BRIGGS & STRATTON CORP
Form 10-Q
February 05, 2018
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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 December 31, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission file number 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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 January 30, 2018
COMMON STOCK, par value $0.01 per share	42,911,786 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

	December 31, 2017	July 2, 2017
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 66,366	$61,707
Accounts Receivable, Net	201,253	230,011
Inventories -		
Finished Products	372,236	265,720
Work in Process	122,371	102,187
Raw Materials	6,924	6,972
Total Inventories	501,531	374,879
Prepaid Expenses and Other Current Assets	37,901	22,844
Total Current Assets	807,051	689,441
OTHER ASSETS:		
Goodwill	164,312	161,649
Investments	47,626	51,677
Other Intangible Assets, Net	98,895	100,595
Long-Term Deferred Income Tax Asset	43,882	64,412
Other Long-Term Assets, Net	19,870	18,325
Total Other Assets	374,585	396,658
PLANT AND EQUIPMENT:		
Cost	1,140,232	1,104,583
Less - Accumulated Depreciation	754,654	739,703
Total Plant and Equipment, Net	385,578	364,880
TOTAL ASSETS	$ 1,567,214	$1,450,979

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BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
(In thousands, except per share data)
(Unaudited)

LIABILITIES & SHAREHOLDERS' INVESTMENT

	December 31, 2017	July 2, 2017
CURRENT LIABILITIES:		
Accounts Payable	$ 208,307	$ 193,677
Short-Term Debt	128,647	—
Accrued Liabilities	142,785	136,701
Total Current Liabilities	479,739	330,378
OTHER LIABILITIES:		
Accrued Pension Cost	232,769	242,908
Accrued Employee Benefits	21,664	21,897
Accrued Postretirement Health Care Obligation	31,361	35,132
Accrued Warranty	14,372	14,468
Other Long-Term Liabilities	37,092	25,069
Long-Term Debt	222,008	221,793
Total Other Liabilities	559,266	561,267
SHAREHOLDERS' INVESTMENT:		
Common Stock - Authorized 120,000 shares, $.01 par value, issued 57,854 shares	579	579
Additional Paid-In Capital	73,635	73,562
Retained Earnings	1,063,501	1,107,033
Accumulated Other Comprehensive Loss	(290,254)	(300,026)
Treasury Stock at cost, 14,942 and 15,047 shares, respectively	(319,252)	(321,814)
Total Shareholders' Investment	528,209	559,334
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	$ 1,567,214	$ 1,450,979

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		Six Months Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
NET SALES	$446,436	$428,236	$775,531	$715,034
COST OF GOODS SOLD	353,570	332,830	616,400	567,106
Gross Profit	92,866	95,406	159,131	147,928
ENGINEERING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	77,891	73,032	164,605	145,095
EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES	2,113	3,011	5,726	6,239
Income from Operations	17,088	25,385	252	9,072
INTEREST EXPENSE	(5,593)	(5,133)	(10,550)	(9,638)
OTHER INCOME, Net	685	381	1,403	836
Income (Loss) Before Income Taxes	12,180	20,633	(8,895)	270
PROVISION (CREDIT) FOR INCOME TAXES	28,524	5,382	22,488	(833)
NET INCOME (LOSS)	$(16,344)	$15,251	$(31,383)	$1,103
EARNINGS (LOSS) PER SHARE				
Basic	$(0.39)	$0.35	$(0.75)	$0.02
Diluted	(0.39)	0.35	(0.75)	0.02
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	42,154	42,081	42,130	42,287
Diluted	42,154	42,142	42,130	42,337
DIVIDENDS PER SHARE	$0.14	$0.14	$0.28	$0.28

The accompanying notes are an integral part of these statements.

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BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Net Income (Loss)	$(16,344)	$ 15,251	$(31,383)	$ 1,103
Other Comprehensive Income (Loss):				
Cumulative Translation Adjustments	(681)	(8,051)	3,247	(6,450)
Unrealized Gain on Derivative Instruments, Net of Tax	1,579	2,815	1,047	2,768
Unrecognized Pension & Postretirement Obligation, Net of Tax	2,758	2,620	5,478	5,180
Other Comprehensive Income (Loss)	3,656	(2,616)	9,772	1,498
Total Comprehensive Income (Loss)	$(12,688)	$ 12,635	$(21,611)	$ 2,601

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)

	Six Months Ended	
	December 31, 2017	January 1, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$(31,383)	$1,103
Adjustments to Reconcile Net Income (Loss) to Net Cash Used in Operating Activities:		
Depreciation and Amortization	28,524	28,156
Stock Compensation Expense	3,869	2,826
Loss on Disposition of Plant and Equipment	1,553	331
Provision for Deferred Income Taxes	18,427	4,315
Equity in Earnings of Unconsolidated Affiliates	(6,948)	(6,239)
Dividends Received from Unconsolidated Affiliates	9,810	8,186
Change in Operating Assets and Liabilities:		
Accounts Receivable	29,900	(36,077)
Inventories	(126,075)	(99,787)
Other Current Assets	(3,402)	1,203
Accounts Payable, Accrued Liabilities and Income Taxes	16,808	(23,350)
Other, Net	(5,944)	(7,240)
Net Cash Used in Operating Activities	(64,861)	(126,573)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	(45,597)	(31,163)
Proceeds Received on Disposition of Plant and Equipment	686	1,009
Cash Paid for Acquisition, Net of Cash Acquired	(1,800)	—
Proceeds on Sale of Investment in Marketable Securities	—	3,343
Increase to Restricted Cash	(12,704)	—
Net Cash Used in Investing Activities	(59,415)	(26,811)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Borrowings on Revolver	128,648	132,100
Long Term Note Payable	7,685	—
Debt Issuance Costs	(1,154)	—
Treasury Stock Purchases	(3,128)	(15,153)
Payment of Acquisition Contingent Liability	—	(813)
Stock Option Exercise Proceeds and Tax Benefits	2,939	4,243
Cash Dividends Paid	(5,998)	(6,039)
Payments Related to Shares Withheld for Taxes for Stock Compensation	(1,147)	(1,739)
Net Cash Provided by Financing Activities	127,845	112,599
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,090	(1,727)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,659	(42,512)
CASH AND CASH EQUIVALENTS, Beginning	61,707	89,839
CASH AND CASH EQUIVALENTS, Ending	$66,366	$47,327

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. Description of Business and General Information

Briggs & Stratton Corporation (the “Company”) is a U.S. based producer of gasoline engines and outdoor power equipment. The Company’s Engines Segment sells engines worldwide, primarily to original equipment manufacturers ("OEMs") of lawn and garden equipment and other gasoline engine powered equipment. The Company also sells related service parts and accessories for its engines. The Company’s Products Segment designs, manufactures and markets a wide range of outdoor power equipment, job site products, and related accessories.

The majority of lawn and garden equipment is sold during the spring and summer months when most lawn care and gardening activities are performed. Engine sales in the Company’s third fiscal quarter have historically been the highest, while sales in the first fiscal quarter have historically been the lowest. Sales of pressure washers and lawn and garden powered equipment are typically higher during the third and fourth fiscal quarters than at other times of the year. Sales of portable generators and snowthrowers are typically higher during the first and second fiscal quarters.

Inventory levels generally increase during the first and second fiscal quarters in anticipation of customer demand. Inventory levels begin to decrease as sales increase in the third fiscal quarter. This seasonal pattern results in high inventories and low cash flow for the Company in the first, second and the beginning of the third fiscal quarters. The pattern generally results in higher cash flow in the latter portion of the third fiscal quarter and in the fourth fiscal quarter as inventories are liquidated and receivables are collected.

