

BRIGGS & STRATTON CORP

Form 10-Q

November 05, 2014

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 September 28, 2014

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 ☒

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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 October 31, 2014
COMMON STOCK, par value \$0.01 per share	45,365,465 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 – September 28, 2014 and June 29, 2014</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations – Three Months Ended September 28, 2014 and September 29, 2013</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Comprehensive Loss – Three Months Ended September 28, 2014 and September 29, 2013</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows – Three Months Ended September 28, 2014 and September 29, 2013</u>	<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>26</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
Item 4.	<u>Controls and Procedures</u>	<u>31</u>

PART II – OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>31</u>
Item 1A.	<u>Risk Factors</u>	<u>31</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>31</u>
Item 6.	<u>Exhibits</u>	<u>32</u>
	<u>Signatures</u>	<u>33</u>
	<u>Exhibit Index</u>	<u>34</u>

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

ASSETS

	September 28, 2014	June 29, 2014
CURRENT ASSETS:		
Cash and Cash Equivalents	\$61,898	\$194,668
Accounts Receivable, Net	166,313	220,590
Inventories -		
Finished Products and Parts	370,028	268,116
Work in Process	127,076	102,431
Raw Materials	9,784	5,556
Total Inventories	506,888	376,103
Deferred Income Tax Asset	47,904	48,958
Prepaid Expenses and Other Current Assets	39,799	30,016
Total Current Assets	822,802	870,335
OTHER ASSETS:		
Goodwill	160,976	144,522
Investments	27,056	27,137
Debt Issuance Costs	4,428	4,671
Other Intangible Assets, Net	101,594	80,317
Long-Term Deferred Income Tax Asset	291	15,178
Other Long-Term Assets, Net	11,458	10,539
Total Other Assets	305,803	282,364
PLANT AND EQUIPMENT:		
Cost	1,040,081	1,035,848
Less - Accumulated Depreciation	743,160	738,841
Total Plant and Equipment, Net	296,921	297,007
TOTAL ASSETS	\$1,425,526	\$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

	September 28, 2014	June 29, 2014
CURRENT LIABILITIES:		
Accounts Payable	\$187,214	\$169,271
Accrued Liabilities	140,888	133,916
Total Current Liabilities	328,102	303,187
OTHER LIABILITIES:		
Accrued Pension Cost	120,569	126,529
Accrued Employee Benefits	24,538	24,491
Accrued Postretirement Health Care Obligation	56,122	59,290
Deferred Income Tax Liability	3,906	—
Other Long-Term Liabilities	35,256	38,775
Long-Term Debt	225,000	225,000
Total Other Liabilities	465,391	474,085
SHAREHOLDERS' INVESTMENT:		
Common Stock - Authorized 120,000 shares, \$.01 par value, issued 57,854 shares	579	579
Additional Paid-In Capital	73,100	78,466
Retained Earnings	1,027,469	1,048,466
Accumulated Other Comprehensive Loss	(199,142)	(195,257)
Treasury Stock at cost, 12,111 and 11,536 shares, respectively	(269,973)	(259,820)
Total Shareholders' Investment	632,033	672,434
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$1,425,526	\$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	
	September 28, 2014	September 29, 2013
NET SALES	\$292,629	\$317,304
COST OF GOODS SOLD	238,462	269,888
RESTRUCTURING CHARGES	6,846	3,585
Gross Profit	47,321	43,831
ENGINEERING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	70,084	68,762
RESTRUCTURING CHARGES	955	—
Loss from Operations	(23,718)	(24,931)
INTEREST EXPENSE	(4,518)	(4,510)
OTHER INCOME, Net	2,373	2,093
Loss Before Income Taxes	(25,863)	(27,348)
CREDIT FOR INCOME TAXES	(10,584)	(7,999)
NET LOSS	\$(15,279)	\$(19,349)
 EARNINGS (LOSS) PER SHARE		
Basic	\$(0.34)	\$(0.41)
Diluted	(0.34)	(0.41)
 WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	45,113	46,997
Diluted	45,113	46,997
 DIVIDENDS PER SHARE	\$0.125	\$0.12

The accompanying notes are an integral part of these statements.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended	
	September 28, 2014	September 29, 2013
Net Loss	\$(15,279	) \$(19,349)
Other Comprehensive Income (Loss):		
Cumulative Translation Adjustments	(9,907	) 253
Unrealized Gain (Loss) on Derivative Instruments, Net of Tax	3,667	(281)
Unrecognized Pension & Postretirement Obligation, Net of Tax	2,355	4,350
Other Comprehensive Income (Loss)	(3,885	) 4,322
Total Comprehensive Loss	\$(19,164	) \$(15,027)

The accompanying notes are an integral part of these statements.

