

# Notes to Consolidated Financial Statements

FOR THE FISCAL YEARS ENDED JULY 2, 2006, JULY 3, 2005 AND JUNE 27, 2004

## (1) Nature of Operations:

Briggs & Stratton (the "Company") is a U.S. based producer of air cooled gasoline engines and engine powered outdoor equipment. The engines are sold worldwide, primarily to original equipment manufacturers of lawn and garden equipment and other gasoline engine powered equipment. The Company's wholly owned subsidiary, Briggs & Stratton Power Products Group, LLC ("BSPPG"), is a designer, manufacturer and marketer of a wide range of outdoor power equipment and related accessories. BSPPG's products are sold worldwide.

## (2) Summary of Significant Accounting Policies:

Fiscal Year: The Company's fiscal year consists of 52 or 53 weeks, ending on the Sunday nearest the last day of June in each year. Therefore, the 2006 fiscal year was 52 weeks long, the 2005 fiscal year was 53 weeks long and the 2004 fiscal year was 52 weeks long. All references to years relate to fiscal years rather than calendar years.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its majority owned domestic and foreign subsidiaries after elimination of intercompany accounts and transactions.

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents: This caption includes cash, commercial paper and certificates of deposit. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Receivables: Receivables are recorded at the original carrying value less reserves for estimated uncollectible accounts. In fiscal 2005, Briggs & Stratton wrote off a \$38.9 million trade receivable from Murray, Inc., a major original equipment manufacturer. See Note 3 for additional discussion of Murray, Inc.

Inventories: Inventories are stated at cost, which does not exceed market. The last-in, first-out (LIFO) method was used for determining the cost of approximately 53% of total inventories at July 2, 2006 and 48% of total inventories at July 3, 2005. The cost for the remaining portion of the inventories was determined using the first-in, first-out (FIFO) method. If the FIFO inventory valuation method had been used exclusively, inventories would have been \$56.8 million and \$52.5 million higher in 2006 and 2005, respectively. The LIFO inventory adjustment was determined on an overall basis, and accordingly, each class of inventory reflects an allocation based on the FIFO amounts.

Goodwill and Other Intangible Assets: Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. Other Intangible Assets reflect identifiable intangible assets that arose from purchase acquisitions. Other Intangible Assets are comprised of trademarks, patents and customer relationships. Goodwill and trademarks, which are considered to have indefinite lives are not amortized; however, both must be tested for impairment annually. Amortization is recorded on a straight line basis for other intangible assets with finite lives. Patents have been assigned an estimated weighted average useful life of thirteen years. The customer relationships have been assigned an estimated useful life of twenty-five years. The Company is subject to financial statement risk in the event that goodwill and intangible assets become impaired. The Company performed the required impairment tests in fiscal 2006, 2005 and 2004, and found no impairment of the assets.

Investments: This caption represents the Company's investment in its 30% and 50% owned joint ventures and preferred stock in a privately held iron castings business. The investments in the joint ventures are accounted for under the equity method.

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**Deferred Loan Costs:** Expenses associated with the issuance of debt instruments are capitalized and are being amortized over the terms of the respective financing arrangement using the straight-line method over periods ranging from three to ten years. Accumulated amortization related to open issues amounted to \$10.4 million as of July 2, 2006 and \$7.7 million as of July 3, 2005.

**Plant and Equipment and Depreciation:** Plant and equipment are stated at cost and depreciation is computed using the straight-line method at rates based upon the estimated useful lives of the assets, as follows:

	<u>Useful Life Range (In Years)</u>
Software . . . . .	3 - 10
Land Improvements . . . . .	20 - 40
Buildings . . . . .	20 - 50
Machinery & Equipment . . . . .	3 - 20

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated. Upon retirement or disposition of plant and equipment, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in cost of goods sold.

**Impairment of Long-Lived Assets:** Property, plant and equipment and other long-term assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. There were no adjustments to the carrying value of long-lived assets in fiscal 2006, 2005 or 2004.

