

JOHNSON OUTDOORS INC  
Form 10-Q  
February 05, 2013

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

FORM 10-Q

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

For the quarterly period ended December 28, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-16255

JOHNSON OUTDOORS INC.  
(Exact name of Registrant as specified in its charter)

Wisconsin  
(State or other jurisdiction of  
incorporation or organization)

39-1536083  
(I.R.S. Employer Identification No.)

555 Main Street, Racine, Wisconsin 53403  
(Address of principal executive offices)

(262) 631-6600  
(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  No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer (do not check if a smaller reporting company)  Smaller reporting company .

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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes [ ] No [X]

As of January 25, 2013, 8,714,178 shares of Class A and 1,213,664 shares of Class B common stock of the Registrant were outstanding.

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## JOHNSON OUTDOORS INC.

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

JOHNSON OUTDOORS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three Months Ended	
	December 28 2012	December 30 2011
(thousands, except per share data)		
Net sales	\$87,274	\$80,176
Cost of sales	53,460	49,075
Gross profit	33,814	31,101
Operating expenses:		
Marketing and selling	19,218	20,385
Administrative management, finance and information systems	9,445	10,838
Research and development	3,625	3,597
Total operating expenses	32,288	34,820
Operating profit (loss)	1,526	(3,719 )
Interest income	(21 )	(21 )
Interest expense	439	596
Other expense (income), net	498	(1,192 )
Income (loss) before income taxes	610	(3,102 )
Income tax expense (benefit)	363	(158 )
Net income (loss)	\$247	\$(2,944 )
Weighted average common shares - Basic:		
Class A	8,221	8,111
Class B	1,214	1,216
Participating securities	-	480
Dilutive stock options	4	-
Weighted average common shares - Dilutive	9,439	9,807
Net income (loss) per common share - Basic:		
Class A	\$0.03	\$(0.30 )
Class B	\$0.02	\$(0.30 )
Net income (loss) per common share - Diluted:		
Class A	\$0.02	\$(0.30 )
Class B	\$0.02	\$(0.30 )

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

JOHNSON OUTDOORS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited)

	Three Months Ended	
	December	December
	28	30
(thousands, except per share data)	2012	2011
Comprehensive income (loss):		
Net income (loss)	\$247	\$(2,944 )
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	872	(3,109 )
Income from cash flow hedge	138	213
Total comprehensive income (loss)	\$1,257	\$(5,840 )

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements

JOHNSON OUTDOORS INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited)

(thousands, except share data)	December 28 2012	September 28 2012	December 30 2011
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 47,970	\$ 58,904	\$ 29,096
Accounts receivable, net	62,848	40,673	65,561
Inventories	77,519	67,058	79,015
Deferred income taxes	8,805	8,645	9,655
Other current assets	8,090	7,672	4,932
Total current assets	205,232	182,952	188,259
Property, plant and equipment, net of accumulated depreciation of \$101,525, \$98,235, and \$95,397, respectively	37,767	36,667	34,789
Deferred income taxes	14,671	14,808	19,455
Goodwill	27,325	14,466	14,471
Other intangible assets, net	4,449	4,309	5,155
Other assets	10,918	10,430	8,596
Total assets	\$ 300,362	\$ 263,632	\$ 270,725
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term notes payable and revolving credit lines	\$ 30,733	\$ -	\$ 22,113
Current maturities of long-term debt	535	526	646
Accounts payable	32,519	24,559	29,745
Accrued liabilities:			
Salaries, wages and benefits	11,399	15,365	11,045
Accrued warranty	4,902	4,751	5,260
Income taxes payable	1,732	582	915
Other	13,050	13,184	11,957
Total current liabilities	94,870	58,967	81,681
Long-term debt, less current maturities	8,196	8,334	11,257
Deferred income taxes	694	694	218
Retirement benefits	11,667	11,827	9,924
Other liabilities	10,519	10,206	9,345
Total liabilities	125,946	90,028	112,425
Shareholders' equity:			
Preferred stock: none issued			
Common stock:			
Class A shares issued and outstanding:	437	434	433
December 28, 2012: 8,714,178			
September 28, 2012: 8,676,703			
December 30, 2011: 8,652,186			
Class B shares issued and outstanding:	61	61	61
December 28, 2012: 1,213,664			
September 28, 2012: 1,215,758			
December 30, 2011: 1,215,842			

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Capital in excess of par value	64,460	64,184	62,229
Retained earnings	93,064	92,817	79,739
Accumulated other comprehensive income	17,127	16,117	15,936
Treasury stock at cost, shares of Class A common stock: 35,680, 516, and 6,105, respectively	(733 )	(9 )	(98 )
Total shareholders' equity	174,416	173,604	158,300
Total liabilities and shareholders' equity	\$ 300,362	\$ 263,632	\$ 270,725

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.