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

(In thousands)

(Unaudited)

	Three Months Ended	
	September 28, 2014	September 29, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$(15,279)	\$(19,349)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation and Amortization	12,939	13,874
Stock Compensation Expense	1,605	3,040
Loss on Disposition of Plant and Equipment	75	157
Provision (Credit) for Deferred Income Taxes	4,558	(1,418)
Equity in Earnings of Unconsolidated Affiliates	(1,887)	(1,529)
Dividends Received from Unconsolidated Affiliates	1,750	1,500
Non-Cash Restructuring Charges	5,165	1,726
Change in Operating Assets and Liabilities:		
Accounts Receivable	70,347	20,110
Inventories	(117,735)	(61,310)
Other Current Assets	8,628	(9,983)
Accounts Payable, Accrued Liabilities and Income Taxes	(13,596)	4,515
Other, Net	(5,448)	(4,194)
Net Cash Used in Operating Activities	(48,878)	(52,861)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Plant and Equipment	(7,390)	(11,650)
Proceeds Received on Disposition of Plant and Equipment	172	28
Cash Paid for Acquisition, Net of Cash Acquired	(62,056)	—
Net Cash Used in Investing Activities	(69,274)	(11,622)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on Short-Term Debt	—	(300)
Net Borrowings on Revolver	—	—
Treasury Stock Purchases	(17,761)	(9,696)
Stock Option Exercise Proceeds and Tax Benefits	3,151	994
Net Cash Used in Financing Activities	(14,610)	(9,002)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(8)	216
NET DECREASE IN CASH AND CASH EQUIVALENTS	(132,770)	(73,269)
CASH AND CASH EQUIVALENTS, Beginning	194,668	188,445
CASH AND CASH EQUIVALENTS, Ending	\$61,898	\$115,176

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 September 28, 2014				
	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	(9,907	) 5,818	—	(4,089	)
Income Tax Benefit (Expense)	—	(2,211	) —	(2,211	)
Net Other Comprehensive Income (Loss) Before Reclassifications	(9,907	) 3,607	—	(6,300	)
Reclassifications:					
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	(393	) —	(393	)
Realized (Gains) Losses - Commodity Contracts (1)	—	179	—	179	
Realized (Gains) Losses - Interest Rate Swaps (1)	—	311	—	311	
Amortization of Prior Service Costs (Credits) (2)	—	—	(645	) (645	)
Amortization of Actuarial Losses (2)	—	—	4,444	4,444	
Total Reclassifications Before Tax	—	97	3,799	3,896	
Income Tax Expense (Benefit)	—	(37	) (1,444	) (1,481	)
Net Reclassifications	—	60	2,355	2,415	
Other Comprehensive Income (Loss)	(9,907	) 3,667	2,355	(3,885	)
Ending Balance	\$ 3,146	\$ 2,583	\$ (204,871	) \$ (199,142	)

(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 September 29, 2013				
	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	253	(2,710	) —	(2,457	)
Income Tax Benefit (Expense)	—	1,038	—	1,038	
Net Other Comprehensive Income (Loss) Before Reclassifications	253	(1,672	) —	(1,419	)
Reclassifications:					
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	462	—	462	
Realized (Gains) Losses - Commodity Contracts (1)	—	1,498	—	1,498	
Realized (Gains) Losses - Interest Rate Swaps (1)	—	295	—	295	
Amortization of Prior Service Costs (Credits) (2)	—	—	(679	) (679	)
Amortization of Actuarial Losses (2)	—	—	7,729	7,729	
Total Reclassifications Before Tax	—	2,255	7,050	9,305	
Income Tax Expense (Benefit)	—	(864	) (2,700	) (3,564	)
Net Reclassifications	—	1,391	4,350	5,741	
Other Comprehensive Income (Loss)	253	(281	) 4,350	4,322	
Ending Balance	\$12,139	\$(3,954	) \$(228,791	) \$(220,606	)

(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 \$62.1 million, net of cash acquired. 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 currently sells its products and service parts in approximately 40 countries. During the first quarter of fiscal 2015, the Company recorded a preliminary purchase price allocation based on initial estimates of fair value. The preliminary purchase price allocation resulted in the recognition of \$17.7 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, which was approximately one month of the first fiscal quarter. 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

The restructuring actions announced in 2012 were concluded as planned during the fourth quarter of fiscal 2014. 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 will close its McDonough, Georgia plant in the second half of fiscal 2015 and consolidate 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 \$7.8 million (\$5.1 million after tax or \$0.11 per diluted share) recorded within the Products Segment for the first quarter of fiscal 2015.

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 three month period ended September 28, 2014 (in thousands):

	Termination Benefits	Other Costs	Total
Reserve Balance at June 29, 2014	\$—	\$105	\$105
Provisions	2,391	5,410	7,801
Cash Expenditures	(224)	(351)	(575)
Other Adjustments ⁽¹⁾	—	(5,164)	(5,164)
Reserve Balance at September 28, 2014	\$2,167	\$—	\$2,167

(1) Other adjustments includes \$1.2 million of asset impairments and \$4.0 million of accelerated depreciation.

6. Earnings (Loss) Per Share

The Company computes earnings (loss) per share using the two-class method, an earnings allocation formula that determines earnings (loss) 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 (loss) per share.

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

	Three Months Ended	
	September 28, 2014	September 29, 2013
Net Loss	\$(15,279)	\$(19,349)
Less: Allocation to Participating Securities	(132)	(151)
Net Loss Available to Common Shareholders	\$(15,411)	\$(19,500)
Average Shares of Common Stock Outstanding	45,113	46,997
Diluted Average Shares Outstanding	45,113	46,997
Basic Earnings (Loss) Per Share	\$(0.34)	\$(0.41)
Diluted Earnings (Loss) Per Share	\$(0.34)	\$(0.41)

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 (loss) per share as the exercise prices were greater than the average market price of the common shares:

	Three Months Ended	
	September 28, 2014	September 29, 2013
Options to Purchase Shares of Common Stock (in thousands)	876	1,348
Weighted Average Exercise Price of Options Excluded	\$20.31	\$31.88

As a result of the Company incurring a net loss for the three months ended September 28, 2014 and September 29, 2013, potential incremental common shares of 928,601 and 975,316, respectively, were excluded from the calculation of diluted earnings (loss) per share because the effect would have been anti-dilutive.

