

JOHNSON OUTDOORS INC  
Form 10-Q  
August 04, 2017

---

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 June 30, 2017

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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 Emerging growth company

Edgar Filing: JOHNSON OUTDOORS INC - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 27, 2017, 8,784,513 shares of Class A and 1,211,686 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 June 30, 2017 and July 1, 2016</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and nine months ended June 30, 2017 and July 1, 2016</u>	2
<u>Condensed Consolidated Balance Sheets – June 30, 2017, September 30, 2016 and July 1, 2016</u>	3
<u>Condensed Consolidated Statements of Cash Flows – Nine months ended June 30, 2017 and July 1, 2016</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>	21
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	28
PART II	
OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	29
Item 6. <u>Exhibits</u>	29
<u>Signatures</u>	29
<u>Exhibit Index</u>	30

---

Index

JOHNSON OUTDOORS INC.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(thousands, except per share data)	Three Months Ended		Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Net sales	\$ 155,274	\$ 139,300	\$ 398,810	\$ 358,790
Cost of sales	84,644	80,017	226,702	211,213
Gross profit	70,630	59,283	172,108	147,577
Operating expenses:				
Marketing and selling	29,438	26,701	79,056	72,476
Administrative management, finance and information systems	11,584	7,679	33,146	27,724
Goodwill and other intangible assets impairment	—	6,197	—	6,197
Research and development	4,871	5,123	14,239	13,359
Total operating expenses	45,893	45,700	126,441	119,756
Operating profit	24,737	13,583	45,667	27,821
Interest income	(52 )	(4 )	(84 )	(22 )
Interest expense	77	93	687	580
Other (income) expense, net	(848 )	(371 )	(2,288 )	(752 )
Profit before income taxes	25,560	13,865	47,352	28,015
Income tax expense	9,007	7,024	12,784	12,387
Net income	\$ 16,553	\$ 6,841	\$ 34,568	\$ 15,628
Weighted average common shares - Basic:				
Class A	8,688	8,641	8,670	8,620
Class B	1,212	1,212	1,212	1,212
Participating securities	28	8	26	10
Weighted average common shares - Dilutive	9,928	9,861	9,908	9,842
Net income per common share - Basic:				
Class A	\$ 1.68	\$ 0.69	\$ 3.50	\$ 1.58
Class B	\$ 1.52	\$ 0.63	\$ 3.18	\$ 1.43
Net income per common share - Diluted:				
Class A	\$ 1.65	\$ 0.68	\$ 3.45	\$ 1.56
Class B	\$ 1.65	\$ 0.68	\$ 3.45	\$ 1.56
Dividends declared per common share:				
Class A	\$ 0.09	\$ 0.08	\$ 0.27	\$ 0.24
Class B	\$ 0.08	\$ 0.07	\$ 0.25	\$ 0.22

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

Index

JOHNSON OUTDOORS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Comprehensive income:				
Net income	\$ 16,553	\$ 6,841	\$ 34,568	\$ 15,628
Other comprehensive income (loss):				
Foreign currency translation	2,350	(873 )	(523 )	398
Change in pension plans, net of tax of \$100, \$44, \$208 and \$162, respectively	165	70	340	263
Total other comprehensive income (loss)	2,515	(803 )	(183 )	661
Total comprehensive income	\$ 19,068	\$ 6,038	\$ 34,385	\$ 16,289

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

- 2 -

---

Index

## JOHNSON OUTDOORS INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(thousands, except share data)	June 30, 2017	September 30, 2016	July 1, 2016
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 53,741	\$ 87,294	\$ 75,602
Short term investments	40,000	—	—
Accounts receivable, net	79,292	41,522	70,658
Inventories	68,239	68,397	71,127
Other current assets	2,495	4,755	3,683
Total current assets	243,767	201,968	221,070
Property, plant and equipment, net of accumulated depreciation of \$132,188, \$123,921 and \$124,227, respectively	48,239	48,998	48,981
Deferred income taxes	22,291	19,063	16,392
Goodwill	11,201	11,196	11,508
Other intangible assets, net	13,727	14,462	14,220
Other assets	15,732	14,592	13,990
Total assets	\$ 354,957	\$ 310,279	\$ 326,161
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Current maturities of long-term debt	\$ —	\$ 381	\$ 378
Accounts payable	33,889	24,521	33,715
Accrued liabilities:			
Salaries, wages and benefits	17,211	17,396	14,377
Accrued warranty	6,251	4,326	4,584
Income taxes payable	8,647	1,691	7,057
Accrued discounts and returns	5,751	7,074	6,175
Other	15,140	12,265	14,881
Total current liabilities	86,889	67,654	81,167
Long-term debt, less current maturities	—	7,008	7,069
Deferred income taxes	1,232	1,216	1,488
Retirement benefits	11,355	12,699	9,744
Other liabilities	15,557	14,206	13,594
Total liabilities	115,033	102,783	113,062
Shareholders' equity:			
Common stock:			
Class A shares issued and outstanding:	442	441	441
June 30, 2017: 8,783,099			
September 30, 2016: 8,778,028			
July 1, 2016: 8,816,675			
Class B shares issued and outstanding:	61	61	61
June 30, 2017: 1,211,686			
September 30, 2016: 1,212,006			
July 1, 2016: 1,212,344			
Capital in excess of par value	72,143	71,127	70,750
Retained earnings	167,304	135,405	138,421

