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Statement
of Brunswick Corporation

For the Hearing Record
of the Committee on Ways and Means
U.S. House of Representatives

Hearing on
"Framework for Evaluating Certain Expiring Tax Provisions"

April 8, 2014

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Chairman Camp, Ranking Member Levin and members of the Committee, thank you for the opportunity to testify at the April 8, 2014, House Ways and Means Committee hearing, "Framework for Evaluating Certain Expiring Tax Provisions." My name is Judith Zelisko, and I am Vice President-Tax at the Brunswick Corporation in Lake Forest, Illinois.

As a manufacturer that depends on innovation to compete effectively in the global marketplace, Brunswick is an ardent supporter of a strong and permanent R&D incentive. The company has advocated for a permanent incentive as a member both of the R&D Credit Coalition and the National Association of Manufacturers (NAM). Brunswick very much appreciates the opportunity to testify before you today on the benefits of making the R&D credit permanent.

Overview

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

For the year ended Dec. 31, 2013, the Company reported net sales of $3,887.5 million. Its products are sold throughout North America, Europe, Asia/Pacific, South America, Africa and the Middle East.

Its well-known brands include: Mercury and Mariner outboard engines; Mercury MerCruiser sterndrives and inboard engines; MotorGuide trolling motors; Attwood marine parts and accessories; Land 'N' Sea, Kellogg Marine, and Diversified Marine parts and accessories distributors; Bayliner, Boston Whaler, Brunswick Commercial and Government Products, Crestliner, Cypress Cay, Harris FloteBote, Lowe, Lund, Meridian, Princecraft, Quicksilver, Rayglass, Sea Ray and Uttern boats; Life Fitness and Hammer Strength fitness equipment; Brunswick bowling centers, equipment and consumer products; Brunswick billiards tables and table tennis.

Brunswick ended the year with approximately 15,700 employees around the world, nearly 80 percent of which are employed in the U.S. Further, during 2013/14, it began or completed

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several major expansions of U.S. manufacturing and engineering facilities including those in Florida, Indiana, Minnesota and Wisconsin.

In 2014, Brunswick's focus will be to drive consistent, profitable growth through product leadership resulting from investments in capital projects, **research and development programs** and sales and marketing resources in an effort to generate strong earnings and greater free cash flow, thereby increasing shareholder value.

In the **longer term, Brunswick's strategy remains consistent: to design, develop and introduce high-quality products featuring innovative technology and styling**; to distribute products through a model that benefits its partners - dealers and distributors – and to provide world-class service to its customers; **to develop and maintain low-cost manufacturing processes** and to continually improve productivity and efficiency; to manufacture and distribute products globally with local and regional styling; to continue implementing the Company's capital strategy which includes maintaining a strong balance sheet, opportunistically lowering debt and funding pension obligations; and to attract and retain skilled and knowledgeable people.

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

Strong competition exists in each of Brunswick's product groups, and the following summarizes **Brunswick's competitive position** in each segment:

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

Boat Segment: The Company believes it has the largest dollar sales and unit volume of pleasure motorboats in the world. There are several major manufacturers of pleasure and offshore fishing boats, along with hundreds of smaller manufacturers. Consequently, this business is both **highly competitive and highly fragmented**. The Company believes it has the broadest range of boat product offerings in the world, with boats ranging in size from 10 to 65 feet. In all of its boat operations, Brunswick **competes on the basis of product features, technology**, quality, brand strength, dealer service, pricing, performance, value, durability and styling, along with effective promotion and distribution.

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

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

The Company strives to improve its competitive position in all of its segments by continuously investing in research and development to drive innovation in its products and manufacturing technologies. Brunswick's research and development investments support the introduction of new products and enhancements to existing products.