JOHNSON OUTDOORS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

(thousands)	December 28 2012	December 30 2011
<b>CASH USED FOR OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 247	\$ (2,944 )
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation	2,292	2,418
Amortization of intangible assets	50	176
Amortization of deferred financing costs	60	61
Stock based compensation	355	375
Amortization of deferred loss on interest rate swap	138	213
Deferred income taxes	(126 )	90
Change in operating assets and liabilities, net of effects of acquired business:		
Accounts receivable, net	(20,866 )	(18,874 )
Inventories, net	(7,806 )	(11,382 )
Accounts payable and accrued liabilities	3,575	(2,350 )
Other current assets	(234 )	17
Other non-current assets	(569 )	(488 )
Other long-term liabilities	146	373
Other, net	4	287
	(22,734 )	(32,028 )
<b>CASH USED FOR INVESTING ACTIVITIES</b>		
Payments for purchase of business	(15,534 )	-
Additions to property, plant and equipment	(3,027 )	(1,974 )
Proceeds from sales of property, plant and equipment	-	1,208
	(18,561 )	(766 )
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>		
Net borrowings from short-term notes payable and revolving credit lines	30,733	22,113
Principal payments on senior notes and other long-term debt	(130 )	(3,069 )
Common stock transactions	86	252
Purchases of treasury stock	(886 )	(98 )
	29,803	19,198
Effect of foreign currency rate changes on cash	558	(1,822 )
Decrease in cash and cash equivalents	(10,934 )	(15,418 )
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	58,904	44,514
End of period	\$ 47,970	\$ 29,096

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

JOHNSON OUTDOORS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1 BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements included herein are unaudited. In the opinion of management, these statements contain all adjustments (consisting of only normal recurring items) necessary to present fairly the financial position of Johnson Outdoors Inc. and subsidiaries (collectively, the "Company") as of December 28, 2012 and December 30, 2011, and the results of operations and cash flows for each of the three month periods then ended. These Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2012 which was filed with the Securities and Exchange Commission on December 11, 2012.

Due to seasonal variations and other factors, the results of operations for the three months ended December 28, 2012 are not necessarily indicative of the results to be expected for the Company's full 2013 fiscal year. See "Seasonality" in the Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein for additional information.

All monetary amounts, other than share and per share amounts, are stated in thousands.

2 ACCOUNTS RECEIVABLE

Accounts receivable are stated net of allowances for doubtful accounts of \$3,959, \$4,172 and \$3,195 as of the periods ended December 28, 2012, September 28, 2012 and December 30, 2011, respectively. The increase in net accounts receivable to \$62,848 as of December 28, 2012 from \$40,673 as of September 28, 2012 is attributable to the seasonal nature of the Company's business. The determination of the allowance for doubtful accounts is based on a combination of factors. In circumstances where specific collection concerns on a receivable exist, a reserve is established to value the affected account receivable at an amount the Company believes will be collected. For all other customers, the Company recognizes allowances for doubtful accounts based on historical experience of bad debts as a percent of accounts receivable outstanding for each business unit. Uncollectible accounts are written off against the allowance for doubtful accounts after collection efforts have been exhausted. The Company typically does not require collateral on its accounts receivable.

3 EARNINGS PER SHARE ("EPS")

Net income or loss per share of Class A common stock and Class B common stock is computed using the two-class method. Grants of restricted stock which receive non-forfeitable dividends are required to be included as part of the basic weighted average share calculation under the two-class method.

Holders of Class A common stock are entitled to cash dividends equal to 110% of all dividends declared and paid on each share of Class B common stock. The Company grants shares of unvested restricted stock in the form of Class A shares, which carry the same distribution rights as the Class A common stock described above. As such, the undistributed earnings for each period are allocated to each class of common stock based on the proportionate share of the amount of cash dividends that each such class is entitled to receive.



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Basic EPS

Basic net income or loss per share is computed by dividing net income or loss allocated to Class A common stock and Class B common stock by the weighted-average number of shares of Class A common stock and Class B common stock outstanding, respectively. In periods with cumulative year to date net income and undistributed income, the undistributed income for each period is allocated to each class of common stock based on the proportionate share of the amount of cash dividends that each such class is entitled to receive. In periods where there is a cumulative year to date net loss or no undistributed income because distributions through dividends exceed net income, Class B shares are treated as anti-dilutive and, therefore, net losses are allocated equally on a per share basis among all participating securities.

For the three month periods ended December 28, 2012 and December 30, 2011, basic net income per share for Class A and Class B shares has been presented using the two class method as described above.

Diluted EPS

Diluted net income per share is computed by dividing allocated net income by the weighted-average number of common shares outstanding, adjusted for the effect of dilutive stock options and non-vested restricted stock. Anti-dilutive stock options and non-vested stock are excluded from the calculation of diluted EPS. The computation of diluted net income per share of Class A common stock assumes that Class B common stock is converted into Class A common stock. Therefore, diluted net income per share is the same for both Class A and Class B common shares. In periods where the Company reports a net loss, the effect of anti-dilutive stock options and non-vested stock is excluded and diluted loss per share is equal to basic loss per share.

