

JOHNSON OUTDOORS INC  
Form 10-Q  
August 08, 2016

---

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 July 1, 2016

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 39-1536083  
(State or other jurisdiction of incorporation or organization) (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

Edgar Filing: JOHNSON OUTDOORS INC - Form 10-Q

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

Yes    No

As of July 29, 2016, 8,817,013 shares of Class A and 1,212,344 shares of Class B common stock of the Registrant were outstanding.

---

---

JOHNSON OUTDOORS INC.

Index	Page No.
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Condensed Consolidated Statements of Operations – Three and nine months ended July 1, 2016 and July 3, 2015</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and nine months ended July 1, 2016 and July 3, 2015</u>	2
<u>Condensed Consolidated Balance Sheets – July 1, 2016, October 2, 2015 and July 3, 2015</u>	3
<u>Condensed Consolidated Statements of Cash Flows – Nine months ended July 1, 2016 and July 3, 2015</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	30
PART II	
OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	31
Item 1A. <u>Risk Factors</u>	31
Item 6. <u>Exhibits</u>	31
<u>Signatures</u>	32
<u>Exhibit Index</u>	33

---

Index

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## JOHNSON OUTDOORS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended		Nine Months Ended	
	July 1 2016	July 3 2015	July 1 2016	July 3 2015
(thousands, except per share data)				
Net sales	\$139,300	\$140,883	\$358,790	\$344,816
Cost of sales	80,017	82,131	211,213	206,794
Gross profit	59,283	58,752	147,577	138,022
Operating expenses:				
Marketing and selling	26,701	28,092	72,476	74,236
Administrative management, finance and information systems	7,679	10,325	27,724	34,640
Goodwill and other intangible assets impairment	6,197	-	6,197	-
Research and development	5,123	3,914	13,359	12,433
Total operating expenses	45,700	42,331	119,756	121,309
Operating profit	13,583	16,421	27,821	16,713
Interest income	(4 )	(8 )	(22 )	(38 )
Interest expense	93	213	580	716
Other (income) expense	(371 )	115	(752 )	38
Profit before income taxes	13,865	16,101	28,015	15,997
Income tax expense	7,024	6,104	12,387	6,548
Net income	\$6,841	\$9,997	\$15,628	\$9,449
Weighted average common shares - Basic:				
Class A	8,641	8,520	8,620	8,500
Class B	1,212	1,212	1,212	1,212
Dilutive stock options and restricted stock units	8	4	10	3
Weighted average common shares - Dilutive	9,861	9,736	9,842	9,715
Net income per common share - Basic:				
Class A	\$0.69	\$1.01	\$1.58	\$0.96
Class B	\$0.63	\$0.92	\$1.43	\$0.87
Net income per common share - Diluted:				
Class A	\$0.68	\$1.00	\$1.56	\$0.95
Class B	\$0.68	\$1.00	\$1.56	\$0.95
Dividends declared per common share:				
Class A	\$0.08	\$0.08	\$0.24	\$0.23
Class B	\$0.07	\$0.07	\$0.22	\$0.20

The accompanying notes are an integral part of the condensed consolidated financial statements.

Index

## JOHNSON OUTDOORS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(unaudited)

(thousands, except per share data)	Three Months Ended		Nine Months Ended	
	July 1 2016	July 3 2015	July 1 2016	July 3 2015
Comprehensive income:				
Net income	\$ 6,841	\$ 9,997	\$ 15,628	\$ 9,449
Other comprehensive income (loss):				
Foreign currency translation (loss) gain	(873 )	1,128	398	(7,618 )
Change in pension plans, net of tax of \$44, \$32, \$162 and \$130, respectively	70	53	263	125
Total other comprehensive (loss) income	(803 )	1,181	661	(7,493 )
Total comprehensive income	\$ 6,038	\$ 11,178	\$ 16,289	\$ 1,956

The accompanying notes are an integral part of the condensed consolidated financial statements.

Index

## JOHNSON OUTDOORS INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(thousands, except share data)	July 1 2016	October 2 2015	July 3 2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$75,602	\$69,159	\$53,916
Accounts receivable, net	70,658	44,798	79,663
Inventories	71,127	79,919	78,318
Other current assets	3,683	4,845	3,967
Total current assets	221,070	198,721	215,864
Property, plant and equipment, net of accumulated depreciation of \$124,227, \$116,902 and \$114,362, respectively	48,981	45,287	44,430
Deferred income taxes	16,392	15,867	17,553
Goodwill	11,508	14,292	14,362
Other intangible assets, net	14,220	11,688	11,876
Other assets	13,990	13,349	13,761
Total assets	\$326,161	\$299,204	\$317,846
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term debt	\$-	\$-	\$-
Current maturities of long-term debt	378	368	364
Accounts payable	33,715	28,455	38,844
Accrued liabilities:			
Salaries, wages and benefits	14,377	16,815	14,700
Accrued warranty	4,584	4,301	4,567
Income taxes payable	7,057	3,837	7,086
Other	21,056	15,778	19,065
Total current liabilities	81,167	69,554	84,626
Long-term debt, less current maturities	7,069	7,062	7,156
Deferred income taxes	1,488	1,182	5,477
Retirement benefits	9,744	10,118	8,252
Other liabilities	13,594	13,320	13,612
Total liabilities	113,062	101,236	119,123
Shareholders' equity:			
Preferred stock: none issued	-	-	-
Common stock:			
Class A shares issued and outstanding:	441	441	441
July 1, 2016: 8,816,675			
October 2, 2015: 8,770,612			
July 3, 2015: 8,789,269			
Class B shares issued and outstanding:	61	61	61
July 1, 2016: 1,212,344			
October 2, 2015: 1,212,382			
July 3, 2015: 1,212,382			
Capital in excess of par value	70,750	69,545	69,194
Retained earnings	138,421	125,173	124,795

Edgar Filing: JOHNSON OUTDOORS INC - Form 10-Q

Accumulated other comprehensive income	4,298	3,637	5,285
Treasury stock at cost, shares of Class A common stock: 33,561, 33,241 and 39,948, respectively	(872 )	(889 )	(1,053 )
Total shareholders' equity	213,099	197,968	198,723
Total liabilities and shareholders' equity	\$326,161	\$299,204	\$317,846

The accompanying notes are an integral part of the condensed consolidated financial statements.

-3-

---

Index

## JOHNSON OUTDOORS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

(thousands)	Nine Months Ended	
	July 1 2016	July 3 2015
<b>CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
Net income	\$ 15,628	\$ 9,449
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	7,928	8,026
Amortization of intangible assets	832	642
Amortization of deferred financing costs	92	92
Impairment losses	6,197	-
Stock based compensation	1,460	1,170
Deferred income taxes	35	(64 )
Change in operating assets and liabilities:		
Accounts receivable, net	(25,451)	(36,730)
Inventories, net	9,310	(13,996)
Accounts payable and accrued liabilities	10,913	25,692
Other current assets	1,257	3,385
Other non-current assets	(246 )	(54 )
Other long-term liabilities	(751 )	(143 )
Other, net	(271 )	482
	26,933	(2,049 )
<b>CASH USED FOR INVESTING ACTIVITIES</b>		
Payments for purchase of business	(8,902 )	-
Capital expenditures	(8,615 )	(6,607 )
Proceeds from sales of property, plant and equipment	13	15
	(17,504)	(6,592 )
<b>CASH USED FOR FINANCING ACTIVITIES</b>		
Net borrowings from revolving credit lines	-	-
Principal payments on term loans and other long-term debt	(272 )	(272 )
Common stock transactions	246	27
Dividends paid	(2,376 )	(2,224 )
Purchases of treasury stock	(476 )	(778 )
	(2,878 )	(3,247 )
Effect of foreign currency rate changes on cash	(108 )	(4,989 )
Increase (decrease) in cash and cash equivalents	6,443	(16,877)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	69,159	70,793
End of period	\$ 75,602	\$ 53,916
Supplemental Disclosure:		
Cash paid (refunded) for taxes	\$ 9,136	\$ (753 )
Cash paid for interest	618	694

The accompanying notes are an integral part of the condensed consolidated financial statements.