Research and development expenses as a percentage of net sales were 3.1 percent, 2.8 percent and 2.6 percent in 2013, 2012 and 2011, respectively. In 2014, Brunswick forecasts spending about 3.0 percent of its net sales on R&D. Research and development expenses by segment are shown below:

(in millions)

	2013	**2012**	**2011**
Marine Engine	**$70.6**	$61.5	$56.7
Boat	**22.4**	20.2	17.5
Fitness	**21.7**	19.2	17.6
Bowling & Billiards	**4.8**	4.4	4.1
Total	**$119.5**	$105.3	$95.9

R&D Incentives: the Global Outlook

Based on Brunswick's experience—and similar experiences by thousands of other manufacturers—it is critical that any tax reform plan recognize the important role of research and technology investment in the growth of U.S. jobs and innovation. The United States has been a leader in promoting R&D for over 30 years, but **more and more countries have provided greater certainty for businesses in recent years by enacting permanent R&D incentives**. **We strongly support NAM's goal to ensure that manufacturers in the United States are the world's leading innovators. The tax treatment of R&D, including the current deduction for R&D expenses and a strengthened and permanent R&D incentive, are critical to achieving this goal.**

In recent years, more and more countries have realized the importance of R&D and now provide more robust and often permanent R&D incentives. Indeed, **the United States' predominance in science and technology (S&T) eroded further during the last decade**, as several Asian nations--particularly China and South Korea--rapidly increased their innovation capacities. According to a recent report by the National Science Board (NSB), the **major Asian economies, taken together, now perform a larger share of global R&D than the U.S.**, and China performs nearly as much of the world's high-tech manufacturing as the U.S.

Evidence in the NSB's biennial report, *Science and Engineering Indicators*, which provides the most comprehensive information and analysis on the U.S.' position in S&T, makes it increasingly clear that the **U.S., Japan, and Europe no longer monopolize the global R&D arena**.

Since 2001, the share of the world's R&D performed in the U.S. and Europe has decreased, respectively, from 37 percent to 30 percent and from 26 percent to 22 percent.

In this same time period, the share of worldwide R&D performed by Asian countries grew from 25 percent to 34 percent. China led the Asian expansion, with its global share growing from just 4 percent to 15 percent during this period.

"The first decade of the 21st century continues a dramatic shift in the global scientific landscape," said NSB Chairman Dan Arvizu, who is also the director and chief executive of the National Renewable Energy Laboratory. "**Emerging economies understand the role science and innovation play in the global marketplace** and in economic competitiveness and have increasingly placed a priority on building their capacity in science and technology."

Recognition on the part of national leaders that S&T **innovation contributes to national competitiveness, improves living standards, and furthers social welfare** has driven the rapid growth in R&D in many countries. China and South Korea have catalyzed their domestic R&D by making significant investments in the S&T research enterprise and enhancing S&T training at universities. China tripled its number of researchers between 1995 and 2008, whereas South Korea doubled its number between 1995 and 2006. And there are indications that students from these nations may be finding more opportunities for advanced education in science and employment in their home countries.

In addition to investing in their research and teaching enterprises, these countries have focused their attention on crucial sectors of the global economy, including high-tech manufacturing. **The size of China's high-tech manufacturing industry increased nearly six-fold between 2003 and 2012, raising China's global share of high-tech manufacturing from eight percent to 24 percent during that decade, closing in on the U.S. share of 27 percent.**

Parent companies of U.S. multinational corporations (MNCs) perform over 80 percent of their worldwide R&D in the U.S. However, U.S. MNCs continue to increase their R&D investments in countries such as Brazil, China, and India, both reflecting and further contributing to a more globally-distributed R&D landscape. Majority-owned foreign affiliates of U.S. MNCs, for example, tripled their R&D investments in India and more than doubled them in Brazil between 2007 and 2010, nearly reaching the expenditure levels of the U.S. affiliates in China.

"The United States remains the world's leader in science and technology," said Ray Bowen, NSB member and chairman of its Committee on Science and Engineering Indicators, which oversees development of the report. "**But there are numerous indicators showing how rapidly the world is changing and how other nations are challenging our predominance.** As other countries focus on increasing their innovation capacities, **we can ill afford to stand still. We now face a competitive environment undreamed of just a generation ago,"** said Bowen, visiting distinguished professor, Rice University and president emeritus of Texas A&M University.

R&D Credit: Promoting Innovation, Competitiveness and Jobs

The R&D tax credit spurs U.S.-based innovation and R&D jobs. By design, only U.S.-based R&D may qualify for the credit and 70 percent of the credit claims are for R&D wages. **Since it was first enacted in 1981, the credit has incentivized companies to increase spending on research activities and hire more R&D workers.**

The credit has been renewed 15 times since it was first enacted into law in 1981 and it is critical that Congress act as soon as possible to renew this important innovation incentive, retroactive to January 1, 2014.