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 September 28, 2014, the total remaining authorization was approximately \$69.5 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 three months ended September 28, 2014, the Company repurchased 905,164 shares on the open market at an average price of \$19.62 per share, as compared to 482,926 shares purchased on the open market at an average price of \$20.08 per share during the three months ended September 29, 2013.

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. During the first quarter of fiscal 2015, a second independent distributor joined the venture. As a result of the transaction, the Company recorded an additional investment of \$2.8 million. The Company uses the equity method to account for this investment. Subsequent to the first quarter of fiscal 2015, the venture acquired a third independent distributor.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

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	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Components of Net Periodic Expense (Income):				
Service Cost	\$830	\$1,938	\$85	\$89
Interest Cost on Projected Benefit Obligation	12,461	13,452	897	1,149
Expected Return on Plan Assets	(18,687	) (18,566	) —	—
Amortization of:				
Prior Service Cost (Credit)	45	45	(690	) (724
Actuarial Loss	3,297	6,270	1,147	1,459
Net Periodic Expense (Income)	\$(2,054	) \$3,139	\$1,439	\$1,973

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 three months of fiscal 2015, the Company made payments of approximately \$0.5 million for its non-qualified pension plans. The Company anticipates making benefit payments of approximately \$13.9 million for its other postretirement benefit plans during fiscal 2015. During the first three months of fiscal 2015, the Company made payments of \$4.5 million for its other postretirement benefit plans.

During the first three 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 required to make no minimum contributions to the qualified pension plan during the remainder of fiscal 2015. 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 \$1.6 million for the three months ended September 28, 2014. For the three months ended September 29, 2013, stock based compensation expense was \$3.0 million.

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 the derivative 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 dedesignated 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 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 September 28, 2014 and June 29, 2014, the Company had the following outstanding derivative contracts (in thousands):

Contract		Notional Amount	
		September 28, 2014	June 29, 2014
Interest Rate:			
LIBOR Interest Rate (U.S. Dollars)	Fixed	95,000	95,000
Foreign Currency:			
Australian Dollar	Sell	19,582	19,904
Brazilian Real	Sell	31,621	—
Canadian Dollar	Sell	5,500	3,100
Chinese Renminbi	Buy	157,175	—
Euro	Sell	52,650	49,300
Japanese Yen	Buy	694,000	530,000
Mexican Peso	Sell	9,345	3,000
Commodity:			
Natural Gas (Therms)	Buy	8,735	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	
	September 28, 2014	June 29, 2014
Interest rate contracts		
Other Long-Term Assets	\$185	\$43
Other Long-Term Liabilities	(780)	(1,209)
Foreign currency contracts		
Other Current Assets	6,224	337
Other Long-Term Assets	441	12
Accrued Liabilities	(374)	(665)
Other Long-Term Liabilities	—	(9)
Commodity contracts		
Other Current Assets	3	39
Accrued Liabilities	(118)	(35)
Other Long-Term Liabilities	(24)	(14)
	\$5,557	\$(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 September 28, 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	\$351	Net Sales	\$(311)	) \$—
Foreign currency contracts - sell	3,445	Net Sales	464	—
Foreign currency contracts - buy	(157)	) Cost of Goods Sold	(71)	) —
Commodity contracts	28	Cost of Goods Sold	(179)	) —
	\$3,667		\$(97)	) \$—
Three months ended September 29, 2013				
	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	\$(250)	) Net Sales	\$(295)	) \$—
Foreign currency contracts - sell	(948)	) Net Sales	5	—
Foreign currency contracts - buy	39	Cost of Goods Sold	(467)	) —
Commodity contracts	878	Cost of Goods Sold	(1,498)	) —
	\$(281)	)	\$(2,255)	) \$—

During the next twelve months, the estimated net amount of income on cash flow hedges as of September 28, 2014 expected to be reclassified out of AOCI into earnings is \$4.2 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.

16

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 28, 2014 and June 29, 2014 (in thousands):

		Fair Value Measurements Using		
	September 28, 2014	Level 1	Level 2	Level 3
Assets:				
Derivatives	\$6,853	\$—	\$6,853	\$—
Liabilities:				
Derivatives	\$1,296	\$—	\$1,296	\$—
	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 September 28, 2014 and June 29, 2014 was \$252.0 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 September 28, 2014 and June 29, 2014 due to the short-term nature of these instruments.

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):

	Three Months Ended	
	September 28, 2014	September 29, 2013
Beginning Balance	\$44,744	\$45,037
Payments	(8,178)	(8,330)
Provision for Current Year Warranties	6,251	5,381
Changes in Estimates	(14)	42
Ending Balance	\$42,803	\$42,130

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

13. Income Taxes

The effective tax rate for the first quarter of fiscal 2015 was 40.9%, compared to 29.3% for the same respective period of fiscal 2014. The higher tax rate for the first quarter of fiscal 2015 was primarily driven by the reversal of previously recorded reserves as a result of the effective settlement of the Company's IRS audit for its 2009-2010 consolidated income tax returns.