Edgar Filing: JOHNSON OUTDOORS INC - Form 10-Q

Accumulated other comprehensive income	2,171	2,354	4,298
Treasury stock at cost, shares of Class A common stock: 67,137, 64,323 and 33,561, respectively	(2,197 )	(1,892 )	(872 )
Total shareholders' equity	239,924	207,496	213,099
Total liabilities and shareholders' equity	\$ 354,957	\$ 310,279	\$ 326,161

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	
	June 30, 2017	July 1, 2016
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income	\$34,568	\$ 15,628
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	8,699	7,928
Amortization of intangible assets	978	832
Amortization of deferred financing costs	270	92
Impairment losses	—	6,197
Stock based compensation	1,377	1,460
Gain on disposal of fixed assets	(205 )	—
Deferred income taxes	(3,073 )	35
Change in operating assets and liabilities:		
Accounts receivable, net	(37,503)	(25,451 )
Inventories, net	380	9,310
Accounts payable and accrued liabilities	19,443	10,913
Other current assets	2,191	1,257
Other non-current assets	18	(246 )
Other long-term liabilities	(973 )	(751 )
Other, net	(284 )	(271 )
	25,886	26,933
<b>CASH USED FOR INVESTING ACTIVITIES</b>		
Payments for purchase of businesses	—	(8,902 )
Purchase of short-term investments	(40,000)	—
Proceeds from sale of productive assets	205	—
Capital expenditures	(8,147 )	(8,602 )
	(47,942)	(17,504 )
<b>CASH USED FOR FINANCING ACTIVITIES</b>		
Principal payments on term loans and other long-term debt	(7,374 )	(272 )
Common stock transactions	—	246
Dividends paid	(2,669 )	(2,376 )
Purchases of treasury stock	(663 )	(476 )
	(10,706)	(2,878 )
Effect of foreign currency rate changes on cash	(791 )	(108 )
(Decrease) Increase in cash and cash equivalents	(33,553)	6,443
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	87,294	69,159
End of period	\$53,741	\$ 75,602
Supplemental Disclosure:		
Cash paid for taxes	\$9,170	\$ 9,136
Cash paid for interest	447	618

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 June 30, 2017 and July 1, 2016, 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 September 30, 2016 which was filed with the Securities and Exchange Commission on December 13, 2016.

Effective with the first fiscal quarter of 2017, the Company has renamed its business segments to better reflect the outdoor lifestyle focus of the Company’s brands. The Company’s segments are now referred to as Fishing (formerly Marine Electronics), Camping (formerly Outdoor Equipment), Watercraft Recreation (formerly Watercraft) and Diving (unchanged). There is no change in the composition of the Company’s segments.

Due to seasonal variations and other factors, the results of operations for the three and nine months ended June 30, 2017 are not necessarily indicative of the results to be expected for the Company’s full 2017 fiscal year. See “Seasonality” in the Management’s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein for additional information.

The Company considers all short-term investments in interest-bearing accounts and all securities and other instruments with an original maturity of three months or less, to be equivalent to cash. Cash equivalents are stated at cost which approximates market value. Short-term investments consist of certificates of deposit with original maturities greater than three months but less than one year.

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 \$1,931, \$2,182 and \$2,204 as of June 30, 2017, September 30, 2016 and July 1, 2016, respectively. The increase in net accounts receivable to \$79,292 as of June 30, 2017 from \$41,522 as of September 30, 2016 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 segment. 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.

#### 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.

Index

JOHNSON OUTDOORS INC.

For the three and nine month periods ended June 30, 2017 and July 1, 2016, 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 of stock.

For the three and nine month periods ended June 30, 2017 and July 1, 2016, diluted net income per share reflects the effect of dilutive stock units and assumes the conversion of Class B common stock into Class A common stock.

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 95,068 and 170,357 for the three months ended June 30, 2017 and July 1, 2016, respectively, and 111,061 and 175,742 for the nine months ended June 30, 2017 and July 1, 2016, respectively. 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 32,357 and 40,004 for the three month periods ended June 30, 2017 and July 1, 2016, respectively, and 34,746 and 38,087 for the nine months ended June 30, 2017 and July 1, 2016, respectively.

#### 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 a total of 612,570 shares of the Company’s Class A common stock available for future grant to key executives and non-employee directors at June 30, 2017.

#### 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.

Index

## JOHNSON OUTDOORS INC.

A summary of non-vested stock activity for the nine months ended June 30, 2017 related to the Company's stock ownership plans is as follows:

	Shares	Weighted Average Grant Price
Non-vested stock at September 30, 2016	162,472	\$ 24.49
Non-vested stock grants	8,846	43.12
Restricted stock vested	(76,250 )	20.54
Non-vested stock at June 30, 2017	95,068	27.68

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 17,832 and 19,973 during the nine month periods ended June 30, 2017 and July 1, 2016, respectively.

Stock compensation expense, net of forfeitures, related to non-vested stock was \$219 and \$332 for the three month periods ended June 30, 2017 and July 1, 2016, respectively, and \$722 and \$1,013 for the nine month periods ended June 30, 2017 and July 1, 2016, respectively. Unrecognized compensation cost related to non-vested stock as of June 30, 2017 was \$952, which amount will be amortized to expense through November 2020 or adjusted for changes in future estimated or actual forfeitures.

