

BRIGGS & STRATTON CORP
Form 10-Q
May 05, 2015
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2015

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 1-1370

BRIGGS & STRATTON CORPORATION
(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
incorporation or organization)
12301 West Wirth Street, Wauwatosa, Wisconsin 53222
(Address of Principal Executive Offices) (Zip Code)
(414) 259-5333
(Registrant's telephone number, including area code)

39-0182330
(I.R.S. Employer
Identification No.)

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Edgar Filing: BRIGGS & STRATTON CORP - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 1, 2015
COMMON STOCK, par value \$0.01 per share	44,599,944 Shares

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES
INDEX

	Page No.
PART I – FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u> – March 29, 2015 and June 29, 2014	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u> – Three and Nine Months Ended March 29, 2015 and March 30, 2014	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> – Three and Nine Months Ended March 29, 2015 and March 30, 2014	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows</u> – Nine Months Ended March 29, 2015 and March 30, 2014	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>39</u>
Item 4. <u>Controls and Procedures</u>	<u>39</u>
PART II – OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>39</u>
Item 1A. <u>Risk Factors</u>	<u>39</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>39</u>
Item 6. <u>Exhibits</u>	<u>40</u>
<u>Signatures</u>	<u>41</u>
<u>Exhibit Index</u>	<u>42</u>

Table of ContentsBRIGGS & STRATTON CORPORATION AND SUBSIDIARIES
PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

ASSETS

	March 29, 2015	June 29, 2014
CURRENT ASSETS:		
Cash and Cash Equivalents	\$49,694	\$194,668
Accounts Receivable, Net	315,725	220,590
Inventories -		
Finished Products and Parts	323,059	268,116
Work in Process	115,145	102,431
Raw Materials	8,692	5,556
Total Inventories	446,896	376,103
Deferred Income Tax Asset	48,958	48,958
Prepaid Expenses and Other Current Assets	35,463	30,016
Total Current Assets	896,736	870,335
OTHER ASSETS:		
Goodwill	156,278	144,522
Investments	29,354	27,137
Debt Issuance Costs	3,950	4,671
Other Intangible Assets, Net	95,405	80,317
Long-Term Deferred Income Tax Asset	129	15,178
Other Long-Term Assets, Net	12,445	10,539
Total Other Assets	297,561	282,364
PLANT AND EQUIPMENT:		
Cost	1,028,368	1,035,848
Less - Accumulated Depreciation	728,136	738,841
Total Plant and Equipment, Net	300,232	297,007
TOTAL ASSETS	\$1,494,529	\$1,449,706

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(In thousands, except per share data)

(Unaudited)

LIABILITIES & SHAREHOLDERS' INVESTMENT

	March 29, 2015	June 29, 2014
CURRENT LIABILITIES:		
Accounts Payable	\$ 197,476	\$ 169,271
Short-Term Debt	60,100	—
Accrued Liabilities	158,644	133,916
Total Current Liabilities	416,220	303,187
OTHER LIABILITIES:		
Accrued Pension Cost	107,992	126,529
Accrued Employee Benefits	24,487	24,491
Accrued Postretirement Health Care Obligation	51,750	59,290
Deferred Income Tax Liability	3,414	—
Other Long-Term Liabilities	40,822	38,775
Long-Term Debt	225,000	225,000
Total Other Liabilities	453,465	474,085
SHAREHOLDERS' INVESTMENT:		
Common Stock - Authorized 120,000 shares, \$.01 par value, issued 57,854 shares	579	579
Additional Paid-In Capital	76,332	78,466
Retained Earnings	1,056,981	1,048,466
Accumulated Other Comprehensive Loss	(218,840	) (195,257)
Treasury Stock at cost, 13,174 and 11,536 shares, respectively	(290,208	) (259,820)
Total Shareholders' Investment	624,844	672,434
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$ 1,494,529	\$ 1,449,706

The accompanying notes are an integral part of these statements.

Table of ContentsBRIGGS & STRATTON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
NET SALES	\$619,015	\$628,403	\$1,355,931	\$1,362,299
COST OF GOODS SOLD	492,847	498,927	1,080,883	1,106,148
RESTRUCTURING CHARGES	7,088	(774)	20,780	4,704
Gross Profit	119,080	130,250	254,268	251,447
ENGINEERING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	72,714	74,863	216,767	215,402
RESTRUCTURING CHARGES	943	—	2,481	425
Income from Operations	45,423	55,387	35,020	35,620
INTEREST EXPENSE	(5,233)	(4,720)	(14,641)	(13,823)
OTHER INCOME, Net	2,323	2,295	6,749	6,138
Income Before Income Taxes	42,513	52,962	27,128	27,935
PROVISION FOR INCOME TAXES	8,592	13,809	1,542	7,429
NET INCOME	\$33,921	\$39,153	\$25,586	\$20,506
EARNINGS PER SHARE				
Basic	\$0.75	\$0.82	\$0.56	\$0.43
Diluted	0.75	0.82	0.56	0.43
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	44,160	46,129	44,605	46,549
Diluted	44,241	46,245	44,656	46,615
DIVIDENDS PER SHARE	\$0.125	\$0.12	\$0.375	\$0.36

The accompanying notes are an integral part of these statements.

5

Table of ContentsBRIGGS & STRATTON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Net Income	\$33,921	\$39,153	\$25,586	\$20,506
Other Comprehensive Income (Loss):				
Cumulative Translation Adjustments	(12,925	) 2,212	(34,045	) (1,160
Unrealized Gain (Loss) on Derivative Instruments, Net of Tax	(173	) 1,381	3,333	2,568
Unrecognized Pension & Postretirement Obligation, Net of Tax	2,377	4,381	7,129	13,168
Other Comprehensive Income (Loss)	(10,721	) 7,974	(23,583	) 14,576
Total Comprehensive Income	\$23,200	\$47,127	\$2,003	\$35,082

The accompanying notes are an integral part of these statements.

6

Table of ContentsBRIGGS & STRATTON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	March 29, 2015	March 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$25,586	\$20,506
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities:		
Depreciation and Amortization	39,302	38,333
Stock Compensation Expense	4,840	5,822
Loss on Disposition of Plant and Equipment	300	462
Provision (Credit) for Deferred Income Taxes	914	(8,705)
Equity in Earnings of Unconsolidated Affiliates	(5,005)	(4,277)
Dividends Received from Unconsolidated Affiliates	4,381	4,069
Non-Cash Restructuring Charges	12,445	3,386
Change in Operating Assets and Liabilities:		
Accounts Receivable	(88,898)	(147,738)
Inventories	(58,715)	11,713
Other Current Assets	5,917	(9,083)
Accounts Payable, Accrued Liabilities and Income Taxes	18,844	76,335
Other, Net	(12,046)	(4,856)
Net Cash Used in Operating Activities	(52,135)	(14,033)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Plant and Equipment	(44,157)	(29,471)
Proceeds Received on Disposition of Plant and Equipment	318	109
Cash Paid for Acquisition, Net of Cash Acquired	(59,855)	—
Other, Net	(250)	—
Net Cash Used in Investing Activities	(103,944)	(29,362)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on Short-Term Debt	—	(300)
Net Borrowings on Revolver	60,100	—
Debt Issuance Costs	—	(949)
Treasury Stock Purchases	(39,560)	(30,066)
Stock Option Exercise Proceeds and Tax Benefits	3,921	4,361
Cash Dividends Paid	(11,374)	(11,387)
Net Cash Provided by (Used in) Financing Activities	13,087	(38,341)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	(1,982)	529
NET DECREASE IN CASH AND CASH EQUIVALENTS	(144,974)	(81,207)
CASH AND CASH EQUIVALENTS, Beginning	194,668	188,445
CASH AND CASH EQUIVALENTS, Ending	\$49,694	\$107,238

The accompanying notes are an integral part of these statements.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General Information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and therefore do not include all information and footnotes necessary for a fair statement of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but also does not include all disclosures required by accounting principles generally accepted in the United States. However, in the opinion of Briggs & Stratton Corporation (the Company), adequate disclosures have been presented to prevent the information from being misleading, and all adjustments necessary to fairly present the results of operations and financial position have been included. All of these adjustments are of a normal recurring nature, except as otherwise noted.