For the three months ended September 28, 2014, the Company's unrecognized tax benefits decreased by \$2.2 million, all of which impacted the current effective tax rate. This amount substantially consists of the aforementioned reversal of reserves.

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 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 been concluded. Each party filed a summary judgment motion on September 22, 2014. Replies to the motions are due on November 26, 2014.

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.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

15. Segment Information

The Company operates 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	
	September 28, 2014	September 29, 2013
NET SALES:		
Engines	\$153,116	\$183,787
Products	166,128	153,037
Inter-Segment Eliminations	(26,615)	) (19,520)
Total	\$292,629	\$317,304
GROSS PROFIT:		
Engines	\$27,800	\$25,236
Products	19,384	17,825
Inter-Segment Eliminations	137	770
Total	\$47,321	\$43,831
SEGMENT INCOME (LOSS):		
Engines	\$(13,677)	) \$(16,557)
Products	(8,291)	) (7,615)
Inter-Segment Eliminations	137	770
Total	\$(21,831)	) \$(23,402)

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

	Three Months Ended	
	September 28, 2014	September 29, 2013
PRE-TAX RESTRUCTURING CHARGES AND ACQUISITION RELATED CHARGES INCLUDED IN GROSS PROFIT:		
Engines	\$—	\$1,765
Products	8,018	1,820
Total	\$8,018	\$3,585

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

	Three Months Ended	
	September 28, 2014	September 29, 2013
PRE-TAX RESTRUCTURING CHARGES AND ACQUISITION RELATED CHARGES INCLUDED IN SEGMENT INCOME (LOSS):		
Engines	\$—	\$1,765
Products	9,151	1,820
Total	\$9,151	\$3,585

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

16. Debt

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

	September 28, 2014	June 29, 2014
Senior Notes	\$225,000	\$225,000
Multicurrency Credit Agreement	—	—
	\$225,000	\$225,000

On December 15, 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 from October 13, 2016 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 September 28, 2014, there were no borrowings 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.

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, is the joint and several guarantor of the Domestic Indebtedness (the "Guarantor"). The guarantees are full and unconditional guarantees, except for certain customary limitations. 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):

	September 28, 2014 Carrying Amount	Maximum Guarantee
Senior Notes	\$ 225,000	\$225,000
Multicurrency Credit Agreement	\$ —	\$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 Guarantors and Non-Guarantor Subsidiaries (in thousands):

CONSOLIDATING BALANCE SHEET

As of September 28, 2014

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 5,286	\$ 1,325	\$ 55,287	\$—	\$61,898
Accounts Receivable, Net	39,949	65,113	61,251	—	166,313
Intercompany Accounts Receivable	23,193	7,916	40,156	(71,265)	—
Inventories, Net	263,039	162,690	81,159	—	506,888
Deferred Income Tax Asset	31,715	14,315	1,874	—	47,904
Prepaid Expenses and Other Current Assets	31,432	1,983	6,384	—	39,799
Total Current Assets	\$ 394,614	\$253,342	\$ 246,111	\$(71,265)	\$822,802
OTHER ASSETS:					
Goodwill	\$ 128,300	\$—	\$ 32,676	\$—	\$160,976
Investments	27,056	—	—	—	27,056
Investments in Subsidiaries	515,452	—	—	(515,452)	—
Intercompany Note Receivable	50,984	95,772	17,258	(164,014)	—
Debt Issuance Costs	4,428	—	—	—	4,428
Other Intangible Assets, Net	—	55,609	45,985	—	101,594
Long-Term Deferred Income Tax Asset	27,417	—	291	(27,417)	291
Other Long-Term Assets, Net	7,867	2,134	1,457	—	11,458
Total Other Assets	\$ 761,504	\$153,515	\$ 97,667	\$(706,883)	\$305,803
PLANT AND EQUIPMENT, NET	236,240	35,162	25,519	—	296,921
TOTAL ASSETS	\$ 1,392,358	\$442,019	\$ 369,297	\$(778,148)	\$1,425,526
CURRENT LIABILITIES:					
Accounts Payable	\$ 103,196	\$47,320	\$ 36,698	\$—	\$187,214
Intercompany Accounts Payable	30,047	6,124	35,094	(71,265)	—
Accrued Liabilities	84,062	36,985	19,841	—	140,888
Total Current Liabilities	\$ 217,305	\$90,429	\$ 91,633	\$(71,265)	\$328,102
OTHER LIABILITIES:					
Accrued Pension Cost	\$ 119,578	\$408	\$ 583	\$—	\$120,569
Accrued Employee Benefits	24,538	—	—	—	24,538
Accrued Postretirement Health Care Obligation	41,770	14,352	—	—	56,122
Intercompany Note Payable	105,355	—	58,659	(164,014)	—
Deferred Income Tax Liabilities	—	20,874	10,449	(27,417)	3,906
Other Long-Term Liabilities	26,779	7,532	945	—	35,256
Long-Term Debt	225,000	—	—	—	225,000
Total Other Liabilities	\$ 543,020	\$43,166	\$ 70,636	\$(191,431)	\$465,391
	632,033	308,424	207,028	(515,452)	632,033

TOTAL SHAREHOLDERS'
INVESTMENT:

TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$ 1,392,358	\$442,019	\$ 369,297	\$(778,148)	\$1,425,526
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Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

As of June 29, 2014

	Briggs & Stratton Corporation	Guarantor Subsidiaries	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 September 28, 2014