For the three month period ended December 28, 2012, diluted net income per share reflects the effect of dilutive stock options and assumes the conversion of Class B common stock into Class A common stock. For the three month period ended December 30, 2011 the effect of stock options and non-vested stock is excluded from the diluted loss per share calculation as their inclusion would be anti-dilutive.

Stock options that could potentially dilute earnings per share in the future which were not included in the fully diluted computation because they would have been anti-dilutive totaled 0 and 17,588 for the three months ended December 28, 2012 and December 30, 2011, respectively. Non-vested stock that could potentially dilute earnings per share in the future which were not included in the fully diluted computation because they would have been anti-dilutive totaled 468,081 and 480,330 shares for the three months ended December 28, 2012 and December 30, 2011, respectively.

#### 4 STOCK-BASED COMPENSATION AND STOCK OWNERSHIP PLANS

The Company's current stock ownership plans allow for issuance of options to acquire shares of Class A common stock by key executives and non-employee directors. Current plans also allow for issuance of shares of restricted stock or stock appreciation rights in lieu of stock options.

Under the Company's 2010 Long-Term Stock Incentive Plan and the 2003 Non-Employee Director Stock Ownership Plan there were 773,204 shares of the Company's Class A common stock available for grant to key executives and non-employee directors at December 28, 2012.

#### Stock Options

All stock options have been granted at a price not less than fair market value at the date of grant and are currently exercisable. Stock options generally have a term of 10 years.

All of the Company's stock options outstanding are fully vested, with no further compensation expense to be recorded. There were no grants of stock options during the three month periods ended December 28, 2012 or December 30, 2011.

## JOHNSON OUTDOORS INC.

A summary of stock option activity for the three months ended December 28, 2012 related to the Company's stock ownership plans is shown below.

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Outstanding and exercisable at September 28, 2012	23,366	\$ 15.39	\$ 139	1.6
Exercised	(8,300 )	10.35	85	-
Outstanding and exercisable at December 28, 2012	15,066	\$ 18.16	\$ 25	2.0

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$19.98 as of December 28, 2012, which would have been received by the option holders had those option holders exercised their stock options as of that date.

The Company received cash proceeds from stock option exercises totaling \$86 and \$252 for the three month periods ending December 28, 2012 and December 30, 2011, respectively.

The intrinsic value of the stock received upon exercise of such options at their date of exercise during the three month periods ended December 28, 2012 and December 30, 2011 was \$171 and \$520, respectively.

## Non-vested Stock

All shares of non-vested stock awarded by the Company have been granted at their fair market value on the date of grant and vest either immediately or within five years after the grant date. The fair value at date of grant is based on the number of shares granted and the average of the Company's high and low Class A common stock price on the date of grant or, if the Company's shares did not trade on the date of grant, the average of the Company's high and low Class A common stock price on the last preceding date on which the Company's shares traded.

A summary of non-vested stock activity for the three months ended December 28, 2012 related to the Company's stock ownership plans is as follows:

	Shares	Weighted Average Grant Price
Non-vested stock at September 28, 2012	493,548	\$ 11.95
Non-vested stock grants	70,545	20.66
Restricted stock vested	(177,684 )	11.43
Non-vested stock at December 28, 2012	386,409	\$ 13.78

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Non-vested stock grantees may elect to reimburse the Company for withholding taxes due as a result of the vesting of shares by tendering a portion of the vested shares back to the Company. Shares tendered back to the Company were 43,464 and 6,105 during the three month periods ended December 28, 2012 and December 30, 2011, respectively.

Stock compensation expense, net of forfeitures, related to non-vested stock was \$355 and \$375 for the three month periods ended December 28, 2012 and December 30, 2011, respectively. Unrecognized compensation cost related to non-vested stock as of December 28, 2012 was \$3,348, which amount will be amortized to expense through November 2016 or adjusted for changes in future estimated or actual forfeitures.

The fair value of restricted stock vested during the three month periods ended December 28, 2012 and December 30, 2011 was \$3,628 and \$486, respectively.

## Employees' Stock Purchase Plan

The Company's shareholders have adopted the Johnson Outdoors Inc. 2009 Employees' Stock Purchase Plan which provides for the issuance of shares of Class A common stock at a purchase price of not less than 85% of the fair market value of such shares on the date of grant or at the end of the offering period, whichever is lower.

The Company did not issue any shares under the Employees' Stock Purchase Plan during the three month periods ended December 28, 2012 and December 30, 2011.

## 5 PENSION PLANS

The Company has non-contributory defined benefit pension plans covering certain U.S. employees. Retirement benefits are generally provided based on the employees' years of service and average earnings. Normal retirement age is 65, with provisions for earlier retirement.

