Industria Textil, Lda. (Valiant), a Portuguese manufacturer of the Valiant brand of rigid inflatable boats, for $7.8 million, and the assumption of $0.9 million of debt. The Company is now the sole owner of Valiant. The

post-acquisition results of Valiant are included in the Marine Engine segment.

The Company made an additional payment of $2.3 million for the April 1, 2004 acquisition of Marine Innovations Warranty Corporation. This payment was required under the purchase agreement as Marine Innovations fulfilled earnings targets.

The Company acquired the net assets of Kellogg Marine, Inc. for $39.7 million. Kellogg is a leading distributor of marine parts and accessories headquartered in Old Lyme, Connecticut. The acquisition of Kellogg complements the Company's previous acquisitions of Benrock and Land 'N' Sea and provides a distribution hub in the northeastern United States. The post-acquisition results of Kellogg are included in the Boat segment.

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The Company acquired the outstanding stock of Harris Kayot Marine, LLC (HarrisKayot), a builder of pontoon boats, fiberglass runabouts and deckboats ranging in length from 20 to 26 feet, for $4.8 million. This acquisition will advance the Company's position in the pontoon market and complement the Company's existing boat portfolio with premium runabout and deckboat product lines. The post-acquisition results of HarrisKayot are included in the Boat segment.

These acquisitions were not material to the Company's net sales, results of operations or total assets in the quarterly and year-to-date periods ended October 1, 2005. Accordingly, the Company's consolidated results from operations do not differ materially from historical performance as a result of these acquisitions.

Refer to Note 5 to the consolidated financial statements in the 2005 Form 10-K for further detail relating to the Company's acquisitions.

Note 8 - Investments

The Company has certain unconsolidated foreign and domestic affiliates that are accounted for using the equity method. See **Note 10 - Financial Services** for more details on the Company's joint venture, Brunswick Acceptance Company (BAC), LLC. Refer to Note 6 to the consolidated financial statements in the 2005 Form 10-K for further detail relating to the Company's investments.

On February 23, 2005, the Company sold its investment of 1,861,200 shares in MarineMax, Inc. (MarineMax), its largest boat dealer, for $56.8 million, net of $4.1 million of selling costs, which included $1.1 million of accrued expenses. The sale was made pursuant to a registered public offering by MarineMax. As a result of this sale, the Company recorded an after-tax gain of $31.5 million after utilizing previously unrecognized capital loss carryforwards.

Note 9 - Comprehensive Income

The Company reports changes in equity during a period in accordance with SFAS No. 130, "Reporting Comprehensive Income." Accumulated other comprehensive income (loss) includes minimum pension liability adjustments, cumulative foreign currency translation adjustments, and unrealized gains and losses on derivatives and investments, all net of tax. Components of other comprehensive income were as follows:

	Three Months Ended		**Nine Months Ended**	
	September 30, 2006	**October 1, 2005**	**September 30, 2006**	**October 1, 2005**
(in millions)				
Net earnings	**$ 36.5**	$ 88.4	**$ 187.1**	$ 297.1
Other comprehensive income:				
Foreign currency cumulative translation adjustment	**4.7**	(1.1)	**12.6**	(15.1)
Net change in unrealized gains (losses) on investments	**(0.7)**	(0.4)	**0.5**	(23.2)
Net change in accumulated unrealized derivative gains (losses)	**(4.7)**	2.1	**(2.7)**	14.0
	(0.7)	0.6	**10.4**	(24.3)

Total other comprehensive income (loss)				
Comprehensive income	**$ 35.8**	$ 89.0	**$ 197.5**	$ 272.8

The net change in unrealized gains (losses) on investments in the nine months ended October 1, 2005, was primarily due to the sale of the Company's investment in MarineMax, Inc. Refer to **Note 8 - Investments** for details on the sale. There was no impact due to the minimum pension liability adjustment in either period as it is adjusted annually in the fourth quarter.