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	\$ 145,579	\$ 116,938	\$ 90,816	\$(60,704)	\$ 292,629
Cost of Goods Sold	123,956	104,031	71,179	(60,704)	238,462
Restructuring Charges	—	6,846	—	—	6,846
Gross Profit	21,623	6,061	19,637	—	47,321
Engineering, Selling, General and Administrative Expenses	36,868	17,657	15,559	—	70,084
Restructuring Charges	—	955	—	—	955
Equity in Loss from Subsidiaries	4,721	—	—	(4,721)	—
Income (Loss) from Operations	(19,966)	(12,551)	4,078	4,721	(23,718)
Interest Expense	(4,447)	(71)	—	—	(4,518)
Other Income, Net	1,926	460	(13)	—	2,373
Income (Loss) before Income Taxes	(22,487)	(12,162)	4,065	4,721	(25,863)
Provision (Credit) for Income Taxes	(7,208)	(4,481)	1,105	—	(10,584)
Net Income (Loss)	\$ (15,279)	\$ (7,681)	\$ 2,960	\$ 4,721	\$ (15,279)
Comprehensive Income (Loss)	\$ (19,164)	\$ (7,407)	\$ (2,500)	\$ 9,907	\$ (19,164)

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended September 29, 2013

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	\$ 174,789	\$ 117,765	\$ 70,409	\$(45,659)	\$ 317,304
Cost of Goods Sold	153,466	106,804	55,277	(45,659)	269,888
Restructuring Charges	1,870	228	1,487	—	3,585
Gross Profit	19,453	10,733	13,645	—	43,831
Engineering, Selling, General and Administrative Expenses	37,508	17,598	13,656	—	68,762
Equity in Loss from Subsidiaries	5,553	—	—	(5,553)	—
Income (Loss) from Operations	(23,608)	(6,865)	(11)	5,553	(24,931)
Interest Expense	(4,494)	—	(16)	—	(4,510)
Other Income, Net	2,192	90	(189)	—	2,093
Income (Loss) before Income Taxes	(25,910)	(6,775)	(216)	5,553	(27,348)
Provision (Credit) for Income Taxes	(6,561)	(2,504)	1,066	—	(7,999)
Net Income (Loss)	\$ (19,349)	\$ (4,271)	\$ (1,282)	\$ 5,553	\$ (19,349)
Comprehensive Income (Loss)	\$ (15,027)	\$ (7,119)	\$ 177	\$ 6,942	\$ (15,027)

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Three Months Ended September 28, 2014

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Cash Provided by (Used in) Operating Activities	\$ (62,214)	\$ 11,158	\$ 2,660	\$ (482)	\$ (48,878)
Cash Flows from Investing Activities:					
Additions to Plant and Equipment	(4,623)	(1,358)	(1,409)	—	(7,390)
Proceeds Received on Disposition of Plant and Equipment	84	57	31	—	172
Cash Investment in Subsidiary	(4,650)	—	—	4,650	—
Cash Paid for Acquisition, Net of Cash Acquired	(62,056)	—	—	—	(62,056)
Net Borrowings (Repayments) on Loans, Notes Payable and Long-Term Debt	14,429	—	—	(14,429)	—
Net Cash Provided by (Used in) Investing Activities	(56,816)	(1,301)	(1,378)	(9,779)	(69,274)
Cash Flows from Financing Activities:					
Net Borrowings (Repayments) on Loans, Notes Payable and Long-Term Debt	—	(11,212)	(3,217)	14,429	—
Treasury Stock Purchases	(17,761)	—	—	—	(17,761)
Stock Option Exercise Proceeds and Tax Benefits	3,151	—	—	—	3,151
Cash Investment in Subsidiary	—	—	4,168	(4,168)	—
Net Cash Provided by (Used in) Financing Activities	(14,610)	(11,212)	951	10,261	(14,610)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents	—	—	(8)	—	(8)
Net Increase (Decrease) in Cash and Cash Equivalents	(133,640)	(1,355)	2,225	—	(132,770)
Cash and Cash Equivalents, Beginning	138,926	2,680	53,062	—	194,668
Cash and Cash Equivalents, Ending	\$ 5,286	\$ 1,325	\$ 55,287	\$ —	\$ 61,898

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Three Months Ended September 29, 2013

(Unaudited)

	Briggs & Stratton Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Cash Provided by (Used in) Operating Activities	\$ (58,591)	\$ (8,847)	\$ 14,577	\$—	\$(52,861)
Cash Flows from Investing Activities:					
Additions to Plant and Equipment	(10,498)	(694)	(458)	—	(11,650)
Proceeds Received on Disposition of Plant and Equipment	26	2	—	—	28
Cash Investment in Subsidiary	1,570	—	(1,570)	—	—
Net Cash Provided by (Used in) Investing Activities	(8,902)	(692)	(2,028)	—	(11,622)
Cash Flows from Financing Activities:					
Repayments on Short-Term Debt	—	—	(300)	—	(300)
Net Borrowings (Repayments) on Loans, Notes Payable and Long-Term Debt	(9,818)	9,818	—	—	—
Treasury Stock Purchases	(9,696)	—	—	—	(9,696)
Stock Option Exercise Proceeds and Tax Benefits	994	—	—	—	994
Net Cash Provided by (Used in) Financing Activities	(18,520)	9,818	(300)	—	(9,002)
Effect of Foreign Currency Exchange Rate Changes on Cash and Cash Equivalents	—	—	216	—	216
Net Increase (Decrease) in Cash and Cash Equivalents	(86,013)	279	12,465	—	(73,269)
Cash and Cash Equivalents, Beginning	162,628	1,275	24,542	—	188,445
Cash and Cash Equivalents, Ending	\$ 76,615	\$ 1,554	\$ 37,007	\$—	\$ 115,176