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When the credit expired, the cost of performing R&D in the United States immediately rose and effectively increased taxes on companies that use the credit. Furthermore, this **lapsed credit is exacerbating the trend of new R&D investment dollars flowing from the United States to countries offering more reliable and more generous research incentives**.

Thus, **renewing the credit will eliminate the tax increase on companies that perform U.S. R&D and make the United States a more attractive place for both domestic and foreign investment in research activities.**

Moving forward, Brunswick very much appreciates current efforts by Chairman Camp and the Committee to advance pro-growth tax reforms which include a permanent R&D incentive. At the same time, we do have concerns with the R&D provisions included in the discussion draft of the "Tax Reform Act of 2014" released by Chairman Camp on February 26 that include modifications to the R&D credit and require R&D expenditures to be amortized over 5 years.

Maintaining the current tax treatment of R&D expenses along with a strong and permanent R&D incentive will allow the United States to remain competitive in the global race for R&D investment dollars, particularly as manufacturers are courted by other countries with more generous and more stable R&D tax incentives and lower corporate tax rates.

Under current law, a taxpayer can deduct research expenses in the year incurred. In addition, until December 31, 2013, the tax code provided an R&D tax credit for up to 20 percent of qualified research costs over a base amount (or a 14 percent Alternative Simplified Credit ("ASC")); 20 percent of basic research payments; and 20 percent for energy research. If a taxpayer elected to use the R&D tax credit, their deduction for research expenses was reduced by the amount of the R&D credit.

Brunswick shares the position of the R&D Credit Coalition and the NAM that the tax code should include both a strengthened and permanent R&D tax credit and a current deduction for R&D expenses. We also support simplifying and strengthening the credit by increasing the ASC to 20 percent and removing the regular credit option.

Consequently, we are concerned that while the discussion draft would make the R&D tax credit permanent, the credit would be modified in several significant ways. In particular, the credit would be limited to a 15 percent ASC while the traditional 20 percent credit and energy credit would be repealed. The basic research credit would continue, but at a 15 percent credit rate. In addition, computer software and supplies would no longer fall under the definition of "qualified research expenses."

Impact on Brunswick

As previously noted, R&D is extremely important to Brunswick Corporation and its various divisions. R&D is the life blood of new and improved products and features, technological and scientific advancements, unsurpassed product quality and efficient manufacturing operations, among other areas. Here is a brief overview of several key segments.

Engine Segment

The Marine Engine segment is comprised of the Mercury Marine Group, including the marine parts and accessories businesses. Founded in 1939 in Cedarburg, Wisconsin, Mercury Marine was acquired by Brunswick Corporation in 1961. It is the largest division of Brunswick Corporation, with 80 facilities in 22 countries, and more than 5,300 employees worldwide. It is

the world's largest developer and manufacturer of a broad range of marine propulsion systems for recreational and commercial applications. It has a $2 billion global business (37% of sales are outside the U.S.).

In the U.S., many of Mercury's facilities are located in Wisconsin, including its world headquarters. Specifically, there are four main facilities in "The Dairy State," - Fond du Lac, Oshkosh, Brookfield and Taycheedah.

In all, Mercury has 3,100 employees in Wisconsin in 2014, an employee count that is up 94% (from 1,600) since 2009.

In Fond du Lac, Mercury also conducts the vast majority of its R&D efforts, and is proud to claim several world-class advanced capabilities, including product development, assembly, casting and machining. Here are some supporting factoids:

- **Mercury has approximately 400 engineers** that work in R&D on all types of products and processes for the Company. They have been quite prolific, having had **more than 700 patents granted since 1985**, and **1,024 total patents when you factor in the addition of Michigan-based Attwood in 2003**.
- **In 2013, Mercury Marine opened a significant addition to its R&D center in Wisconsin** providing the Company with additional dynamometer and test capabilities. It has also expanded its test capabilities to go along with new product lines.
- In 2013, Mercury broke ground for two expansion projects that will provide increased capacity and capabilities, **adding approximately 38,000 square feet to Mercury's 1.5 million square feet of manufacturing space in Fond du Lac**. The total cost for both projects is approximately $20 million. The projects consist of a 20,000-square-foot addition to Mercury's Plant 15 machining center to house next-generation horizontal machining equipment, and 18,000 additional square feet in Mercury's Plant 17 casting facility to house high-pressure die-cast machines. Approximately 90 percent of the project work is being performed by companies in the Fond du Lac area or Wisconsin.