Index

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 July 1, 2016 and July 3, 2015, and their results of operations for the three and nine month periods then ended and cash flows for the nine 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 October 2, 2015 which was filed with the Securities and Exchange Commission on December 8, 2015, and amended by Amendment No. 1 filed on December 11, 2015 with the Securities and Exchange Commission.

Due to seasonal variations and other factors, the results of operations for the three and nine months ended July 1, 2016 are not necessarily indicative of the results to be expected for the Company's full 2016 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 \$2,204, \$2,329 and \$2,216 as of the periods ended July 1, 2016, October 2, 2015 and July 3, 2015, respectively. The increase in net accounts receivable to \$70,658 as of July 1, 2016 from \$44,798 as of October 2, 2015 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 about 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 classified as participating securities and 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.

Index

JOHNSON OUTDOORS INC.

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 and nine month periods ended July 1, 2016 and the three and nine month periods ended July 3, 2015, basic income per share for the Class A and Class B shares has been presented using the two class method and reflects the allocation of undistributed income 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, restricted stock units (“stock units” or “units”) and non-vested restricted stock. Anti-dilutive stock options, units 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 units is excluded and diluted loss per share is equal to basic loss per share for both classes.

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 170,357 and 273,912 for the three months ended July 1, 2016 and July 3, 2015, respectively, and 175,742 and 287,241 for the nine months ended July 1, 2016 and July 3, 2015, respectively. Restricted stock units 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 were 0 for the three and nine month periods ended July 1, 2016 and July 3, 2015.

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

The Company’s current stock ownership plans allow for issuance of stock 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, restricted stock units or stock appreciation rights in lieu of stock options.

Under the Company’s 2010 Long-Term Stock Incentive Plan and the 2012 Non-Employee Director Stock Ownership Plan (the only two plans where shares remain available for future equity incentive awards) there were 581,832 shares of the Company’s Class A common stock available for future grant to key executives and non-employee directors at July 1, 2016.

#### Non-vested Stock

All shares of non-vested stock awarded by the Company have been granted in the form of shares of Class A common stock at their fair market value on the date of grant and vest within two to 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 Class A 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 Class A shares traded.

-6-

---

Index

## JOHNSON OUTDOORS INC.

A summary of non-vested stock activity for the nine months ended July 1, 2016 related to the Company's stock ownership plans is as follows:

	Shares	Weighted Average Grant Price
Non-vested stock at October 2, 2015	214,027	\$ 21.43
Non-vested stock grants	54,850	24.16
Restricted stock vested	(98,520 )	21.48
Non-vested stock at July 1, 2016	170,357	23.62

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 19,973 and 13,438 during the nine month periods ended July 1, 2016 and July 3, 2015, respectively.

Stock compensation expense, net of forfeitures, related to non-vested stock was \$332 and \$91 for the three month periods ended July 1, 2016 and July 3, 2015, respectively, and \$1,013 and \$930 for the nine month periods ended July 1, 2016 and July 3, 2015, respectively. Unrecognized compensation cost related to non-vested stock as of July 1, 2016 was \$1,743, which amount will be amortized to expense through November 2019 or adjusted for changes in future estimated or actual forfeitures.

The fair value of restricted stock vested during the nine month periods ended July 1, 2016 and July 3, 2015 was \$2,349 and \$3,294, respectively.

**Restricted Stock Units**

All restricted stock units awarded by the Company have been granted in the form of shares of Class A common stock at their fair market value on the date of grant and vest within one or three years after the grant date. The fair value at date of grant is based on the number of units granted and the average of the Company's high and low Class A common stock trading price on the date of grant or, if the Company's Class A shares did not trade on the date of grant, the average of the Company's high and low Class A common stock trading price on the last preceding date on which the Company's Class A shares traded. There were 48,456 restricted stock units unvested and outstanding as of July 1, 2016 with a weighted average grant date fair value of \$23.65. There were 10,088 restricted stock units unvested and outstanding as of July 3, 2015 with a weighted average grant date fair value of \$31.23.

The Company issued no restricted stock units during the three month period ended July 1, 2016 and 48,456 restricted stock units at a weighted average grant price of \$23.65 during the nine month period ended July 1, 2016. The Company issued 7,336 restricted stock units at a weighted average grant price of \$33.40 during the nine month period ended July 3, 2015.

Stock compensation expense, net of forfeitures, related to restricted stock units was \$148 for the three months ended July 1, 2016 and \$415 for the nine months ended July 1, 2016. Stock compensation expense, net of forfeitures, related to restricted stock units was \$79 for the three months ended July 3, 2015 and \$207 for the nine month period ended July 3, 2015. Unrecognized compensation cost related to non-vested restricted stock units as of July 1, 2016 was \$833, which amount will be amortized to expense through September 2018 or adjusted for changes in future estimated or actual forfeitures.

Index

## JOHNSON OUTDOORS INC.

## 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.

During the three and nine month periods ended July 1, 2016, the Company issued 7,732 shares of Class A common stock and recognized \$33 of expense in connection with the Employees' Stock Purchase Plan. During the three and nine months ended July 3, 2015, the Company issued 8,062 shares of Class A common stock and recognized \$33 of expense in connection with the Employees' Stock Purchase Plan.

## 5 PENSION PLANS

The Company has non-contributory defined benefit pension plans covering certain of its 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 and nine month periods ended July 1, 2016 and July 3, 2015 were as follows:

	Three Months Ended		Nine Months Ended	
	July 1 2016	July 3 2015	July 1 2016	July 3 2015
Components of net periodic benefit cost:				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest on projected benefit obligation	299	269	853	808
Less estimated return on plan assets	351	247	949	741
Amortization of unrecognized losses	114	85	424	256
Net periodic benefit cost	\$ 62	\$ 107	\$ 328	\$ 323

## 6 INCOME TAXES

For the three and nine months ended July 1, 2016 and July 3, 2015, the Company's earnings before income taxes, income tax expense and effective income tax rate were as follows:

	Three Months Ended		Nine Months Ended	
	July 1 2016	July 3 2015	July 1 2016	July 3 2015
(thousands, except tax rate data)				
Profit before income taxes	\$ 13,865	\$ 16,101	\$ 28,015	\$ 15,997
Income tax expense	7,024	6,104	12,387	6,548
Effective income tax rate	50.7 %	37.9 %	44.2 %	40.9 %

The change in the Company's effective tax rate for the three and nine months ended July 1, 2016 versus the same prior year periods was primarily due to no tax benefit recorded for the non-deductible portion of the goodwill impairment charge recognized in the current year periods.



Index

## JOHNSON OUTDOORS INC.

Variances in income or loss for entities that have a valuation allowance, primarily in non-US tax jurisdictions, will drive fluctuations in the Company's effective tax rate. The impact of the Company's operations in these foreign locations is removed from overall effective tax rate methodology and recorded directly based on year to date results for the year for which no tax expense or benefit can be recognized. The tax jurisdictions that have a valuation allowance for the periods ended July 1, 2016 and July 3, 2015 were:

July 1	July 3
2016	2015
Australia	France
France	Indonesia
Japan	Italy
Netherlands	Japan
New Zealand	Netherlands
Spain	New Zealand
Switzerland	Spain

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 due to the impact of changes in its assumptions or as a result 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 2016 fiscal year tax expense is anticipated to include approximately \$400 related to uncertain income tax positions.

In accordance with its accounting policy, the Company recognizes accrued interest and penalties related to unrecognized benefits as a component of income tax expense. The Company is projecting accrued interest of \$200 related to uncertain income tax positions for the fiscal year ending September 30, 2016.

