BRIGGS & STRATTON CORP
Form 10-Q
November 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x 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	39-0182330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x 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 x 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	x	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 x

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

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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

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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.

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BRIGGS & 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.

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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.

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BRIGGS & 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.

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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.

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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.

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	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.

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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)

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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.

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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.

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.

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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)

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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) Recognized in Other Comprehensive Income (Loss) on Derivatives, Net of Taxes (Effective Portion)	Classification of Gain (Loss)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Recognized in Earnings (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) Recognized in Other Comprehensive Income (Loss) on Derivatives, Net of Taxes (Effective Portion)	Classification of Gain (Loss)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Recognized in Earnings (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.

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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

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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.

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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

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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.