Mercury's significant contribution to Wisconsin and local economies include the following:

- $234MM in annual wages and benefits in 2013
- $250MM paid to Wisconsin-based contractors and suppliers in 2013

Mercury's continued investment in the business:

- $548MM in capital and research & development in new products (2007 - 2013)

Mercury Marine, like all Brunswick divisions, believes that the R&D credit is very helpful in attaining effective results from its R&D efforts. In turn, the products, features and processes that emerge help Brunswick to compete and win in a new and different marketplace by:

- Delivering strong and sustainable revenue and earnings growth;
- Innovating effective solutions to our customers' needs faster and more efficiently than our competitors;
- Differentiating Mercury Marine as the most capable and reliable supplier to the marine industry; and
- Maintaining the highest standards of quality in our products, services, and processes.

Mercury Marine is currently introducing a new significant product every six weeks. Some of the new products and feature advancements that have been spawned by Mercury Marine's R&D efforts include the following:

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2013 - Joystick Piloting for Outboards
Mercury launched Joystick Piloting for Outboards, the first joystick piloting system for large outboard powered boats.

2012 - 150 hp FourStroke
Mercury Marine introduces the world's smallest, lightest and most durable 150 hp FourStroke marine engine. It's the first four-stroke engine to combine traditional two-stroke benefits – low weight, superb power, fuel economy, lower emissions and easy maintenance – with the advantages of advanced technologies. It earned the 2011 IBEX Innovation Award.

2011 - Attwood Marine Fuel Systems
Attwood Marine offers a complete line of fuel system products that exceed new EPA and CARB evaporative emission requirements for Integrated and Portable Fuel applications. Benefits include a reduction of hydrocarbons in the atmosphere and reduced fuel evaporation, keeping fuel where it belongs - in the tank. Attwood provides total system solutions to ensure proper engine operation, performance and safety.

2010 - ECO-Screen
Mercury's ECO-Screen constantly monitors engine rpm, boat speed, fuel consumption and engine trim and automatically calculates and guides boaters to optimal fuel economy settings. Eco-Screen was selected by West Marine as Boating Industry's 2010 Green Product of the Year.

2009 - 8.2L Sterndrive Engine
The Mercury MerCruiser 8.2-liter sterndrive, the first big block to be introduced in the industry in a decade, produces more power and better mid-range acceleration, while catalyst technology reduces total emissions by 70 percent and improves fuel economy.

Celebrating its 75th year in business in 2014, Mercury Marine clearly understands the importance of R&D to its position and performance in the global marine marketplace, and believes its efforts to compete would be harmed if the R&D tax credit was not extended.

Boat Segment
Brunswick Corporation's Boat segment is comprised of the **Brunswick Boat Group**, and includes **14 boat brands**. Those brands include Bayliner, Boston Whaler, Brunswick Commercial and Government Products, Crestliner, Cypress Cay, Harris FloteBote, Lowe, Lund, Meridian, Princecraft, Quicksilver, Rayglass, Sea Ray and Uttern boats.

Brunswick has strong brands with leading market share, which it contributes, in part, to its ability to conduct **effective R&D to develop new products and features** that attract boaters (including families, fishermen, and water sports enthusiasts) and keep them on the water. It has a broad product portfolio known for quality and value, which it offers through an extensive and strong global dealer network.

The Brunswick Boat Group has more than **3,700 employees worldwide**, with the majority in the U.S. It is headquartered in **Knoxville, Tennessee**, with U.S. manufacturing locations in the following:

- Edgewater, Florida
- Palm Coast, Florida
- Fort Wayne, Indiana
- New York Mills, Minnesota
- Lebanon, Missouri, and

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- Vonore, Tennessee.