The Company files income tax returns, including returns for its subsidiaries, with federal, state, local and foreign taxing jurisdictions. The Company is currently undergoing income tax examinations in Italy, Japan and Germany. As of the date of this report, the following tax years remain subject to examination by the respective tax jurisdictions:

Jurisdiction	Fiscal Years
United States	2013-2015
Canada	2011-2015
France	2011-2015
Germany	2010-2015
Italy	2010-2015
Japan	2012-2015
Switzerland	2005-2015

Pursuant to ASU No. 2015-17, the Company reclassified current deferred tax assets of \$8,443 and \$10,649 to non-current deferred tax assets, as of July 3, 2015 and October 2, 2015, respectively. See "Note 14 – New Accounting Pronouncements" for additional information.



Index

## JOHNSON OUTDOORS INC.

## 7 INVENTORIES

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

	July 1 2016	October 2 2015	July 3 2015
Raw materials	\$24,529	\$ 34,711	\$30,604
Work in process	85	24	366
Finished goods	46,513	45,184	47,348
	\$71,127	\$ 79,919	\$78,318

## 8 GOODWILL

The changes in goodwill during the nine months ended July 1, 2016 and July 3, 2015 were as follows:

	July 1 2016	July 3 2015
Balance at beginning of period	\$14,292	\$14,416
Acquisitions	3,400	-
Impairment	(6,197 )	-
Amount attributable to movements in foreign currency rates	13	(54 )
Balance at end of period	\$11,508	\$14,362

The Company evaluates the carrying value of goodwill on an annual basis or more frequently when events and circumstances warrant such an evaluation. During the third quarter of fiscal 2016, the Company re-evaluated its projections for its Diving reporting unit, based on lower than anticipated results due to a sustained decline in sales and unfavorable operating margins resulting from various geopolitical and economic factors as well as lack of new product acceptance by consumers. The revised projections were considered an indicator of potential goodwill impairment, and accordingly, the Company performed an impairment analysis on the goodwill of the Diving reporting unit. In conducting this analysis, the Company used the income approach to compare the reporting unit's carrying value to its indicated fair value. Fair value is determined primarily by using a discounted cash flow methodology that requires considerable management judgment and long-term assumptions and is considered a Level 3 (unobservable) fair value determination in the fair value hierarchy (see Note 13 below).

The Company's analysis indicated the carrying value of the Diving reporting unit exceeded its indicated fair value as of the measurement date of June 3, 2016. Based on the results of the impairment test, the Company recognized an impairment charge in the third quarter of fiscal 2016 of \$6,197 in "Goodwill and other intangible assets impairment" in the accompanying Condensed Consolidated Statements of Operations in the Diving segment, thereby reducing its carrying value to \$0.

See Note 17 below for a discussion of Company acquisitions and their impact on increasing the Company's goodwill balance during the nine months ended July 1, 2016.

## 9 WARRANTIES

The Company provides warranties on certain of its products as they are sold. The following table summarizes the Company's warranty activity for the nine months ended July 1, 2016 and July 3, 2015.



Index

## JOHNSON OUTDOORS INC.

	July 1 2016	July 3 2015
Balance at beginning of period	\$4,301	\$4,078
Expense accruals for warranties issued during the period	3,489	3,948
Less current period warranty claims paid	3,206	3,459
Balance at end of period	\$4,584	\$4,567

## 10 CONTINGENCIES

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 regulatory 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. See "Part II-Other Information, Item 1-Legal Proceedings" for additional information on certain litigation commenced by the Company against a third party.

## 11 INDEBTEDNESS

Debt was comprised of the following at July 1, 2016, October 2, 2015, and July 3, 2015:

	July 1 2016	October 2 2015	July 3 2015
Term loans	\$7,159	\$ 7,430	\$7,520
Revolvers	-	-	-
Other	288	-	-
Total debt	7,447	7,430	7,520
Less current portion of long term debt	378	368	364
Less short term debt	-	-	-
Total long-term debt	\$7,069	\$ 7,062	\$7,156

## 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 5.5% and 5.25% at July 1, 2016 and July 3, 2015, respectively.

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 (as defined below). The Company's term loans include covenants related to its current ratio, debt to net worth ratio, fixed charge ratio, minimum net worth and capital expenditures.

Index

## JOHNSON OUTDOORS INC.

The aggregate term loan borrowings are subject to a pre-payment penalty. The penalty is currently 4% of the pre-payment amount, and the penalty will decrease by 1% annually on the anniversary date of the effective date of the applicable loan agreement.

## Revolvers

On September 16, 2013, the Company and certain of its subsidiaries entered into a credit facility with PNC Bank National Association and certain other lenders. This credit facility consists of a Revolving Credit Agreement dated September 16, 2013 among the Company, certain of the Company's subsidiaries, PNC Bank National Association, as lender and as administrative agent, and the other lenders named therein (the "Revolving Credit Agreement" or "Revolver"). The Revolver has an expiration date of September 16, 2018 and provides for borrowing of up to an aggregate principal amount not to exceed \$90,000 with an accordion feature that gives the Company the option to increase the maximum seasonal financing availability subject to the conditions of the Revolving Credit Agreement and subject to the approval of the lenders. The Revolver imposes a seasonal borrowing limit such that borrowings may not exceed \$60,000 from the period June 30<sup>th</sup> through October 31<sup>st</sup> of each year under the agreement.

The interest rate on the Revolver resets each quarter and is based on LIBOR plus an applicable margin. The applicable margin ranges from 1.25 percent to 2.00 percent and is dependent on the Company's leverage ratio for the trailing twelve month period. The interest rate on the Revolver at July 1, 2016 and July 3, 2015 was approximately 1.7% and 1.4%, respectively.

The Revolver is secured with a first priority lien on working capital assets and certain patents and trademarks of the Company and its subsidiaries and a second priority lien on land, buildings, machinery and equipment of the Company's domestic subsidiaries. Under the terms of the Revolver, the Company is required to comply with certain financial and non-financial covenants. The Revolving Credit Agreement limits asset or stock acquisitions to no more than \$20,000 in the event that the Company's consolidated leverage ratio is greater than 2.5 times. No limits are imposed if the Company's consolidated leverage ratio is less than 2.5 times and the remaining borrowing availability under the Revolver is greater than \$10,000 at the time of the acquisition. The Revolving Credit Agreement limits the amount of restricted payments (primarily dividends and repurchases of common stock) made during each fiscal year. The Company may declare and pay dividends in accordance with historical practices, but in no event may the aggregate amount of all dividends or repurchases of common stock exceed \$10,000 in any fiscal year. The Revolving Credit Agreement restricts the Company's ability to incur additional debt and includes maximum leverage ratio and minimum interest coverage ratio covenants.

## Other Borrowings

The Company had no unsecured revolving credit facilities at its foreign subsidiaries as of July 1, 2016 or July 3, 2015. The Company utilizes letters of credit primarily as security for the payment of future claims under its workers' compensation insurance, which totaled approximately \$451 and \$649 at July 1, 2016 and July 3, 2015, respectively. The Company had no unsecured lines of credit as of July 1, 2016 or July 3, 2015.

Aggregate scheduled maturities of long-term debt as of July 1, 2016, for the remainder of fiscal 2016 and subsequent fiscal years, were as follows:

Fiscal Year	
2016	\$60
2017	381
2018	403
2019	426
2020	737

Thereafter	5,440
Total	\$7,447

-12-

---

Index

JOHNSON OUTDOORS INC.

Balances carried on the Revolver not in excess of the seasonal borrowing limit may be repaid at the Company's discretion at any time through the maturity date.

Interest paid for the three month periods ended July 1, 2016 and July 3, 2015 was \$216 and \$282, respectively. Interest paid for the nine month periods ended July 1, 2016 and July 3, 2015 was \$618 and \$694, 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 July 1, 2016 and July 3, 2015 approximated its carrying value.

## 12 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, Hong Kong dollars 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 16% of the Company's revenues for the nine month period ended July 1, 2016 were denominated in currencies other than the U.S. dollar. Approximately 6% were denominated in euros, 6% were denominated in Canadian dollars and 2% were denominated in Hong Kong dollars, with the remaining revenues denominated in various other foreign currencies. Changes in foreign currency exchange rates can cause the Company to experience unexpected financial losses or cash flow needs.