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 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 January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, Simplifying the Test for Goodwill Impairment, which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under the amendments in ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The updated guidance requires a prospective adoption. The guidance is effective beginning fiscal year 2021. Early adoption is permitted. The Company is currently assessing the impact of this new accounting pronouncement on its results of operations and financial position.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance is effective, on a retrospective basis, beginning fiscal year 2019. Early adoption is permitted. The Company is currently assessing the impact of this new accounting pronouncement on its consolidated statements of cash flows.

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In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Certain qualitative and quantitative disclosures are required, as well as a modified retrospective recognition and measurement of impacted leases. The guidance is effective beginning fiscal year 2020, with early adoption permitted. The Company is currently assessing the impact of this new accounting pronouncement on its results of operations, financial position, and cash flows.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU No. 2016-01). ASU No. 2016-01 enhances the existing financial instruments reporting model by modifying fair value measurement tools, simplifying impairment assessments for certain equity instruments, and modifying overall presentation and disclosure requirements. The guidance is effective beginning fiscal year 2019, with early adoption permitted. The Company does not expect the impact of adoption to have a material impact on the Company’s results of operations, financial position, and cash flows.

In May 2014, the FASB issued 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. Topic 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. This guidance is effective beginning fiscal year 2019 under either full or modified retrospective adoption. The Company has begun its assessment of Topic 606 and has developed a comprehensive project plan that includes representatives from across the Company’s business. The project plan includes analyzing the standard’s impact on the Company’s various revenue streams, comparing its historical accounting policies and practices to the requirements of the new standard, and identifying potential differences from applying the requirements of the new standard to its contracts. The Company is in the process of identifying and implementing appropriate changes to its business processes, systems and controls to support revenue recognition and disclosures under Topic 606. Subject to the potential effects of any new related ASUs issued by the FASB, as well as the Company’s ongoing evaluation of transactions and contracts, the Company does not anticipate that the adoption of this standard will have a material impact on the company’s consolidated financial statements. The Company anticipates adopting Topic 606 at the beginning of fiscal year 2019 using the modified retrospective approach.

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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 December 31, 2017			
	Cumulative Translation Adjustments	Derivative Financial Instruments	Pension and Postretirement Benefit Plans	Total
Beginning Balance	$(20,816)	$ (608)	$ (272,486)	$(293,910)
Other Comprehensive Income (Loss) Before Reclassification	(681)	1,471	—	790
Income Tax Benefit (Expense)	—	(551)	—	(551)
Net Other Comprehensive Income (Loss) Before Reclassifications	(681)	920	—	239
Reclassifications:				
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	1,047	—	1,047
Realized (Gains) Losses - Commodity Contracts (1)	—	27	—	27
Realized (Gains) Losses - Interest Rate Swaps (1)	—	(19)	—	(19)
Amortization of Prior Service Costs (Credits) (2)	—	—	(314)	(314)
Amortization of Actuarial Losses (2)	—	—	4,727	4,727
Total Reclassifications Before Tax	—	1,055	4,413	5,468
Income Tax Expense (Benefit)	—	(396)	(1,655)	(2,051)
Net Reclassifications	—	659	2,758	3,417
Other Comprehensive Income (Loss)	(681)	1,579	2,758	3,656
Ending Balance	$(21,497)	$ 971	$ (269,728)	$(290,254)

(1) Amounts reclassified to net income (loss) are included in net sales or cost of goods sold. See Note 8 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 6 for information related to pension and postretirement benefit plans.

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BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

	Three Months Ended January 1, 2017			
	Cumulative Translation Adjustments	Derivative Financial Instruments	Pension and Postretirement Benefit Plans	Total
Beginning Balance	$(22,262)	$ (1,599)	$ (310,475)	$(334,336)
Other Comprehensive Income (Loss) Before Reclassification	(8,051)	4,149	—	(3,902)
Income Tax Benefit (Expense)	—	(1,556)	—	(1,556)
Net Other Comprehensive Income (Loss) Before Reclassifications	(8,051)	2,593	—	(5,458)
Reclassifications:				
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	18	—	18
Realized (Gains) Losses - Commodity Contracts (1)	—	120	—	120
Realized (Gains) Losses - Interest Rate Swaps (1)	—	217	—	217
Amortization of Prior Service Costs (Credits) (2)	—	—	(618)	(618)
Amortization of Actuarial Losses (2)	—	—	4,813	4,813
Total Reclassifications Before Tax	—	355	4,195	4,550
Income Tax Expense (Benefit)	—	(133)	(1,575)	(1,708)
Net Reclassifications	—	222	2,620	2,842
Other Comprehensive Income (Loss)	(8,051)	2,815	2,620	(2,616)
Ending Balance	$(30,313)	$ 1,216	$ (307,855)	$(336,952)

(1) Amounts reclassified to net income (loss) are included in net sales or cost of goods sold. See Note 8 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 6 for information related to pension and postretirement benefit plans.

	Six Months Ended December 31, 2017			
	Cumulative Translation Adjustments	Derivative Financial Instruments	Pension and Postretirement Benefit Plans	Total
Beginning Balance	$(24,744)	$ (76)	$ (275,206)	$(300,026)
Other Comprehensive Income (Loss) Before Reclassification	3,247	(755)	—	2,492
Income Tax Benefit (Expense)	—	283	—	283
Net Other Comprehensive Income (Loss) Before Reclassifications	3,247	(472)	—	2,775
Reclassifications:				
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	2,416	—	2,416
Realized (Gains) Losses - Commodity Contracts (1)	—	32	—	32
Realized (Gains) Losses - Interest Rate Swaps (1)	—	(17)	—	(17)
Amortization of Prior Service Costs (Credits) (2)	—	—	(627)	(627)
Amortization of Actuarial Losses (2)	—	—	9,392	9,392
Total Reclassifications Before Tax	—	2,431	8,765	11,196
Income Tax Expense (Benefit)	—	(912)	(3,287)	(4,199)
Net Reclassifications	—	1,519	5,478	6,997
Other Comprehensive Income (Loss)	3,247	1,047	5,478	9,772
Ending Balance	$(21,497)	$ 971	$ (269,728)	$(290,254)

(1) Amounts reclassified to net income (loss) are included in net sales or cost of goods sold. See Note 8 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 6 for information related to pension and postretirement benefit plans.

	Six Months Ended January 1, 2017			
	Cumulative Translation Adjustments	Derivative Financial Instruments	Pension and Postretirement Benefit Plans	Total
Beginning Balance	$(23,863)	$ (1,552)	$ (313,035)	$(338,450)
Other Comprehensive Income (Loss) Before Reclassification	(6,450)	3,832	—	(2,618)
Income Tax Benefit (Expense)	—	(1,436)	—	(1,436)
Net Other Comprehensive Income (Loss) Before Reclassifications	(6,450)	2,396	—	(4,054)
Reclassifications:				
Realized (Gains) Losses - Foreign Currency Contracts (1)	—	(53)	—	(53)
Realized (Gains) Losses - Commodity Contracts (1)	—	200	—	200
Realized (Gains) Losses - Interest Rate Swaps (1)	—	449	—	449
Amortization of Prior Service Costs (Credits) (2)	—	—	(1,237)	(1,237)
Amortization of Actuarial Losses (2)	—	—	9,527	9,527
Total Reclassifications Before Tax	—	596	8,290	8,886
Income Tax Expense (Benefit)	—	(224)	(3,110)	(3,334)
Net Reclassifications	—	372	5,180	5,552
Other Comprehensive Income (Loss)	(6,450)	2,768	5,180	1,498
Ending Balance	$(30,313)	$ 1,216	$ (307,855)	$(336,952)

(1) Amounts reclassified to net income (loss) are included in net sales or cost of goods sold. See Note 8 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 6 for information related to pension and postretirement benefit plans.