The vast majority of the Boat Group's R&D effort is conducted at its **Product Development & Engineering Center in Merritt Island, Florida, which is currently being moved to a new, much larger facility also in Florida**. There, the Boat Group employs **more than 200 engineers** and other professionals that design new craft, develop new product features and are responsible for **nearly 100 patents** since 1986.

Over the past two model years, the Boat Group has launched **multiple new models** into its broad brand line-up. **These models accounted for nearly 45 percent of 2014 sales to date.** The Boat Group has also introduced such innovative features as the following:

Quiet Ride
Brunswick's Sea Ray brand recently introduced a new and innovative technology proven to **significantly reduce sound and vibration** aboard the models on which it is offered. Called Quiet Ride, the proprietary combination of acoustical forensics, engineering and sound-attenuation materials is **the result of more than four years of intense research and development**. It is also a winner of the marine industry's prestigious IBEX award.

Quiet Ride is a method of NVH (noise, vibration, harshness) reduction using an exclusive engineering and applications process designed to reduce onboard sound and vibration and improve the ride of Sea Ray boats. It is not bolt-on equipment or an afterthought. Rather, it is **a fundamental change in the build process to reduce sound at the source**.

In connection with achieving its goal of creating a luxury boating experience with less noise and vibration, Sea Ray collaborated with Omni Products on the application of a **patented Tuned Transom® that "short circuits" vibrations created by the engine and outdrive**. This is an exclusive feature that no other boat manufacturer can offer.

Additionally, Sea Ray scrutinized the laminates, joints, components and fasteners it uses in an effort to reduce NVH. As a result, **vibration-deadening materials are laminated into the hull** and **deck of select models to reduce structural tremors and noise**. Bulkheads and acoustical insulation in the engine compartment and key pathways trap and absorb sound. Precise robotic cutting and drilling, which **Sea Ray's advanced production technology** allows it to execute during construction, results in extremely accurate angles and proportions for reduced vibration. Hatches, storage areas and access holes are sealed to diminish noise in the cockpit area. Gaskets, bumpers, grommets and compression latches are used to reduce squeaks and rattles.

The results of **Quiet Ride** are significant. Measuring decibels (dB) in 14 specific areas aboard a Quiet Ride-equipped 250 SLX, Sea Ray recorded an average 6.8 dB reduction in sound throughout the boat. This **represents an overall noise reduction of 25 to 50 percent**. In certain areas of the cockpit, Quiet Ride reduced noise by more than 10 dB. To put these measurements in perspective, **a decrease of 10 dB equals a sound being twice as low**. Vibration was also greatly decreased, which means a more enjoyable and smoother ride.

Dynamic Running Surface (DRS)
Sea Ray also recently introduced a new and **innovative hull technology that optimizes performance and wake shape** aboard the models on which it is offered. The company's new Dynamic Running Surface is currently available as an option on the new Sea Ray 230 & 350 SLX®, standard on the 370 Venture and will be expanded to other models in the near future.

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DRS uses large, triangular trim tabs mounted underneath the hull to **automatically keep the boat level in changing speed and sea conditions**. Controlled by the Auto Glide Boat Control System from Lenco Marine, this technology has been shown to 1) improve acceleration and reduce bow rise, 2) keep the boat at an optimal trim and running list angle and 3) change the effective transom deadrise to significantly impact wake height and shape.

Basically, DRS is a patented system that **automatically keeps a boat running at a proper trim and list angle** from the time it leaves the dock until the time it comes back. Since the tabs are triangular and mounted in a pocket, they have the added effect of changing the transom deadrise and positively effecting wake height and shape without adding additional turbulence from the exposed edges of a rectangular tab.

According to tests performed by Sea Ray on a 230 SLX with six-person load, **DRS improved acceleration to 20 mph by 13 percent and acceleration to 30 mph by 8 percent**. In addition, DRS reduced bow rise by 30 percent. **These results are significant, especially when you consider fuel efficiency and economy.**

Another benefit notable to the test crew was the **roll control function**. Even with a large load on one side, the system automatically brought the vessel to an even keel. DRS also kept the 230 SLX on plane while going through hard turns (which typically cause the vessel to slow). **This allowed the boat to execute more comfortable turns while maintaining speed**. The minimum speed at which the 230 SLX stayed on plane was also improved.