The Company may mitigate 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 may use such foreign currency forward contracts to mitigate the risk associated with changes in foreign currency exchange rates on financial instruments and known commitments, including commitments for inventory purchases, denominated in foreign currencies. As of July 1, 2016 and July 3, 2015, the Company held no foreign currency forward contracts.

## 13 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.

-13-

---

Index

## JOHNSON OUTDOORS INC.

· 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 their fair values at July 1, 2016, October 2, 2015 and July 3, 2015 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 their fair value.

Valuation Techniques

## 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 relate. 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.

The following table summarizes the Company's financial assets measured at fair value as of July 1, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Rabbi trust assets	\$12,004	\$ -	\$ -	\$12,004

The following table summarizes the Company's financial assets measured at fair value as of October 2, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Rabbi trust assets	\$11,441	\$ -	\$ -	\$11,441

The following table summarizes the Company's financial assets measured at fair value as of July 3, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Rabbi trust assets	\$12,060	\$ -	\$ -	\$12,060





Index

## JOHNSON OUTDOORS INC.

The effect of changes in the fair value of financial instruments on the Condensed Consolidated Statements of Operations for the three months ended July 1, 2016 and July 3, 2015 was:

Location of (income) loss recognized in Statement of Operations	Three Months Ended	
	July 1 2016	July 3 2015
Rabbi trust assets Other (income) expense, net	\$ (259 )	\$ 40

The effect of changes in the fair value of financial instruments on the Condensed Consolidated Statements of Operations for the nine month periods ended July 1, 2016 and July 3, 2015 was:

Location of (income) loss recognized in Statement of Operations	Nine Months Ended	
	July 1 2016	July 3 2015
Rabbi trust assets Other (income) expense, net	\$ (204 )	\$ (409 )

Certain assets and liabilities are measured at fair value on a non-recurring basis in periods subsequent to their initial recognition. During the third fiscal quarter of 2016, the Company recorded an impairment charge of \$6,197 in “Goodwill and other intangible assets impairment” on goodwill held by the Diving reporting unit, reducing its fair value to \$0. The following table summarizes the Company’s assets measured at fair value on a non-recurring basis as of July 1, 2016 and the losses recognized as a result of this measurement in the three and nine month periods then ended:

	Level 1	Level 2	Level 3	Losses incurred
Goodwill	\$ -	\$ -	\$ 6,197	\$ 6,197

There were no assets or liabilities measured at fair value on a non-recurring basis in periods subsequent to their initial recognition for either of the three or nine month periods ended July 3, 2015.

**14NEW ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) issued authoritative guidance under ASU 2014-09, Revenue from Contracts with Customers, which supersedes existing revenue recognition requirements and provides a new comprehensive revenue recognition model. The underlying principle of the new standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects to receive in exchange for those goods or services. This ASU will be adopted by the Company during the first quarter of fiscal 2018. The Company is currently evaluating the impact that this standard will have on the consolidated financial statements.

On September 25, 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, requiring an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and to present or disclose the portion of the amount of adjustment recorded in current-period earnings by the line item where the adjustment would have been recorded in previous reporting periods if the adjustment had been recognized as of the acquisition date. The Company elected to adopt this accounting standard at the beginning of the second quarter of fiscal 2016.

Index

JOHNSON OUTDOORS INC.

On November 20, 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes." Pursuant to this update, all deferred tax assets and liabilities, and any related valuation allowances are required to be classified as non-current on the balance sheet. The classification change for all deferred taxes as non-current simplifies entities' processes as it eliminates the need to separately identify the net current and net non-current deferred tax asset or liability in each jurisdiction and allocate valuation allowances. The Company elected to retrospectively adopt this accounting standard in the beginning of the first quarter of fiscal 2016 and as a result, prior periods in our Consolidated Financial Statements were adjusted.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this update will increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the effect, if any, of this standard on its financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Excess tax benefits for share-based payments will be recorded as a reduction of income taxes and reflected in operating cash flows upon the adoption of this ASU. Excess tax benefits are recorded in equity and as financing activity under the current rules. The guidance will be effective for annual reporting periods beginning after December 15, 2016 and interim periods within those fiscal years with early adoption permitted. We are evaluating the impact of the future adoption of this standard on our consolidated financial statements.

15 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 either of the nine month periods ended July 1, 2016 or July 3, 2015.

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.

Index

## JOHNSON OUTDOORS INC.

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

	Three Months Ended		Nine Months Ended		
	July 1 2016	July 3 2015	July 1 2016	July 3 2015	October 2 2015
Net sales:					
Marine Electronics:					
Unaffiliated customers	\$87,928	\$86,064	\$237,351	\$218,819	
Interunit transfers	135	134	305	260	
Outdoor Equipment:					
Unaffiliated customers	13,202	15,593	31,117	34,115	
Interunit transfers	15	19	30	36	
Watercraft:					
Unaffiliated customers	19,167	19,428	40,270	38,769	
Interunit transfers	97	102	123	122	
Diving					
Unaffiliated customers	18,709	19,564	49,554	52,701	
Interunit transfers	136	228	643	518	
Other / Corporate	294	234	498	412	
Eliminations	(383 )	(483 )	(1,101 )	(936 )	
Total	\$139,300	\$140,883	\$358,790	\$344,816	
Operating profit (loss):					
Marine Electronics	\$19,970	\$14,603	\$42,948	\$24,146	
Outdoor Equipment	1,168	1,811	1,965	2,536	
Watercraft	2,894	2,334	3,190	1,308	
Diving	(6,204 )	947	(8,782 )	242	
Other / Corporate	(4,245 )	(3,274 )	(11,500 )	(11,519 )	
	\$13,583	\$16,421	\$27,821	\$16,713	
Total assets (end of period):					
Marine Electronics			\$128,299	\$136,484	\$125,113
Outdoor Equipment			31,979	37,159	33,663
Watercraft			29,589	29,845	20,898
Diving			73,930	65,416	62,589
Other / Corporate			62,364	48,942	56,941
			\$326,161	\$317,846	\$299,204

## 16 ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in Accumulated Other Comprehensive Income (AOCI) by component, net of tax, for the three months ended July 1, 2016 were as follows:

	Foreign Currency Translation Adjustment	Unamortized Loss on Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
--	--	--	--

Edgar Filing: JOHNSON OUTDOORS INC - Form 10-Q

Balance at April 1, 2016	\$ 11,524	\$ (6,423	) \$ 5,101
Other comprehensive income before reclassifications	(873	) -	(873 )
Amounts reclassified from accumulated other comprehensive income	-	114	114
Tax effects	-	(44	) (44 )
Balance at July 1, 2016	\$ 10,651	\$ (6,353	) \$ 4,298

-17-

---

Index

## JOHNSON OUTDOORS INC.

The changes in AOCI by component, net of tax, for the nine months ended July 1, 2016 were as follows:

	Foreign Currency Translation Adjustment	Unamortized Loss on Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at October 2, 2015	\$ 10,253	\$ (6,616	) \$ 3,637
Other comprehensive loss before reclassifications	398	-	398
Amounts reclassified from accumulated other comprehensive income	-	425	425
Tax effects	-	(162	) (162
Balance at July 1, 2016	\$ 10,651	\$ (6,353	) \$ 4,298

The changes in AOCI by component, net of tax, for the three months ended July 3, 2015 were as follows:

	Foreign Currency Translation Adjustment	Unamortized Loss on Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at April 3, 2015	\$ 9,678	\$ (5,574	) \$ 4,104
Other comprehensive loss before reclassifications	1,128	-	1,128
Amounts reclassified from accumulated other comprehensive income	-	85	85
Tax effects	-	(32	) (32
Balance at July 3, 2015	\$ 10,806	\$ (5,521	) \$ 5,285

The changes in AOCI by component, net of tax, for the nine months ended July 3, 2015 were as follows:

	Foreign Currency Translation Adjustment	Unamortized Loss on Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at October 3, 2014	\$ 18,424	\$ (5,646	) \$ 12,778
Other comprehensive income before reclassifications	(7,618	) -	(7,618
Amounts reclassified from accumulated other comprehensive income	-	255	255
Tax effects	-	(130	) (130
Balance at July 3, 2015	\$ 10,806	\$ (5,521	) \$ 5,285

The reclassifications out of AOCI for the three month period ended July 1, 2016 were as follows:

	Statement of Operations Presentation
Unamortized loss on defined benefit pension plans	
Amortization of loss	\$114 Cost of sales / Operating expense
Tax effects	(44 ) Income tax expense
Total reclassifications for the period	\$70



Index

## JOHNSON OUTDOORS INC.

The reclassifications out of AOCI for the three month period ended July 3, 2015 were as follows:

	Statement of Operations Presentation
Unamortized loss on defined benefit pension plans:	
Amortization of loss	\$85 Cost of sales / Operating expense
Tax effects	(32) Income tax expense
Total reclassifications for the period	\$53

The reclassifications out of AOCI for the nine months ended July 1, 2016 were as follows:

	Statement of Operations Presentation
Unamortized loss on defined benefit pension plans:	
Amortization of loss	\$425 Cost of sales / Operating expense
Tax effects	(162) Income tax expense
Total reclassifications for the period	\$263

The reclassifications out of AOCI for the nine months ended July 3, 2015 were as follows:

	Statement of Operations Presentation
Unamortized loss on defined benefit pension plans:	
Amortization of loss	\$255 Cost of sales / Operating expense
Tax effects	(130) Income tax expense
Total reclassifications for the period	\$125

## 17. ACQUISITIONS

During the nine months ended July 1, 2016, the Company completed two acquisitions.

## Acquisition of SeaBear

On October 27, 2015, the Company acquired all of the outstanding common stock of SeaBear GmbH (“SeaBear”) and related patents and other assets in a purchase transaction with SeaBear’s sole shareholder (the “Seller”). SeaBear, founded and based in Leoben, Austria, specializes in the development of underwater instrumentation through unique application of existing, new and emerging technologies.

The approximately \$5,150 acquisition cost was funded with existing cash and credit facilities. Approximately \$1,115 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 Seller in connection with the inaccuracy of certain representations and warranties made by the Seller or related to the breach or nonperformance of certain other actions, agreements or conditions related to the acquisition, for a period of 18 months from the acquisition date. The Company cannot estimate the probability or likelihood of bringing such an indemnity claim against the Seller or any related costs at this time. Under certain circumstances, if government grants made to SeaBear prior to the closing are required to be repaid, the repayment will be funded by the escrow account. The remaining escrow balance, if any, net of any indemnity claim or grant repayment then pending, will be released to the Seller once the 18 month period has lapsed.





Index

## JOHNSON OUTDOORS INC.

The Company believes that sales of SeaBear's innovative diving technology can be expanded through the Company's global marketing and distribution networks. The SeaBear acquisition is included in the Company's Diving segment.

## Acquisition of Northport

On April 4, 2016, the Company acquired substantially all of the assets of Northport Systems, Inc. ("Northport") in a purchase transaction with Northport and its owners (collectively, the "Seller"). Northport, based in Toronto, Canada, specializes in the development and application of unique digital cartography technologies and web, e-commerce and data solutions for fishing and marine markets.

The acquisition cost for the Northport assets was funded with existing cash and credit facilities. Approximately \$500 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 Seller in connection with the inaccuracy of certain representations and warranties made by the Seller or related to the breach or nonperformance of certain other actions, agreements or conditions related to the acquisition, for a period of 24 months from the acquisition date. The Company cannot estimate the probability or likelihood of bringing such an indemnity claim against the Seller or any related costs at this time. The remaining escrow balance, if any, net of any indemnity claim then pending, will be released to the Seller once the 24 month period has lapsed.

The Company believes that Northport will bring new cartography capabilities, which can broaden the Company's innovation horizon and accelerate speed-to-market of new products in this segment. The Northport acquisition is included in the Company's Marine Electronics segment.

## Purchase Price Allocation

The purchase price allocation for these acquisitions as set forth in the table below reflects preliminary fair value estimates which are subject to change within the measurement period as valuations are finalized. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain assets and liabilities acquired, the valuation of intangible assets acquired and income and non-income based taxes, and residual goodwill.

Pro forma results of operations for these acquisitions have not been presented because they are not material to the Company's combined and consolidated results of operations, either individually or in the aggregate. Goodwill, which represents the excess of the purchase price over the net tangible and intangible assets acquired, is not deductible for tax purposes.

The following table presents the aggregate purchase price allocation, including those items that are still preliminary allocations, for the Company's acquisitions for the nine month period ended July 1, 2016:

Recognized amounts of identifiable assets acquired and liabilities assumed	
Accounts receivable	\$ 66
Inventories	197
Other current assets	46
Property, plant and equipment	41
Identifiable intangible assets	6,333
Less, accounts payable and accruals	601
Less, long term liabilities	580

Total identifiable net assets	5,502
Goodwill	3,400
Net assets acquired	\$ 8,902

-20-

---

Index

## JOHNSON OUTDOORS INC.

The provisional values assigned in the acquisitions to finite lived intangible assets was as follows:

Description	Amount	Useful Life (yrs)
Developed technologies	\$ 3,433	8
Database and related technologies	2,900	7

Developed technologies were valued using the discounted cash flow method. Under this method, the after-tax direct cash flows expected to be generated by the technologies were discounted over their remaining useful lives, net of contributions of other assets to those cash flows. The discount rates used were commensurate with the inherent risks associated with each type of asset and the level and timing of cash flows appropriately reflect market participant assumptions. We valued base product technology that generates cash flows from sales of the existing products using the income approach, specifically the multi-period excess earnings method which calculates the value based on the risk-adjusted present value of the cash flows specific to the products, allowing for a reasonable return.

Database and related technologies were valued based on the estimated cost to develop such assets.

The weighted average useful life at the dates of acquisition of total amortizable intangible assets acquired was approximately 7.5 years.

The Company expects to continue to obtain information to assist it in determining the fair value of the net assets acquired at the acquisition date during the measurement period.

Transaction costs incurred for the acquisitions to date were \$753, of which \$588 was recognized during the nine months ended July 1, 2016.

During the quarter ended July 1, 2016, the Company re-evaluated its projections for its Diving reporting unit as a result of deteriorating business conditions. As a result, the Company performed an impairment test on the goodwill of the Diving reporting unit, including the goodwill acquired in the SeaBear acquisition, and determined an impairment charge was required. See "Note 8 – Goodwill" for additional information

Index

JOHNSON OUTDOORS INC.

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

This 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 nine month periods ended July 1, 2016 and July 3, 2015. 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
- Liquidity and Financial Condition
- Contractual Obligations and Off Balance Sheet Arrangements
- Critical Accounting Policies and Estimates

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related notes that immediately precede this section, as well as the Company's Annual Report on Form 10-K for the fiscal year ended October 2, 2015 which was filed with the Securities and Exchange Commission on December 8, 2015, and amended by Amendment No. 1 filed on December 11, 2015 with the Securities and Exchange Commission.

Forward Looking Statements

Certain matters discussed in this Form 10-Q are "forward-looking statements," and the Company intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of those safe harbor provisions. These forward-looking statements can generally be identified as such because they include phrases such as the Company "expects," "believes," "anticipates," "intends" or other words of similar meaning. Similarly, statements that describe the Company's future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which could cause actual results or outcomes to differ materially from those currently anticipated.