The components of net periodic benefit cost related to Company sponsored defined benefit plans for the three months ended December 28, 2012 and December 30, 2011 were as follows:

	Three Months Ended	
	December 28 2012	December 30 2011
Components of net periodic benefit cost:		
Service cost	\$-	\$-
Interest on projected benefit obligation	259	251
Less estimated return on plan assets	236	241
Amortization of unrecognized losses	84	45
	\$107	\$55

## JOHNSON OUTDOORS INC.

## 6 INCOME TAXES

For the three months ended December 28, 2012 and December 30, 2011, the Company's effective income tax rate attributable to earnings before income taxes was 59.5% and 5.1%, respectively. During the first quarter of fiscal year 2013, the Company recognized a tax expense of \$363 on income before income tax of \$610. The increase in the Company's effective tax rate for the three months ended December 28, 2012 versus the prior year period was primarily due to the lack of tax benefit available at December 28, 2012 for entities that have a valuation allowance, primarily in non-U.S. tax jurisdictions.

During the three months ended December 28, 2012, the Company continued to maintain a valuation allowance in Japan, Italy, Spain, Indonesia, New Zealand, the United Kingdom, the Netherlands and France. The Company would ordinarily recognize a tax expense/benefit on operating income/loss in these jurisdictions; however, due to the recent cumulative losses for book purposes and the uncertainty of the realization of certain deferred tax assets in these jurisdictions, the Company continues to adjust its valuation allowances resulting in effectively no recorded tax expense or benefit in these jurisdictions.

The Company regularly assesses the adequacy of its provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, the Company may adjust the reserves for unrecognized tax benefits for the impact of new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. The Company's 2013 fiscal year tax expense is anticipated to include approximately \$200 related to uncertain income tax positions.

In January 2013, the United States Congress voted in favor of extending the federal research and development tax credit through December 31, 2013. As a result, we expect that our income tax provision for the second quarter of fiscal year 2013 will include a discrete tax benefit which will reduce the effective tax rate for the quarter and to a lesser extent, reduce the Company's effective annual tax rate.

In accordance with its accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. The Company is projecting accrued interest, for the Company's fiscal year ending September 27, 2013, of \$125, which includes the impact of a reversal of \$129 due to the closure of the tax audit in Italy.

The Company files income tax returns, including returns for its subsidiaries, with federal, state, local and foreign taxing jurisdictions. The Company is currently undergoing an income tax examination in Italy for the 2011 tax year. The following tax years remain subject to examination by the respective tax jurisdictions:

Jurisdiction	Fiscal Years
United States	2009-2012
Canada	2008-2012
France	2009-2012
Germany	2009-2012
Italy	2009-2012
Japan	2012
Switzerland	2002-2012

## 7 INVENTORIES



Inventories at the end of the respective periods consisted of the following:

	December 28 2012	September 28 2012	December 30 2011
Raw materials	\$ 31,217	\$ 26,610	\$ 27,385
Work in process	304	1,324	1,851
Finished goods	45,998	39,124	49,779
	\$ 77,519	\$ 67,058	\$ 79,015

## JOHNSON OUTDOORS INC.

## 8 GOODWILL

The changes in goodwill during the three months ended December 28, 2012 and December 30, 2011 were as follows:

	December 28 2012	December 30 2011
Balance at beginning of period	\$14,466	\$14,651
Jetboil® acquisition	12,752	-
Amount attributable to movements in foreign currency rates	107	(180)
Balance at end of period	\$27,325	\$14,471

## 9 WARRANTIES

The Company provides for warranties of certain products as they are sold. The following table summarizes the Company's warranty activity for the three months ended December 28, 2012 and December 30, 2011.

	December 28 2012	December 30 2011
Balance at beginning of period	\$4,751	\$5,155
Expense accruals for warranties issued during the period	947	970
Less current period warranty claims paid	796	865
Balance at end of period	\$4,902	\$5,260

## 10 ACQUISITION

On November 14, 2012, the Company acquired all of the outstanding common and preferred stock of Jetboil, Inc. ("Jetboil") in a purchase transaction with Jetboil's founders and other shareholders (the "Sellers"). Jetboil, founded and based in Manchester, New Hampshire, designs and manufactures the world's top brand of portable outdoor cooking systems.

The approximately \$15,500 acquisition cost was funded with existing cash and credit facilities. Approximately \$3,200 of the purchase price was paid into a segregated escrow account which was set aside to fund potential indemnity claims that may be made by the Company against the Sellers in connection with the inaccuracy of certain representations and warranties made by Sellers or related to the breach or nonperformance of certain other actions or conditions related to the acquisition, for a period of 15 months from the acquisition date. The Company cannot estimate the probability or likelihood of bringing such indemnity claims against the Sellers or their related costs at this time. The remaining escrow balance, if any, net of any indemnity claims then pending, will be released to the Sellers once the 15 month period has lapsed.

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The Company believes that sales of Jetboil's innovative cooking products can be expanded through the Company's U.S. and Canadian marketing and distribution networks and that the Company's other camping and paddling brands will benefit from Jetboil's strong presence in the Specialty trade channel and their international sales network. The Jetboil acquisition, including acquired goodwill, is included in the Company's Outdoor Equipment segment.