Concealed Outboard Propulsion
Concealed Outboard Propulsion offers the flexibility, efficiency, trimability and increased space of outboards, while maintaining the clean lines and useable transom of sterndrives and inboards. The rewards are quieter operation, better shallow-water capabilities, lower maintenance costs and remarkable onboard space. Concealed Outboard Propulsion is a hallmark of the 370 Venture, an innovative and accommodating express cruiser named Boating magazine's **2012 Boat of the Year** and earned the **NMMA Innovation Award**. With Venture, propulsion is no longer an "either-or" proposition.

Sea Ray's Proprietary system yields a boat with maximized cockpit and interior space. Due to this unique design, the 370 Venture has a large single level cockpit to maximize day boats and a full beam aft stateroom in the cabin. Customers will enjoy quieter operation, reduced maintenance costs. Additionally, trimmable performance provides remarkable shallow-water access and improved fouling protection

OmniView
Brunswick's Sea Ray brand recently introduced a new and innovative technology that will allow the captain of a yacht to have a **better view around the boat during close quarters maneuvering**. Named OmniView, a series of miniature cameras linked through a computer processor knits together multiple images to create one seamless view of the stern, port and starboard sides of the vessel. The system was developed in partnership with ASL 360 and leverages proven technology from on road vehicles.

The OmniView system was introduced during the 2014 Miami International boat show and is initially available on the 650 and 510 Fly models. Sea Ray has plans to launch this new technology on several other models in the next year.

Hydraulic Swim Steps
Brunswick's Sea Ray brand is **making it easier and safer to access and enjoy the water** via an hydraulically actuated swim step that deploys from below the integrated swim platform. Sea

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Ray's proprietary design utilizes heavy-duty stainless steel mechanisms coupled with Mercury Marine hydraulic systems to deploy either a single or double step system.

Inboard Joy Stick Docking System
Brunswick's Sea Ray brand has recently introduced a new Joystick docking system for shaft driven inboard engine powered vessels. Partnering with key suppliers, this control system **lets boaters pilot their craft with a joystick control**, like they would with Pod drive systems but at a lower price point. The system links together the propulsion engines and Vetus extended run time bow and/ or stern thrusters to seamlessly control the vessel during tight quarters maneuvering and docking. With it a boat can go in whatever direction the pilot wants, including tight circles and even sideways like parallel parking a car. No more worries about embarrassing yourself while docking.

M Hull Design
Brunswick's Bayliner brand has introduced a new family of **affordable boats** called Element, which retail for about $12,000 complete with engine and trailer. The most distinctive aspect of Element's design is its signature M hull. Bayliner's engineering team sought to create a running surface that delivered exceptional stability and superior passenger comfort while at rest and under way. The team ultimately moved away from a traditional V hull in favor of an innovative (patent pending) M-hull design that maintains exceptionally level flotation even when passengers step on gunnels while boarding. Much like a car or tri-tube pontoon boat, Element takes turns like it's riding on rails, with very little of the pitching and yaw commonly associated with V-hulled craft.

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

Many of Brunswick's fitness equipment offerings feature **industry-leading product innovations**, and the **Company places significant emphasis on introducing new fitness equipment to the market**. Competitive focus is also placed on product quality, **technology**, service, pricing, state-of-the-art biomechanics, and effective promotional activities. **Since 1997, Life Fitness has earned 100 patents.**

As is the case with Brunswick's marine businesses, it is Life Fitness' ability to innovate and produce a **steady stream of new products** that resonate and excite the fitness equipment marketplace, both commercial and for the home, that have played a key role in Life Fitness' success. For example, the extension of the Synrgy360 line, the popular multi-purpose training system, offered more scalable solutions for both large and small facilities. Life Fitness' Track+ Console, introduced in 2013, is compatible with devices using Apple or Android operating systems, and allows users to customize and track their workouts using popular fitness apps.

As the **technology frontrunner** in the fitness equipment industry, Life Fitness' goal is to enhance the workout experience by giving exercisers a more customizable, enjoyable experience by incorporating the use of personal mobile devices with its machines.