The fair value of restricted stock vested during the nine month periods ended June 30, 2017 and July 1, 2016 was \$3,219 and \$2,349, respectively.

## Restricted Stock Units

All restricted stock units (RSUs) awarded by the Company have been granted in the form of units payable in shares of Class A common stock upon vesting. The units are valued at their fair market value of a share of Class A common stock 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.

A summary of RSU activity for the nine months ended June 30, 2017 follows:

	Number of RSUs	Weighted Average Grant Price
RSUs at September 30, 2016	46,411	\$ 23.62
RSUs granted	28,301	40.64
RSUs vested	(14,070 )	22.39
RSUs at June 30, 2017	60,642	31.85

Stock compensation expense, net of forfeitures, related to RSUs was \$213 and \$148 for the three months ended June 30, 2017 and July 1, 2016, respectively and \$640 and \$415 for the nine months ended June 30, 2017 and July 1, 2016, respectively. Unrecognized compensation cost related to non-vested RSUs as of June 30, 2017 was \$1,162, which amount will be amortized to expense through September 2019 or adjusted for changes in future estimated or actual

forfeitures.

#### Employees' Stock Purchase Plan

The Company's shareholders have adopted the Johnson Outdoors Inc. 2009 Employees' Stock Purchase Plan, which was most recently amended on March 2, 2017 at the annual shareholder meeting, and 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 on the date of purchase, whichever is lower.

During the three month period ended June 30, 2017, the Company issued no shares of Class A common stock and recognized \$10 of income in connection with the Employees' Stock Purchase Plan. During the nine months ended June 30, 2017, the Company issued no shares of Class A common stock and recognized \$15 of expense in connection with the Employees' Stock Purchase Plan. 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 Plan.

- 7 -

---

Index

## JOHNSON OUTDOORS INC.

## 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 June 30, 2017 and July 1, 2016 were as follows:

	Three Months Ended		Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Components of net periodic benefit cost:				
Service cost	\$ —	\$ —	\$ —	\$ —
Interest on projected benefit obligation	215	299	783	853
Less estimated return on plan assets	347	351	895	949
Amortization of unrecognized losses	265	114	548	424
Net periodic benefit cost	\$ 133	\$ 62	\$ 436	\$ 328

## 6 INCOME TAXES

For the three and nine months ended June 30, 2017 and July 1, 2016, the Company's earnings before income taxes, income tax expense and effective income tax rate were as follows:

(thousands, except tax rate data)	Three Months Ended		Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Profit before income taxes	\$ 25,560	\$ 13,865	\$ 47,352	\$ 28,015
Income tax expense	9,007	7,024	12,784	12,387
Effective income tax rate	35.2 %	50.7 %	27.0 %	44.2 %

The change in the Company's effective tax rate for the three months ended June 30, 2017 versus the prior year period was primarily due to no tax benefit recorded for the non-deductible portion of the goodwill impairment charge recognized in the prior year period.

The change in the Company's effective tax rate for the nine month period ended June 30, 2017 versus the prior year period continues to be primarily due to the impact of current year first quarter foreign tax credit net tax benefit of about \$4,200 generated by the repatriation of approximately \$22,000 in the 2017 year to date period from foreign jurisdictions into the U.S. Additionally, the change in the comparative effective tax rate was also impacted as a result of no tax benefit being recorded on the non-deductible portion of the goodwill impairment charge reported in the prior year period.

Changes in profitability and financial outlook in both the U.S. and/or foreign jurisdictions may require changes in valuation allowances in order to reduce the Company's deferred tax assets and may drive fluctuations in the effective tax rate. The impact of the Company's operations in jurisdictions with a valuation allowance against its deferred tax assets for which no tax expense or benefit can be recognized is removed from the overall effective tax rate methodology and recorded directly based on year to date results for the year. The tax jurisdictions that have a valuation allowance for the periods ended June 30, 2017 and July 1, 2016 were:





Index

## JOHNSON OUTDOORS INC.

June 30, 2017 July 1, 2016

Australia Australia

Austria

France France

Indonesia

Japan Japan

Netherlands Netherlands

New Zealand New Zealand

Spain Spain

Switzerland Switzerland

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 2017 fiscal year tax expense is anticipated to include approximately \$500 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 \$250 related to uncertain income tax positions for the fiscal year ending September 29, 2017.

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. As of the date of this report, the following tax years remain open to examination by the respective tax jurisdictions:

Jurisdiction	Fiscal Years
United States	2014-2016
Canada	2013-2016
France	2012-2016
Germany	2013-2016
Italy	2011-2016
Japan	2016
Switzerland	2006-2016

## 7 INVENTORIES

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

	June 30, 2017	September 30, 2016	July 1, 2016
Raw materials	\$26,250	\$ 26,379	\$24,529
Work in process	168	34	85
Finished goods	41,821	41,984	46,513
	\$68,239	\$ 68,397	\$71,127

Index

## JOHNSON OUTDOORS INC.

## 8 GOODWILL

The changes in goodwill during the nine months ended June 30, 2017 and July 1, 2016 were as follows:

	June 30, 2017	July 1, 2016
Balance at beginning of period	\$ 11,196	\$ 14,292
Acquisitions	—	3,400
Impairment	—	(6,197 )
Amount attributable to movements in foreign currency rates	5	13
Balance at end of period	\$ 11,201	\$ 11,508

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 periods presented herein.

