ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

FISCAL 2009 COMPARED TO FISCAL 2008

Net Sales

Fiscal 2009 consolidated net sales were approximately $2.09 billion, a decrease of $59.2 million compared to the previous year. This decrease is attributable to the net effect of reduced shipment volumes, primarily related to lawn and garden equipment in the Power Products segment, unfavorable currency exchange rates, primarily the Euro, and a mix of shipments reflecting lower priced units. Partially offsetting the consolidated net sales decrease were sales of $39.5 million included in the results for the first time this year from the June 30, 2008 acquisition of Victa Lawncare Pty. Ltd., increased portable generator sales volume due to weather events and pricing improvements on certain products.

Engines segment net sales were $1.41 billion compared to $1.46 billion in the prior year, a decrease of $45.8 million or 3%. This decrease is primarily the result of product shipment mix reflecting lower priced units, a small decrease in engine shipments and unfavorable currency exchange rates. Softer demand for engines for powered lawn and garden equipment was offset by the improvement in demand for engines for portable generators.

Power Products segment net sales were $892.9 million in fiscal 2009 compared to $870.4 million in fiscal 2008, an increase of $22.5 million or 3%. This increase was the result of improved pricing on certain products and favorable mix improvements, the addition of $39.5 million from the Victa Lawncare Pty. Ltd. acquisition and a 58% increase in portable generator sales volume due to weather events. Offsetting these improvements was a 45% volume decline in our shipment of premium lawn and garden equipment that was comparable to the overall industry decline.

Gross Profit

Consolidated gross profit was $333.7 million in fiscal 2009 compared to $307.3 million in fiscal 2008, an increase of $26.4 million or 9%. In fiscal 2009 a $5.8 million pretax ($3.5 million after tax) expense was recorded associated with the closing of the Jefferson and Watertown, WI manufacturing facilities. In fiscal 2008, the Company recorded a $13.3 million pretax ($8.1 million after tax) gain associated with the reduction of certain post closing employee benefit costs related to the closing of the Port Washington, Wisconsin manufacturing facility and a $19.8 million pretax ($13.5 million after tax) expense from a snow engine recall. In addition to the above items, consolidated gross profit increased primarily from enhanced pricing, lower spending and improved productivity, that was partially offset by the impact of unfavorable currency exchange rates, higher commodity costs and a mix of shipments reflecting lower margined product.

Engines segment gross profit decreased to $266.3 million in fiscal 2009 from $271.0 million in fiscal 2008, a decrease of $4.7 million. Engines segment gross profit margins increased to 18.8% in fiscal 2009 from 18.6% in fiscal 2008. As mentioned above, a $19.8 million expense was recorded in fiscal 2008 from a snow engine recall. In addition to the snow engine recall, the gross profit decrease year over year primarily resulted from $27.3 million in less favorable Euro exchange rates and higher commodity costs, partially offset by improved productivity.

The Power Products segment gross profit increased to $67.5 million in fiscal 2009 from $39.4 million in fiscal 2008, an increase of $28.1 million. The Power Products segment gross profit margins increased to 7.6% in fiscal 2009 from 4.5% in fiscal 2008. As previously mentioned, a $5.8 million expense was recorded in fiscal 2009 associated with the closing of the Jefferson and Watertown, WI manufacturing facilities and a $13.3 million gain associated with the reduction of certain post closing employee benefit costs related to the closing of the Port Washington, Wisconsin manufacturing facility was recorded in fiscal 2008. In addition to the above items, the gross profit increase primarily resulted from pricing improvements, a more favorable product mix and $9.4 million related to lower spending and improved productivity, which were partially offset by increased commodity costs and a 12% decline in sales volumes.

Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs decreased to $265.3 million in fiscal 2009 from $281.0 million in fiscal 2008, a decrease of $15.7 million. Engineering, selling, general and administrative costs as a percent of sales decreased to 12.7% in fiscal 2009 from 13.1% in fiscal 2008.

The decrease in engineering, selling, general and administrative expenses was primarily due to planned decreases in advertising and professional services of $14.8 million and $5.5 million, respectively, offset by an additional $7.3 million related to the Victa Lawncare Pty. Ltd. acquisition.