4. Earnings (Loss) Per Share

The Company computes earnings (loss) per share using the two-class method, an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. The Company’s unvested grants of restricted stock, restricted stock units, 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		Six Months Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Net Income (Loss)	$(16,344)	$ 15,251	$(31,383)	$ 1,103
Less: Allocation to Participating Securities	(150)	(332)	(301)	(225)
Net Income (Loss) Available to Common Shareholders	$(16,494)	$ 14,919	$(31,684)	$ 878
Average Shares of Common Stock Outstanding	42,154	42,081	42,130	42,287
Shares Used in Calculating Diluted Earnings (Loss) Per Share	42,154	42,142	42,130	42,337
Basic Earnings (Loss) Per Share	$(0.39)	$ 0.35	$(0.75)	$ 0.02
Diluted Earnings (Loss) Per Share	$(0.39)	$ 0.35	$(0.75)	$ 0.02

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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		Six Months Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Options to Purchase Shares of Common Stock (in thousands)	—	408	—	408
Weighted Average Exercise Price of Options Excluded	$ —	$ 20.82	$ —	$ 20.82

As a result of the Company incurring a net loss for the three and six months ended December 31, 2017, potential incremental common shares of 1,166,615 and 1,044,604, respectively, were excluded from the calculation of diluted earnings (loss) per share because the effect would have been anti-dilutive.

On April 21, 2016, the Board of Directors authorized up to $50 million in funds for use in the common share repurchase program with an expiration date of June 29, 2018. As of December 31, 2017, the total remaining authorization was approximately $27.4 million. 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 debt covenants. During the six months ended December 31, 2017, the Company repurchased 141,195 shares on the open market at an average price of $22.16 per share, as compared to 787,343 shares purchased on the open market at an average price of $19.25 per share during the six months ended January 1, 2017.

5. Investments

Investments represent the Company's investments in unconsolidated affiliated companies.

Financial information of the unconsolidated affiliated companies is accounted for by the equity method, generally on a lag of one month or less. The following table sets forth the unaudited results of operations of unconsolidated affiliated companies for the three and six months ended December 31, 2017 and January 1, 2017 (in thousands):

	Three Months Ended		Six Months Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Results of Operations:				
Sales	$75,579	$ 74,487	$156,426	$150,748
Cost of Goods Sold	57,699	55,097	119,681	113,408
Gross Profit	$17,880	$ 19,390	$36,745	$37,340
Net Income	$4,881	$ 5,541	$9,897	$8,940

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BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

The following table sets forth the unaudited balance sheets of unconsolidated affiliated companies as of December 31, 2017 and July 2, 2017 (in thousands):

	December 31, 2017	July 2, 2017
Financial Position:		
Assets:		
Current Assets	$ 127,524	$ 157,117
Noncurrent Assets	50,004	54,748
	177,528	211,865
Liabilities:		
Current Liabilities	$ 39,469	$ 61,346
Noncurrent Liabilities	22,714	25,399
	62,183	86,745
Equity	$ 115,345	$ 125,120

The Company concluded that its equity method investments are integral to its business. The equity method investments provide manufacturing and distribution functions, which are important parts of its operations. Net sales to equity method investees were approximately $37.0 million and $50.0 million for the six months ended December 31, 2017 and January 1, 2017, respectively. Purchases of finished products from equity method investees were approximately $57.3 million and $54.1 million million for the six months ended December 31, 2017 and January 1, 2017, respectively.

6. 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	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Components of Net Periodic (Income) Expense:				
Service Cost (Credit)	$ (300)	$ 1,652	$ 25	$ 32
Interest Cost on Projected Benefit Obligation	10,760	10,832	591	597
Expected Return on Plan Assets	(15,482)	(16,095)	—	—
Amortization of:				
Prior Service Cost (Credit)	45	45	(359)	(663)
Actuarial Loss	3,871	4,276	856	661
Net Periodic (Income) Expense	$ (1,106)	$ 710	$ 1,113	$ 627

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	Pension Benefits Six Months Ended		Other Postretirement Benefits Six Months Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Components of Net Periodic (Income) Expense:				
Service Cost	$1,201	$ 3,379	$ 67	$ 95
Interest Cost on Projected Benefit Obligation	21,534	21,678	1,186	1,191
Expected Return on Plan Assets	(30,956)	(32,213)	—	—
Amortization of:				
Prior Service Cost (Credit)	90	90	(717)	(1,327)
Actuarial Loss	7,666	8,479	1,726	1,398
Net Periodic (Income) Expense	$(465)	$ 1,413	$ 2,262	$ 1,357

The Company expects to make benefit payments of $3.3 million attributable to its non-qualified pension plans for the full year of fiscal 2018. During the first six months of fiscal 2018, the Company made payments of approximately $1.9 million for its non-qualified pension plans. The Company anticipates making benefit payments of approximately $10.1 million for its other postretirement benefit plans for the full year of fiscal 2018. During the first six months of fiscal 2018, the Company made payments of $5.2 million for its other postretirement benefit plans.

During the first six months of fiscal 2018, 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 in fiscal 2018 but the Company may choose to make discretionary contributions. The Company does anticipate making a voluntary contribution to the qualified pension plan of up to $50 million in fiscal 2018. The Company may be required to make further required contributions in future years or the future expected funding requirements may change depending on a variety of factors including the actual return on plan assets, the funded status of the plan in future periods, and changes in actuarial assumptions or regulations.

7. 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 and $3.9 million for the three and six months ended December 31, 2017. For the three and six months ended January 1, 2017, stock based compensation expense was $1.6 million and $2.8 million, respectively.

8. 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 derivative instruments 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 within the

Condensed Consolidated Balance Sheets as assets or liabilities, measured at fair value. The effective portion of gains or losses on derivatives designated as cash flow hedges are reported as a component of Accumulated Other Comprehensive Income (Loss) (AOCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings.

The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows attributable to the hedged risk, the derivative expires or is sold, terminated, or exercised, the cash flow hedge is 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 third party financing sources, exclusive of lender spreads, ranging from 0.98% to 2.00% for a notional principal amount of $110.0 million with expiration dates ranging from May 2019 through December 2021.

The Company periodically enters into foreign currency contracts to hedge the risk from forecasted third party and intercompany sales or payments denominated in foreign currencies. Our primary foreign currency exposures are the Australian Dollar, the Brazilian Real, the Canadian Dollar, the Chinese Renminbi, the Euro, and the Japanese Yen against the U.S. Dollar. 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 thirty-six months.

The Company has considered the counterparty credit risk related to all its interest rate, foreign currency, and commodity derivative contracts and does not deem any counterparty credit risk material at this time.

As of December 31, 2017 and July 2, 2017, the Company had the following outstanding derivative contracts (in thousands):

Contract		Notional Amount	
		December 31, 2017	July 2, 2017
Interest Rate:			
LIBOR Interest Rate (U.S. Dollars)	Fixed	110,000	95,000
Foreign Currency:			
Australian Dollar	Sell	41,388	39,196
Brazilian Real	Buy	20,437	28,137
Canadian Dollar	Sell	15,840	14,725
Chinese Renminbi	Buy	107,410	74,950
Euro	Sell	46,407	31,240
Japanese Yen	Buy	935,850	570,000
Commodity:			
Natural Gas (Therms)	Buy	9,498	11,307

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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	
	December 31, 2017	July 2, 2017
Interest rate contracts		
Other Long-Term Assets	$ 2,659	$ 1,852
Accrued Liabilities	—	(23)
Other Long-Term Liabilities	—	(39)
Foreign currency contracts		
Other Current Assets	822	157
Other Long-Term Assets	22	31
Accrued Liabilities	(3,680)	(3,050)
Other Long-Term Liabilities	(273)	(68)
Commodity contracts		
Other Current Assets	—	40
Other Long-Term Assets	—	1
Accrued Liabilities	(105)	(22)
Other Long-Term Liabilities	(24)	(11)
	$ (579)	$ (1,132)