## 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 June 30, 2017 and July 1, 2016.

	June 30, 2017	July 1, 2016
Balance at beginning of period	\$ 4,326	\$ 4,301
Expense accruals for warranties issued during the period	5,386	3,489
Less current period warranty claims paid	3,461	3,206
Balance at end of period	\$ 6,251	\$ 4,584

## 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.

- 10 -

---

Index

## JOHNSON OUTDOORS INC.

## 11 INDEBTEDNESS

Debt was comprised of the following at June 30, 2017, September 30, 2016, and July 1, 2016:

	June 30, 2017	September 30, 2016	July 1, 2016
Term loans	\$ —	\$ 7,098	\$ 7,159
Revolvers	—	—	—
Other	—	291	288
Total debt	—	7,389	7,447
Less current portion of long term debt	—	381	378
Less short term debt	—	—	—
Total long-term debt	\$ —	\$ 7,008	\$ 7,069

## Term Loans

On October 24, 2016 the Company repaid its outstanding term loans with Ridgestone Bank totaling \$7,068. The early repayment of these loans resulted in a 3% pre-payment penalty. The Company's term loans had a maturity date of September 29, 2029. The interest rate in effect on the term loans was 5.50% at the date of repayment.

## 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 is based on LIBOR plus an applicable margin, which margin resets each quarter. 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 June 30, 2017 and July 1, 2016 was approximately 2.5% and 1.7%, 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 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 June 30, 2017 or July 1, 2016. The Company utilizes letters of credit primarily as security for the payment of future claims under its workers' compensation insurance, which totaled approximately \$279 and \$451 at June 30, 2017 and July 1, 2016, respectively. The Company had no unsecured lines of credit as of June 30, 2017 or July 1, 2016.

- 11 -

---

Index

JOHNSON OUTDOORS INC.

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 June 30, 2017 were denominated in currencies other than the U.S. dollar. Approximately 6% were denominated in euros, approximately 7% were denominated in Canadian dollars and approximately 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 June 30, 2017 and July 1, 2016, 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.

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, short term investments, accounts receivable, and accounts payable approximated their fair values at June 30, 2017, September 30, 2016 and July 1, 2016 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.

- 12 -

---

Index

## JOHNSON OUTDOORS INC.

## 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 June 30, 2017:

	Level 1	Level 2	Level 3	Total
Assets:				
Rabbi trust assets	\$ 14,071	\$ —	\$ —	\$ 14,071

The following table summarizes the Company's financial assets measured at fair value as of September 30, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Rabbi trust assets	\$ 12,637	\$ —	\$ —	\$ 12,637

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 effect of changes in the fair value of financial instruments on the Condensed Consolidated Statements of Operations for the three month periods ended June 30, 2017 and July 1, 2016 was:

Location of (income) loss recognized in Statement of Operations	Three Months Ended	
	June 30, 2017	July 1, 2016
Rabbi trust assets Other (income) expense, net	\$ (499 )	\$ (259 )

The effect of changes in the fair value of financial instruments on the Condensed Consolidated Statements of Operations for the nine month periods ended June 30, 2017 and July 1, 2016 was:

Location of (income) loss recognized in Statement of Operations	Nine Months Ended	
	June 30, 2017	July 1, 2016
Rabbi trust assets Other (income) expense, net	\$ (1,050 )	\$ (204 )



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:

- 13 -

---

Index

## JOHNSON OUTDOORS INC.

	Level 1	Level 2	Level 3	Total
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 the three or nine month periods ended June 30, 2017.

## 14NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. The Company intends to adopt this ASU during the first quarter of fiscal 2019 and is currently evaluating the impact that this standard will have on the consolidated financial statements.

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 consolidated 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. The Company elected to adopt this accounting standard on a prospective basis at the beginning of the first quarter of fiscal 2017.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The ASU includes provisions intended to simplify the measurement of inventory and to more clearly articulate the requirements for the measurement and disclosure of inventory. Under such provisions, an entity should measure inventory within the scope of this amendment at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. 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. The Company is evaluating the effect of this standard on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU includes, among other provisions, one that will require presentation of the service cost component of net benefit cost in the same line item(s) as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of a subtotal of income from operations. This amendment is effective for annual periods beginning after December 15, 2017 and the interim periods within those annual periods. The Company is evaluating the effect of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment, which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. The Company intends to early adopt this ASU in the fourth quarter of fiscal 2017 in conjunction with its annual impairment test. The amendments in this ASU are to be applied on a prospective basis and the Company does not anticipate the adoption will have a significant impact on its consolidated financial statements.

- 14 -

---

Index

JOHNSON OUTDOORS INC.

15 SEGMENTS OF BUSINESS

Effective with the first fiscal quarter of 2017, the Company has renamed its business segments to better reflect the outdoor lifestyle focus of the Company's brands. The Company's segments are now referred to as Fishing (formerly Marine Electronics), Camping (formerly Outdoor Equipment), Watercraft Recreation (formerly Watercraft) and Diving (unchanged). There is no change in the composition of the Company's segments.

The Company conducts its worldwide operations through separate business segments, 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. During the three and nine month periods ended June 30, 2017 and July 1, 2016 there was no single customer that represented more than 10% of the Company's total net sales.

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.