Interest Expense

Interest expense decreased $7.0 million in fiscal 2009 compared to fiscal 2008. The decrease is attributable to lower average borrowings between years for working capital requirements and lower average interest rates.

Other Income

Other income decreased $38.2 million in fiscal 2009 as compared to fiscal 2008. This decrease is primarily due to the $8.6 million gain on the redemption of preferred stock and $28.3 million of dividends received on this stock in 2008.

Provision for Income Taxes

The effective tax rate was 20.9% for fiscal year 2009 and 23.7% for fiscal 2008. The fiscal 2009 effective tax rate is less than the statutory 35% rate primarily due to the Company's ability to exclude from taxable income a portion of the distributions received from investments from the resolution of prior year tax matters and increased foreign tax credits. In 2008, the effective rate was reduced due to the Company's ability to exclude a portion of distributions received from investments and the research credit.

FISCAL 2008 COMPARED TO FISCAL 2007

Net Sales

Fiscal 2008 consolidated net sales were approximately $2.15 billion, a decrease of $5.4 million compared to the previous year. The decrease is due to the net effect of lower sales volumes in both segments offset by a favorable mix of product and currency exchange rates in the Engines segment.

Engines segment net sales were $1.46 billion compared to $1.45 billion in the prior year, an increase of $12.8 million or 1%. This increase reflects the impact of a favorable mix of shipped products and a favorable currency exchange rate offset by a 4% reduction of engine shipments. The decrease in unit volume was primarily due to the lower demand for engine powered lawn and garden equipment in the U.S.

Power Products segment net sales were $870.4 million in fiscal 2008 compared to $890.0 million in fiscal 2007, a decrease of $19.6 million or 2%. This decrease was due to a reduction in unit shipments in each product category except shipments of lawn and garden equipment to mass retailers, which reflected product placement that the Company did not have in the prior year. Generally, these sales decreases reflect weak consumer demand for outdoor power equipment.

Gross Profit

Consolidated gross profit was $307.3 million in fiscal 2008 compared to $295.2 million in fiscal 2007, an increase of $12.1 million or 4%. In fiscal 2008, the Company recorded a $13.3 million pretax ($8.1 million after tax) gain associated with the reduction of certain post closing employee benefit costs related to the closing of the Port Washington, Wisconsin manufacturing facility and a $19.8 million pretax ($13.5 million after tax) expense from a snow engine recall. In fiscal 2007, the Company recorded impairment charges of $43.1 million ($26.2 million, net of taxes) related to write-downs of assets primarily associated with the announced rationalization of two manufacturing plants and $5.0 million pretax ($3.4 million after tax) expense from the snow engine recall. After considering the impact of these items, consolidated gross profit declined $29.5 million, primarily the result of lower sales volumes and lower utilization of production facilities.

Engines segment gross profit increased to $271.0 million in fiscal 2008 from $216.9 million in fiscal 2007, an increase of $54.1 million. Engines segment gross profit margins increased to 18.6% in fiscal 2008 from 15.0% in fiscal 2007. Approximately $20.4 million of the improvement is due to fiscal 2007 expenses incurred with the write-down of assets associated primarily with the rationalization of a major manufacturing plant in the United States that were not incurred in fiscal 2008, offset by the increased expense of the snow engine recall in fiscal 2008. The balance of the improvement resulted primarily from $23.1 million of manufacturing cost reductions primarily from the rationalization of the manufacturing plant in the United States. A favorable product mix and favorable currency exchange rates were offset by decreases in unit volume.

The Power Products segment gross profit decreased to $39.4 million in fiscal 2008 from $80.4 million in fiscal 2007, a decrease of $41.0 million. The Power Products segment gross profit margins decreased to 4.5% in fiscal

2008 from 9.0% in fiscal 2007. As previously mentioned, a $13.3 million gain associated with the reduction of certain post closing employee benefit costs related to the closing of the Port Washington, Wisconsin manufacturing facility was recorded in fiscal 2008. In fiscal 2007, asset impairment charges of $9.2 million were recorded, primarily related to the write-down of assets at this same facility. After considering the impact of these items, gross margins decreased $63.5 million, primarily the result of $22.8 million of manufacturing cost increases due to under utilization of production facilities, $16.5 million of inefficiencies related to the initial year of a plant start-up and $19.2 million of increased costs for raw materials and components.

Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs increased to $281.0 million in fiscal 2008 from $263.0 million in fiscal 2007, an increase of $17.9 million. Engineering, selling, general and administrative costs as a percent of sales increased to 13.1% in fiscal 2008 from 12.2% in fiscal 2007.

The increase in engineering, selling, general and administrative expenses was due to planned increases in salaries and benefits of $10.0 million, $2.2 million of increased engineering costs and increased selling, marketing and advertising expenses of $1.4 million.

Interest Expense

Interest expense decreased $5.6 million in fiscal 2008 compared to fiscal 2007. The decrease is attributable to lower average borrowings between years for working capital requirements and lower average interest rates.

Other Income

Other income increased $26.6 million in fiscal 2008 as compared to fiscal 2007. This increase is primarily due to the $8.6 million gain on the redemption of preferred stock and $18.3 million of additional dividends received on this stock compared to the prior year.

Provision for Income Taxes

The effective tax rate was 23.7% for fiscal 2008 and 102.9% for fiscal 2007. The fiscal 2008 effective tax rate is less than the statutory 35% rate primarily due to the Company's ability to exclude from taxable income a portion of the distributions received from investments and the benefit from research credits. In 2007, the combination of similar exclusion, the research credit and production activity deduction with a small pretax financial loss effectively increased the total tax (benefit) by an amount greater than the pretax loss.

Liquidity and Capital Resources

FISCAL YEARS 2009, 2008 AND 2007

Cash flows from operating activities were $172 million, $61 million and $88 million in fiscal 2009, 2008 and 2007, respectively.

The fiscal 2009 cash flows from operating activities were $111 million greater than the prior year. This increase is due to higher cash operating earnings and $50 million less of working capital requirements between years.

The fiscal 2008 cash flows from operating activities were $27 million less than the prior year. This decrease is primarily due to lower cash operating earnings, offset by $32 million less of working capital requirements between years.

Cash used by investing activities was $64 million in fiscal 2009. Cash provided by investing activities was $0.7 million in fiscal 2008. Cash used by investing activities was $67 million in fiscal 2007. These cash flows include capital expenditures of $43 million, $66 million and $68 million in fiscal 2009, 2008 and 2007, respectively. The capital expenditures relate primarily to reinvestment in equipment, capacity additions and new products. During fiscal 2007, the Company increased its Engines segment capacity by opening a new plant in Ostrava, Czech Republic which accounted for $15 million of capital expenditures. This new plant began production in December 2006. In addition, the Power Products segment added lawn and garden product capacity with a new plant in Newbern, Tennessee that accounted for $14 million and $6 million of capital expenditures in fiscal 2008 and 2007, respectively. This plant began production in the second quarter of fiscal 2008.

In fiscal 2009, net cash of $24.8 million was used for the Victa Lawncare Pty. Ltd. acquisition. In fiscal 2008, the Company received $66 million in proceeds on the sale of an investment in preferred stock including the final dividends paid on this preferred stock.

Briggs & Stratton used cash of $123 million, $63 million and $89 million in financing activities in fiscal 2009, 2008 and 2007, respectively. The Company reduced its outstanding debt by $85 million and $19 million in fiscal 2009 and 2008, respectively. The Company paid common stock dividends of $38 million, $44 million and $44 million in fiscal 2009, 2008 and 2007, respectively. The fiscal 2009 fourth quarter dividend was reduced 50%, to $0.11 per share from the $0.22 per share paid in the past several quarters, to preserve cash in light of the continuing uncertainty in the credit markets. In fiscal 2007, Briggs & Stratton repurchased $48 million of its common shares outstanding as part of a $120 million share repurchase program authorized by the Board of Directors in fiscal 2007, which expired in February 2008.

Future Liquidity and Capital Resources

On July 12, 2007, the Company entered into a $500 million amended and restated multicurrency credit agreement. The Amended Credit Agreement ("Revolver") provides a revolving credit facility for up to $500 million in revolving loans, including up to $25 million in swing-line loans. The Company used proceeds from the Revolver to pay off the remaining amounts outstanding under the Company's variable rate term notes issued in February 2005 with various financial institutions, retire the 7.25% senior notes that were due in September 2007 and fund seasonal working capital requirements and other financing needs. The Revolver has a term of five years and all outstanding borrowings on the Revolver are due and payable on July 12, 2012. As of June 28, 2009, borrowings on the Revolver totaled $34.0 million.