The Company is currently in the process of determining the fair value of the assets acquired and the liabilities assumed in this business combination. The following table summarizes the provisional fair values of the assets acquired and liabilities assumed, and the resulting goodwill acquired at the date of the Jetboil acquisition.

Accounts receivable	\$1,221
Inventories	2,391
Other current assets	163
Property, plant and equipment	234
Deferred tax asset	16
Intangibles	258
Goodwill	12,752
Total assets acquired	17,035
Total liabilities assumed	1,501
Net assets acquired	\$15,534

The goodwill resulting from this acquisition reflects the strong cash flow expected from the acquisition due primarily to expanded distribution and growth in all Outdoor Equipment brands. This goodwill is not deductible for tax purposes. Transaction costs incurred for the acquisition to date were \$243, of which \$177 was recognized during the three months ended December 28, 2012.

Due to the difference in fiscal year end periods between the Company and Jetboil and the timing of certain significant year end accounting procedures to be performed at Jetboil, it is impractical to present pro-forma results of the combined entities.

The amounts of net sales and operating profit for Jetboil from the date of acquisition through December 28, 2012 and for the twelve month periods ending December 28, 2012 and December 31, 2011, were as follows:

	Since Acquisition	Twelve months ended	
	Date through December 28, 2012 (unaudited)	December 31, 2012 (unaudited)	December 31, 2011 (unaudited)
Net sales	\$ 1,942	\$ 13,745	\$ 10,775
Operating profit	297	2,469	1,203

## JOHNSON OUTDOORS INC.

## 11 RESTRUCTURING

On July 11, 2012, the Company announced plans to restructure certain operations related to its Watercraft segment. Specifically, the Company is restructuring the product sales and distribution in Europe and consolidating all of its U.S. operations at a single location in Old Town, Maine. The Company believes this plan will enhance the competitiveness and profit potential of its Watercraft business. This action will result in the closure of sales offices in Europe and closure of a marketing and R&D facility in Bellingham, Washington and the elimination of approximately 24 positions in the U.S. and Europe. These charges are included in the "Administrative management, finance and information systems" line in the Company's accompanying Condensed Consolidated Statements of Operations in the Watercraft segment. The restructuring accrual is included in the "Other current liabilities" line in the Company's accompanying Condensed Consolidated Balance Sheet. The Company expects the total cost of this restructuring to be approximately \$2,350 and to be completed over the next 9 months.

Changes in the accrual related to this restructuring project for the three month period ended December 28, 2012 were as follows:

	Employee Termination Costs	Contract Exit Costs	Other Exit Costs	Total
Accrued restructuring liabilities as of September 28, 2012	\$ 428	\$-	\$ 100	\$ 528
Activity during the period ended December 28, 2012:				
Charges to earnings	332	72	77	481
Settlement payments	(200 )	(5 )	(95 )	(300 )
Accrued restructuring liabilities as of December 28, 2012	\$ 560	\$ 67	\$ 82	\$ 709

## 12 LITIGATION

The Company is subject to various legal actions and proceedings in the normal course of business, including those related to commercial disputes, product liability, intellectual property and environmental matters. The Company is insured against loss for certain of these matters. Although litigation is subject to many uncertainties and the ultimate exposure with respect to these matters cannot be ascertained, management does not believe the final outcome of any pending litigation will have a material adverse effect on the financial condition, results of operations, liquidity or cash flows of the Company.

## JOHNSON OUTDOORS INC.

## 13 INDEBTEDNESS

Debt was comprised of the following at December 28, 2012, September 28, 2012, and December 30, 2011:

	December 28 2012	September 28 2012	December 30 2011
Term loans	\$ 8,379	\$ 8,456	\$ 11,347
Revolvers	30,733	-	22,113
Other	352	404	556
Total debt	39,464	8,860	34,016
Less current portion of long term debt	535	526	646
Less short term notes payable and revolving credit lines	30,733	-	22,113
Total long-term debt	\$ 8,196	\$ 8,334	\$ 11,257

## Term Loans

The Company's term loans have a maturity date of September 29, 2029. Each term loan requires monthly payments of principal and interest. Interest on the aggregate outstanding amount of the term loans is based on the prime rate plus an applicable margin. The interest rate in effect on the term loans was 5.25% at December 28, 2012.

The term loans are guaranteed in part under the United States Department of Agriculture Rural Development program and are secured with a first priority lien on land, buildings, machinery and equipment of the Company's domestic subsidiaries and a second lien on working capital and certain patents and trademarks of the Company and its subsidiaries. Any proceeds from the sale of secured property are first applied against the related term loans and then against the Revolvers.

The aggregate term loan borrowings are subject to a pre-payment penalty. The penalty is currently 7% of the pre-payment amount, and the penalty will decrease by 1% annually on the anniversary date of the effective date of the loan agreement.