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

	Three Months Ended December 31, 2017			
	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	$482	Net Sales	$ 19	$ —
Foreign currency contracts - sell	592	Net Sales	(840)	—
Foreign currency contracts - buy	601	Cost of Goods Sold	(207)	—
Commodity contracts	(96)	Cost of Goods Sold	(27)	—
	$1,579		$ (1,055)	$ —

	Three Months Ended January 1, 2017			
	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives,	Classification of Gain (Loss)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Recognized in Earnings (Ineffective Portion)

	Net of Taxes (Effective Portion)			
Interest rate contracts	$1,565	Net Sales	$ (217)	$ —
Foreign currency contracts - sell	2,079	Net Sales	706	—
Foreign currency contracts - buy	(1,169)	Cost of Goods Sold	(724)	—
Commodity contracts	340	Cost of Goods Sold	(120)	—
	$2,815		$ (355)	$ —

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	Six Months Ended December 31, 2017			
	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	$544	Net Sales	$ 17	$ —
Foreign currency contracts - sell	116	Net Sales	(1,674)	—
Foreign currency contracts - buy	472	Cost of Goods Sold	(742)	—
Commodity contracts	(85)	Cost of Goods Sold	(32)	—
	$1,047		$ (2,431)	$ —

	Six Months Ended January 1, 2017			
	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	$1,929	Net Sales	$ (449)	$ —
Foreign currency contracts - sell	1,953	Net Sales	400	—
Foreign currency contracts - buy	(1,401)	Cost of Goods Sold	(347)	—
Commodity contracts	287	Cost of Goods Sold	(200)	—
	$2,768		$ (596)	$ —

During the next twelve months, the estimated net amount of losses on cash flow hedges as of December 31, 2017 expected to be reclassified out of AOCI into earnings is $0.9 million.

9. Fair Value Measurements

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

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

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

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

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and July 2, 2017 (in thousands):

		Fair Value Measurements Using		
	December 31, 2017	Level 1	Level 2	Level 3
Assets:				
Derivatives	$ 3,503	$ —	$ 3,503	$ —
Liabilities:				
Derivatives	$ 4,082	$ —	$ 4,082	$ —
	July 2, 2017	Level 1	Level 2	Level 3
Assets:				
Derivatives	$ 2,081	$ —	$ 2,081	$ —
Liabilities:				
Derivatives	$ 3,213	$ —	$ 3,213	$ —

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 14) at December 31, 2017 and July 2, 2017 was $245.4 million and $245.9 million, respectively, compared to the carrying value of $223.1 million. 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 14) 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 December 31, 2017 and July 2, 2017 due to the short-term nature of these instruments.

10. 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, in general, 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):

	Six Months Ended	
	December 31, 2017	January 1, 2017
Beginning Balance	$43,108	$44,367
Payments	(13,587)	(14,754)
Provision for Current Year Warranties	10,313	10,569
Changes in Estimates	509	(625)
Ending Balance	$40,343	$39,557

11. Income Taxes

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On December 22, 2017, the U.S. government enacted significant tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code that will impact the Company’s financial statements, including but not limited to a permanent decrease in the corporate federal statutory income tax rate and a one-time charge from the inclusion of foreign earnings that the Company can elect to pay over eight years.

The SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with the Company’s initial analysis of the impact of the Tax Act, a discrete tax expense of approximately $24.9 million has been recorded in the period ending December 31, 2017. This amount consists of an expense resulting from the re-measurement of deferred tax assets and liabilities for the corporate tax rate reduction of approximately $18.7 million and an expense related to the inclusion of foreign earnings of approximately $6.2 million. The Company has not completed its accounting for the income tax effects of certain elements of the Tax Act; however, reasonable estimates were made in order to record provisional adjustments for areas where analysis is not yet complete. The tax expense of approximately $18.7 million related to the re-measurement of the Company’s deferred tax assets and liabilities from the enacted corporate tax rate reduction may be affected by other analyses related to the Tax Act, including but not limited to the transition tax, expenditures that qualify for immediate expensing and the state tax effect of adjustments made to federal temporary differences. Additionally, in calculating the approximate tax expense of $6.2 million related to the inclusion of foreign earnings, the Company is required to determine various components including the amount of accumulated and current earnings and profits of its foreign subsidiaries, the amount of foreign income taxes paid on these earnings, and the cash and equivalents held by its foreign subsidiaries at various prescribed measurement dates. The Company has made a reasonable estimate of this expense and will continue to gather additional information to more precisely compute the expense. The Company is also in the process of evaluating its permanent reinvestment assertions since the Tax Act may provide opportunity to repatriate overseas cash to the U.S. at a lower tax cost. There is a dividends received deduction available for certain foreign distributions under the Tax Act, but certain foreign earnings remain subject to withholding taxes upon repatriation. As of December 31, 2017, the Company has analyzed its global working capital and cash requirements and the potential tax liabilities attributable to a repatriation. The Company removed its permanent reinvestment assertion on approximately $25 million of its foreign earnings, recorded the estimated tax impact in its financial statements, and continues to evaluate its cash needs and strategic opportunities to repatriate cash.

The Company was able to make a reasonable estimate of the tax effects of the repatriation of those earnings, and the provisional estimate has been recorded in the financial statements including withholding taxes and currency gain on previously taxed earnings. The Company will continue to gather additional information to more precisely compute the tax impact.

For the remainder of its foreign earnings, approximately $95 million, the Company has yet to determine whether it intends to change its prior assertion and repatriate earnings. Accordingly, deferred taxes attributable to its investments in its foreign subsidiaries have not yet been recorded. The tax effects of any change in the Company’s prior assertion will be recorded in the period that analysis is completed and a reasonable estimate is able to be calculated, and any unrecognized deferred tax liability for temporary differences related to our foreign investments will be disclosed if practicable.

When calculating the income tax provision, the Company uses an estimate of the annual effective tax rate based upon information known at each interim period. The actual effective tax rate is adjusted each quarter based upon changes to the forecast as compared to the beginning of the fiscal year and each following interim period.

The effective tax rate for the second quarter of fiscal 2018 was 234.2%, compared to 26.1% for the same period last year. The effective tax rate for the first six months of fiscal 2018 was (252.8)%, compared to (307.6)% for the same period of fiscal 2017. The Company's fiscal year 2018 tax rates reflect the estimated impact of the Tax Act, including the aforementioned cost of approximately $18.7 million resulting from the re-measurement of the Company's deferred tax assets and liabilities as of the second quarter of fiscal 2018 and tax expense related to the inclusion of foreign earnings of approximately $6.2 million. Also as a result of the Tax Act, the Company will be subject to a U.S. federal statutory corporate income tax rate of 28% for the fiscal year ending July 1, 2018 and a U.S. federal statutory corporate income tax rate of 21% in future fiscal years.

The effective tax rates for the second quarter and first six months of fiscal 2017 were primarily driven by the reversal of previously recorded reserves as the result of the effective settlement of the Company's IRS audit for its fiscal years 2010 and 2013 consolidated income tax returns in the amount of approximately $3.9 million and the establishment of a valuation allowance against the deferred tax assets of the Company's Brazilian subsidiary in the amount of approximately $2.7 million.

12. Commitments and Contingencies

The Company 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 12, 2010, Exmark Manufacturing Company, Inc. filed suit against Briggs & Stratton Power Products Group, LLC ("BSPPG"), a wholly owned subsidiary of the Company that was subsequently merged with and into the Company on January 1, 2017 (Case No. 8:10CV187, U.S. District Court for the District of Nebraska), alleging that certain Ferris® and Snapper Pro® mower decks infringed an Exmark mower deck patent. Exmark sought damages relating to sales since May 2004, attorneys' fees, and enhanced damages. As a result of a reexamination proceeding in 2012, the United States Patent and Trademark Office ("USPTO") initially rejected the asserted Exmark claims as invalid. However, in 2014, that decision was reversed by the USPTO on appeal by Exmark. Following discovery, each of BSPPG and Exmark filed several motions for summary judgment in the Nebraska district court, which were decided on July 28, 2015. The court concluded that older mower deck designs infringed Exmark's patent, leaving for trial the issues of whether current designs infringed, the amount of damages, and whether any infringement was willful.