In April 2009, the Board of Directors of the Company declared a quarterly dividend of eleven cents ($0.11) per share on the common stock of the Company, which was payable June 26, 2009 to shareholders of record at the close of business June 1, 2009. This quarterly dividend was reduced 50% from the prior quarter's level. The reduced dividend is more comparable with the Company's historical payout ratio of 50% of net income and dividend yield of 3.5%. In addition, a reduced dividend preserves cash in light of the continuing uncertainty in the credit markets. This action, along with other cash preserving initiatives, should reduce the Company's need for additional borrowings for working capital in the near to medium term future.

On August 10, 2006, Briggs & Stratton announced its intent to initiate repurchases of up to $120 million of its common stock through open market transactions during fiscal 2007 and fiscal 2008. The Company repurchased approximately $48 million of common stock under this plan, which expired in February 2008.

Briggs & Stratton expects capital expenditures to be approximately $40 to $45 million in fiscal 2010. These anticipated expenditures reflect our plans to continue to reinvest in equipment, new products, and capacity enhancements.

The Company is not required to make any contributions to the qualified pension plan during fiscal 2010, but may be required to make contributions in future years depending upon the actual return on plan assets and the funded status of the plan in future periods.

Management believes that available cash, cash generated from operations and existing lines of credit will be adequate to fund Briggs & Stratton's capital requirements for the foreseeable future.

Financial Strategy

Management believes that the value of Briggs & Stratton is enhanced if the capital invested in operations yields a cash return that is greater than the cost of capital. Consequently, management's first priority is to reinvest capital into physical assets and products that maintain or grow the global cost leadership and market positions that Briggs & Stratton has achieved, and drive the economic value of the Company. Management's next financial objective is to identify strategic acquisitions or alliances that enhance revenues and provide a superior economic return. Finally, management believes that when capital cannot be invested for returns greater than the cost of capital, we should return capital to the capital providers through dividends and/or share repurchases.

Off-Balance Sheet Arrangements

Briggs & Stratton has no off-balance sheet arrangements or significant guarantees to third parties not fully recorded in our Balance Sheets or fully disclosed in our Notes to Consolidated Financial Statements. Briggs & Stratton's significant contractual obligations include our debt agreements and certain employee benefit plans.

Briggs & Stratton is subject to financial and operating restrictions in addition to certain financial covenants under its domestic debt agreements. As is fully disclosed in Note 9 of the Notes to Consolidated Financial Statements, these restrictions could limit our ability to: pay dividends; incur further indebtedness; create liens; enter into sale and/or leaseback transactions; consolidate or merge with other entities, sell or lease all or substantially all of our assets; and dispose of assets or the proceeds of our assets. We believe we will remain in compliance with these covenants in fiscal 2010. Briggs & Stratton has obligations concerning certain employee benefits including its pension plans, postretirement benefit obligations and deferred compensation arrangements. All of these obligations are recorded on our Balance Sheets and disclosed more fully in the Notes to Consolidated Financial Statements.

Contractual Obligations

A summary of the Company's expected payments for significant contractual obligations as of June 28, 2009 is as follows (in thousands):

	Total	Fiscal 2010	Fiscal 2011-2012	Fiscal 2013-2014	Thereafter
Long-Term Debt	$ 282,000	$ –	$ 248,000	$ 34,000	$ –
Interest on Long-Term Debt	39,845	22,748	17,066	31	–
Capital Leases	2,070	983	954	133	–
Operating Leases	58,313	22,752	21,617	9,444	4,500
Purchase Obligations	65,339	46,343	18,996	–	–
Consulting and Employment Agreements	989	629	360	–	–
	$ 448,556	$ 93,455	$ 306,993	$ 43,608	$ 4,500

Other Matters

Labor Agreement

Briggs & Stratton has collective bargaining agreements with its unions. These agreements expire at various times ranging from 2010-2013.

Emissions

The U.S. Environmental Protection Agency (EPA) has developed multiple phases of national emission standards for small air cooled engines. Briggs & Stratton currently has a complete product offering that complies with the EPA's Phase II engine emission standards.