Interim results are not necessarily indicative of results for a full year. The information included in these condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto that were included in the Company's latest Annual Report on Form 10-K.

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, under either full or modified retrospective adoption. Early application is not permitted. Management is currently assessing the potential impact of this new accounting pronouncement on the Company's results of operations, financial position, and cash flow.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

3. Accumulated Other Comprehensive Income (Loss)

The following tables set forth the changes in accumulated other comprehensive income (loss) (in thousands):

	Three Months Ended March 29, 2015			
	Cumulative Translation Adjustments	Derivative Financial Instruments	Pension and Postretirement Benefit Plans	Total
Beginning Balance	\$ (8,067	) \$ 2,422	\$ (202,474	) \$ (208,119
Other Comprehensive Income (Loss) Before Reclassification	(12,925	) 3,824	—	(9,101
Income Tax Benefit (Expense)	—	(1,453	) —	(1,453
Net Other Comprehensive Income (Loss) Before Reclassifications	(12,925	) 2,371	—	(10,554
Reclassifications:				
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	(4,728	) —	(4,728
Realized (Gains) Losses - Commodity Contracts (1)	—	319	—	319
Realized (Gains) Losses - Interest Rate Swaps (1)	—	306	—	306
Amortization of Prior Service Costs (Credits) (2)	—	—	(644	) (644
Amortization of Actuarial Losses (2)	—	—	4,477	4,477
Total Reclassifications Before Tax	—	(4,103	) 3,833	(270
Income Tax Expense (Benefit)	—	1,559	(1,456	) 103
Net Reclassifications	—	(2,544	) 2,377	(167
Other Comprehensive Income (Loss)	(12,925	) (173	) 2,377	(10,721
Ending Balance	\$ (20,992	) \$ 2,249	\$ (200,097	) \$ (218,840

(1) Amounts reclassified to net income (loss) are included in net sales or cost of goods sold. See Note 10 for information related to derivative financial instruments.

(2) Amounts reclassified to net income (loss) are included in the computation of net periodic expense, which is presented in cost of goods sold or engineering, selling, general and administrative expenses. See Note 8 for information related to pension and postretirement benefit plans.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

	Three Months Ended March 30, 2014				
	Cumulative	Derivative	Pension and		
	Translation	Financial	Postretirement	Total	
	Adjustments	Instruments	Benefit Plans		
Beginning Balance	\$8,514	\$(2,486	) \$(224,354	) \$(218,326)
Other Comprehensive Income (Loss) Before Reclassification	2,212	323	—	2,535	
Income Tax Benefit (Expense)	—	(124	) —	(124)
Net Other Comprehensive Income (Loss) Before Reclassifications	2,212	199	—	2,411	
Reclassifications:					
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	448	—	448	
Realized (Gains) Losses - Commodity Contracts (1)	—	1,165	—	1,165	
Realized (Gains) Losses - Interest Rate Swaps (1)	—	302	—	302	
Amortization of Prior Service Costs (Credits) (2)	—	—	(679	) (679)
Amortization of Actuarial Losses (2)	—	—	7,780	7,780	
Total Reclassifications Before Tax	—	1,915	7,101	9,016	
Income Tax Expense (Benefit)	—	(733	) (2,720	) (3,453)
Net Reclassifications	—	1,182	4,381	5,563	
Other Comprehensive Income (Loss)	2,212	1,381	4,381	7,974	
Ending Balance	\$10,726	\$(1,105	) \$(219,973	) \$(210,352)

(1) Amounts reclassified to net income (loss) are included in net sales or cost of goods sold. See Note 10 for information related to derivative financial instruments.

(2) Amounts reclassified to net income (loss) are included in the computation of net periodic expense, which is presented in cost of goods sold or engineering, selling, general and administrative expenses. See Note 8 for information related to pension and postretirement benefit plans.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

	Nine Months Ended March 29, 2015			
	Cumulative Translation Adjustments	Derivative Financial Instruments	Pension and Postretirement Benefit Plans	Total
Beginning Balance	\$13,053	\$(1,084	) \$(207,226	) \$(195,257)
Other Comprehensive Income (Loss) Before Reclassification	(34,045	) 10,629	—	(23,416)
Income Tax Benefit (Expense)	—	(4,039	) —	(4,039)
Net Other Comprehensive Income (Loss) Before Reclassifications	(34,045	) 6,590	—	(27,455)
Reclassifications:				
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	(7,025	) —	(7,025)
Realized (Gains) Losses - Commodity Contracts (1)	—	841	—	841
Realized (Gains) Losses - Interest Rate Swaps (1)	—	931	—	931
Amortization of Prior Service Costs (Credits) (2)	—	—	(1,933	) (1,933)
Amortization of Actuarial Losses (2)	—	—	13,432	13,432
Total Reclassifications Before Tax	—	(5,253	) 11,499	6,246
Income Tax Expense (Benefit)	—	1,996	(4,370	) (2,374)
Net Reclassifications	—	(3,257	) 7,129	3,872
Other Comprehensive Income (Loss)	(34,045	) 3,333	7,129	(23,583)
Ending Balance	\$ (20,992	) \$2,249	\$ (200,097	) \$ (218,840)

(1) Amounts reclassified to net income (loss) are included in net sales or cost of goods sold. See Note 10 for information related to derivative financial instruments.

(2) Amounts reclassified to net income (loss) are included in the computation of net periodic expense, which is presented in cost of goods sold or engineering, selling, general and administrative expenses. See Note 8 for information related to pension and postretirement benefit plans.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

	Nine Months Ended March 30, 2014			
	Cumulative Translation Adjustments	Derivative Financial Instruments	Pension and Postretirement Benefit Plans	Total
Beginning Balance	\$ 11,886	\$(3,673	) \$(233,141	) \$(224,928
Other Comprehensive Income (Loss) Before Reclassification	(1,160	) (2,757	) —	(3,917
Income Tax Benefit (Expense)	—	1,056	—	1,056
Net Other Comprehensive Income (Loss) Before Reclassifications	(1,160	) (1,701	) —	(2,861
Reclassifications:				
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	1,197	—	1,197
Realized (Gains) Losses - Commodity Contracts (1)	—	4,823	—	4,823
Realized (Gains) Losses - Interest Rate Swaps (1)	—	899	—	899
Amortization of Prior Service Costs (Credits) (2)	—	—	(2,037	) (2,037
Amortization of Actuarial Losses (2)	—	—	23,333	23,333
Total Reclassifications Before Tax	—	6,919	21,296	28,215
Income Tax Expense (Benefit)	—	(2,650	) (8,128	) (10,778
Net Reclassifications	—	4,269	13,168	17,437
Other Comprehensive Income (Loss)	(1,160	) 2,568	13,168	14,576
Ending Balance	\$ 10,726	\$(1,105	) \$(219,973	) \$(210,352

(1) Amounts reclassified to net income (loss) are included in net sales or cost of goods sold. See Note 10 for information related to derivative financial instruments.