The trial began on September 8, 2015, and on September 18, 2015, the jury returned its verdict, finding that BSPPG's current mower deck designs do not infringe the Exmark patent. As to the older designs, the jury awarded Exmark $24.3 million in damages and found that the infringement was willful, allowing the judge to enhance the jury's damages award post-trial by up to three times. Also on September 18, 2015, the U.S. Court of Appeals for the Federal Circuit issued its decision in an unrelated case, SCA Hygiene Products Aktiebolag SCA Personal Care, Inc. v. First Quality Baby Products, LLC, et al. (Case No. 2013-1564) ("SCA"), confirming the availability of laches as a defense to patent infringement claims. Laches is an equitable doctrine that may bar a patent owner from obtaining damages prior to commencing suit, in circumstances in which the owner knows or should have known its patent was being infringed for more than six years. Although the court in the Exmark case ruled before trial that BSPPG could not rely on the defense of laches, as a result of the subsequent SCA decision, the court held a bench trial on that defense on October 21 and 22, 2015. On May 2, 2016, the United States Supreme Court agreed to review the SCA decision.

The parties submitted post-trial motions and briefing related to: damages; willfulness; laches; attorney fees; enhanced damages; and prejudgment/post-judgment interest and costs. All post-trial motions and briefing were completed on December 18, 2015. On May 11, 2016, the court ruled on those post-trial motions and entered judgment against BSPPG and in favor of Exmark in the amount of $24.3 million in compensatory damages, an additional $24.3 million in enhanced damages, and $1.5 million in pre-judgment interest along with post-judgment interest and costs to be determined. The Company strongly disagrees with the jury verdict, certain rulings made before and during trial, and the May 11, 2016 post-trial rulings. BSPPG appealed to the U.S. Court of Appeals for the Federal Circuit on several bases, including the issues of obviousness and invalidity of Exmark’s patent, the damages calculation, willfulness and laches.

Following briefing of the appeal and prior to oral argument, the United States Supreme Court overturned the SCA decision, ruling that laches is not available in a patent infringement case for damages. That ruling eliminated laches as one basis for BSPPG’s appeal of the Exmark case. The appellate court held a hearing on the remainder of BSPPG’s appeal on April 5, 2017 and issued its decision on January 12, 2018. The appellate court found that the district court erred in granting summary judgment concerning the patent's validity and remanded that issue to the district court for reconsideration. The appellate court also vacated the jury's damages award and the district court's award of enhanced damages, remanding the case to the district court for a new trial on damages and reconsideration on willfulness. The appellate court affirmed the district court rulings in all other respects.

In assessing whether the Company should accrue a liability in its financial statements as a result of the May 11, 2016 post-trial rulings and related matters, the Company considered various factors, including the legal and factual circumstances of the case, the trial record, the post-trial orders, the current status of the proceedings, applicable law, the views of legal counsel, and the decision of the appellate court. As a result of this review, the Company has concluded that a loss from this case is not probable and reasonably estimable at this time and, therefore, a liability has not been recorded with respect to this case as of December 31, 2017.

Although it is not possible to predict with certainty the outcome of this and other 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.

13. Segment Information

The Company aggregates operating segments that have similar economic characteristics, products, production processes, types or classes of customers and distribution methods into reportable segments. The Company concluded that it operates two reportable segments: Engines and Products. The Company uses “segment income (loss)” as the primary measure to evaluate operating performance and allocate capital resources for the Engines and Products Segments. For all periods presented, segment income (loss) is equal to income (loss) from operations. Summarized segment data is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
NET SALES:				
Engines	$243,505	$260,737	$406,252	$415,235
Products	222,080	190,701	408,676	341,497
Inter-Segment Eliminations	(19,149)	(23,202)	(39,397)	(41,698)
Total*	$446,436	$428,236	$775,531	$715,034
* International sales included in net sales based on product shipment destination	$157,248	$158,727	$271,885	$268,614
GROSS PROFIT:				
Engines	$55,429	$61,573	$86,648	$92,559
Products	37,090	33,178	72,797	56,129
Inter-Segment Eliminations	347	655	(314)	(760)
Total	$92,866	$95,406	$159,131	$147,928
SEGMENT INCOME (LOSS):				
Engines	$8,421	$17,922	$(11,437)	$6,269
Products	8,320	6,808	12,003	3,563
Inter-Segment Eliminations	347	655	(314)	(760)
Total	$17,088	$25,385	$252	$9,072

Pre-tax business optimization charges included in gross profit were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Engines	$ 703	$ —	$ 1,128	$ —
Products	754	—	1,522	—
Total	$ 1,457	$ —	$ 2,650	$ —

Pre-tax business optimization charges included in segment income (loss) were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 31, 2017	January 1, 2017	December 31, 2017	January 1, 2017
Engines	$ 2,016	$ —	$ 4,347	$ —
Products	1,044	—	3,950	—
Total	$ 3,060	$ —	$ 8,297	$ —

14. Debt

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

	December 31, 2017	July 2, 2017
Multicurrency Credit Agreement	$ 128,647	$—
Total Short-Term Debt	$ 128,647	$—
Note Payable (NMTC transaction)	$ 7,685	$—
Unamortized Debt Issuance Costs associated with Note Payable	1,091	—
	$ 6,594	$—
6.875% Senior Notes	$ 223,149	$223,149
Unamortized Debt Issuance Costs associated with 6.875% Senior Notes	1,141	1,356
	$ 222,008	$221,793
Total Long-Term Debt	$ 228,602	$221,793

On December 20, 2010, the Company issued $225 million of 6.875% Senior Notes ("Senior Notes") due December 15, 2020. During fiscal 2016, the Company repurchased $1.9 million of the Senior Notes after receiving unsolicited offers from bondholders.

On March 25, 2016, the Company entered into a $500 million amended and restated multicurrency credit agreement (the “Revolver”) that matures on March 25, 2021. The Revolver amended and restated the Company’s $500 million multicurrency credit agreement dated as of October 13, 2011 (as previously amended), which would have matured on October 21, 2018. The initial maximum availability under the Revolver 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 December 31, 2017, $128.6 million was outstanding under the Revolver. There were no borrowings under the Revolver as of July 2, 2017. The Company classifies debt issuance costs related to the Revolver as an asset, regardless of whether it has any outstanding borrowings on the line of credit arrangements.

The Senior Notes and the Revolver contain restrictive covenants. These covenants include restrictions on the ability of the Company and/or certain subsidiaries to pay dividends, repurchase equity interests of the Company and certain subsidiaries, incur indebtedness, create liens, consolidate and merge and dispose of assets, and enter into

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transactions with the Company's affiliates. The Revolver contains financial covenants that require the Company to maintain a minimum interest coverage ratio and impose on the Company a maximum average leverage ratio.

On August 16, 2017, the Company entered into a financing transaction with SunTrust Community Capital, LLC (“SunTrust”) related to the Company's business optimization program under the New Markets Tax Credit (“NMTC”) program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the “Act”) and is intended to induce capital investment in qualified low-income communities. The Act permits taxpayers to claim credits against their Federal income taxes for qualified investments in the equity of community development entities (“CDEs”). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments (“QLICIs”).