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 (in thousands, except per share data):

	Three Months Ended Fiscal September					
	2015 Reported	Adjustments ⁽¹⁾	2015 Adjusted ⁽²⁾	2014 Reported	Adjustments ⁽¹⁾	2014 Adjusted ⁽²⁾
NET SALES:						
Engines	\$153,116	\$ —	\$153,116	\$183,787	\$ —	\$183,787
Products	166,128	—	166,128	153,037	—	153,037
Inter-Segment Eliminations	(26,615)	—	(26,615)	(19,520)	—	(19,520)
Total	\$292,629	\$ —	\$292,629	\$317,304	\$ —	\$317,304
GROSS PROFIT:						
Engines	\$27,800	\$ —	\$27,800	\$25,236	\$ 1,765	\$27,001
Products	19,384	8,018	27,402	17,825	1,820	19,645
Inter-Segment Eliminations	137	—	137	770	—	770
Total	\$47,321	\$ 8,018	\$55,339	\$43,831	\$ 3,585	\$47,416
SEGMENT INCOME (LOSS) (3):						
Engines	\$(13,677)	\$ —	\$(13,677)	\$(16,557)	\$ 1,765	\$(14,792)
Products	(8,291)	9,151	860	(7,615)	1,820	(5,795)
Inter-Segment Eliminations	137	—	137	770	—	770
Total	\$(21,831)	\$ 9,151	\$(12,680)	\$(23,402)	\$ 3,585	\$(19,817)
Reconciliation from Segment Income (Loss) to Income (Loss) from Operations:						
Equity in Earnings from Unconsolidated Affiliates	1,887	—	1,887	1,529	—	1,529
Income (Loss) from Operations	\$(23,718)	\$ 9,151	\$(14,567)	\$(24,931)	\$ 3,585	\$(21,346)
INTEREST EXPENSE	(4,518)	—	(4,518)	(4,510)	—	(4,510)
OTHER INCOME, Net	2,373	—	2,373	2,093	—	2,093
Income (Loss) Before Income Taxes	(25,863)	9,151	(16,712)	(27,348)	3,585	(23,763)
PROVISION FOR INCOME TAXES	(10,584)	3,203	(7,381)	(7,999)	734	(7,265)
Net income	\$(15,279)	\$ 5,948	\$(9,331)	\$(19,349)	\$ 2,851	\$(16,498)

EARNINGS PER SHARE

Basic	\$(0.34)	\$ 0.13	\$(0.21)	\$(0.41)	\$ 0.06	\$(0.35)
Diluted	(0.34)	0.13	(0.21)	(0.41)	0.06	(0.35)

(1) For the first quarter of fiscal 2015, includes restructuring charges of \$7,801 net of \$2,730 of taxes and acquisition related charges of \$1,350 net of \$473 of taxes. For the first quarter of fiscal 2014, includes restructuring charges of \$3,585 net of \$734 of taxes.

(2) Adjusted financial results are non-GAAP financial measures. The Company believes this information is meaningful to investors as it isolates the impact that restructuring charges and acquisition related charges have on reported financial results and facilitates comparisons between peer companies. The Company may utilize non-GAAP financial measures as a guide in the forecasting, budgeting, and long-term planning process. While the Company believes that adjusted financial results are useful supplemental information, such adjusted financial results are not intended to replace our GAAP financial results and should be read in conjunction with those GAAP results.

(3) The Company defines segment income (loss) as income (loss) from operations plus equity in earnings from unconsolidated affiliates.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

NET SALES

Consolidated net sales for the first quarter of fiscal 2015 were \$292.6 million, a decrease of \$24.7 million or 7.8% from the first quarter of fiscal 2014. The decrease primarily relates to lower sales of engines resulting from higher channel inventories in North America and lower sales of engines for snow thrower OEM customers in Europe due to adequate inventories following last season. The decrease in net sales was partially offset by higher sales of pressure washers, snow throwers, lawn and garden equipment and the Allmand acquisition.

Engines Segment net sales of \$153.1 million in the first quarter of fiscal 2015 decreased \$30.7 million or 16.7% from the prior year. Total engine volumes shipped in the quarter decreased by 18.7% or approximately 200,000 engines. Net sales decreased as anticipated due to higher channel inventories in North America at the end of the current lawn and garden season and lower shipments into the European market for snow throwers.

Products Segment net sales of \$166.1 million in the first quarter of fiscal 2015 increased by \$13.1 million or 9% from the prior year. This increase was due to higher sales of pressure washers, commercial lawn and garden equipment and snow throwers in the North America market and one month of the Allmand acquisition. Partially offsetting the increase were lower sales of snow throwers in Europe following last year's mild winter and lower generator sales due to adequate channel inventories and no major storm activity.

GROSS PROFIT

The consolidated gross profit percentage was 16.2% in the first quarter of fiscal 2015, an increase from 13.8% in the same period last year.