(2) Amounts reclassified to net income (loss) are included in the computation of net periodic expense, which is presented in cost of goods sold or engineering, selling, general and administrative expenses. See Note 8 for information related to pension and postretirement benefit plans.

4. Acquisitions

On August 29, 2014, the Company acquired all of the outstanding shares of Allmand Bros., Inc. ("Allmand") of Holdrege, Nebraska for total cash consideration of \$59.9 million, net of cash acquired. The total cash consideration, net of cash acquired, decreased by \$2.2 million during the third quarter of fiscal 2015 due to finalization of the working capital adjustment. Allmand is a leading designer and manufacturer of high quality towable light towers, industrial heaters, and solar LED arrow boards. Its products are used in a variety of industries, including construction, roadway, oil and gas, mining, and sporting and special events. Allmand's products are generally powered by diesel engines, and distributed through national and regional equipment rental companies, equipment dealers and distributors. Allmand sells its products and service parts in approximately 40 countries. As of March 29, 2015, the Company recorded a preliminary purchase price allocation based on its initial estimates of fair value. The preliminary purchase price allocation resulted in the recognition of \$15.5 million of goodwill, which was allocated to the Products Segment, and \$24.1 million of intangible assets, including \$15.7 million of customer relationships, \$8.1 million of tradenames, and \$0.3 million of other intangible assets.

The results of operations of Allmand have been included in the Condensed Consolidated Statements of Operations since the date of acquisition. Pro forma financial information and allocation of the preliminary purchase price are not presented as the effects of the acquisition are not material to the Company's consolidated results of operations or financial position.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

5. Restructuring Actions

During the first quarter of fiscal 2015, the Company announced and began implementing restructuring actions to narrow its assortment of lower-priced Snapper consumer lawn and garden equipment and consolidate its Products Segment manufacturing facilities in order to reduce costs. The Company closed its McDonough, Georgia plant in the fourth quarter of fiscal 2015 and is consolidating production into existing facilities in Wisconsin and New York.

The Company reports restructuring charges associated with manufacturing and related initiatives as costs of goods sold within the Condensed Consolidated Statements of Operations. Restructuring charges reflected as costs of goods sold include, but are not limited to, termination and related costs associated with manufacturing employees, asset impairments and accelerated depreciation relating to manufacturing initiatives, and other costs directly related to the restructuring initiatives implemented. The Company reports all other non-manufacturing related restructuring charges as engineering, selling, general and administrative expenses on the Condensed Consolidated Statements of Operations.

The restructuring actions discussed above resulted in pre-tax charges of \$8.0 million (\$5.2 million after tax or \$0.11 per diluted share) and \$23.3 million (\$15.1 million after tax or \$0.33 per diluted share) recorded within the Products Segment for the third quarter and first nine months of fiscal 2015, respectively. Total estimated pre-tax restructuring cost estimates for the restructuring actions remain unchanged at \$30 million to \$37 million, including non-cash write-downs of \$15 million to \$20 million.

The following is a rollforward of the restructuring reserve (included in Accrued Liabilities within the Condensed Consolidated Balance Sheets) attributable to Products Segment restructuring activities for the nine month period ended March 29, 2015 (in thousands):

	Termination Benefits	Other Costs	Total
Reserve Balance at June 29, 2014	\$—	\$105	\$105
Provisions	5,326	17,935	23,261
Cash Expenditures	(650)	(5,595)	(6,245)
Other Adjustments ⁽¹⁾	—	(12,445)	(12,445)
Reserve Balance at March 29, 2015	\$4,676	\$—	\$4,676

(1) Other adjustments includes \$1.2 million of asset impairments and \$11.2 million of accelerated depreciation.

6. Earnings Per Share

The Company computes earnings per share using the two-class method, an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company's unvested grants of restricted stock and deferred stock awards contain non-forfeitable rights to dividends (whether paid or unpaid), which are required to be treated as participating securities and included in the computation of basic earnings per share.

Information on earnings per share is as follows (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Net Income	\$33,921	\$39,153	\$25,586	\$20,506
Less: Allocation to Participating Securities	(893)	(1,150)	(626)	(552)
Net Income Available to Common Shareholders	\$33,028	\$38,003	\$24,960	\$19,954
Average Shares of Common Stock Outstanding	44,160	46,129	44,605	46,549
Diluted Average Shares Outstanding	44,241	46,245	44,656	46,615

Edgar Filing: BRIGGS & STRATTON CORP - Form 10-Q

Basic Earnings Per Share	\$0.75	\$0.82	\$0.56	\$0.43
Diluted Earnings Per Share	\$0.75	\$0.82	\$0.56	\$0.43

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

The dilutive effect of the potential exercise of outstanding stock-based awards to acquire common shares is calculated using the treasury stock method. The following options to purchase shares of common stock were excluded from the calculation of diluted earnings per share as the exercise prices were greater than the average market price of the common shares:

	Three Months Ended		Nine Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Options to Purchase Shares of Common Stock (in thousands)	845	508	845	916
Weighted Average Exercise Price of Options Excluded	\$20.33	\$36.68	\$20.33	\$29.62

On January 22, 2014, the Board of Directors of the Company authorized up to \$50 million in funds for use in the Company's common share repurchase program. On August 13, 2014, the Board of Directors of the Company authorized up to an additional \$50 million in funds associated with the common share repurchase program. As of March 29, 2015, the total remaining authorization was approximately \$47.7 million with an expiration date of June 30, 2016. The common share repurchase program authorizes the purchase of shares of the Company's common stock on the open market or in private transactions from time to time, depending on market conditions and certain governing loan covenants. During the nine months ended March 29, 2015, the Company repurchased 2,039,399 shares on the open market at an average price of \$19.40 per share, as compared to 1,479,626 shares purchased on the open market at an average price of \$20.32 per share during the nine months ended March 30, 2014.

7. Investments

This caption represents the Company's investments in unconsolidated affiliated companies.

During the third quarter of fiscal 2014, the Company joined with one of its independent distributors to form a venture to distribute service parts. The Company contributed non-cash assets in exchange for receiving an ownership interest in the venture. As a result of the transaction, the Company recorded an investment of \$6.5 million. In the first quarter of fiscal 2015, a second independent distributor joined the venture and, as a result, the Company recorded an additional investment of \$2.8 million. During the second quarter of fiscal 2015, the venture acquired a third independent distributor. The Company uses the equity method to account for this investment, and the earnings of the unconsolidated affiliate are recorded within the Products Segment. As of March 29, 2015, the Company's total investment in the venture was \$10.1 million, and its ownership percentage was 11.9%.