In connection with the financing, one of the Company’s subsidiaries loaned approximately $16 million to an investment fund, and simultaneously, SunTrust contributed approximately $8 million to the investment fund. SunTrust is entitled to substantially all of the benefits derived from the NMTCs. SunTrust’s contribution, net of syndication fees, is included in Other Long-Term Liabilities on the consolidated balance sheets. The Company incurred approximately $1.2 million in new debt issuance costs, which are being amortized over the life of the note payable. The investment fund contributed the proceeds to certain CDEs, which, in turn, loaned the funds to the Company, as partial financing for the business optimization program. The proceeds of the loans from the CDEs (including loans representing the capital contribution made by SunTrust, net of syndication fees) are restricted for use on the project. Restricted cash of $12.7 million held by the Company at December 31, 2017 is included in Prepaid Expenses and Other Current Assets in the accompanying consolidated balance sheet.

This financing also includes a put/call provision that can be exercised beginning in August 2024 whereby the Company may be obligated or entitled to repurchase SunTrust’s interest in the investment fund for a de minimis amount.

The Company has determined that the financing arrangement is a variable interest entity (“VIE”) and has consolidated the VIE in accordance with the accounting standard for consolidation.

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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 business optimization charges, goodwill impairment charges, and one-time charges as a result of the implementation of the Tax Cuts and Jobs Act of 2017 for the three months ended fiscal December 2018 and 2017 (in thousands, except per share data):

	Three Months Ended Fiscal December					
	2018 Reported	Adjustments[1]	2018 Adjusted[2]	2017 Reported	Adjustments	2017 Adjusted[2]
Gross Profit:						
Engines	$55,429	$ 703	$ 56,132	$ 61,573	$ —	$ 61,573
Products	37,090	754	37,844	33,178	—	33,178
Inter-Segment Eliminations	347	—	347	655	—	655
Total	$92,866	$ 1,457	$ 94,323	$ 95,406	$ —	$ 95,406
Engineering, Selling, General and Administrative Expenses:						
Engines	$48,167	$ 90	$ 48,077	$ 45,706	$ —	$ 45,706
Products	29,724	290	29,434	27,326	—	27,326
Total	$77,891	$ 380	$ 77,511	$ 73,032	$ —	$ 73,032
Equity in Earnings of Unconsolidated Affiliates						
Engines	$1,159	$ 1,223	$ 2,382	$ 2,055	$ —	$ 2,055
Products	954	—	954	956	—	956
Total	$2,113	$ 1,223	$ 3,336	$ 3,011	$ —	$ 3,011
Segment Income (Loss):						
Engines	$8,421	$ 2,016	$ 10,437	$ 17,922	$ —	$ 17,922
Products	8,320	1,044	9,364	6,808	—	6,808
Inter-Segment Eliminations	347	—	347	655	—	655
Total	$17,088	$ 3,060	$ 20,148	$ 25,385	$ —	$ 25,385
Income (Loss) Before Income Taxes	12,180	3,060	15,240	20,633	—	20,633
Provision (Credit) for Income Taxes	28,524	(24,010)	4,514	5,382	—	5,382
Net Income (Loss)	$(16,344)	$ 27,070	$ 10,726	$ 15,251	$ —	$ 15,251
Earnings (Loss) Per Share						
Basic	$(0.39)	$ 0.64	$ 0.25	$ 0.35	$ —	$ 0.35
Diluted	(0.39)	0.64	0.25	0.35	—	0.35

(1) For the second quarter of fiscal 2018, business optimization expenses include $0.8 million ($0.5 million after tax) of non-cash charges related primarily to plant & equipment impairment and accelerated depreciation, and $2.3 million ($1.6 million after tax) of cash charges related primarily to employee termination benefits, lease terminations, professional services and plant rearrangement activities. See below for discussion related to the previously announced business optimization program. Tax expense also includes a $24.9 million charge associated with the Tax Cuts and Jobs Act of 2017 comprised of $18.7 million to remeasure deferred tax assets and liabilities and $6.2 million to record

a transition tax on accumulated foreign earnings.
(2) Adjusted financial results are non-GAAP financial measures. The Company believes this information is meaningful to investors as it isolates the impact that business optimization charges and certain other items 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 its GAAP financial results and should be read in conjunction with those GAAP results.

NET SALES

Consolidated net sales for the second quarter of fiscal 2018 were $446.4 million, an increase of $18.2 million, or 4.3%, from the second quarter of fiscal 2017.

Engines Segment net sales in the second quarter of fiscal 2018 decreased $17 million or 6.6% from the prior year. Engine sales unit volumes decreased by 10%, or approximately 180,000 engines, in the second quarter of fiscal 2018 compared to the same period last year. The decrease was primarily due to an acceleration of international sales into the first quarter of fiscal 2018, as well as management's anticipation that domestic customers will produce closer to the lawn and garden season this year. Sales of service parts to the company’s service distribution venture were also lower this year due to a planned seasonal inventory reduction initiative. Partially offsetting the sales decline were increased sales of commercial engines.

Products Segment net sales in the second quarter of fiscal 2018 increased $31 million, or 16.5%, from the prior year. The increase was primarily due to higher sales of commercial job site products, commercial lawn and garden equipment and snow throwers. Generator sales were slightly lower in the second quarter of fiscal 2018 given the prior year's second quarter included the impact of Hurricane Matthew.

GROSS PROFIT

The consolidated gross profit percentage was 20.8% in the second quarter of fiscal 2018, a decrease from 22.3% in the same period last year. Adjusted gross profit percentage was 21.3% in the second quarter this year. The prior year gross profit percentage did not have any adjustments.

The Engines Segment gross profit percentage was 22.8% in the second quarter of fiscal 2018, a decrease of 80 basis points from 23.6% in the second quarter of fiscal 2017. Adjusted gross profit percentage decreased 50 basis points due to approximately 5% lower manufacturing volume and unfavorable sales mix, which includes lower service parts sales. Higher material costs were offset by modest pricing increases.

The Products Segment gross profit percentage was 16.7% for the second quarter of fiscal 2018, down from 17.4% in the second quarter of fiscal 2017. Adjusted gross profit percentage was 17.0% in the second quarter this year primarily due to a 4% reduction in manufacturing throughput. Production of pressure washers and residential riding mowers was lower in the quarter in order to right size the company's inventory which was elevated coming out of last season.

ENGINEERING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Engineering, selling, general and administrative expenses were $77.9 million in the second quarter of fiscal 2018, an increase of $4.9 million or 6.7% from the second quarter of fiscal 2017.

The Engines Segment engineering, selling, general and administrative expenses for the second quarter of fiscal 2018 increased $2.5 million from the first quarter of fiscal 2017. Adjusted Engines Segment engineering, selling, general and administrative expenses increased $2.4 million primarily due to higher employee compensation costs and the investment in the upgrade to the company’s ERP system.

The Products Segment engineering, selling, general and administrative expenses were $29.7 million for the second quarter of fiscal 2018, an increase of $2.4 million from the second quarter of fiscal 2017. Adjusted Products Segment engineering, selling, general and administrative expenses increased $2.1 million due to higher compensation costs, higher commissions expense on increased sales volume and higher costs associated with investments to upgrade the company's ERP system and growing commercial offerings.