The EPA issued proposed Phase III standards in 2008 to further reduce engine exhaust emissions and to control evaporative emissions from small off-road engines and equipment in which they are used. The Phase III standards are similar to those adopted by the California Air Resources Board (CARB). The Phase III program requires evaporative controls in 2009 and go into full effect in 2011 for Class II engines (225 cubic centimeter displacement and larger) and 2012 for Class I engines (less than 225 cubic centimeter displacement). Briggs & Stratton does not believe the cost of compliance with the new standards will have a material adverse effect on its financial position or results of operations.

CARB's Tier 3 regulation requires additional reductions to engine exhaust emissions and new controls on evaporative emissions from small engines. The Tier 3 regulation was fully phased in during fiscal year 2008. While Briggs & Stratton believes the cost of the regulation may increase engine costs per unit, Briggs & Stratton does not believe the regulation will have a material effect on its financial condition or results of operations. This assessment is based on a number of factors, including revisions the CARB made to its adopted regulation from the proposal published in September 2003 in response to recommendations from Briggs & Stratton and others in the regulated category and intention to pass increased costs associated with the regulation on to consumers.

The European Commission adopted an engine emission Directive regulating exhaust emissions from small air cooled engines. The Directive parallels the Phase I and II regulations adopted by the U.S. EPA. Stage 1 was effective in February 2004 and Stage 2 was phased in between calendar years 2005 and 2007, with some limited extensions available for specific size and type engines until 2010. Briggs & Stratton has a full product line compliant with Stage 2. Briggs & Stratton does not believe the cost of compliance with the Directive will have a material adverse effect on its financial position or results of operations.

Critical Accounting Policies

Briggs & Stratton's critical accounting policies are more fully described in Note 2 and Note 15 of the Notes to Consolidated Financial Statements. As discussed in Note 2, the preparation of financial statements in conformity with accounting principles generally accepted in the U.S. (“GAAP”) requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include a goodwill assessment, estimates as to the recovery of accounts receivable and inventory reserves, and estimates used in the determination of liabilities related to customer rebates, pension obligations, postretirement benefits, warranty, product liability, litigation and taxation.

The carrying amount of goodwill is tested annually and when events or circumstances indicate that impairment may have occurred. Impairment testing is performed in accordance with Statement of Financial Accounting Standard (SFAS) No. 142, “Goodwill and Other Intangible Assets.” The Company performs impairment reviews using a fair value method for its reporting units, which have been determined to be one level below the Company’s reportable segments. The reporting units are Engine, Home Power Products and Yard Power Products. The fair value represents the amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis. To estimate fair value, the Company periodically retains independent third party valuation experts. Fair value is estimated using a valuation methodology that incorporates two approaches in estimating fair value including the public guideline company method and the discounted cash flow method. The determination of fair value requires significant management assumptions and other factors including estimating future sales growth, selling prices and costs, changes in working capital, investments in property and equipment, recent stock price volatility, and the selection of an appropriate weighted average cost of capital (WACC). The WACC used for the Engine, Home Power Products and Yard Power Products reporting units were 13.05%, 13.65% and 14.65%, respectively. The estimated fair value is then compared with the carrying value of the reporting unit, including the recorded goodwill. The Company is subject to financial statement risk to the extent that the carrying amount exceeds the estimated fair value. The impairment testing performed by the Company at June 28, 2009 indicated that the estimated fair value of each reporting unit exceeded its corresponding carrying amount, including recorded goodwill and as such, no impairment existed.

Other intangible assets with definite lives continue to be amortized over their estimated useful lives and are subject to impairment testing if events or changes in circumstances indicate that an asset may be impaired. Indefinite lived intangible assets are also subject to impairment testing on at least an annual basis. At June 28, 2009 there was no impairment of intangible assets.

The reserves for customer rebates, warranty, product liability, inventory and doubtful accounts are fact specific and take into account such factors as specific customer situations, historical experience, and current and expected economic conditions.