8. Pension and Postretirement Benefits

The Company has noncontributory defined benefit retirement plans and postretirement plans covering certain employees. The following tables summarize the plans' income and expense for the periods indicated (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Components of Net Periodic Expense (Income):				
Service Cost	\$858	\$1,911	\$74	\$83
Interest Cost on Projected Benefit Obligation	12,445	13,436	902	1,150
Expected Return on Plan Assets	(18,659	) (18,538) —	—
Amortization of:				
Prior Service Cost (Credit)	45	45	(689	) (724

Edgar Filing: BRIGGS & STRATTON CORP - Form 10-Q

Actuarial Loss	3,315	6,276	1,162	1,504
Net Periodic Expense (Income)	\$(1,996	) \$3,130	\$1,449	\$2,013

14

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended		Nine Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
Components of Net Periodic Expense (Income):				
Service Cost	\$2,574	\$5,735	\$222	\$250
Interest Cost on Projected Benefit Obligation	37,336	40,307	2,706	3,450
Expected Return on Plan Assets	(55,978	) (55,614) —	—
Amortization of:				
Prior Service Cost (Credit)	135	135	(2,068	) (2,172
Actuarial Loss	9,946	18,821	3,486	4,512
Net Periodic Expense (Income)	\$(5,987	) \$9,384	\$4,346	\$6,040

On January 1, 2014, an amendment to the Company's defined benefit retirement plans became effective that froze accruals for all U.S. non-bargaining employees. Also, on January 1, 2014, amendments became effective that increased benefits under the defined contribution plans.

The Company expects to make benefit payments of \$3.2 million attributable to its non-qualified pension plans during fiscal 2015. During the first nine months of fiscal 2015, the Company made payments of approximately \$2.3 million for its non-qualified pension plans. The Company anticipates making benefit payments of approximately \$12.7 million for its other postretirement benefit plans during fiscal 2015. During the first nine months of fiscal 2015, the Company made payments of \$11.7 million for its other postretirement benefit plans.

During the first nine months of fiscal 2015, the Company made no cash contributions to the qualified pension plan. Based upon current regulations and actuarial studies, the Company is not required to make contributions to the qualified pension plan during the remainder of fiscal 2015. In addition, the Company expects it will not be required to make minimum contributions to the qualified pension plan in fiscal 2016 through fiscal 2019. The Company may be required to make further contributions in future years depending upon the actual return on plan assets and the funded status of the plan in future periods.

9. Stock Incentives

Stock based compensation expense is calculated by estimating the fair value of incentive stock awards granted and amortizing the estimated value over the awards' vesting period. Stock based compensation expense was \$1.5 million and \$4.8 million for the three and nine months ended March 29, 2015, respectively. For the three and nine months ended March 30, 2014, stock based compensation expense was \$1.3 million and \$5.8 million, respectively.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

10. Derivative Instruments & Hedging Activities

The Company enters into derivative contracts designated as cash flow hedges to manage certain interest rate, foreign currency and commodity exposures. Company policy allows derivatives to be used only for identifiable exposures and, therefore, the Company does not enter into hedges for trading purposes where the sole objective is to generate profits.

The Company formally designates the financial instrument as a hedge of a specific underlying exposure and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in the forecasted cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the forecasted cash flows of the underlying exposures being hedged. Derivative financial instruments are recorded on the Condensed Consolidated Balance Sheets as assets or liabilities, measured at fair value. The effective portion of gains or losses on derivatives designated as cash flow hedges are reported as a component of Accumulated Other Comprehensive Income (Loss) (AOCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings.

The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows attributable to the hedged risk, the derivative expires or is sold, terminated, or exercised, the cash flow hedge is de-designated because a forecasted transaction is not probable of occurring, or management determines to remove the designation of the cash flow hedge.

In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When it is probable that a forecasted transaction will not occur, the Company discontinues hedge accounting and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income related to the hedging relationship.

The Company enters into interest rate swaps to manage a portion of its interest rate risk from financing certain dealer and distributor inventories through a third party financing source. The swaps are designated as cash flow hedges and are used to effectively fix the interest payments to a third party financing source, exclusive of lender spreads, ranging from 1.17% to 1.60% for a notional principal amount of \$95 million with expiration dates ranging from July 2017 through May 2019.

The Company enters into forward foreign currency contracts to hedge the risk from forecasted third party and intercompany sales or payments denominated in foreign currencies. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Australian Dollars, Brazilian Real, Canadian Dollars, Chinese Renminbi, Euros, Japanese Yen or Mexican Pesos. These contracts generally do not have a maturity of more than twenty-four months.

The Company uses raw materials that are subject to price volatility. The Company hedges a portion of its exposure to the variability of cash flows associated with commodities used in the manufacturing process by entering into forward purchase contracts or commodity swaps. Derivative contracts designated as cash flow hedges are used by the Company to reduce exposure to variability in cash flows associated with future purchases of natural gas. These

contracts generally do not have a maturity of more than twenty-four months.

The Company has considered the counterparty credit risk related to all of its interest rate, foreign currency and commodity derivative contracts and deems any risk of counterparty default to be minimal.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

As of March 29, 2015 and June 29, 2014, the Company had the following outstanding derivative contracts (in thousands):

Contract		Notional Amount	
		March 29, 2015	June 29, 2014
Interest Rate:			
LIBOR Interest Rate (U.S. Dollars)	Fixed	95,000	95,000
Foreign Currency:			
Australian Dollar	Sell	13,801	19,904
Brazilian Real	Sell	11,608	—
Canadian Dollar	Sell	6,700	3,100
Chinese Renminbi	Buy	223,575	—
Euro	Sell	46,590	49,300
Euro	Buy	6,000	—
Japanese Yen	Buy	1,014,000	530,000
Mexican Peso	Sell	—	3,000
Commodity:			
Natural Gas (Therms)	Buy	10,304	5,686

The location and fair value of derivative instruments reported in the Condensed Consolidated Balance Sheets are as follows (in thousands):

Balance Sheet Location	Asset (Liability) Fair Value	
	March 29, 2015	June 29, 2014
Interest rate contracts		
Other Long-Term Assets	\$—	\$43
Other Long-Term Liabilities	(1,354	) (1,209
Foreign currency contracts		
Other Current Assets	9,740	337
Other Long-Term Assets	31	12
Accrued Liabilities	(1,235	) (665
Other Long-Term Liabilities	(47	) (9
Commodity contracts		
Other Current Assets	—	39
Accrued Liabilities	(598	) (35
Other Long-Term Liabilities	(221	) (14
	\$6,316	\$(1,501

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

The effect of derivative instruments on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) is as follows (in thousands):

	Three months ended March 29, 2015			
	Amount of Gain (Loss)		Amount of Gain (Loss)	Recognized in Earnings
	Recognized in Other Comprehensive Income (Loss) on Derivatives, Net of Taxes (Effective Portion)	Classification of Gain (Loss)	Reclassified from AOCI into Income (Effective Portion)	(Ineffective Portion)
Interest rate contracts	\$(381)	) Net Sales	\$(306)) \$—
Foreign currency contracts - sell	(120)	) Net Sales	5,146	—
Foreign currency contracts - buy	357	Cost of Goods Sold	(418)) —
Commodity contracts	(29)	) Cost of Goods Sold	(319)) —
	\$(173)	)	\$4,103	\$—
	Three months ended March 30, 2014			
	Amount of Gain (Loss)		Amount of Gain (Loss)	Recognized in Earnings
	Recognized in Other Comprehensive Income (Loss) on Derivatives, Net of Taxes (Effective Portion)	Classification of Gain (Loss)	Reclassified from AOCI into Income (Effective Portion)	(Ineffective Portion)
Interest rate contracts	\$15	Net Sales	\$(302)) \$—
Foreign currency contracts - sell	348	Net Sales	(138)) —
Foreign currency contracts - buy	170	Cost of Goods Sold	(310)) —
Commodity contracts	848	Cost of Goods Sold	(1,165)) —
	\$1,381		\$(1,915)) \$—
	Nine months ended March 29, 2015			
	Amount of Gain (Loss)		Amount of Gain (Loss)	Recognized in Earnings
	Recognized in Other Comprehensive Income (Loss) on Derivatives, Net of Taxes (Effective Portion)	Classification of Gain (Loss)	Reclassified from AOCI into Income (Effective Portion)	(Ineffective Portion)
Interest rate contracts	\$(120)	) Net Sales	\$(931)) \$—
Foreign currency contracts - sell	3,720	Net Sales	7,689	—
Foreign currency contracts - buy	(51)	) Cost of Goods Sold	(664)) —