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BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

The following table is a reconciliation of financial results by segment, as reported, to adjusted financial results by segment, excluding business optimization charges, goodwill impairment charges, and one-time charges as a result of the implementation of the Tax Cuts and Jobs Act of 2017 for the six months ended fiscal December 2018 and 2017 (in thousands, except per share data):

	Six Months Ended Fiscal December					
	2018 Reported	Adjustments[1]	2018 Adjusted[2]	2017 Reported	Adjustments	2017 Adjusted[2]
Gross Profit:						
Engines	$86,648	$ 1,128	$87,776	$92,559	$ —	$92,559
Products	72,797	1,522	74,319	56,129	—	56,129
Inter-Segment Eliminations	(314)	—	(314)	(760)	—	(760)
Total	$159,131	$ 2,650	$161,781	$147,928	$ —	$147,928
Engineering, Selling, General and Administrative Expenses:						
Engines	$101,526	$ 1,996	$99,530	$90,161	$ —	$90,161
Products	63,079	2,428	60,651	54,934	—	54,934
Total	$164,605	$ 4,424	$160,181	$145,095	$ —	$145,095
Equity in Earnings of Unconsolidated Affiliates						
Engines	$3,441	$ 1,223	4,664	$3,871	$ —	$3,871
Products	2,285	—	2,285	2,368	—	2,368
Total	$5,726	$ 1,223	$6,949	$6,239	$ —	$6,239
Segment Income (Loss):						
Engines	$(11,437)	$ 4,347	$(7,090)	$6,269	$ —	$6,269
Products	12,003	3,950	15,953	3,563	—	3,563
Inter-Segment Eliminations	(314)	—	(314)	(760)	—	(760)
Total	$252	$ 8,297	$8,549	$9,072	$ —	$9,072
Income (Loss) Before Income Taxes	(8,895)	8,297	(598)	270	—	270
Provision (Credit) for Income Taxes	22,488	(22,501)	(13)	(833)	—	(833)
Net Income (Loss)	$(31,383)	$ 30,798	$(585)	$1,103	$ —	$1,103
Earnings (Loss) Per Share						
Basic	$(0.75)	$ 0.73	$(0.02)	$0.02	$ —	$0.02
Diluted	(0.75)	0.73	(0.02)	0.02	—	0.02

(1) For the second quarter of fiscal 2018, business optimization expenses include $3.0 million ($2.1 after tax) of non-cash charges related primarily to plant & equipment impairment and accelerated depreciation, and $5.3 million ($3.7 million after tax) of cash charges related primarily to employee termination benefits, lease terminations, professional services and plant rearrangement activities. See below for discussion related to the previously announced business optimization program. Tax expense also includes a $24.9 million charge associated with the Tax Cuts and Jobs Act of 2017 comprised of $18.7 million to remeasure deferred tax assets and liabilities and $6.2 million to record a transition tax on accumulated foreign earnings.
(2) Adjusted financial results are non-GAAP financial measures. The Company believes this information is meaningful to investors as it isolates the impact that business optimization charges and certain other items 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 its GAAP financial results and should be read in conjunction with those GAAP results.

NET SALES

Consolidated net sales for the first six months of fiscal 2018 were $775.5 million, an increase of $60 million, or 8.4%, from the second quarter of fiscal 2017.

Engines Segment net sales in the first six months of fiscal 2018 decreased $8.9 million or 2.2% from the prior year. Engine sales unit volumes decreased by 4%, or approximately 105,000 engines, in the first six months of fiscal 2018 compared to the same period last year. The decrease was primarily due to management's anticipation that domestic customers will produce closer to the lawn and garden season this year. Sales of service parts to the company’s service distribution venture were also lower this year due to a planned seasonal inventory reduction initiative. Partially offsetting the sales decline were increased sales of commercial engines.

Products Segment net sales in the first six months of fiscal 2018 increased $67 million, or 19.6%, from the prior year. Net sales increased primarily due to higher sales of generators from hurricane activity as well as higher shipments of commercial job site products and commercial lawn and garden equipment. In the first six months of fiscal 2018, Hurricanes Harvey, Irma, and Maria made landfall compared to Hurricane Matthew in the same period last year.

GROSS PROFIT

The consolidated gross profit percentage was 20.5% in the first six months of fiscal 2018, a decrease from 20.7% in the same period last year. Adjusted gross profit percentage was 20.9% in the first six months of this year. The prior year gross profit percentage did not have any adjustments.

The Engines Segment gross profit percentage was 21.3% in the first six months of fiscal 2018, a decrease of 100 basis points from 22.3% in the first six months of fiscal 2017. Adjusted gross profit percentage decreased 70 basis points due to approximately 3% lower manufacturing volume and unfavorable sales mix, which includes lower service parts sales. Higher material costs were offset by modest pricing increases.

The Products Segment gross profit percentage was 17.8% for the first six months of fiscal 2018, up from 16.4% in the first six months of fiscal 2017. Adjusted gross profit percentage was 18.2% in the first six months of this year. Adjusted gross profit percentage increased 175 basis points, primarily due to the contribution margin from hurricane-related sales and favorable sales mix.

ENGINEERING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Engineering, selling, general and administrative expenses were $164.6 million in the first six months of fiscal 2018, an increase of $19.5 million, or 13.4%, from the first six months of fiscal 2017.

The Engines Segment engineering, selling, general and administrative expenses for the first six months of fiscal 2018 increased $11.3 million from the second quarter of fiscal 2017. Adjusted Engines Segment engineering, selling, general and administrative expenses increased $9.3 million primarily due to higher employee compensation costs and the investment in the upgrade to the company’s ERP system.

The Products Segment engineering, selling, general and administrative expenses were $63.0 million for the first six months of fiscal 2018, an increase of $8.1 million from the first six months of fiscal 2017. Adjusted Products Segment engineering, selling, general and administrative expenses increased $5.7 million due to higher compensation costs, higher commissions expense on increased sales volume and higher costs associated with investments to upgrade the company’s ERP system and growing commercial offerings.

INTEREST EXPENSE

Interest expense for the first six months of fiscal 2018 was $0.9 million higher than the same period last year.

PROVISION FOR INCOME TAXES

As a result of the Tax Cuts and Jobs Act (the “Tax Act”), the Company will be subject to a U.S. federal statutory corporate income tax rate of 28% for the fiscal year ending July 1, 2018 and a U.S. federal statutory corporate income tax rate of 21% in future fiscal years. Overall, the Company anticipates the decrease in the U.S. federal statutory rate resulting from the enactment of the Tax Act will have favorable impact on our future consolidated tax expense and operating cash flows.

Within the calculation of the Company's tax rate, various assumptions and estimates have been used that may change as a result of future guidance, interpretation, and legislation from the Internal Revenue Service, the SEC, the Financial Accounting Standards Board ("FASB") and/or various other taxing jurisdictions. For example, the Company anticipates that U.S. state jurisdictions will continue to determine and announce their conformity to the Tax Act which could have an impact on the Company's tax rate. The Tax Act contains many significant changes to U.S. tax laws, the consequences of which have not yet been fully determined. The Company is also in the process of evaluating its permanent reinvestment assertions since the Tax Act may provide opportunity to repatriate overseas cash to the U.S. at a lower tax cost. There is a dividends received deduction available for certain foreign distributions under the Tax Act, but certain foreign earnings remain subject to withholding taxes upon repatriation. As of December 31, 2017, the Company has analyzed its global working capital and cash requirements and the potential tax liabilities attributable to a repatriation. The Company removed its permanent reinvestment assertion on approximately $25 million of its foreign earnings, recorded the estimated tax impact in its financial statements, and continues to evaluate its cash needs and strategic opportunities to repatriate cash.

The Company continues to review the anticipated tax impacts of provisions of the Tax Act which are not effective until its fiscal year 2019 as well, including but not limited to global intangible low taxed income ("GILTI") and base erosion anti-abuse tax ("BEAT"). Changes in corporate tax rates, the deferred tax assets and liabilities relating to our U.S. operations, the taxation of foreign earnings, and the deductibility of expenses contained in the Tax Act or other future tax legislation could have a material impact on our future consolidated tax expense.

BUSINESS OPTIMIZATION PROGRAM

The company made progress on implementing its previously announced business optimization program in the second quarter of fiscal 2018. The program is designed to drive efficiencies and expand capacity in commercial engines and cutting equipment. The program entails expanding production of Vanguard commercial engines into the company's existing large engine plants, which are located in Georgia and Alabama, and expanding Ferris commercial mower production capacity in a new, modern facility which is located close to the current manufacturing facility in New York.