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Note 10 - Financial Services

The Company's subsidiary, Brunswick Financial Services Corporation (BFS), has a joint venture, BAC, with GE Commercial Finance (GECF). Under the terms of the joint venture agreement, BAC provides secured wholesale floor-plan financing to the Company's boat and engine dealers. BAC also purchases and services a portion of Mercury Marine's domestic accounts receivable relating to its boat builder and dealer customers.

BFS's contributed equity is adjusted monthly to maintain a 49 percent equity interest in accordance with the capital provisions of the joint venture agreement. BFS's investment in BAC is recorded under the equity method of accounting as a component of Investments in the Company's Consolidated Balance Sheets. The Company records BFS's share of income or loss in BAC based on its ownership percentage in the joint venture in Equity earnings in its Consolidated Statements of Income.

BAC is funded in part through a loan from GECF and a securitization facility arranged by General Electric Capital Corporation, a GECF affiliate, and in part by a cash equity investment from both GECF (51 percent) and BFS (49 percent). BFS's total investment in BAC as of September 30, 2006, was $41.2 million compared with $52.2 million as of December 31, 2005. BFS's exposure to losses associated with BAC financing arrangements is limited to its funded equity in BAC.

BFS recorded income related to the operations of BAC of $2.6 million and $10.0 million for the three-month and nine-month periods ended September 30, 2006, respectively. These amounts compare to $1.6 million and $6.8 million in the corresponding periods ended October 1, 2005. These amounts exclude the discount expense on the sale of Mercury Marine's accounts receivable to the joint venture noted below.

The Company's sales of receivables to BAC for the three-month and nine-month periods ended September 30, 2006, and for the comparable periods ended October 1, 2005, were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
(in millions)				
Receivables sold	**$ 197.4**	$ 221.6	**$ 670.4**	$ 710.6
Discounts	**2.0**	1.6	**6.1**	5.3
Cash received	**$ 195.4**	$ 220.0	**$ 664.3**	$ 705.3

Discounts were recorded as an expense in Other income (expense), net in the Consolidated Statements of Income. The outstanding balance of receivables sold to BAC was $103.4 million as of September 30, 2006, compared with $96.5 million as of December 31, 2005. Pursuant to the joint venture agreement, BAC reimbursed Mercury Marine $1.5 million and $1.6 million in the first nine months of 2006 and 2005, respectively, for the related credit, collection and administrative costs incurred in connection with the servicing of such receivables.

As of September 30, 2006, and December 31, 2005, the Company had a retained interest in certain receivables sold to BAC totaling $44.2 million and $44.5 million, respectively, as a result of recourse provisions on these receivables. The Company's maximum exposure related to these recourse obligations in the event of default as of September 30, 2006, and December 31, 2005, was $23.8 million and $28.5 million, respectively. In accordance with SFAS No. 140,

"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the Company treats the sale of receivables in which the Company retains an interest as a secured obligation. Accordingly, the amount of the Company's retained interest was recorded in Accounts and notes receivable, and Accrued expenses in the Consolidated Balance Sheets. These contingent obligations were included in the amounts disclosed in **Note 5 - Commitments and Contingencies**.

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Note 11 - Income Taxes

The Company's effective tax rates from continuing operations for the three-month and nine-month periods ended September 30, 2006, were 24.8 percent and 24.5 percent, respectively. The effective tax rates were lower than the statutory rate primarily due to $19.3 million in tax reserve reassessments of underlying exposures and tax contingencies, of which $1.1 million was recognized in the third quarter, in addition to the initial recognition of a $4.1 million receivable for interest related to prior year tax audits, as discussed in **Note 5 - Commitments and Contingencies**. Increased foreign earnings in tax jurisdictions with lower effective tax rates also contributed to the reduced effective tax rate.

For the three-month and nine-month periods ended October 1, 2005, the Company's effective tax rates were 13.9 percent and 26.5 percent, respectively. The decrease in the effective tax rate for the three months ended October 1, 2005, was primarily due to $13.9 million of non-recurring tax benefits arising from a change in assertion on indefinitely reinvested earnings in selected international operations, as well as refined tax planning strategies for research and foreign export tax benefits and increased foreign earnings in tax jurisdictions with lower effective tax rates. In addition to the factors discussed in the quarterly period, the nine-month effective tax rate was lower than the statutory rate primarily due to the utilization of previously unrecognized capital loss carryforwards incurred in connection with the gain on the sale of the MarineMax stock, as discussed in **Note 8 - Investments**.