Edgar Filing: BRIGGS & STRATTON CORP - Form 10-Q

Commodity contracts	(216 \$3,333	) Cost of Goods Sold	(841 \$5,253) — \$—
Nine months ended March 30, 2014				
Amount of Gain (Loss)				
	Recognized in Other		Amount of Gain	
	Comprehensive Income	Classification of	(Loss)	Recognized in
	(Loss) on	Gain (Loss)	Reclassified from	Earnings
	Derivatives, Net of		AOCI into Income	(Ineffective Portion)
	Taxes (Effective		(Effective Portion)	
	Portion)			
Interest rate contracts	\$20	Net Sales	\$(899) \$—
Foreign currency contracts - sell	(751	) Net Sales	(248) —
Foreign currency contracts - buy	142	Cost of Goods Sold	(949) —
Commodity contracts	3,157 \$2,568	Cost of Goods Sold	(4,823 \$(6,919) —) \$—

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

During the next twelve months, the estimated net amount of income on cash flow hedges as of March 29, 2015 expected to be reclassified out of AOCI into earnings is \$4.8 million.

11. Fair Value Measurements

The following guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 29, 2015 and June 29, 2014 (in thousands):

	March 29, 2015	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets:				
Derivatives	\$9,771	\$—	\$9,771	\$—
Liabilities:				
Derivatives	\$3,455	\$—	\$3,455	\$—
	June 29, 2014	Level 1	Level 2	Level 3
Assets:				
Derivatives	\$431	\$—	\$431	\$—
Liabilities:				
Derivatives	\$1,932	\$—	\$1,932	\$—

The fair value for Level 2 measurements are based upon the respective quoted market prices for comparable instruments in active markets, which include current market pricing for forward purchases of commodities, foreign currency forwards, and current interest rates.

The Company has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States.

The estimated fair value of the Company's Senior Notes (as defined in Note 16) at March 29, 2015 and June 29, 2014 was \$248.6 million and \$251.4 million, respectively, compared to the carrying value of \$225.0 million on each date. The estimated fair value of the Senior Notes is based on quoted market prices for similar instruments and is, therefore, classified as Level 2 within the valuation hierarchy. The carrying value of the Revolver (as defined in Note 16) approximates fair value since the underlying rate of interest is variable based upon LIBOR rates.

The Company believes that the carrying values of cash and cash equivalents, trade receivables, and accounts payable are reasonable estimates of their fair values at March 29, 2015 and June 29, 2014 due to the short-term nature of these instruments.

Table of Contents

12. Warranty

The Company recognizes the cost associated with its standard warranty on Engines and Products at the time of sale. The general warranty period begins at the time of sale and typically covers two years, but may vary due to product type and geographic location. The amount recognized is based on historical failure rates and current claim cost experience. The following is a reconciliation of the changes in accrued warranty costs for the reporting period (in thousands):

	Nine Months Ended	
	March 29, 2015	March 30, 2014
Beginning Balance	\$44,744	\$45,037
Payments	(20,106	) (20,336
Provision for Current Year Warranties	22,493	20,889
Changes in Estimates	(46	) (616
Ending Balance	\$47,085	\$44,974

13. Income Taxes

The effective tax rates for the third quarter and first nine months of fiscal 2015 were 20.2% and 5.7%, compared to 26.1% and 26.6% for the respective periods last year. The tax rates for the third quarter and first nine months of fiscal 2015 were primarily impacted by incremental federal research & development (R&D) tax credits related to prior years, offset by reserves for unrecognized tax positions for a net tax benefit of \$4.7 million and \$5.0 million, respectively. In addition, the tax rate for the first nine months of fiscal 2015 was impacted by the reversal of previously recorded reserves as a result of the effective settlement of the Company's IRS audit. The tax rates for the third quarter and the first nine months of fiscal 2014 included a taxpayer election filed pursuant to the outcome of a U.S. court case that provided the Company precedent to record a tax benefit of \$2.9 million for the permanent exclusion of qualified export activity from prior years' taxable income.

For the three and nine months ended March 29, 2015, the Company's unrecognized tax benefits increased by \$4.2 million and \$2.1 million, respectively, all of which impacted the current effective tax rate. This amount substantially consists of the reversal of previously recorded reserves as a result of the effective settlement of the Company's IRS audit, offset by the recording of additional reserves associated with incremental R&D credit claimed.

Income tax returns are filed in the U.S., state, and foreign jurisdictions and related audits occur on a regular basis. The Company is no longer subject to U.S. federal income tax examinations before fiscal 2012 and is currently under audit by various other jurisdictions. With respect to the Company's major foreign jurisdictions, they are no longer subject to tax examinations before fiscal 2004.

14. Commitments and Contingencies

Briggs & Stratton is subject to various unresolved legal actions that arise in the normal course of its business. These actions typically relate to product liability (including asbestos-related liability), patent and trademark matters, and disputes with customers, suppliers, distributors and dealers, competitors and employees.

On May 14, 2010, the Company notified retirees and certain retirement eligible employees of various amendments to the Company-sponsored retiree medical plans intended to better align the plans offered to both hourly and salaried retirees. On August 16, 2010, a putative class of retirees who retired prior to August 1, 2006 and the United Steel Workers filed a complaint in the U.S. District Court for the Eastern District of Wisconsin (Merrill, Weber, Carpenter, et al.; United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO/CLC v. Briggs & Stratton Corporation; Group Insurance Plan of Briggs & Stratton Corporation; and Does 1 through 20, Docket No. 10-C-0700), contesting the Company's right to make these changes. The complaint seeks an injunction preventing the alleged unilateral termination or reduction in insurance coverage to

the class of retirees, a permanent injunction preventing defendants from ever making changes to the retirees' insurance coverage, restitution with interest (if applicable) and attorneys' fees and costs. A class has been certified, and discovery has concluded. Both parties moved for summary judgment, which was fully

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

briefed on December 23, 2014. Summary judgment is currently pending before the court, and no hearing date or trial date has been set.

Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss, the Company believes the unresolved legal actions will not have a material adverse effect on its results of operations, financial position or cash flows.