The Company accounts for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes.” The Company’s estimate of income taxes payable, deferred income taxes, and the effective tax rate is based on a complex analysis of many factors including interpretations of federal, state and foreign income tax laws, the difference between tax and financial reporting bases of assets and liabilities, estimates of amounts currently due or owed in various jurisdictions, and current accounting standards. We review and update our estimates on a quarterly basis as facts and circumstances change and actual results are known. In addition, Federal, state and foreign taxing authorities periodically review the Company’s estimates and interpretation of income tax laws. Adjustments to the effective income tax rate and recorded tax related assets and liabilities may occur in future periods if actual results differ significantly from original estimates and interpretations. At the beginning of fiscal 2008, the Company adopted the provisions of Interpretations No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on tax returns. As such, accruals for tax contingencies are provided for in accordance with the requirements of FIN 48.

The pension benefit obligation and related pension expense or income are calculated in accordance with SFAS No.158, “Employer’s Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of Financial Accounting Standards Board (FASB) Statements No. 87, 88, 106 and 132 (R)”, and are impacted by certain actuarial assumptions, including the discount rate and the expected rate of return on plan assets. These rates are evaluated on an annual basis considering such factors as market interest rates and historical asset performance, which is essential in the current volatile market. Actuarial valuations at June 28, 2009 used a discount rate of 6.75% and an expected rate of return on plan assets of 8.75%. Our discount rate was selected using a methodology that matches plan cash flows with a selection of Moody's Aa or higher rated bonds, resulting in a discount rate that better matches a bond yield curve with comparable cash flows. A 0.25% decrease in the discount rate would decrease annual pension expense by approximately $0.2 million. A 0.25% decrease in the expected return on plan assets would increase our annual pension expense by approximately $2.4 million. In estimating the expected return on plan assets, the Company considers the historical returns on plan assets, adjusted for forward looking considerations, including inflation assumptions and active management of the plan's invested assets, knowing that our investment performance has been in the top decile compared to other plans. Changes in the discount rate and return on assets can have a significant effect on the funded status of our pension plans, stockholders' equity and related expense. We cannot predict these changes in discount rates or investment returns and, therefore, cannot reasonably estimate whether the impact in subsequent years will be significant.

The funded status of the Company's pension plan is the difference between the projected benefit obligation and the fair value of its plan assets. The projected benefit obligation is the actuarial present value of all benefits expected to be earned by the employees' service adjusted for future potential wage increases. At June 28, 2009 the fair value of plan assets was less than the projected benefit obligation by approximately $141 million.

The Company is not required to make any contributions to the qualified pension plan during fiscal 2010, but may be required to make contributions in future years depending upon the actual return on plan assets and the funded status of the plan in future periods.

The other postretirement benefits obligation and related expense or income are also calculated in accordance with SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132 (R)" and are impacted by certain actuarial assumptions, including the health care trend rate. An increase of one percentage point in health care costs would increase the accumulated postretirement benefit obligation by $8.7 million and would increase the service and interest cost by $0.7 million. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by $8.1 million and decrease the service and interest cost by $0.7 million.

For pension and postretirement benefits, actuarial gains and losses are accounted for in accordance with GAAP. Refer to Note 15 of the Notes to the Consolidated Financial Statements for additional discussion.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a Replacement of FASB Statement No. 162" (SFAS No. 168). SFAS No. 168 establishes the Codification as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Following this Statement, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. All guidance contained in the Codification carries an equal level of authority. The GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. All nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS No. 168 is effective for interim or annual financial periods ending after September 15, 2009. The Company will adopt this statement in fiscal 2010, and does not anticipate adoption will have a material impact on its consolidated financial position, results of operations or liquidity.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)", which changes the approach to determining the primary beneficiary of a variable interest entity (VIE) and requires companies to more frequently assess whether they must consolidate VIEs. This new standard is effective for fiscal years beginning after November 15, 2009. We are currently assessing the potential impacts, if any, on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for the disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009 and is applied prospectively. The Company adopted this statement effective June 28, 2009. There was no material financial statement impact as a result of adoption.

In March 2008, the FASB issued Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (SFAS No. 161). SFAS No. 161 is intended to help investors better understand how derivative instruments and hedging activities affect an entity’s financial position, financial performance and cash flows through enhanced disclosure requirements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. See the Derivative Instruments & Hedging Activity section of Note 2 – Summary of Significant Accounting Policies for more information.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51,” (SFAS No. 160). SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. At this time, the impact of adoption of SFAS No. 160 on our consolidated financial position is being assessed.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (SFAS No. 141R). SFAS No. 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development, and restructuring costs. In addition, under SFAS No. 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income taxes. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, and will impact the accounting for any business combinations entered into after the effective date.