The Engines Segment gross profit percentage was 18.2% in the first quarter of fiscal 2015, higher than the 13.7% in the first quarter of fiscal 2014. The Engines Segment adjusted gross profit percentage for the first quarter of 2015 was 18.2%, which was higher than the 14.7% in the first quarter of fiscal 2014. Engines Segment adjusted gross profit margins improved 350 basis points year over year on higher manufacturing volume, improved efficiency and lower retirement plan expense. Engines produced were higher by 12% in the quarter benefitting adjusted gross margins by approximately 230 basis points. Engine production was increased to support higher demand for large engines for riding equipment to support pre-building of products related to the closure of the McDonough, Georgia facility. In addition, plant efficiency improvements, cost reductions and a favorable mix of engines produced benefitted adjusted gross margins by approximately 130 basis points. The previously announced retirement plan changes, which were implemented in January of calendar 2014, improved fiscal 2015 adjusted gross margins by \$2.2 million, or 150 basis points. Partially offsetting this improvement was unfavorable sales mix that reduced adjusted gross margins by 160 basis points.

The Products Segment gross profit percentage was 11.7% for the first quarter of fiscal 2015, slightly up from 11.6% in the first quarter of fiscal 2014. The Products Segment adjusted gross profit percentage for the first quarter of 2015 was 16.5%, which was 3.7% higher than the adjusted gross profit percentage for the first quarter of fiscal 2014. Products adjusted gross profit margins increased by 370 basis points year over year due to improved sales mix and higher manufacturing throughput. Favorable sales mix improved adjusted gross margins by 220 basis points due to a focus on selling higher margin lawn and garden equipment and the benefit of one month of the Allmand acquisition. In addition, manufacturing throughput increased year over year by 55% benefitting adjusted gross margins by approximately 190 basis points. Throughput is increased due to higher snow thrower production for channel refill in the North America market and higher production of pressure washers and riding mowers to facilitate the upcoming

closure of the McDonough, Georgia plant. Offsetting the increase in adjusted gross profit margins was an unfavorable foreign exchange impact of approximately 40 basis points primarily due to the devaluation of the Australian dollar.

ENGINEERING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Engineering, selling, general and administrative expenses were \$70.1 million in the first quarter of fiscal 2015, an increase of \$1.3 million or 1.9% from the first quarter of fiscal 2014.

The Engines Segment engineering, selling, general and administrative expenses were \$42.9 million in the first quarter of fiscal 2015, a decrease of \$0.4 million from the first quarter of fiscal 2014. The decrease was primarily

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

due to the previously announced retirement plan changes.

The Products Segment fiscal 2015 first quarter engineering, selling, general and administrative expenses were \$28.1 million, an increase of \$2.7 million from the first quarter of fiscal 2014. The increase was mainly due to \$1.5 million related to the Allmand acquisition and increased compensation expense, partially offset by \$1.2 million in savings related to the restructuring initiative announced in July 2014.

ACQUISITION

The Company announced on August 29, 2014, that it had completed the acquisition of Allmand Bros., Inc. for approximately \$62 million in cash, net of cash acquired. Allmand is a leading designer and manufacturer of high quality towable light towers, industrial heaters, and solar LED arrow boards. Allmand, which is included within our Products Segment, has annual net sales of approximately \$80 million.

INTEREST EXPENSE

Interest expense for the first quarter of fiscal 2015 was comparable to the same period a year ago.

PROVISION FOR INCOME TAXES

The effective tax rate for the first quarter of fiscal 2015 was 40.9%, compared to 29.3% for the same respective period last year. The higher tax rate for the first quarter of fiscal 2015 was primarily driven by the reversal of previously recorded reserves as a result of the effective settlement of the Company's IRS audit for its 2009-2010 consolidated income tax returns.

RESTRUCTURING ACTIONS

The restructuring actions announced in 2012 were concluded as planned during the fourth quarter of fiscal 2014. 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 will close its McDonough, Georgia plant in the second half of fiscal 2015 and consolidate production into existing facilities in Wisconsin and New York. Pre-tax restructuring costs for the first quarter of fiscal 2015 were \$7.8 million and pre-tax savings were \$1.2 million. Pre-tax restructuring cost estimates for fiscal 2015 remain unchanged at \$30 million to \$37 million. Total annual cost savings as a result of these actions are anticipated to be approximately \$15 million to \$20 million with approximately \$5 million to \$7 million expected to be realized in fiscal 2015 and the remainder realized in fiscal 2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows used in operating activities for the first three months of fiscal 2015 were \$48.9 million compared to \$52.9 million in the first three months of fiscal 2014. The slight improvement in operating cash flows was primarily related to an improved net loss and a decrease in accounts receivable due to lower sales, partially offset by higher inventory levels and accounts payable.

Cash flows used in investing activities were \$69.3 million and \$11.6 million during the first three months of fiscal 2015 and fiscal 2014, respectively. The \$57.7 million increase in cash used in investing activities was primarily related to \$62.1 million of cash paid for the Allmand acquisition during the first quarter of fiscal 2015. The increase

was partially offset by \$4.3 million of lower additions to plant and equipment during fiscal 2015 compared to fiscal 2014.

Cash flows used in financing activities were \$14.6 million during the first three months of fiscal 2015 as compared to \$9.0 million of cash flows used in financing activities during the first three months of fiscal 2014. The \$5.6 million increase in cash used in financing activities was primarily attributable to \$8.1 million of higher treasury stock purchases in fiscal 2015 compared to fiscal 2014, partially offset by \$2.2 million of higher stock option exercise proceeds in fiscal 2015 compared to fiscal 2014.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

FUTURE LIQUIDITY AND CAPITAL RESOURCES

On December 15, 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 from October 13, 2016 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. As of September 28, 2014, there were no borrowings under the Revolver.