15. Segment Information

The Company maintains two reportable business segments that are managed separately based on fundamental differences in their operations. Beginning in fiscal 2015, the Company is using “segment income (loss)” as the primary measure to evaluate operating performance and allocate capital resources for the Engines and Products Segments. Previously, the Company used income (loss) from operations. Segment income (loss) is defined as income (loss) from operations plus equity in earnings of unconsolidated affiliates. The Company has recast prior year amounts for comparability. Summarized segment data is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
NET SALES:				
Engines	\$432,248	\$452,359	\$857,067	\$901,858
Products	211,135	205,160	576,313	529,724
Inter-Segment Eliminations	(24,368)	) (29,116)	) (77,449)	) (69,283)
Total	\$619,015	\$628,403	\$1,355,931	\$1,362,299
GROSS PROFIT:				
Engines	\$98,885	\$107,930	\$189,580	\$187,423
Products	19,908	22,365	64,505	62,149
Inter-Segment Eliminations	287	(45)	) 183	1,875
Total	\$119,080	\$130,250	\$254,268	\$251,447
SEGMENT INCOME (LOSS):				
Engines	\$54,928	\$62,071	\$59,967	\$54,805
Products	(8,128)	) (4,913)	) (20,125)	) (16,783)
Inter-Segment Eliminations	287	(45)	) 183	1,875
Total	\$47,087	\$57,113	\$40,025	\$39,897
Reconciliation from Segment Income (Loss) to Income Before Income Taxes:				
Equity in Earnings of Unconsolidated Affiliates	1,664	1,726	5,005	4,277
Income from Operations	\$45,423	\$55,387	\$35,020	\$35,620
INTEREST EXPENSE	(5,233)	) (4,720)	) (14,641)	) (13,823)
OTHER INCOME, Net	2,323	2,295	6,749	6,138
Income Before Income Taxes	42,513	52,962	27,128	27,935
PROVISION FOR INCOME TAXES	8,592	13,809	1,542	7,429
Net Income	\$33,921	\$39,153	\$25,586	\$20,506

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

Pre-tax restructuring charges and acquisition-related charges included in gross profit were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
PRE-TAX RESTRUCTURING CHARGES AND ACQUISITION-RELATED CHARGES INCLUDED IN GROSS PROFIT:				
Engines	\$—	\$(774)	) \$—	\$2,622
Products	7,088	—	) 21,952	2,082
Total	\$7,088	\$(774)	) \$21,952	\$4,704

Pre-tax restructuring charges and acquisition-related charges included in segment income (loss) were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	March 29, 2015	March 30, 2014	March 29, 2015	March 30, 2014
PRE-TAX RESTRUCTURING CHARGES AND ACQUISITION-RELATED CHARGES INCLUDED IN SEGMENT INCOME (LOSS):				
Engines	\$—	\$(774)	) \$—	\$3,047
Products	8,141	—	) 24,902	2,082
Total	\$8,141	\$(774)	) \$24,902	\$5,129
16. Debt				

The following is a summary of the Company's indebtedness (in thousands):

	March 29, 2015	June 29, 2014
Senior Notes	\$225,000	\$225,000
Multicurrency Credit Agreement	60,100	—
	\$285,100	\$225,000

On December 20, 2010, the Company issued \$225 million of 6.875% Senior Notes ("Senior Notes") due December 15, 2020.

On October 21, 2013, the Company entered into an amendment to its \$500 million multicurrency credit agreement (the "Revolver"), which, among other things, extended the maturity of the Revolver to October 21, 2018. The initial maximum availability under the revolving credit facility is \$500 million. Availability under the revolving credit facility is reduced by outstanding letters of credit. The Company may from time to time increase the maximum availability under the revolving credit facility by up to \$250 million if certain conditions are satisfied. In connection with the amendment to the Revolver in the second quarter of fiscal 2014, the Company incurred approximately \$0.9 million in new debt issuance costs, which are being amortized over the life of the Revolver using the straight-line method. As of March 29, 2015, \$60.1 million was outstanding under the Revolver.

The Senior Notes and Revolver contain restrictive covenants. These covenants include restrictions on the Company's ability to: pay dividends; repurchase shares; incur indebtedness; create liens; enter into sale and leaseback transactions; consolidate or merge with other entities; sell or lease all or substantially all of its assets; and dispose of assets or use proceeds from sales of its assets. The Revolver contains financial covenants that require the Company to

maintain a minimum interest coverage ratio and impose a maximum average leverage ratio.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

17. Separate Financial Information of Subsidiary Guarantor of Indebtedness

Under the terms of the Company's Senior Notes and the Revolver (collectively, the "Domestic Indebtedness"), Briggs & Stratton Power Products Group, LLC, a 100% owned subsidiary of the Company, was the sole joint and several guarantor of the Domestic Indebtedness (the "Guarantor") as of March 29, 2015 and June 29, 2014. The Guarantor provides a full and unconditional guarantee of the Domestic Indebtedness, except for certain customary limitations. These customary limitations, which are described in detail in the First Supplemental Indenture (Indenture) dated December 20, 2010, include (i) the sale of the guarantor or substantially all of the guarantor's assets, (ii) the designation of the guarantor as an unrestricted subsidiary for covenant purposes, (iii) the guarantor ceasing to guarantee certain other indebtedness, if the guarantor is also not a significant subsidiary within the meaning of Article 1, Rule 1-02 of Regulation S-X, and (iv) achieving the Indenture's requirements for legal defeasance, covenant defeasance or discharge. Additionally, if at any time a domestic subsidiary of the Company constitutes a significant domestic subsidiary, then such domestic subsidiary will also become a guarantor of the Domestic Indebtedness. Currently, all of the Domestic Indebtedness is unsecured. If the Company were to fail to make a payment of interest or principal on its due date, the Guarantor is obligated to pay the outstanding Domestic Indebtedness. The Company had the following outstanding amounts related to the guaranteed debt (in thousands):

	March 29, 2015 Carrying Amount	Maximum Guarantee
Senior Notes	\$ 225,000	\$225,000
Multicurrency Credit Agreement	\$ 60,100	\$500,000

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

The following condensed supplemental consolidating financial information reflects the summarized financial information of Briggs & Stratton, its Guarantor Subsidiary and its Non-Guarantor Subsidiaries (in thousands):

CONSOLIDATING BALANCE SHEET

As of March 29, 2015

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 5,946	\$455	\$ 43,293	\$—	\$49,694
Accounts Receivable, Net	164,675	95,655	55,395	—	315,725
Intercompany Accounts Receivable	19,650	6,690	38,401	(64,741)	—
Inventories, Net	209,572	160,022	77,302	—	446,896
Deferred Income Tax Asset	31,697	15,414	1,847	—	48,958
Prepaid Expenses and Other Current Assets	26,630	1,768	7,065	—	35,463
Total Current Assets	\$ 458,170	\$280,004	\$ 223,303	\$(64,741)	\$896,736
OTHER ASSETS:					
Goodwill	\$ 128,300	\$—	\$ 27,978	\$—	\$156,278
Investments	29,354	—	—	—	29,354
Investments in Subsidiaries	504,606	—	—	(504,606)	—
Intercompany Note Receivable	37,667	72,354	22,918	(132,939)	—
Debt Issuance Costs	3,950	—	—	—	3,950
Other Intangible Assets, Net	—	55,007	40,398	—	95,405
Long-Term Deferred Income Tax Asset	23,271	—	129	(23,271)	129
Other Long-Term Assets, Net	7,783	3,262	1,400	—	12,445
Total Other Assets	\$ 734,931	\$130,623	\$ 92,823	\$(660,816)	\$297,561
PLANT AND EQUIPMENT, NET	246,041	27,931	26,260	—	300,232
TOTAL ASSETS	\$ 1,439,142	\$438,558	\$ 342,386	\$(725,557)	\$1,494,529
CURRENT LIABILITIES:					
Accounts Payable	\$ 115,794	\$55,909	\$ 25,773	\$—	\$197,476
Intercompany Accounts Payable	30,074	7,511	27,156	(64,741)	—
Short-Term Debt	60,100	—	—	—	60,100
Accrued Liabilities	96,202	42,053	20,389	—	158,644
Total Current Liabilities	\$ 302,170	\$105,473	\$ 73,318	\$(64,741)	\$416,220
OTHER LIABILITIES:					
Accrued Pension Cost	\$ 107,115	\$381	\$ 496	\$—	\$107,992
Accrued Employee Benefits	24,487	—	—	—	24,487
Accrued Postretirement Health Care Obligation	37,529	14,221	—	—	51,750
Intercompany Note Payable	86,864	—	46,075	(132,939)	—
Deferred Income Tax Liabilities	—	15,781	10,904	(23,271)	3,414
Other Long-Term Liabilities	31,133	8,824	865	—	40,822
Long-Term Debt	225,000	—	—	—	225,000
Total Other Liabilities	\$ 512,128	\$39,207	\$ 58,340	\$(156,210)	\$453,465