Factors that could affect actual results or outcomes include the matters described under the caption "Risk Factors" in Item 1A of the Company's Form 10-K which was filed with the Securities and Exchange Commission on December 8, 2015, and amended by Amendment No. 1 filed on December 11, 2015 with the Securities and Exchange Commission and the following: changes in economic conditions, consumer confidence levels and discretionary spending patterns in key markets; the Company's success in implementing its strategic plan, including its targeted sales growth platforms, innovation focus and digital presence; litigation costs related to actions of and disputes with third parties, including competitors, and matters related to the Company's intellectual property rights; the Company's continued success in its working capital management and cost-structure reductions; the Company's ongoing success in meeting financial covenants in its credit arrangements with its lenders; the Company's success in integrating strategic acquisitions; the risk of future writedowns of goodwill or other long-lived assets; the ability of the Company's customers to meet payment obligations; movements in foreign currencies, interest rates or commodity costs; fluctuations in the prices of raw materials or the availability of raw materials used by the Company; the success of the Company's suppliers and customers; the ability of the Company to deploy its capital successfully; unanticipated outcomes related to outsourcing certain manufacturing processes; unanticipated outcomes related to litigation matters; and adverse weather conditions. Shareholders, potential investors and other readers are urged to consider these factors

in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included herein are only made as of the date of this filing. The Company assumes no obligation, and disclaims any obligation, to update such forward-looking statements to reflect subsequent events or circumstances.

-22-

---

Index

JOHNSON OUTDOORS INC.

## Trademarks

We have registered the following trademarks, which may be used in this report: Minn Kota®, Cannon®, Humminbird®, Silva®, Eureka!®, Jetboil®, Old Town®, Ocean Kayakä, Necky®, Extrasport®, Carlisle®, and SCUBAPRO®.

## Overview

The Company is a leading global manufacturer and marketer of branded seasonal outdoor recreation products used primarily for fishing, diving, paddling and camping. The Company's portfolio of well-known consumer brands has attained leading market positions due to continuous innovation, marketing excellence, product performance and quality. The Company's values and culture support innovation in all areas, promoting and leveraging best practices and synergies within and across its subsidiaries to advance the Company's strategic vision set by executive management and approved by the Company's Board of Directors. The Company is controlled by Helen P. Johnson-Leipold, the Company's Chairman and Chief Executive Officer, members of her family and related entities.

Highlights

Net sales of \$139,300 for the third quarter of fiscal 2016 decreased by 1% from the same period in the prior year. Operating income for the quarter also compared unfavorably to the prior year quarterly period due primarily to the impact of one-time items in both the current and prior year third fiscal quarters. A decrease in legal expenses in the current year quarter more than offset by a goodwill impairment charge in current year quarter.

Seasonality

The Company's business is seasonal in nature. The third fiscal quarter falls within the Company's primary selling season for its warm-weather outdoor recreation products. The table below sets forth a historical view of the Company's seasonality during the last three fiscal years.

Quarter Ended	Fiscal Year					
	2015		2014		2013	
	Net Sales	Operating Profit	Net Sales	Operating Profit	Net Sales	Operating Profit
December	16 %	-41 %	19 %	-17 %	21 %	6 %
March	31 %	43 %	29 %	69 %	31 %	49 %
June	33 %	92 %	32 %	56 %	30 %	63 %
September	20 %	6 %	20 %	-8 %	18 %	-18 %
	100 %	100 %	100 %	100 %	100 %	100 %

Index

## JOHNSON OUTDOORS INC.

## Results of Operations

The Company's net sales and operating profit (loss) by segment for the periods shown below were as follows:

	Three Months Ended		Nine Months Ended	
	July 1 2016	July 3 2015	July 1 2016	July 3 2015
Net sales:				
Marine Electronics	\$88,063	\$ 86,198	\$237,656	\$ 219,079
Outdoor Equipment	13,217	15,612	31,147	34,151
Watercraft	19,264	19,530	40,393	38,891
Diving	18,845	19,792	50,197	53,219
Other / Eliminations	(89 )	(249 )	(603 )	(524 )
Total	\$139,300	\$ 140,883	\$358,790	\$ 344,816
Operating profit (loss):				
Marine Electronics	\$19,970	\$ 14,603	\$42,948	\$ 24,146
Outdoor Equipment	1,168	1,811	1,965	2,536
Watercraft	2,894	2,334	3,190	1,308
Diving	(6,204 )	947	(8,782 )	242
Other / Eliminations	(4,245 )	(3,274 )	(11,500 )	(11,519 )
Total	\$13,583	\$ 16,421	\$27,821	\$ 16,713

See "Note 15 – Segments of Business" of the notes to the accompanying Condensed Consolidated Financial Statements for the definition of segment net sales and operating profit.

Net Sales

Consolidated net sales for the three months ended July 1, 2016 were \$139,300, a decrease of \$1,583, or 1%, compared to \$140,833 for the three months ended July 3, 2015. Currency translation had an unfavorable impact of 0.3% on net sales in the current year quarter compared to the prior year quarter.

Net sales for the three months ended July 1, 2016 for the Marine Electronics business were \$88,063, up \$1,865, or 2%, from \$86,198 during the third fiscal quarter of the prior year. The increase was driven by growth in the Humminbird® brand related to successful new product sales for that brand.

Net sales for the Outdoor Equipment business were \$13,217 for the third quarter of the current fiscal year, a decrease of \$2,395, or 15%, from the prior year net sales during the same period of \$15,612. Increases in Jetboil® sales were more than offset by decreases in tent sales in both the consumer camping and government and commercial tent categories.

Net sales for the third quarter of fiscal 2016 for the Watercraft business were \$19,264 a decrease of \$266, or 1%, compared to \$19,530 in the prior year period.

Diving net sales were \$18,845 for the three months ended July 1, 2016 versus \$19,792 for the three months ended July 3, 2015, a decrease of \$947, or 5%. Favorable foreign currency translation impacted Diving's sales by approximately 1% versus the prior year's third fiscal quarter. Product availability and decreased sales to Middle Eastern markets negatively affected sales versus the prior year period.



For the nine months ended July 1, 2016, consolidated net sales were \$358,790 compared to \$344,816 for the nine months ended July 3, 2015. Currency translation had a 1% unfavorable impact on net sales in the current year to date period compared to the same period of the prior fiscal year.

-24-

---

Index

JOHNSON OUTDOORS INC.

Net sales for the nine months ended July 1, 2016 for the Marine Electronics business were \$237,656, up \$18,577, or 9%, from \$219,079 during the first nine months of the prior year. Strong new product sales, especially of the new Humminbird® HELIX line of fishfinders, drove the increase.

Net sales for the Outdoor Equipment business were \$31,147 for the current year to date period, a decrease of \$3,004, or 9%, from net sales during the same period of the prior year of \$34,151. Similar to the third quarter's results, increased sales of Jetboil® products were not enough to overcome declines in tent sales. A reduction in government tent orders and overall declines in the consumer camping tent market and lost distribution were the primary drivers of the sales decrease.

Net sales for the first nine months of fiscal 2016 for the Watercraft business were \$40,393, an increase of \$1,502, or 4%, compared to \$38,891 in the prior year period. An increase in the recreation and fishing kayak markets was the primary driver of the growth year over year

Diving net sales were \$50,197 for the nine months ended July 1, 2016 versus \$53,219 for the nine months ended July 3, 2015. The 6% decline year over year was driven in part by a 2% unfavorable impact from currency translation as well as a nearly 50% decline in sales to Middle Eastern markets due to political instability in that region.

Cost of Sales

Cost of sales for the three months ended July 1, 2016 was \$80,017 compared to \$82,131 for the three months ended July 3, 2015. The decrease year over year was driven in part by lower sales volume. Cost of sales for the nine months ended July 1, 2016 was \$211,213 compared to \$206,794 in the same period of the prior year. The increase was primarily driven by the increase in sales volume offset slightly by lower product costs, particularly for resin during the current year to date period.

Gross Profit Margin

For the three months ended July 1, 2016, gross profit as a percentage of net sales was 42.6% compared to 41.7% in the three month period ended July 3, 2015. A favorable product mix and pricing increases implemented to offset the effect of unfavorable currency translation in certain markets helped drive the increase in margin during the quarter ended July 1, 2016. For the nine months ended July 1, 2016, gross profit as a percentage of net sales was 41.1% compared to 40.0% in the nine months ended July 3, 2015. Lower material costs, pricing increases, a favorable product mix and favorable production volume variances helped drive the increase in margin during the current year to date period.