- 15 -

---

Index

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

	Three Months Ended		Nine Months Ended		
	June 30,	July 1,	June 30,	July 1,	September 30, 2016
	2017	2016	2017	2016	
Net sales:					
Fishing (f.k.a. Marine Electronics):					
Unaffiliated customers	\$103,808	\$87,928	\$276,187	\$237,351	
Interunit transfers	166	135	282	305	
Camping (f.k.a. Outdoor Equipment):					
Unaffiliated customers	12,115	13,202	29,213	31,117	
Interunit transfers	14	15	26	30	
Watercraft Recreation (f.k.a. Watercraft):					
Unaffiliated customers	17,199	19,167	38,477	40,270	
Interunit transfers	91	97	117	123	
Diving					
Unaffiliated customers	21,814	18,709	54,411	49,554	
Interunit transfers	170	136	492	643	
Other / Corporate	338	294	522	498	
Eliminations	(441 )	(383 )	(917 )	(1,101 )	
Total	\$155,274	\$139,300	\$398,810	\$358,790	
Operating profit (loss):					
Fishing	\$24,293	\$19,970	\$54,324	\$42,948	
Camping	1,452	1,168	1,691	1,965	
Watercraft Recreation	2,417	2,894	2,466	3,190	
Diving	1,218	(6,204 )	468	(8,782 )	
Other / Corporate	(4,643 )	(4,245 )	(13,282 )	(11,500 )	
	\$24,737	\$13,583	\$45,667	\$27,821	
Total assets (end of period):					
Fishing			\$137,259	\$128,299	\$118,357
Camping			29,777	31,979	28,249
Watercraft Recreation			26,551	29,589	19,693
Diving			55,410	73,930	77,195
Other / Corporate			105,960	62,364	66,785
			\$354,957	\$326,161	\$310,279

1

- 16 -

Index

## JOHNSON OUTDOORS INC.

## 16 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in Accumulated Other Comprehensive Income (“AOCI”) by component, net of tax, for the three months ended June 30, 2017 were as follows:

	Foreign Currency Translation Adjustment	Unamortized Loss on Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2017	\$ 7,652	\$ (7,996	) \$ (344 )
Other comprehensive income before reclassifications	2,350	—	2,350
Amounts reclassified from accumulated other comprehensive income	—	265	265
Tax effects	—	(100	) (100 )
Balance at June 30, 2017	\$ 10,002	\$ (7,831	) \$ 2,171

The changes in 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)
Balance at April 1, 2016	\$ 11,524	\$ (6,423	) \$ 5,101
Other comprehensive loss 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

The changes in AOCI by component, net of tax, for the nine months ended June 30, 2017 were as follows:

	Foreign Currency Translation Adjustment	Unamortized Loss on Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance at September 30, 2016	\$ 10,525	\$ (8,171	) \$ 2,354
Other comprehensive loss before reclassifications	(523	) —	(523 )
Amounts reclassified from accumulated other comprehensive income	—	548	548
Tax effects	—	(208	) (208 )
Balance at June 30, 2017	\$ 10,002	\$ (7,831	) \$ 2,171

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)
--	--	--

Edgar Filing: JOHNSON OUTDOORS INC - Form 10-Q

Balance at October 2, 2015	\$ 10,253	\$ (6,616	) \$ 3,637
Other comprehensive income 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

- 17 -

---

Index

## JOHNSON OUTDOORS INC.

The reclassifications out of AOCI for the three months ended June 30, 2017 were as follows:

	Statement of Operations Presentation
Unamortized loss on defined benefit pension plans	
Amortization of loss	\$265 Cost of sales / Operating expense
Tax effects	(100) Income tax expense
Total reclassifications for the period	\$165

The reclassifications out of AOCI for the three months 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

The reclassifications out of AOCI for the nine months ended June 30, 2017 were as follows:

	Statement of Operations Presentation
Unamortized loss on defined benefit pension plans:	
Amortization of loss	\$548 Cost of sales / Operating expense
Tax effects	(208) Income tax expense
Total reclassifications for the period	\$340

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

## 17 ACQUISITIONS

## Acquisition of SeaBear

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

The Company believed that sales of SeaBear’s innovative diving technology could be expanded through the Company’s global marketing and distribution networks. The SeaBear acquisition is included in the Company’s Diving segment. Goodwill of \$2,219, which represents the excess of the purchase price over the net tangible and intangible assets



acquired, is not deductible for tax purposes.

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 of \$6,197 was required thereby reducing the carrying value of goodwill reported in the Diving segment (including the portion attributable to the SeaBear acquisition) to \$0.

- 18 -

---

Index

## 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. Approximately \$250 of the purchase price was in the form of contingent consideration which requires the Seller to meet certain conditions prior to the release of such funds.

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 Fishing segment. Goodwill of \$827, which represents the excess of the purchase price over the net tangible and intangible assets acquired, is deductible for tax purposes. The goodwill resulting from this acquisition reflects the strong cash flow expected from the acquisition due primarily to expected expanded distribution and growth of Humminbird marine electronics and cartography.

## Purchase Price Allocation

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.