## Revolvers

On November 16, 2010, the Company and certain of its subsidiaries entered into amendments to their Revolving Credit Agreements (or "Revolvers"). The amended terms of the Revolvers, maturing on November 16, 2014, provide for funding of up to \$75,000, with an accordion feature that allows for the option to increase the maximum seasonal financing availability subject to the approval of the lenders. Borrowing availability under the Revolvers is based on certain eligible working capital assets, primarily accounts receivable and inventory of the Company and its subsidiaries. The Revolvers contain a seasonal line reduction that reduces the maximum amount of borrowings during the period from mid-July to mid-November, consistent with the Company's reduced working capital needs throughout that period, and requires an annual seasonal pay down provision that reduces the borrowing capacity to \$30,000 for 60 consecutive days. The amendments to the Revolvers reset the interest rate calculation each quarter, by instituting an applicable margin based on the Company's leverage ratio for the trailing twelve month period.

The interest rate on the Revolvers is based on LIBOR or the prime rate, at the Company's discretion, plus an applicable margin. The interest rate in effect on the Revolvers at December 28, 2012, based primarily on LIBOR, was approximately 2.50%.

The Revolvers are secured with a first priority lien on working capital assets and certain patents and trademarks of the Company and its subsidiaries and a second lien on land, buildings, machinery and equipment of the Company's domestic subsidiaries. As cash collections related to secured assets are applied against the balance outstanding under

the Revolvers, the liability is classified as current. The Company's remaining borrowing availability under the Revolvers was approximately \$16,900 at December 28, 2012.

Under the terms of the Revolvers, the Company is required to comply with certain financial and non-financial covenants. Among other restrictions, the Company is restricted in its ability to pay dividends, incur additional debt and make acquisitions or divestitures above certain amounts. The key financial covenants include a minimum fixed charge coverage ratio, limits on minimum net worth and EBITDA, a limit on capital expenditures, and, as noted above, a seasonal pay-down requirement.

## JOHNSON OUTDOORS INC.

## Other Borrowings

The Company had no unsecured revolving credit facilities at its foreign subsidiaries as of December 28, 2012 or December 30, 2011. The Company utilizes letters of credit primarily as security for the payment of future claims under its workers' compensation insurance which totaled \$1,469 and \$2,103 at December 28, 2012 and December 30, 2011, respectively. The Company had no unsecured lines of credit as of December 28, 2012 or December 30, 2011.

Aggregate scheduled maturities of long-term debt as of December 28, 2012, for the remainder of fiscal 2013 and subsequent fiscal years, were as follows:

Fiscal Year	
2013	\$397
2014	514
2015	359
2016	367
2017	387
Thereafter	6,707
Total	\$8,731

Interest paid for the three month periods ended December 28, 2012 and December 30, 2011 was \$211 and \$326, respectively.

The weighted average borrowing rate for short-term debt was approximately 2.5% and 2.8% for the three months ended December 28, 2012 and December 30, 2011, respectively.

Based on the borrowing rates currently available to the Company for debt with similar terms and maturities, the fair value of the Company's long-term debt as of December 28, 2012 and December 30, 2011 was approximately \$8,196 and \$11,257, respectively.

## 14 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The following disclosures describe the Company's objectives in using derivative instruments, the business purpose or context for using derivative instruments, and how the Company believes the use of derivative instruments helps achieve the stated objectives. In addition, the following disclosures describe the effects of the Company's use of derivative instruments and hedging activities on its financial statements.

## Foreign Exchange Risk

The Company has significant foreign operations, for which the functional currencies are denominated primarily in euros, Swiss francs, Japanese yen and Canadian dollars. As the values of the currencies of the foreign countries in which the Company has operations increase or decrease relative to the U.S. dollar, the sales, expenses, profits, losses, assets and liabilities of the Company's foreign operations, as reported in the Company's consolidated financial statements, increase or decrease, accordingly. Approximately 22% of the Company's revenues for the three month period ended December 28, 2012 were denominated in currencies other than the U.S. dollar. Approximately 11% were denominated in euros, with the remaining revenues denominated in various other foreign currencies. Changes in foreign currency exchange rates can cause unexpected financial losses or cash flow needs.





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The Company mitigates a portion of the fluctuations in certain foreign currencies through the use of foreign currency forward contracts. Foreign currency forward contracts enable the Company to lock in the foreign currency exchange rate to be paid or received for a fixed amount of currency at a specified date in the future. The Company uses such foreign currency forward contracts to mitigate the risk associated with changes in foreign currency exchange rates on financial instruments and known commitments, including for inventory, denominated in foreign currencies. None of the Company's derivative financial instruments have been designated as hedging instruments.

As of December 28, 2012, the Company held a foreign currency forward contract with a notional value of 4,400 Swiss francs. See "Note 15 – Fair Value Measurements" for information regarding the fair value and financial statement presentation of these derivatives.