Operating Expenses

Operating expenses were \$45,700 for the three months ended July 1, 2016 compared to \$42,331 for the three months ended July 3, 2015. The increase of \$3,369 was primarily due to the net effect of one-time items in both years. An improvement of approximately \$4,600 in legal expense was more than offset by a goodwill impairment charge of \$6,197 recognized in the Diving segment in the current year quarter.

Operating expenses were \$119,756 for the nine months ended July 1, 2016 compared to \$121,309 in the prior year nine month period. The \$1,553 decrease year over year was driven primarily by an improvement of approximately \$10,000 in legal expense offset in part by the goodwill impairment charge recognized in the Diving segment and higher sales volume related expenses in the current year to date period.

Operating Profit

Operating profit on a consolidated basis for the three month period ended July 1, 2016 was \$13,583 compared to \$16,421 in the third quarter of the prior fiscal year. The decrease year over year was driven primarily by the factors impacting operating expenses as noted above. Operating profit on a consolidated basis for the nine months ended July 1, 2016 was \$27,821 compared to an operating profit of \$16,713 in the prior year to date period. The primary factor driving the year to date increase in operating profit was the gross profit on the 4% increase in consolidated net sales.

-25-

---

Index

JOHNSON OUTDOORS INC.

Interest

For the three months ended July 1, 2016, interest expense was \$93 compared to \$213 in the three months ended July 3, 2015. For the nine months ended July 1, 2016, interest expense totaled \$580 compared to \$716 for the nine months ended July 3, 2015. The decrease for each of the three and nine month periods ended July 1, 2016 was caused by a lower average daily revolving credit facility balance during the current fiscal year driven by strong positive cash flow during the twelve months ended July 1, 2016.

Interest income for each of the three and nine month periods ended July 1, 2016 and July 3, 2015 was less than \$100.

Other (Income) Expense, net

Other income was \$371 for the three months ended July 1, 2016 compared to other expense of \$115 in the prior year period. For the three months ended July 1, 2016, foreign currency exchange gains were \$42 compared to losses of \$114 for the three months ended July 3, 2015. Investment gains and earnings on the assets related to the Company's non-qualified deferred compensation plan were \$302 in the three month period ended July 1, 2016 compared to investment losses, net of earnings, of \$3 in the three month period ended July 3, 2015.

Other income for the nine months ended July 1, 2016 was \$752 compared to \$38 of other expense for the nine months ended July 3, 2015. For the nine months ended July 1, 2016, foreign currency exchange gains were \$63 compared to losses of \$720 for the nine months ended July 3, 2015. Net investment gains and earnings on the assets related to the Company's non-qualified deferred compensation plan were \$638 in the nine month period ended July 1, 2016 compared to \$910 in the nine month period ended July 3, 2015.

Income Tax Expense

The Company's provision for income taxes is based upon estimated annual effective tax rates in the tax jurisdictions in which the Company operates. The effective tax rate for the three and nine month periods ended July 1, 2016 was 50.7% and 44.2%, respectively, compared to 37.9% and 40.9% in the corresponding periods of the prior year.

The change in the Company's effective tax rate for the three and nine months ended July 1, 2016 versus the prior year periods was primarily due to no tax benefit being recorded for the non-deductible portion of the goodwill impairment charge reported in both of the current year periods.

Net Income (Loss)

Net income for the three months ended July 1, 2016 was \$6,841, or \$0.68 per diluted common class A and B share compared to \$9,997, or \$1.00 per diluted common class A and B share, for the third quarter of the prior fiscal year. Net income for the nine months ended July 1, 2016 was \$15,628, or \$1.56 per diluted common class A and B share compared to \$9,449, or \$0.95 per diluted common class A and B share, for the corresponding period of the prior year.

Liquidity and Financial Condition

Cash, net of debt, was \$68,155 as of July 1, 2016, compared to net cash of \$46,396 as of July 3, 2015. The Company's debt to total capitalization ratio was 3% as of July 1, 2016 and 4% as of July 3, 2015. The Company's total debt balance was \$7,447 as of July 1, 2016 compared to \$7,520 as of July 3, 2015. See "Note 11 – Indebtedness" in the notes to the Company's accompanying condensed consolidated financial statements for further discussion.

Accounts receivable, net of allowance for doubtful accounts, were \$70,658 as of July 1, 2016, a decrease of \$9,005 compared to \$79,663 as of July 3, 2015. The decrease is due in large part to an increase in sales turns for products sold in the Marine Electronics segment.

-26-

---

Index

## JOHNSON OUTDOORS INC.

Inventories, net of inventory reserves, were \$71,127 as of July 1, 2016, a decrease of \$7,191 compared to \$78,318 as of July 3, 2015. The decrease in inventory was due in large part to decreases in Marine Electronics inventory between these dates.

Accounts payable were \$33,715 at July 1, 2016, compared to \$38,844 as of July 3, 2015. The decrease corresponds to the decrease in inventories between periods described above.

The Company's cash flows from operating, investing and financing activities, as reflected in the Company's accompanying Condensed Consolidated Statements of Cash Flows, is summarized in the following table:

(thousands)	Nine Months Ended	
	July 1 2016	July 3 2015
Cash provided by (used for):		
Operating activities	\$26,933	\$(2,049 )
Investing activities	(17,504)	(6,592 )
Financing activities	(2,878 )	(3,247 )
Effect of foreign currency rate changes on cash	(108 )	(4,989 )
Increase (decrease) in cash and cash equivalents	\$6,443	\$(16,877)

Operating Activities

Cash provided by operations totaled \$26,933 for the nine months ended July 1, 2016 compared with cash used for operations of \$2,049 during the corresponding period of the prior fiscal year. The increase in net income, especially when adjusted for the \$6,197 non-cash expense for the goodwill impairment charge occurring during the current year to date period, drove the increase in cash provided by operating activities year over year.

Amortization of deferred financing costs, depreciation and other amortization charges were \$8,852 for the nine month period ended July 1, 2016 compared to \$8,760 for the corresponding period of the prior year.

Investing Activities

Cash used for investing activities totaled \$17,504 for the nine months ended July 1, 2016 and included acquisitions of \$8,902. The remaining \$8,602 and the entire \$6,592 for the corresponding period of the prior year consisted of cash usage for capital expenditures net of any proceeds from sales of property, plant and equipment. The Company's recurring investments are made primarily for software development and tooling for new products and enhancements on existing products. Any additional expenditures in fiscal 2016 are expected to be funded by working capital or existing credit facilities.

Financing Activities

Cash flows used for financing activities totaled \$2,878 for the nine months ended July 1, 2016 compared to \$3,247 for the nine month period ended July 3, 2015. The Company made principal payments on term notes and other long-term debt of \$272 during both the nine month period ended July 1, 2016 and the nine month period ended July 3, 2015.

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 5.5% and 5.25% at July 1, 2016 and July 3,

2015, respectively.

-27-

---

Index

## JOHNSON OUTDOORS INC.

The aggregate term loan borrowings are subject to a pre-payment penalty. The penalty is currently 4% of the pre-payment amount, and the penalty will decrease by 1% annually on the anniversary date of the effective date of the applicable loan agreement.

On September 16, 2013, the Company and certain of its subsidiaries entered into a credit facility with PNC Bank National Association and certain other lenders. This credit facility consists of a Revolving Credit Agreement dated September 16, 2013 among the Company, certain of the Company's subsidiaries, PNC Bank National Association, as lender and as administrative agent, and the other lenders named therein (the "Revolving Credit Agreement" or "Revolver"). The Revolver has an expiration date of September 16, 2018 and provides for borrowing of up to an aggregate principal amount not to exceed \$90,000 with an accordion feature that gives the Company the option to increase the maximum seasonal financing availability subject to the conditions of the Revolving Credit Agreement and subject to the approval of the lenders. The Revolver imposes a seasonal borrowing limit such that borrowings may not exceed \$60,000 from the period June 30<sup>th</sup> through October 31<sup>st</sup> of each year under the agreement. Balances carried on the Revolving Credit Agreement of \$60,000 or less may be repaid at the Company's discretion at any time through the maturity date.