Production of Vanguard engines in the company's U.S. plants is expected to be phased in beginning in late fiscal 2018 through the middle of fiscal 2019. Currently, the majority of Vanguard engines are sourced from overseas. Production of Ferris commercial mowers is expected to begin in the new facility in the fourth quarter of fiscal 2018, and the exit from the existing plant and remote warehouse is planned for fiscal 2019. The business optimization program also includes the project costs for the integration and go-live efforts associated with the company's ERP upgrade and the anticipated operational excellence efficiency improvements. The go-live for the ERP upgrade is expected near the end of fiscal 2018, subsequent to the peak seasonal shipment period.

For the second quarter and first six months of fiscal 2018, the company recorded business optimization charges of $3.1 million ($2.2 million after tax or $0.05 per diluted share) and $8.3 million ($5.9 million after tax or $0.14 per diluted share), respectively. Total pre-tax expenses related to the business optimization program are expected to be approximately $50 million to $55 million, of which $24 million to $28 million is expected be recognized in fiscal 2018. The business optimization program is projected to generate $30 million to $35 million of ongoing future annual pre-tax savings, in addition to supporting profitable commercial growth. The company estimates the future annual savings will be achieved over a three-year period beginning in fiscal 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows used in operating activities for the first six months of fiscal 2018 were $64.9 million compared to $126.6 million in the first six months of fiscal 2017. The decrease in cash used in operating activities was primarily related to changes in working capital, including greater collections of accounts receivable due to timing of sales and customer payments, as well as higher accounts payable due to timing.

Cash flows used in investing activities were $59.4 million and $26.8 million during the first six months of fiscal 2018 and fiscal 2017, respectively. The $32.6 million increase in cash used in investing activities was primarily related to an increase in restricted cash of $12.7 million associated with the New Markets Tax Credit (NMTC) transaction, which occurred in fiscal 2018, and a $14.4 million increase for capital expenditures year over year.

Cash flows provided by financing activities were $127.8 million and $112.6 million during the first six months of fiscal 2018 and 2017, respectively. The $13.5 million increase in cash provided by financing activities was attributable to $3.1 million in cash used to purchase treasury in fiscal 2018 as compared to $15.1 million used in the comparable period.

FUTURE LIQUIDITY AND CAPITAL RESOURCES

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

On March 25, 2016, the Company entered into a $500 million amended and restated multicurrency credit agreement (the “Revolver”) that matures on March 25, 2021. The Revolver amended and restated the Company’s $500 million multicurrency credit agreement dated as of October 13, 2011 (as previously amended), which would have matured on October 21, 2018. The initial maximum availability under the Revolver 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 December 31, 2017, $128.6 million was outstanding under the Revolver. There were no borrowings under the Revolver as of July 2, 2017. The Company classifies debt issuance costs related to the Revolver as an asset, regardless of whether it has any outstanding borrowings on the line of credit arrangements.

On April 21, 2016, the Board of Directors authorized up to $50 million in funds for use in the common share repurchase program with an expiration date of June 29, 2018. As of December 31, 2017, the total remaining authorization was approximately $27.4 million. 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 debt covenants. During the six months ended December 31, 2017, the Company repurchased 141,195 shares on the open market at an average price of $22.16 per share, as compared to 787,343 shares purchased on the open market at an average price of $19.25 per share during the six months ended January 1, 2017.

The Company expects capital expenditures to be approximately $80 million to $90 million in fiscal 2018. These anticipated expenditures reflect the Company's business optimization program as well as continuing to reinvest in efficient equipment and innovative new products.

During the first six months of fiscal 2018, 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 in fiscal 2018 but the Company may choose to make discretionary contributions. The Company does anticipate making a voluntary contribution to the qualified pension plan of up to $50 million in fiscal 2018. The Company may be required to make further required contributions in future years or the future expected funding requirements may change depending on a variety of factors including the actual return on plan assets, the funded status of the plan in future periods, and changes in actuarial assumptions or regulations. During the fourth quarter of fiscal 2018, the Company plans to annuitize a portion of the qualified pension plan obligation which the Company expects will remove approximately $100 million of pension obligation and result in a non-cash pre-tax charge of $40 to $45 million.

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 Senior Notes and the Revolver contain restrictive covenants. These covenants include restrictions on the ability of the Company and/or certain subsidiaries to pay dividends, repurchase equity interests of the Company and certain subsidiaries, incur indebtedness, create liens, consolidate and merge and dispose of assets, and enter into transactions with the Company's affiliates. The Revolver contains financial covenants that require the Company to maintain a minimum interest coverage ratio and impose on the Company a maximum average leverage ratio. As of

December 31, 2017, the Company was in compliance with these covenants, and expects to be in compliance with all covenants during the remainder of fiscal 2018.

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes since the August 29, 2017 filing of the Company's Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS

There have been no material changes since the August 29, 2017 filing of the Company's Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES

There have been no material changes in the Company's critical accounting policies since the August 29, 2017 filing of its Annual Report on Form 10-K. As discussed in its 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 the Company's 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 "anticipate", "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 its 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 the Company competes; changes in laws and regulations, including U.S. tax reform, changes in tax rates, laws and regulations as well as related guidance; changes in customer and OEM demand; changes in prices of raw materials and parts that the Company purchases; changes in domestic and foreign economic conditions (including effects from the U.K.'s decision to exit the European Union); the ability to bring new productive capacity on line efficiently and with good quality; outcomes of legal proceedings and claims; the ability to realize anticipated savings from restructuring actions; and other factors disclosed from time to time in its 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. The Company is not undertaking any obligation to update any forward-looking statements or other statements it may make even though these statements may be affected by events or circumstances occurring after the forward-looking statements or other statements were made.

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BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
There have been no material changes since the August 29, 2017 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 second 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 29, 2017 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 December 31, 2017.

2018 Fiscal Month	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (b)
October 2, 2017 to October 29, 2017	1,036	$ 21.99	160	$ 28,411,129
October 30, 2017 to November 26, 2017	29,054	24.41	29,054	27,701,817
November 27, 2017 to December 31, 2017	12,700	24.49	12,700	27,390,825
Total Second Quarter	42,790	$ 24.43	41,914	$ 27,390,825

(a) During the three months ended December 31, 2017, the Company repurchased 876 shares that were surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock. These shares were not included in the authorized share repurchase program.
(b) On April 21, 2016, the Board of Directors authorized up to $50 million in funds for use in the common share repurchase program with an expiration date of June 29, 2018.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Briggs & Stratton Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit B to the Company's Definitive Proxy Statement for the Annual Meeting, filed on September 8, 2017)
10.2	Form of Stock Option Agreement under the Briggs & Stratton Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated October 25, 2017)
10.3	Form of Performance Unit Award Agreement under the Briggs & Stratton Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated October 25, 2017)
10.4	Form of Restricted Stock Award Agreement under the Briggs & Stratton Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated October 25, 2017)
10.5	Form Restricted Stock Unit Award Agreement under the Briggs & Stratton Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated October 25, 2017)
10.6	Form of CEO Stock Option Agreement under the Briggs & Stratton Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K dated October 25, 2017)
10.7	Form of CEO Performance Unit Award Agreement under the Briggs & Stratton Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K dated October 25, 2017)
10.8	Form of CEO Restricted Stock Award Agreement under the Briggs & Stratton Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K dated October 25, 2017)
10.9	Form of CEO Restricted Stock Unit Award Agreement under the Briggs & Stratton Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K dated October 25, 2017)
10.10	Letter Agreement, dated October 25, 2017, between Briggs & Stratton Corporation and Todd J. Teske (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K dated October 25, 2017)
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 December 31, 2017 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 Income (Loss), (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related Notes to Condensed Consolidated Financial Statements

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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:	February 5, 2018	/s/ Mark A. Schwertfeger Mark A. Schwertfeger Senior Vice President and Chief Financial Officer and Duly Authorized Officer