Edgar Filing: BRIGGS & STRATTON CORP - Form 10-Q

TOTAL SHAREHOLDERS' INVESTMENT	624,844	293,878	210,728	(504,606)	624,844
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$ 1,439,142	\$ 438,558	\$ 342,386	\$(725,557)	\$ 1,494,529

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

As of June 29, 2014

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 138,926	\$ 2,680	\$ 53,062	\$—	\$ 194,668
Accounts Receivable, Net	86,099	100,062	34,429	—	220,590
Intercompany Accounts Receivable	15,987	3,492	32,826	(52,305)	—
Inventories, Net	165,159	146,749	64,195	—	376,103
Deferred Income Tax Asset	33,343	13,904	1,711	—	48,958
Prepaid Expenses and Other Current Assets	17,436	3,508	9,072	—	30,016
Total Current Assets	\$ 456,950	\$ 270,395	\$ 195,295	\$(52,305)	\$ 870,335
OTHER ASSETS:					
Goodwill	\$ 128,300	\$—	\$ 16,222	\$—	\$ 144,522
Investments	27,137	—	—	—	27,137
Investments in Subsidiaries	470,391	—	—	(470,391)	—
Intercompany Note Receivable	49,293	84,567	13,876	(147,736)	—
Debt Issuance Costs	4,671	—	—	—	4,671
Other Intangible Assets, Net	—	55,909	24,408	—	80,317
Long-Term Deferred Income Tax Asset	32,507	—	677	(18,006)	15,178
Other Long-Term Assets, Net	7,120	2,088	1,331	—	10,539
Total Other Assets	\$ 719,419	\$ 142,564	\$ 56,514	\$(636,133)	\$ 282,364
PLANT AND EQUIPMENT, NET	241,166	39,863	15,978	—	297,007
TOTAL ASSETS	\$ 1,417,535	\$ 452,822	\$ 267,787	\$(688,438)	\$ 1,449,706
CURRENT LIABILITIES:					
Accounts Payable	\$ 105,532	\$ 45,171	\$ 18,568	\$—	\$ 169,271
Intercompany Accounts Payable	21,859	6,002	24,444	(52,305)	—
Accrued Liabilities	85,735	31,863	16,318	—	133,916
Total Current Liabilities	\$ 213,126	\$ 83,036	\$ 59,330	\$(52,305)	\$ 303,187
OTHER LIABILITIES:					
Accrued Pension Cost	\$ 125,481	\$ 421	\$ 627	\$—	\$ 126,529
Accrued Employee Benefits	24,491	—	—	—	24,491
Accrued Postretirement Health Care Obligation	44,928	14,362	—	—	59,290
Intercompany Note Payable	85,343	—	62,393	(147,736)	—
Deferred Income Tax Liabilities	—	18,006	—	(18,006)	—
Other Long-Term Liabilities	26,732	11,037	1,006	—	38,775
Long-Term Debt	225,000	—	—	—	225,000
Total Other Liabilities	\$ 531,975	\$ 43,826	\$ 64,026	\$(165,742)	\$ 474,085
TOTAL SHAREHOLDERS' INVESTMENT	672,434	325,960	144,431	(470,391)	672,434
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$ 1,417,535	\$ 452,822	\$ 267,787	\$(688,438)	\$ 1,449,706

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended March 29, 2015

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	\$ 408,530	\$ 165,804	\$ 95,155	\$(50,474)	\$ 619,015
Cost of Goods Sold	321,429	150,392	71,500	(50,474)	492,847
Restructuring Charges	—	7,088	—	—	7,088
Gross Profit	87,101	8,324	23,655	—	119,080
Engineering, Selling, General and Administrative Expenses	43,252	19,504	9,958	—	72,714
Restructuring Charges	—	943	—	—	943
Equity in Earnings from Subsidiaries	(5,072)	) —	—	5,072	—
Income (Loss) from Operations	48,921	(12,123)	) 13,697	(5,072)	) 45,423
Interest Expense	(5,159)	) (72)	) (2)	) —	(5,233)
Other Income, Net	1,375	293	655	—	2,323
Income (Loss) before Income Taxes	45,137	(11,902)	) 14,350	(5,072)	) 42,513
Provision (Credit) for Income Taxes	11,216	(4,448)	) 1,824	—	8,592
Net Income (Loss)	\$ 33,921	\$(7,454)	) \$ 12,526	\$(5,072)	) \$ 33,921
Comprehensive Income (Loss)	\$ 23,200	\$(8,010)	) \$ 4,740	\$ 3,270	\$ 23,200

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended March 30, 2014

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	\$ 429,788	\$ 172,493	\$ 78,767	\$(52,645)	\$ 628,403
Cost of Goods Sold	334,097	158,623	58,852	(52,645)	498,927
Restructuring Charges	(774)	) —	—	—	(774)
Gross Profit	96,465	13,870	19,915	—	130,250
Engineering, Selling, General and Administrative Expenses	43,267	20,938	10,658	—	74,863
Equity in Earnings from Subsidiaries	(3,658)	) —	—	3,658	—
Income (Loss) from Operations	56,856	(7,068)	) 9,257	(3,658)	) 55,387
Interest Expense	(4,720)	) —	—	—	(4,720)
Other Income, Net	2,078	15	202	—	2,295
Income (Loss) before Income Taxes	54,214	(7,053)	) 9,459	(3,658)	) 52,962
Provision (Credit) for Income Taxes	15,061	(2,598)	) 1,346	—	13,809
Net Income (Loss)	\$ 39,153	\$(4,455)	) \$ 8,113	\$(3,658)	) \$ 39,153
Comprehensive Income (Loss)	\$ 47,127	\$(4,542)	) \$ 9,276	\$(4,734)	) \$ 47,127

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the Nine Months Ended March 29, 2015

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	\$ 816,386	\$413,772	\$295,066	\$(169,293)	\$1,355,931
Cost of Goods Sold	650,398	372,129	227,649	(169,293)	1,080,883
Restructuring Charges	—	20,780	—	—	20,780
Gross Profit	165,988	20,863	67,417	—	254,268
Engineering, Selling, General and Administrative Expenses	120,553	55,248	40,966	—	216,767
Restructuring Charges	—	2,481	—	—	2,481
Equity in Loss from Subsidiaries	930	—	—	(930)	—
Income (Loss) from Operations	44,505	(36,866)	26,451	930	35,020
Interest Expense	(14,460)	(178)	(3)	—	(14,641)
Other Income, Net	4,690	1,069	990	—	6,749
Income (Loss) before Income Taxes	34,735	(35,975)	27,438	930	27,128
Provision (Credit) for Income Taxes	9,149	(13,426)	5,819	—	1,542
Net Income (Loss)	\$ 25,586	\$(22,549)	\$21,619	\$930	\$25,586
Comprehensive Income (Loss)	\$ 2,003	\$(23,041)	\$2,677	\$20,364	\$2,003

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the Nine Months Ended March 30, 2014