Note 12 - Debt Offering

On July 24, 2006, the Company completed the offering of a $250 million aggregate principal amount of Floating Rate Notes due in 2009 under the Company's universal shelf registration. The proceeds from this offering are to be used to repay the Company's outstanding $250 million principal amount of 6.75% Notes due December 2006. Interest on the Floating Rate Notes will be paid quarterly commencing on October 24, 2006, and will accrue at the rate of three-month LIBOR plus 65 basis points, set at the beginning of each quarterly period. After this issuance of debt, the Company has $200 million available under its universal shelf registration statement filed in 2001 with the SEC for the issuance of equity and/or debt securities.

Note 13 - Pension and Other Postretirement Benefits

The Company has defined contribution plans, qualified and nonqualified pension plans, and other postretirement benefit plans covering substantially all of its employees. See Note 13 to the consolidated financial statements in the 2005 Form 10-K for details on these plans.

Pension and other postretirement benefit costs included the following components for the three months ended September 30, 2006, and October 1, 2005:

	Pension Benefits		Other Postretirement Benefits	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
(in millions)				
Service cost	**$ 4.6**	$ 4.6	**$ 0.8**	$ 0.7
Interest cost	**14.7**	14.6	**1.4**	1.4
Expected return on plan assets	**(19.5)**	(18.2)	**-**	-

Amortization of prior service costs	**1.7**	1.8	**(0.6)**	(0.5)
Amortization of net actuarial loss	**2.6**	3.5	**0.3**	0.2
Net pension and other benefit costs	**$ 4.1**	$ 6.3	**$ 1.9**	$ 1.8

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Pension and other postretirement benefit costs included the following components for the nine months ended September 30, 2006, and October 1, 2005:

	Pension Benefits		Other Postretirement Benefits	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
(in millions)				
Service cost	**$ 13.9**	$ 14.0	**$ 2.2**	$ 2.0
Interest cost	**44.1**	43.8	**4.4**	4.3
Expected return on plan assets	**(58.7)**	(54.5)	**-**	-
Amortization of prior service costs	**5.1**	5.5	**(1.6)**	(1.5)
Amortization of net actuarial loss	**7.8**	10.1	**0.9**	0.6
Curtailment loss	**-**	0.8	**-**	-
Net pension and other benefit costs	**$ 12.2**	$ 19.7	**$ 5.9**	$ 5.4

Employer Contributions. As of September 30, 2006, the Company has contributed $16.6 million year-to-date, which included $1.6 million to fund benefit payments in its nonqualified plan. The Company's plans for additional contributions are subject to equity market returns and discount rate movements, among other items.

Note 14 - Share Repurchase Program

In the second quarter of 2005, the Company's Board of Directors authorized a $200.0 million share repurchase program, to be funded with available cash. On April 27, 2006, the Board of Directors increased the Company's remaining share repurchase authorization of $62.2 million to $500.0 million. As of September 30, 2006, the Company's remaining share repurchase authorization for the program was $398.7 million. The Company expects to repurchase shares on the open market or in private transactions from time to time, depending on market conditions. During the three-month and nine-month periods ended September 30, 2006, the Company repurchased approximately 1.5 million and 4.6 million shares under this program for $45.8 million and $163.1 million, respectively. During the three-month and nine-month periods ended October 1, 2005, the Company repurchased approximately 0.4 million shares for $15.7 million. As of September 30, 2006, the Company has repurchased approximately 6.6 million shares since the program's inception.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in Management's Discussion and Analysis are based on non-GAAP financial measures with respect to the Company's operating results and cash flows. At times, management's discussion of operating results excludes the effects of acquisitions, an investment sale gain, non-recurring tax benefits and related effective tax rates, and management's cash flow discussion includes an analysis of free cash flow. Refer to the *Matters Affecting Comparability* and *Cash Flow, Liquidity and Capital Resources* sections for further details.

Results of Operations