In March 2007, the Emerging Issues Task Force (EITF) ratified EITF No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements”, and EITF No. 06-10, “Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements”. The consensus on both issues requires the Company to recognize a liability for the estimated cost, net of expected recoveries, of maintaining the split-dollar life insurance policy during the postretirement period of the employee. The Company adopted the requirements of EITF No. 06-4 and EITF No. 06-10 during fiscal 2009 and it did not have a material impact on the financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Briggs & Stratton is exposed to market risk from changes in foreign exchange rates, commodity prices and interest rates. To reduce the risk from changes in certain foreign exchange rates and commodity prices, Briggs & Stratton uses financial instruments. Briggs & Stratton does not hold or issue financial instruments for trading purposes.

Foreign Currency

Briggs & Stratton's earnings are affected by fluctuations in the value of the U.S. dollar against various currencies, with the Japanese Yen and the Euro as the most significant. The Yen is used to purchase engines from Briggs & Stratton's joint venture. Briggs & Stratton purchases components in Euros from third parties and receives Euros for certain products sold to European customers. Briggs & Stratton's foreign subsidiaries' earnings are also influenced by fluctuations of the local currency against the U.S. dollar as these subsidiaries purchase inventory from the parent in U.S. dollars. Forward foreign exchange contracts are used to partially hedge against the earnings effects of such fluctuations. At June 28, 2009, Briggs & Stratton had the following forward foreign exchange contracts outstanding with the Fair Value (Gains) Losses shown (in thousands):

Hedge Currency	Notional Value	Fair Market Value	Conversion Currency	(Gain) Loss at Fair Value
Australian Dollar	12,862	$ 9,235	U.S.	$ 154
Canadian Dollar	2,500	$ 2,170	U.S.	$ (43)
Euro	58,450	$ 82,165	U.S.	$ 1,845
Great British Pound	750	$ 1,240	U.S.	$ 2
Japanese Yen	562,808	$ 5,918	U.S.	$ (274)
Swedish Krona	2,500	$ 321	U.S.	$ (6)

All of the above contracts expire within twelve months.

Fluctuations in currency exchange rates may also impact the shareholders' investment in Briggs & Stratton. Amounts invested in Briggs & Stratton's non-U.S. subsidiaries and joint ventures are translated into U.S. dollars at the exchange rates in effect at fiscal year-end. The resulting cumulative translation adjustments are recorded in Shareholders' Investment as Accumulated Other Comprehensive Income. The cumulative translation adjustments component of Shareholders' Investment decreased $13.7 million during the year. Using the year-end exchange rates, the total amount invested in non-U.S. subsidiaries on June 28, 2009 was approximately $126.3 million.

Commodity Prices

Briggs & Stratton is exposed to fluctuating market prices for commodities, including natural gas, copper and aluminum. The Company has established programs to manage commodity price fluctuations through contracts that fix the price of certain commodities, some of which are financial derivative instruments. The maturities of these contracts coincide with the expected usage of the commodities over the next twenty-four months.

Interest Rates

Briggs & Stratton is exposed to interest rate fluctuations on its borrowings, depending on general economic conditions.

On June 28, 2009, Briggs & Stratton had the following short-term loan outstanding (in thousands):

Currency	Amount	Weighted Average Interest Rate
U.S. Dollars	$ 3,000	4.26%

This loan has a variable interest rate. Assuming borrowings are outstanding for an entire year, an increase (decrease) of one percentage point in the weighted average interest rate would increase (decrease) interest expense by $30 thousand.

Long-term loans, net of unamortized discount, consisted of the following (in thousands):

Description	Amount	Maturity	Weighted Average Interest Rate
8.875% Senior Notes	$247,104	March 2011	8.875%
Revolving Credit Facility	$ 34,000	July 2012	1.819%

The Senior Notes carry fixed rates of interest and are therefore not subject to market fluctuation. The Revolving Credit Facility has a variable interest rate. Assuming borrowings are outstanding for an entire year, an increase (decrease) of one percentage point in the weighted average interest rate would increase (decrease) interest expense by approximately $340 thousand.