The interest rate on the Revolver resets each quarter and is based on LIBOR plus an applicable margin. The applicable margin ranges from 1.25% to 2.00% and is dependent on the Company's leverage ratio for the trailing twelve month period. The interest rate on the Revolver at July 1, 2016 and July 3, 2015 was approximately 1.7% and 1.4%, respectively.

The Revolver is secured with a first priority lien on working capital assets and certain patents and trademarks of the Company and its subsidiaries and a second priority lien on land, buildings, machinery and equipment of the Company's domestic subsidiaries. Under the terms of the Revolver, the Company is required to comply with certain financial and non-financial covenants. The Revolving Credit Agreement limits asset or stock acquisitions to no more than \$20,000 in the event that the Company's consolidated leverage ratio is greater than 2.5 times. No limits are imposed if the Company's consolidated leverage ratio is less than 2.5 times and the remaining borrowing availability under the Revolver is greater than \$10,000 at the time of the acquisition. The Revolving Credit Agreement limits the amount of restricted payments (primarily dividends and repurchases of common stock) made during each fiscal year. The Company may declare, and pay, dividends in accordance with historical practices, but in no event may the aggregate amount of all dividends or repurchases of common stock exceed \$10,000 in any fiscal year. The Revolving Credit Agreement restricts the Company's ability to incur additional debt and includes maximum leverage ratio and minimum interest coverage ratio covenants.

As of July 1, 2016 the Company held approximately \$46,197 of cash and cash equivalents in bank accounts in foreign taxing jurisdictions.

## Contractual Obligations and Off Balance Sheet Arrangements

The Company has contractual obligations and commitments to make future payments under its existing credit facilities, including interest, operating leases and open purchase orders. The following schedule details these significant contractual obligations existing at July 1, 2016.

	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-term debt	\$7,447	\$ 60	\$ 784	\$ 1,163	\$ 5,440
Operating lease obligations	23,457	1,467	8,204	7,104	6,682
Open purchase orders	51,075	51,075	-	-	-
Contractually obligated interest payments	3,260	96	1,025	655	1,484



Edgar Filing: JOHNSON OUTDOORS INC - Form 10-Q

Total contractual obligations	\$85,239	\$ 52,698	\$ 10,013	\$ 8,922	\$ 13,606
-------------------------------	----------	-----------	-----------	----------	-----------

-28-

---

Index

JOHNSON OUTDOORS INC.

The Company utilizes letters of credit primarily as security for the payment of future claims under its workers compensation insurance. Letters of credit outstanding were approximately \$451 and \$649 at July 1, 2016 and July 3, 2015, respectively.

The Company anticipates making contributions of \$121 to its defined benefit pension plans during the remainder of fiscal 2016.

The Company has no other off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The Company's critical accounting policies and estimates are identified in the Company's Annual Report on Form 10-K for the fiscal year ending October 2, 2015 in Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Critical Accounting Estimates." There were no significant changes to the Company's critical accounting policies and estimates during the nine months ended July 1, 2016.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's exposure to market risk is limited to fluctuations in raw material commodity prices, interest rate fluctuations on borrowings under our secured credit facilities and foreign currency exchange rate risk associated with our foreign operations. The Company does not utilize financial instruments for trading purposes.

Foreign Exchange Risk

The Company has significant foreign operations, for which the functional currencies are denominated primarily in euros, Swiss francs, Hong Kong dollars, 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 16% of the Company's revenues for the nine month period ended July 1, 2016 were denominated in currencies other than the U.S. dollar.

Approximately 6% were denominated in euros, approximately 6% in Canadian dollars and approximately 2% in Hong Kong dollars, 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. The Company may mitigate 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 may use such foreign currency forward contracts to mitigate the risk associated with changes in foreign currency exchange rates on financial instruments and known commitments, including commitments for inventory purchases, denominated in foreign currencies. As of July 1, 2016 and July 3, 2015, the Company held no foreign currency forward contracts.

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 or cash and cash equivalents on hand.

Commodities

Certain components used in the Company's products are exposed to commodity price changes. The Company manages this risk through instruments such as purchase orders and non-cancelable supply contracts. Primary commodity price exposures include costs associated with metals, resins and packaging materials.

-29-

---

Index

## JOHNSON OUTDOORS INC.

## Impact of Inflation

The Company anticipates that changing costs of basic raw materials may impact future operating costs and, accordingly, the prices of its products. The Company is involved in continuing programs to mitigate the impact of cost increases through changes in product design and identification of sourcing and manufacturing efficiencies. Price increases and, in certain situations, price decreases are implemented for individual products, when appropriate. The Company's results of operations and financial condition are presented based on historical cost. The Company does not believe that inflation has significantly affected its results of operations.

## Sensitivity to Changes in Value

The estimates that follow are intended to measure the maximum potential fair value or earnings the Company could lose in one year from adverse changes in market interest rates. The calculations are not intended to represent actual losses in fair value or earnings that the Company expects to incur. The estimates do not consider favorable changes in market rates. The table below presents the estimated maximum potential loss in fair value and annual income before income taxes from a 100 basis point movement in interest rates on the Company's outstanding interest bearing debt at July 1, 2016:

	Estimated Impact on	
	Fair	
(thousands)	Value	Income Before Income Taxes
Interest rate instruments	\$ -	\$ 71

## Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective at reaching a level of reasonable assurance. It should be noted that in designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures. The Company has designed its disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives.

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Index

JOHNSON OUTDOORS INC.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, the Company may be involved in various legal proceedings.

In the Matter of Certain Marine Sonar Imaging Systems, Products Containing the Same and Components Thereof (ITC Investigation No. 337-TA-926).

On July 18, 2014, the Company and Johnson Outdoors Marine Electronics, Inc. filed a complaint with the United States International Trade Commission (“ITC”), Investigation No. 337-TA-926, against Respondents Garmin International Inc., Garmin USA, Inc. and Garmin Corporation (collectively “Garmin”) alleging a violation of Section 337 of the Tariff Act of 1930, as amended, to block the importation of one or more side scan imaging products that were believed to infringe U.S. Patents 7,652,952 (“the ‘952 patent”); 7,710,825 (“the ‘825 patent”); and 7,755,974 (“the ‘974 patent”). The inventions of these asserted patents are used in certain Humminbir® fishfinders.

Johnson Outdoors Inc. and Johnson Outdoors Marine Electronics Inc. v. Garmin International Inc. and Garmin USA, Inc. (Civil Action No.: 2:14-cv-683).

On July 17, 2014, the Company and Johnson Outdoors Marine Electronics, Inc. filed a parallel patent infringement lawsuit against Garmin in the United States District Court for the Middle District of Alabama, Northern Division, Civil Action No.: 2:14-cv-683.

Pursuant to a confidential settlement agreement entered into between the parties on May 5, 2016, these cases have been dismissed with prejudice.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Form 10-K as filed with the Securities and Exchange Commission on December 8, 2015, as amended by Amendment No. 1 filed on December 11, 2015 with the Securities and Exchange Commission.

Item 6. Exhibits

See Exhibit Index to this Form 10-Q report.

Index

JOHNSON OUTDOORS INC.

SIGNATURES

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

JOHNSON OUTDOORS INC.

Signatures Dated: August 8, 2016

/s/ Helen P. Johnson-Leipold  
Helen P. Johnson-Leipold  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

/s/ David W. Johnson  
David W. Johnson  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

Index

JOHNSON OUTDOORS INC.

Exhibit Index to Quarterly Report on Form 10-Q

Exhibit

Number Description

31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 <sup>(1)</sup> Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from Johnson Outdoors Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2016 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Comprehensive Income (Loss); (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Condensed Consolidated Financial Statements.

This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or (1)incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.