The following table presents the aggregate purchase price allocation for the Company’s acquisitions described above:

Recognized amounts of identifiable assets acquired and liabilities assumed	
Accounts receivable	\$ 66
Inventories	197
Other current assets	40
Property, plant and equipment	27
Identifiable intangible assets	6,706
Less, accounts payable and accruals	350
Less, long term liabilities	580
Total identifiable net assets	6,106
Goodwill	3,046
Net assets acquired	\$ 9,152

The values assigned in the acquisitions described above to finite lived intangible assets were as follows:

Description	Amount	Useful Life (yrs)
Developed technologies	\$ 6,131	7.6
Non-compete agreements	575	5



Index

JOHNSON OUTDOORS INC.

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.

Non-compete agreements were valued using the comparative income differential method based on the estimated negative impact that could occur in the absence of the restrictions enforced by the agreements.

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

Transaction costs of \$588 were recognized during the nine months ended July 1, 2016.

- 20 -

---

Index

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 three and nine month periods ended June 30, 2017 and July 1, 2016. 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 September 30, 2016 which was filed with the Securities and Exchange Commission on December 13, 2016.

Effective with the first fiscal quarter of 2017, the Company has renamed its business segments to better reflect the outdoor lifestyle focus of the Company's brands. The Company's segments will be referred to as Fishing (formerly Marine Electronics), Camping (formerly Outdoor Equipment), Watercraft Recreation (formerly Watercraft) and Diving (unchanged). There is no change in the composition of the Company's segments.

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 13, 2016 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 its increasing 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 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; any disruptions in the Company's supply chain as a result of material fluctuations in the Company's order volumes and requirements for raw materials and other components necessary to manufacture and produce the Company's products; 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.

#### Trademarks

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

- 21 -

---

Index

## 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 \$155,274 for the third quarter of fiscal 2017 increased \$15,974, or 11%, from the same period in the prior year reflecting record sales volumes in the Fishing business. The sales volume increase was the primary driver of a \$11,154, or 82%, improvement in operating income for the quarter over the prior 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					
	2016		2015		2014	
	Net Sales	Operating Profit	Net Sales	Operating Profit	Net Sales	Operating Profit
December	20 %	-4 %	16 %	-41 %	19 %	-17 %
March	31 %	66 %	31 %	43 %	29 %	69 %
June	32 %	59 %	33 %	92 %	32 %	56 %
September	17 %	-21 %	20 %	6 %	20 %	-8 %
	100 %	100 %	100 %	100 %	100 %	100 %

## Results of Operations

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

- 22 -

---

Index

## JOHNSON OUTDOORS INC.

	Three Months Ended		Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Net sales:				
Fishing (f.k.a. Marine Electronics)	\$ 103,974	\$ 88,063	\$ 276,469	\$ 237,656
Camping (f.k.a. Outdoor Equipment)	12,129	13,217	29,239	31,147
Watercraft Recreation (f.k.a. Watercraft)	17,290	19,264	38,594	40,393
Diving	21,984	18,845	54,903	50,197
Other / Eliminations	(103 )	(89 )	(395 )	(603 )
Total	\$ 155,274	\$ 139,300	\$ 398,810	\$ 358,790
Operating profit (loss):				
Fishing	\$ 24,293	\$ 19,970	\$ 54,324	\$ 42,948
Camping	1,452	1,168	1,691	1,965
Watercraft Recreation	2,417	2,894	2,466	3,190
Diving	1,218	(6,204 )	468	(8,782 )
Other / Eliminations	(4,643 )	(4,245 )	(13,282 )	(11,500 )
Total	\$ 24,737	\$ 13,583	\$ 45,667	\$ 27,821

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 June 30, 2017 were \$155,274, an increase of \$15,974, or 11%, compared to \$139,300 for the three months ended July 1, 2016. Foreign currency translation had a negative impact of 0.5% on current year third quarter sales compared to prior year's third quarter.

Net sales for the three months ended June 30, 2017 for the Fishing business were \$103,974, up \$15,911, or 18%, from \$88,063 during the third fiscal quarter of the prior year. The increase was driven by successful new product sales including sales of new electric steer trolling motors with redesigned i-Pilot and i-Pilot Link systems, the new Ultrex trolling motor and large display HELIX series fish finders.

Net sales for the Camping business were \$12,129 for the third quarter of the current fiscal year, a decrease of \$1,088, or 8%, from the prior year net sales during the same period of \$13,217. Increases in Jetboil sales during the current year quarter were more than offset by decreases in sales of all other product lines driven by a soft retail marketplace and bankruptcies in key accounts.

Net sales for the third quarter of fiscal 2017 for the Watercraft Recreation business were \$17,290, a decrease of \$1,974, or 10%, compared to \$19,264 in the prior year period due primarily to a weakened recreational kayak market and bankruptcies in key accounts.

Diving net sales were \$21,984 for the three months ended June 30, 2017 versus \$18,845 for the three months ended July 1, 2016, an increase of \$3,139, or 17%. The increase was driven in part by improved computer sales versus the prior year quarter and sales of the new HYDROS PRO buoyancy compensator which began shipping during the fiscal 2017 first quarter. Foreign currency translation impacted Diving's third quarter sales unfavorably by 1.2% versus the prior year's third fiscal quarter.



Edgar Filing: JOHNSON OUTDOORS INC - Form 10-Q

For the nine months ended June 30, 2017, consolidated net sales increased \$40,020, or 11%, to \$398,810 compared to \$358,790 for the nine months ended July 1, 2016. Increased sales in the Fishing segment were the primary driver of the improvement over the prior year period.