On January 22, 2014 the Board of Directors of the Company authorized up to \$50 million in funds associated with the common share repurchase program. On August 13, 2014, the Board of Directors of the Company authorized up to an additional \$50 million in funds for use in the Company's common share repurchase program. As of September 28, 2014, the total remaining authorization was approximately \$69.5 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 three months ended September 28, 2014, the Company repurchased 905,164 shares on the open market at an average price of \$19.62 per share.

The Company expects capital expenditures to be approximately \$60 million to \$65 million in fiscal 2015. These anticipated expenditures reflect our plans to continue to reinvest in efficient equipment and innovative new products.

During the first three months of fiscal 2015, the Company made no cash contributions to the qualified pension plan. Based upon current regulations and actuarial studies, the Company estimates that it will make no required minimum contributions to the qualified pension plan during the remainder of fiscal 2015. 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.

Management believes that available cash, cash generated from operations, existing lines of credit and access to debt markets will be adequate to fund the Company's capital requirements and operational needs for the foreseeable future.

The Revolver and the Senior Notes 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 leverage ratio. As of September 28, 2014, the Company was in compliance with these covenants, and expects to be in compliance with all covenants during the remainder of fiscal 2015.

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes since the August 26, 2014 filing of the Company's Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS

There have been no material changes since the August 26, 2014 filing of the Company's Annual Report on Form 10-K.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CRITICAL ACCOUNTING POLICIES

There have been no material changes in the Company's critical accounting policies since the August 26, 2014 filing of its Annual Report on Form 10-K. As discussed in our annual report, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include a goodwill assessment, estimates as to the realizability of accounts receivable and inventory assets, as well as estimates used in the determination of liabilities related to customer rebates, pension obligations, postretirement benefits, warranty, product liability, group health insurance, litigation and taxation. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, and, in some instances, actuarial techniques. The Company re-evaluates these significant factors as facts and circumstances change.

NEW ACCOUNTING PRONOUNCEMENTS

A discussion of new accounting pronouncements is included in the Notes to Condensed Consolidated Financial Statements of this Form 10-Q under the heading "New Accounting Pronouncements" and is incorporated herein by reference.

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. The words "believe", "estimate", "expect", "forecast", "intend", "plan", "project", and similar expressions are intended to identify forward-looking statements. The forward-looking statements are based on the Company's current views and assumptions and involve risks and uncertainties that include, among other things, the ability to successfully forecast demand for our products; changes in interest rates and foreign exchange rates; the effects of weather on the purchasing patterns of consumers and original equipment manufacturers (OEMs); actions of engine manufacturers and OEMs with whom we compete; changes in laws and regulations; changes in customer and OEM demand; changes in prices of raw materials and parts that we purchase; changes in domestic and foreign economic conditions; the ability to bring new productive capacity on line efficiently and with good quality; outcomes of legal proceedings and claims; and other factors disclosed from time to time in our SEC filings or otherwise, including the factors discussed in Item 1A, Risk Factors, of the Company's Annual Report on Form 10-K and in its periodic reports on Form 10-Q. We are not undertaking any obligation to update any forward-looking statements or other statements we may make even though these statements may be affected by events or circumstances occurring after the forward-looking statements or other statements were made.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since the August 26, 2014 filing of the Company's Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There has not been any change in the Company's internal control over financial reporting during the first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A discussion of legal proceedings is included in the Notes to Condensed Consolidated Financial Statements of this Form 10-Q under the heading "Commitments and Contingencies" and is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes since the August 26, 2014 filing of the Company's Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the quarterly period ended September 28, 2014.

2015 Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
June 30, 2014 to July 27, 2014	348,869	\$19.80	348,869	\$ 30,394,716
July 28, 2014 to August 24, 2014	397,108	19.15	397,108	72,790,098
August 25, 2014 to September 28, 2014	159,187	20.42	159,187	69,539,499
Total First Quarter	905,164	\$19.62	905,164	\$ 69,539,499

(1) On January 22, 2014 the Board of Directors of the Company authorized up to \$50 million in funds associated with the common share repurchase program. On August 13, 2014, the Board of Directors of the Company authorized up to an additional \$50 million in funds for use in the Company's common share repurchase program with an expiration date of June 30, 2016.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Stock Option and Stock Award Program, as amended through October 15, 2014 (Filed herewith)
10.2	Form of 2014 Omnibus Incentive Plan Stock Option Agreement (Filed herewith)
10.3	Form of 2014 Omnibus Incentive Plan Restricted Stock Award Agreement (Filed herewith)
10.4	Form of 2014 Omnibus Incentive Plan Restricted Stock Unit Award Agreement (Filed herewith)
10.5	Form of 2014 Omnibus Incentive Plan Performance Share Unit Award Agreement (Filed herewith)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith)
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith)
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished herewith)
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished herewith)
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Loss, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related Notes to Condensed Consolidated Financial Statements

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

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.

BRIGGS & STRATTON CORPORATION
(Registrant)

Date: November 5, 2014

/s/ David J. Rodgers
David J. Rodgers
Senior Vice President and Chief Financial Officer and
Duly Authorized Officer

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

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