## Interest Rate Risk

The Company operates in a seasonal business and experiences significant fluctuations in operating cash flow as working capital needs increase in advance of the Company's primary selling and cash generation season, and decline as accounts receivable are collected and cash is accumulated or debt is repaid. The Company's goal in managing its interest rate risk is to maintain a mix of floating rate and fixed rate debt such that permanent non-equity capital needs are largely funded with long term fixed rate debt and seasonal working capital needs are funded with short term floating rate debt.

When the appropriate mix of fixed rate or floating rate debt cannot be directly obtained in a cost effective manner, the Company may enter into interest rate swap contracts in order to change floating rate interest into fixed rate interest or vice versa for a specific amount of debt in order to achieve the desired proportions of floating rate and fixed rate debt.

The Company held no interest rate swap contracts during the three month periods ended December 28, 2012 and December 30, 2011 and as of December 28, 2012, the Company was unhedged with respect to interest rate risk on its floating rate debt. The Company has fully amortized the unrealized loss related to the formerly effective interest rate swap that had subsequently become ineffective on January 2, 2009.

The following table discloses the location of loss reclassified from accumulated other comprehensive income ("AOCI") into net income related to derivative instruments during the three month periods ended December 28, 2012 and December 30, 2011.

	Three Months Ended	
	December 28, 2012	December 30, 2011
Loss reclassified from AOCI into:		
Interest expense	\$138	\$213

The effect of derivative instruments on the Condensed Consolidated Statements of Operations for the three months ended December 28, 2012 and December 30, 2011 was:

	Location of loss (gain)	Three Months Ended	
		December 28, 2012	December 30, 2011
Derivatives not designated as hedging instruments	recognized in statement of operations	28	30

Foreign exchange forward contracts	Other expense (income), net	\$(122	) \$225
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15 FAIR VALUE MEASUREMENTS

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

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

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

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

The carrying amounts of cash, cash equivalents, accounts receivable, and accounts payable approximated fair value at December 28, 2012, September 28, 2012 and December 30, 2011 due to the short term maturities of these instruments. When indicators of impairment are present, the Company may be required to value certain long-lived assets such as property, plant, and equipment, and other intangibles at fair value.

#### Valuation Techniques

##### Over the Counter Derivative Contracts

The value of over the counter derivative contracts, such as interest rate swaps and foreign currency forward contracts, are derived using pricing models, which take into account the contract terms, as well as other inputs, including, where applicable, the notional values of the contracts, payment terms, maturity dates, credit risk, interest rate yield curves, and contractual and market currency exchange rates. The fair value of the foreign currency forward contracts reported below was measured using the market value approach based on foreign currency exchange rates and the notional amount of the forward contract. All foreign currency forward contracts held by the Company as of December 28, 2012 mature within twelve months. The mark-to-market adjustments are recorded in "Other expense (income), net" in the Company's accompanying Condensed Consolidated Statements of Operations.

##### Rabbi Trust Assets

Rabbi trust assets are classified as trading securities and are comprised of marketable debt and equity securities that are marked to fair value based on unadjusted quoted prices in active markets. The rabbi trust assets are used to fund amounts the Company owes to certain officers and other employees under the Company's non-qualified deferred compensation plan. The mark to market adjustments are recorded in "Other expense (income), net" in the accompanying Condensed Consolidated Statements of Operations.

##### Goodwill and Other Intangible Assets

In assessing the recoverability of the Company's goodwill and other indefinite lived intangible assets, the Company estimates the future discounted cash flows of the businesses to which such goodwill and intangibles relates. When estimated future discounted cash flows are less than the carrying value of the net assets and related goodwill, an impairment test is performed to measure and recognize the amount of the impairment loss, if any. In determining

estimated future cash flows, the Company makes assumptions regarding anticipated financial position, future earnings, and other factors to determine the fair value of the respective assets. This calculation is highly sensitive to changes in key assumptions and could result in a future impairment charge. The Company will continue to evaluate whether circumstances and events have changed to the extent that they require the Company to conduct an interim test of goodwill. In particular if the Company's business units do not achieve short term revenue and gross margin goals, an interim impairment test may be triggered which could result in a goodwill impairment charge in future periods.

## JOHNSON OUTDOORS INC.

The following table summarizes the Company's financial assets measured at fair value as of December 28, 2012:

	Level 1	Level 2	Level 3	Total
Assets:				
Rabbi trust assets	\$ 7,617	\$ -	\$ -	\$ 7,617
Foreign currency forward contracts		106		106

The following table summarizes the Company's financial assets measured at fair value as of September 28, 2012:

	Level 1	Level 2	Level 3	Total
Assets:				
Rabbi trust assets	\$ 7,289	\$ -	\$ -	\$ 7,289
Foreign currency forward contracts	-	173	-	173

The following table summarizes the Company's financial assets measured at fair value as of December 30, 2011:

	Level 1	Level 2	Level 3	Total
Assets:				
Rabbi trust assets	\$ 6,085	\$ -	\$ -	\$ 6,085
Foreign currency forward contracts	-	33	-	33

The effect of changes in the fair value of financial instruments on the Condensed Consolidated Statements of Operations for the three months ended December 28, 2012 and December 30, 2011 was:

	Location of (income) loss recognized in Statement of Operations	Three Months Ended December 28 2012	December 30 2011
Rabbi trust assets	Other expense (income), net	\$129	\$(394)
Foreign currency forward contracts	Other expense (income), net	(122)	225

There were no assets and liabilities measured at fair value on a non-recurring basis in periods subsequent to their initial recognition for the three month periods ended December 28, 2012 and December 30, 2011.