Net sales for the nine months ended June 30, 2017 for the Fishing business were \$276,469, up \$38,813, or 16%, from \$237,656 during the same period of the prior year. Similar to the results for the quarter, successful new product sales were the key drivers of the increase.

- 23 -

---

Index

JOHNSON OUTDOORS INC.

Net sales for the Camping segment totaled \$29,239 for the current year to date period, a decrease of \$1,908, or 6%, from net sales during the same period of the prior year of \$31,147. Similar to the quarter's results, the decrease was driven primarily by a soft retail marketplace and bankruptcies in key accounts.

Net sales for the first nine months of fiscal 2017 in the Watercraft Recreation business were \$38,594, a decrease of \$1,799, or 4%, compared to \$40,393 in the prior year period. Similar to the results for the quarter, the decrease was driven by a weakened recreational kayak market and bankruptcies in key accounts.

Diving net sales were \$54,903 for the nine months ended June 30, 2017 versus \$50,197 for the nine months ended July 1, 2016. The 9% improvement year over year was driven by successful new product sales in the current year period. Foreign currency translation impacted net sales unfavorably by 1% compared to the prior year period.

Cost of Sales

Cost of sales for the three months ended June 30, 2017 was \$84,644 compared to \$80,017 for the three months ended July 1, 2016. The increase year over year was driven primarily by higher sales volume offset in part by reductions in reserves for inventory obsolescence and returns.

Cost of sales for the nine months ended June 30, 2017 was \$226,702 compared to \$211,213 in the same period of the prior year. The increase was primarily driven by the increase in sales volume offset in part by a reduction in inventory reserves during the current year to date period.

Gross Profit Margin

For the three months ended June 30, 2017, gross profit as a percentage of net sales was 45.5% compared to 42.6% in the three month period ended July 1, 2016. Favorable product mix and overhead efficiencies driven by sales volume increases along with to modest price increases were the primary drivers of the increase year over year.

For the nine months ended June 30, 2017, gross profit as a percentage of net sales was 43.2% compared to 41.1% in the nine months ended July 1, 2016. Similar to the quarter's results, the improvement year over year was driven primarily by favorable product mix, overhead efficiencies and modest price increases between periods.

Operating Expenses

Operating expenses were \$45,893 for the three months ended June 30, 2017 compared to \$45,700 for the three months ended July 1, 2016. The increase of \$193 was primarily due to higher sales volume related expenses, higher incentive compensation expense and higher administrative and legal expenses in the current year quarter offset in large part by the impact of the goodwill impairment charge of \$6,197 recognized during the third quarter of fiscal 2016 in the Diving segment.

Operating expenses were \$126,441 for the nine months ended June 30, 2017 compared to \$119,756 in the prior year nine month period. The \$6,685 increase year over year was driven primarily by higher sales volume related expenses, increased incentive compensation expense and higher administrative and legal costs in the current year period offset in part by the goodwill impairment charge of \$6,197 recognized in the prior year.

Operating Profit

Operating profit on a consolidated basis for the three month period ended June 30, 2017 was \$24,737 compared to an operating profit of \$13,583 in the third quarter of the prior fiscal year. The improvement year over year was driven primarily by the increased sales volume between quarters and the other factors noted above.

Operating profit on a consolidated basis for the nine months ended June 30, 2017 was \$45,667 compared to an operating profit of \$27,821 in the prior year to date period. The improvement year over year was driven primarily by the increased sales volume between years and the other factors noted above.

Interest

For the three months ended June 30, 2017, interest expense was \$77 compared to \$93 in the three months ended July 1, 2016. For the nine months ended June 30, 2017, interest expense totaled \$687 compared to \$580 for the nine months ended July 1, 2016. Interest income for each of the three and nine month periods ended June 30, 2017 and July 1, 2016 was less than \$100.

- 24 -

---

Index

JOHNSON OUTDOORS INC.

Other (Income) Expense, net

Other income was \$848 for the three months ended June 30, 2017 compared to other income of \$371 in the prior year period. For the three months ended June 30, 2017, foreign currency exchange gains were \$147 compared to gains of \$42 for the three months ended July 1, 2016. Investment gains and earnings on the assets related to the Company's non-qualified deferred compensation plan were \$558 in the three month period ended June 30, 2017 compared to investment gains and earnings of \$302 in the three month period ended July 1, 2016.

Other income for the nine months ended June 30, 2017 was \$2,288 compared to \$752 of income for the nine months ended July 1, 2016. For the nine months ended June 30, 2017, foreign currency exchange gains were \$658 compared to gains of \$63 for the nine months ended July 1, 2016. Net investment gains and earnings on the assets related to the Company's non-qualified deferred compensation plan were \$1,456 in the nine month period ended June 30, 2017 compared to \$638 in the nine month period ended July 1, 2016.

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 June 30, 2017 was 35.2% and 27.0%, respectively, compared to 50.7% and 44.2% in the corresponding periods of the prior year.

The change in the Company's effective tax rate for the three month period ended June 30, 2017 versus the prior year quarterly period was primarily due to no tax benefit recorded in the prior year period on the non-deductible portion of the goodwill impairment charge recognized in that period.