Here are some other new products that are the direct result of Life Fitness' recent R&D efforts. These include:

LFopen: With its recent release of an open API (Application Programming Interface), Life Fitness became the first fitness equipment maker to open its product platform. This new access

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for developers, called LFopen, enables third-parties, such as fitness facilities, to create unique, new applications that work directly with Life Fitness equipment. The Life Fitness open platform products enable developers and our customers to create fitness solutions specific to their exercisers and will allow for endless possibilities. Throughout the year, a number of providers have developed apps to work with Life Fitness equipment.

LFconnect: This is a complementary cloud-based computing resource that enables seamless exerciser workout - and product-personalization -- as well as product display customization for facilities and asset management capabilities to build a stronger facility brand experience. In addition to allowing exercisers to track their workout progress and choose equipment settings, LFconnect helps facilities track equipment activity. In 2013, LFconnect was made compatible with the new Elevation™ Series Discover™ Tablet Consoles. LFconnect links the equipment, end-user and facility, syncing the exercise equipment with multiple devices including personal computers, smartphones and tablets.

Synrgy360 Phase 2: Synrgy360, the popular multi-purpose training system, became more accessible in 2013 with three new customizable, modular configurations. The expansion to the Synrgy360 line offered more scalable solutions for facilities pursuing Synrgy training, a unique and connected fitness experience. To accommodate the demand for equipment that would suit both large and small facilities, Life Fitness developed new configurations to support a range of training needs. Synrgy360 serves as a hub for performing dynamic, state-of-the-art, total-body exercises in one efficient space, accomplishing a wide variety of training goals through one system.

The Benefit of a Permanent Tax Credit

A permanent R&D tax credit provides both predictable cash flow to the Company, which is important for the Company's budgeting process for its capital spending and research and development projects, and also prevents unnecessary fluctuations in the Company's effective tax rate. Let me explain this latter point, the impact on the Company's effective tax rate, in more detail.

When the Company speaks to the analyst community, the Company forecasts an annual effective tax rate which the analysts then plug into their discounted cash flow and earnings models. When the R&D tax credit expires, as it did at the end of 2013, the Company has to forecast its effective tax rate for 2014 without the R&D tax credit, which increases the Company's overall effective tax rate. A higher effective tax rate on the same level of earnings translates to lower EPS, i.e. earnings per share. Lower EPS times the same multiple the marketplace gives to the Company can mean a lower share price.

If the R&D tax credit is reinstated in the middle of the year, and made effective as of the beginning of the year, say January 1st, the cumulative to date impact of the R&D tax credit on the Company's effective tax rate becomes a "discrete" item in the Company's financial statement in the quarter the law is effective. The Company can factor in the R&D tax credit in its effective tax rate for the remaining part of the year, but only for the period subsequent to the effective date of the change.

Generally, analysts ignore discrete items since such items are considered unusual and non-recurring, resulting in the R&D tax credit's benefit on the Company's annual effective tax rate being significantly reduced for a mid-year enactment, with only a small benefit remaining for the Company's effective tax rate for the remaining part of the year.

Reinstatement of the R&D tax credit during the year retroactive to January 1, 2014 does increase the Company's cash flow, because it results in a reduced tax liability for the Company

for the whole year. An R&D tax credit reinstated during the year has less of an impact on the Company's effective tax rate, however, from the analysts' perspective given how analysts view discrete items.

All of this means that a permanent R&D tax credit provides certainty for the Company in its annual budgeting and planning process and results in a more constant, less fluctuating, effective tax rate.

Thus, Brunswick shares the position of the R&D Credit Coalition and the NAM that the tax code should include both a strengthened and permanent R&D tax credit and a current deduction for R&D expenses.

We also support simplifying and strengthening the credit by increasing the ASC to 20 percent, removing the regular credit option and maintaining the current definition of "qualified research expenses," which includes computer software and supplies.

Absent permanency, an extension of the R&D tax credit as early in the year as possible and beyond one year will help to bridge the gap to a permanent R&D tax credit.

Therefore, we urge the Committee and the Congress to reinstate and extend the R&D credit for 2014 and beyond one year to help bridge the gap to a permanent R&D credit. Thank you, for this opportunity.

Supplemental Sheet

Statement
of Brunswick Corporation

For the Hearing Record
of the Committee on Ways and Means
U.S. House of Representatives

Hearing on
"Framework for Evaluating Certain Expiring Tax Provisions"

April 8, 2014

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