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## 16 NEW ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued updated authoritative guidance to amend the presentation of comprehensive income in financial statements. This new guidance allows companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Under both alternatives, companies are required to present each component of net income and comprehensive income. The Company adopted this updated authoritative guidance effective as of September 29, 2012, the beginning of its first quarter of fiscal 2013. The adoption of this updated authoritative guidance resulted in the addition of separate Condensed Consolidated Statements of Comprehensive Income to the Company's accompanying financial statements but had no effect on our financial condition, results of operations or cash flow.

## 17 SEGMENTS OF BUSINESS

The Company conducts its worldwide operations through separate business units, each of which represents major product lines. Operations are conducted in the United States and various foreign countries, primarily in Europe, Canada and the Pacific Basin. The Company had no single customer that represented more than 10% of its total net sales during the three month periods ended December 28, 2012 and December 30, 2011.

Net sales and operating profit include both sales to customers, as reported in the Company's accompanying Condensed Consolidated Statements of Operations, and interunit transfers, which are priced to recover cost plus an appropriate profit margin. Total assets represent assets that are used in the Company's operations in each business segment at the end of the periods presented.

A summary of the Company's operations by business unit is presented below:

	Three Months Ended		
	December	December	September
	28	30	28
	2012	2011	2012
Net sales:			
Marine Electronics:			
Unaffiliated customers	\$53,632	\$47,750	\$
Interunit transfers	19	21	
Outdoor Equipment:			
Unaffiliated customers	8,433	6,273	
Interunit transfers	7	17	
Watercraft:			
Unaffiliated customers	6,807	7,475	
Interunit transfers	7	10	
Diving			
Unaffiliated customers	18,347	18,620	
Interunit transfers	136	138	
Other / Corporate	55	58	
Eliminations	(169 )	(186 )	
Total	\$87,274	\$80,176	\$

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Operating profit (loss):

Marine Electronics	\$4,746	\$2,073	
Outdoor Equipment	224	(252 )	
Watercraft	(1,682 )	(2,458 )	
Diving	702	(98 )	
Other / Corporate	(2,464 )	(2,984 )	
	\$1,526	\$(3,719 )	

Total assets (end of period):

Marine Electronics	\$124,792	\$122,509	\$97,261
Outdoor Equipment	40,956	17,157	26,978
Watercraft	34,970	35,838	32,766
Diving	70,839	68,087	70,957
Other / Corporate	28,805	27,134	35,670
	\$300,362	\$270,725	\$263,632

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18 SIGNIFICANT EVENT

On September 12, 2011, the Company announced a temporary closure of its Binghamton, New York manufacturing facility and administrative offices due to flooding from torrential rains. The Binghamton manufacturing facility houses the Company's consumer, commercial and military tent businesses. The Company's finished goods warehouse located nearby was unaffected by the flooding and the Company was able to resume shipments of products within a few days. Production resumed on September 28, 2011.

The Company maintains insurance for both property damage and business interruption relating to catastrophic events. Business interruption coverage covers lost profits and other costs incurred. Non-refundable insurance recoveries received in excess of the net book value of damaged assets, clean up and post-event costs are recognized as income in the period received.

The Company has incurred approximately \$3,467 of cumulative costs related to clean-up and repair of the facility and equipment, losses of inventory and fixed assets, rental of temporary office space for administrative and R&D personnel and payroll expenses for labor idled due to the flood. The Company has received \$3,713 of cumulative insurance reimbursements associated with these costs and has recorded a receivable with its insurers of \$255 as of December 28, 2012. During the three month periods ended December 28, 2012 and December 30, 2011, the Company has recognized a gain of \$311 and an expense of \$19, respectively, in the Administrative, finance and information systems expense line in the Outdoor Equipment segment of the Company's accompanying Condensed Consolidated Statements of Operations.

The Company is still negotiating further insurance recoveries under its business continuation and fixed asset replacement policies related to this event. The amount of these recoveries, if any, cannot be estimated at December 28, 2012. Any such recoveries will be recorded as income upon the resolution of gain contingencies.



JOHNSON OUTDOORS INC.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") includes comments and analysis relating to the results of operations and financial condition of Johnson Outdoors Inc. and its subsidiaries (collectively, the "Company") as of and for the three month periods ended December 28, 2012 and December 30, 2011. All monetary amounts, other than share and per share amounts, are stated in thousands.

Our MD&A is presented in the following sections:

- Forward Looking Statements
- Trademarks
- Overview
- Results of Operations