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	\$ 855,142	\$425,041	\$229,465	\$(147,349)	\$1,362,299
Cost of Goods Sold	688,280	388,123	177,094	(147,349)	1,106,148
Restructuring Charges	2,693	228	1,783	—	4,704
Gross Profit	164,169	36,690	50,588	—	251,447
Engineering, Selling, General and Administrative Expenses	123,019	56,628	35,755	—	215,402
Restructuring Charges	77	—	348	—	425
Equity in Loss from Subsidiaries	1,459	—	—	(1,459)	—
Income (Loss) from Operations	39,614	(19,938)	14,485	1,459	35,620
Interest Expense	(13,796)	—	(27)	—	(13,823)
Other Income, Net	5,882	199	57	—	6,138
Income (Loss) before Income Taxes	31,700	(19,739)	14,515	1,459	27,935
Provision (Credit) for Income Taxes	11,194	(7,275)	3,510	—	7,429
Net Income (Loss)	\$ 20,506	\$(12,464)	\$11,005	\$1,459	\$20,506
Comprehensive Income (Loss)	\$ 35,082	\$(12,747)	\$11,785	\$962	\$35,082

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Nine Months Ended March 29, 2015

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Cash Provided by (Used in) Operating Activities	\$ (44,164)	\$ (9,889)	\$ 3,398	\$ (1,480)	\$ (52,135)
Cash Flows from Investing Activities:					
Additions to Plant and Equipment	(34,008)	(4,680)	(5,469)	—	(44,157)
Proceeds Received on Disposition of Plant and Equipment	90	156	72	—	318
Cash Investment in Subsidiary	(6,880)	—	—	6,880	—
Cash Paid for Acquisition, Net of Cash Acquired	(59,855)	—	—	—	(59,855)
Net Borrowings (Repayments) on Loans, Notes Payable and Long-Term Debt	(1,000)	—	—	1,000	—
Other, Net	(250)	—	—	—	(250)
Net Cash Provided by (Used in) Investing Activities	(101,903)	(4,524)	(5,397)	7,880	(103,944)
Cash Flows from Financing Activities:					
Net Borrowings (Repayments) on Loans, Revolver, Notes Payable and Long-Term Debt	60,100	12,188	(11,188)	(1,000)	60,100
Treasury Stock Purchases	(39,560)	—	—	—	(39,560)
Stock Option Exercise Proceeds and Tax Benefits	3,921	—	—	—	3,921
Cash Dividends Paid	(11,374)	—	—	—	(11,374)
Cash Investment in Subsidiary	—	—	5,400	(5,400)	—
Net Cash Provided by (Used in) Financing Activities	13,087	12,188	(5,788)	(6,400)	13,087
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents	—	—	(1,982)	—	(1,982)
Net Increase (Decrease) in Cash and Cash Equivalents	(132,980)	(2,225)	(9,769)	—	(144,974)
Cash and Cash Equivalents, Beginning	138,926	2,680	53,062	—	194,668
Cash and Cash Equivalents, Ending	\$ 5,946	\$ 455	\$ 43,293	\$ —	\$ 49,694

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Nine Months Ended March 30, 2014

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Cash Provided by (Used in) Operating Activities	\$ (48,051)	\$ 1,925	\$ 32,093	\$—	\$(14,033)
Cash Flows from Investing Activities:					
Additions to Plant and Equipment	(26,474)	(1,932)	(1,065)	—	(29,471)
Proceeds Received on Disposition of Plant and Equipment	57	33	19	—	109
Cash Investment in Subsidiary	8,107	—	(8,107)	—	—
Net Cash Provided by (Used in) Investing Activities	(18,310)	(1,899)	(9,153)	—	(29,362)
Cash Flows from Financing Activities:					
Repayments on Short-Term Debt	—	—	(300)	—	(300)
Net Borrowings (Repayments) on Loans, Notes Payable and Long-Term Debt	(668)	668	—	—	—
Debt Issuance Costs	(949)	—	—	—	(949)
Treasury Stock Purchases	(30,066)	—	—	—	(30,066)
Stock Option Exercise Proceeds and Tax Benefits	4,361	—	—	—	4,361
Cash Dividends Paid	(11,387)	—	—	—	(11,387)
Net Cash Provided by (Used in) Financing Activities	(38,709)	668	(300)	—	(38,341)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents	—	—	529	—	529
Net Increase (Decrease) in Cash and Cash Equivalents	(105,070)	694	23,169	—	(81,207)
Cash and Cash Equivalents, Beginning	162,628	1,275	24,542	—	188,445
Cash and Cash Equivalents, Ending	\$ 57,558	\$ 1,969	\$ 47,711	\$—	\$ 107,238

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following table is a reconciliation of financial results by segment, as reported, to adjusted financial results by segment, excluding restructuring actions and acquisition-related charges, for the three months ended fiscal March 2015 and 2014 (in thousands, except per share data):

	Three Months Ended Fiscal March					
	2015 Reported	Adjustments ⁽¹⁾	2015 Adjusted ⁽²⁾	2014 Reported	Adjustments ⁽¹⁾	2014 Adjusted ⁽²⁾
NET SALES:						
Engines	\$432,248	\$ —	\$432,248	\$452,359	\$ —	\$452,359
Products	211,135	—	211,135	205,160	—	205,160
Inter-Segment Eliminations	(24,368)	—	(24,368)	(29,116)	—	(29,116)
Total	\$619,015	\$ —	\$619,015	\$628,403	\$ —	\$628,403
GROSS PROFIT:						
Engines	\$98,885	\$ —	\$98,885	\$107,930	\$ (774)	\$107,156
Products	19,908	7,088	26,996	22,365	—	22,365
Inter-Segment Eliminations	287	—	287	(45)	—	(45)
Total	\$119,080	\$ 7,088	\$126,168	\$130,250	\$ (774)	\$129,476
ENGINEERING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES						
Engines	\$45,345	\$ —	\$45,345	\$47,585	\$ —	\$47,585
Products	27,369	110	27,259	27,278	—	27,278
Total	\$72,714	\$ 110	\$72,604	\$74,863	\$ —	\$74,863
RESTRUCTURING CHARGES:						
Engines	\$—	\$ —	\$—	\$—	\$ —	\$—
Products	943	943	—	—	—	—
Total	\$943	\$ 943	\$—	\$—	\$ —	\$—
EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES						
Engines	\$1,388	\$ —	\$1,388	\$1,726	\$ —	\$1,726
Products	276	—	276	—	—	—
Total	\$1,664	\$ —	\$1,664	\$1,726	\$ —	\$1,726
SEGMENT INCOME (LOSS) (3):						
Engines	\$54,928	\$ —	\$54,928	\$62,071	\$ (774)	\$61,297
Products	(8,128)	8,141	13	(4,913)	—	(4,913)
Inter-Segment Eliminations	287	—	287	(45)	—	(45)
Total	\$47,087	\$ 8,141	\$55,228	\$57,113	\$ (774)	\$56,339

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

	Three Months Ended Fiscal March					
	2015 Reported	Adjustments ⁽¹⁾	2015 Adjusted ⁽²⁾	2014 Reported	Adjustments ⁽¹⁾	2014 Adjusted ⁽²⁾
SEGMENT INCOME (LOSS) (3):	47,087	8,141	55,228	57,113	(774)	56,339
Reconciliation from Segment Income (Loss) to Income Before Income Taxes:						
Equity in Earnings of Unconsolidated Affiliates	1,664	—	1,664	1,726	—	