The change in the Company's effective tax rate for the nine month period ended June 30, 2017 versus the prior year period continues to be primarily due to the impact of a foreign tax credit net tax benefit of roughly \$4,200 generated by the repatriation of approximately \$22,000 to the U.S. from foreign jurisdictions in the first quarter of the current year period. Additionally, the decrease in the comparative effective tax rate to the prior year period was the result of no tax benefit recorded on the non-deductible portion of the goodwill impairment charge reported in the prior year period.

The Company does not intend or foresee a need to repatriate the remaining undistributed foreign earnings and considers these earnings indefinitely reinvested in the foreign subsidiaries.

Net Income

Net income for the three months ended June 30, 2017 was \$16,553, or \$1.65 per diluted common class A and B share compared to net income of \$6,841, or \$0.68 per diluted common class A and B share, for the third quarter of the prior fiscal year. Net income for the nine months ended June 30, 2017 was \$34,568, or \$3.45 per diluted common class A and B share compared to \$15,628, or \$1.56 per diluted common class A and B share, for the corresponding period of the prior year.

Liquidity and Financial Condition

Cash and cash equivalents and short term investments totaled \$93,741 as of June 30, 2017, compared to cash and cash equivalents of \$75,602 as of July 1, 2016. The Company's debt to total capitalization ratio was 0% as of June 30, 2017 and 3% as of July 1, 2016. The Company's total debt balance was \$0 as of June 30, 2017 compared to \$7,447 as of July 1, 2016. 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 \$79,292 as of June 30, 2017, an increase of \$8,634 compared to \$70,658 as of July 1, 2016. The increase is due primarily to the increase in sales for products sold in the Fishing segment between years.

Inventories, net of inventory reserves, were \$68,239 as of June 30, 2017, a decrease of \$2,888, compared to \$71,127 as of July 1, 2016. The decrease in inventory was driven by decreases in each of the segments between these dates.

Accounts payable were \$33,889 at June 30, 2017 compared to \$33,715 as of July 1, 2016.

- 25 -

---

Index

## JOHNSON OUTDOORS INC.

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	
	June 30, 2017	July 1, 2016
Cash provided by (used for):		
Operating activities	\$25,886	\$26,933
Investing activities	(47,942)	(17,504)
Financing activities	(10,706)	(2,878 )
Effect of foreign currency rate changes on cash	(791 )	(108 )
(Decrease) Increase in cash and cash equivalents	\$(33,553)	\$6,443

Operating Activities

Cash provided by operations totaled \$25,886 for the nine months ended June 30, 2017 compared with cash provided by operations of \$26,933 during the corresponding period of the prior fiscal year. The increase in net income in the current year period was more than offset by changes in accounts receivable between periods.

Amortization of deferred financing costs, depreciation and other amortization charges were \$9,947 for the nine month period ended June 30, 2017 compared to \$8,852 for the corresponding period of the prior year. The increase over the prior year period reflects the write-off of deferred financing costs related to the repayment of the Company's term loans during the first quarter of 2017.

Investing Activities

Cash used for investing activities totaled \$47,942 and \$17,504 for the nine months ended June 30, 2017 and July 1, 2016, respectively. The current year period includes the purchase of \$40,000 of short-term investments with excess cash. The prior year period included acquisitions of \$8,902. The remaining \$7,942 for the current year and \$8,602 for 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 2017 are expected to be funded by working capital.

Financing Activities

Cash flows used for financing activities totaled \$10,706 for the nine months ended June 30, 2017 compared to \$2,878 for the nine month period ended July 1, 2016. On October 24, 2016 the Company repaid its outstanding term loans with Ridgestone Bank totaling \$7,068. The early repayment of these loans resulted in payment of a 3% pre-payment penalty. The Company's term loans had a maturity date of September 29, 2029. The interest rate in effect on the term loans was 5.50% at the date of repayment.

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 June 30, 2017 and July 1, 2016 was approximately 2.5% and 1.7%, respectively.

- 26 -

---

Index

## JOHNSON OUTDOORS INC.

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 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 June 30, 2017 the Company held approximately \$28,301 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 including under operating leases and open purchase orders. The following schedule details these significant contractual obligations existing at June 30, 2017.

	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Operating lease obligations	23,595	1,515	9,617	7,858	4,605
Open purchase orders	68,825	68,825	—	—	—
Total contractual obligations	\$92,420	\$ 70,340	\$ 9,617	\$ 7,858	\$ 4,605

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 \$279 and \$451 at June 30, 2017 and July 1, 2016, respectively.

The Company anticipates making contributions of \$47 to its defined benefit pension plans during the remainder of fiscal 2017.

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 September 30, 2016 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 June 30, 2017.

## 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 June 30, 2017 were denominated in currencies other than the U.S. dollar. Approximately 6% were denominated in euros, approximately 7% 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 June 30, 2017 and July 1, 2016, the Company held no foreign currency forward contracts.

- 27 -

---

Index

## JOHNSON OUTDOORS INC.

## 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 is subject to interest rate risk on its seasonal working capital needs which are funded with short term floating rate debt.

## 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.

## 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 June 30, 2017:

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

## 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.

- 28 -

---

Index

JOHNSON OUTDOORS INC.

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.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, the Company may be involved in various legal proceedings from time to time. We do not believe we are currently involved in any claim or action the ultimate disposition of which would have a material adverse effect on our financial statements.

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 13, 2016 with the Securities and Exchange Commission.

Item 6. Exhibits

See Exhibit Index to this Form 10-Q report.

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 4, 2017

/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 June 30, 2017 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.

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