**Warranty:** The Company recognizes the cost associated with its standard warranty on engines and power products at the time of sale. 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 fiscal 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Balance, Beginning of Period . . . . .	\$ 59,625	\$ 43,148
Adjustment Related to Acquisitions . . . . .	-	10,623
Payments . . . . .	(36,733)	(35,796)
Provision for Current Year Warranties . . . . .	34,056	41,761
Credit for Prior Years Warranties . . . . .	(3,715)	(111)
Balance, End of Period . . . . .	<u>\$ 53,233</u>	<u>\$ 59,625</u>

**Deferred Revenue on Sale of Plant and Equipment:** During the fourth quarter of fiscal 2006, a pre-tax gain of \$6.1 million was recorded as the company ceased its involvement in its Menomonee Falls, Wisconsin facility sold in 1997. The terms and conditions of the sales contract were such that the Company continued to own and occupy a portion of the warehouse until the fourth quarter of fiscal 2006. Under the provisions of SFAS No. 66, "Accounting for Sales of Real Estate," the Company accounted for the agreement as a financing transaction while it remained involved with the facility. Under this method, the cash received in fiscal 1997 was reflected as deferred revenue and the assets and the accumulated depreciation remained on the Company's books until its involvement in the facility ceased. Depreciation expense, imputed interest expense, and imputed fair value lease income on the non-Briggs & Stratton occupied portion of the building were recorded and added to deferred revenue up until the fourth quarter of fiscal 2006.

**Revenue Recognition:** Net sales include sales of engines, power products, and related service parts and accessories, net of allowances for cash discounts, customer volume rebates and discounts, and advertising allowances. In accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition," as amended, the Company recognizes revenue when all of the following criteria are met: persuasive evidence of an

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arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured. This is generally upon shipment, except for certain international shipments, where revenue is recognized when the customer receives the product.

Included in net sales are costs associated with programs under which Briggs & Stratton shares the expense of financing certain dealer and distributor inventories, referred to as floor plan expense. This represents interest for a pre-established length of time based on a variable rate from a contract with a third party financing source for dealer and distributor inventory purchases. Sharing the cost of these financing arrangements is used by Briggs & Stratton as a marketing incentive for customers to buy inventory. The financing costs included in net sales in fiscal 2006 and 2005 were \$12.7 million and \$10.6 million, respectively. There were no similar costs in fiscal 2004.

The Company also offers a variety of customer rebates and sales incentives. The Company records estimates for rebates and incentives at the time of sale, as a reduction in net sales.

Income Taxes: The Provision for Income Taxes includes Federal, state and foreign income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The Deferred Income Tax Asset represents temporary differences relating to current assets and current liabilities, and the Deferred Income Tax Liability represents temporary differences relating to noncurrent assets and liabilities.

Retirement Plans: The Company has noncontributory, defined benefit retirement plans and postretirement benefit plans covering certain employees. Retirement benefits represent a form of deferred compensation, which are subject to change due to changes in assumptions. Management reviews underlying assumptions on an annual basis. Refer to Note 14 of the Notes to Consolidated Financial Statements.

Research and Development Costs: Expenditures relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. The amounts charged against income were \$28.8 million in fiscal 2006, \$33.5 million in fiscal 2005 and \$25.9 million in fiscal 2004.

Advertising Costs: Advertising costs, included in Engineering, Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Earnings, are expensed as incurred. These expenses totaled \$33.4 million in fiscal 2006, \$35.8 million in fiscal 2005 and \$15.0 million in fiscal 2004.

The Company reports co-op advertising expense as a reduction in net sales. Co-op advertising expense reported as a reduction in net sales totaled \$20.2 million in fiscal 2006, \$23.6 million in fiscal 2005 and \$12.8 million in fiscal 2004.

Shipping and Handling Fees and Costs: Revenue received from shipping and handling fees is reflected in net sales. Shipping fee revenue for fiscal 2006, 2005 and 2004 was \$4.5 million, \$4.1 million and \$1.8 million, respectively. Shipping and handling costs are included in cost of goods sold.

Foreign Currency Translation: Foreign currency balance sheet accounts are translated into dollars at the rates of exchange in effect at fiscal year-end. Income and expenses incurred in a foreign currency are translated at the average rates of exchange in effect during the year. The related translation adjustments are made directly to a separate component of Shareholders' Investment.

Earnings Per Share: Basic earnings per share, for each period presented, is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share, for each period presented, is computed reflecting the potential dilution that would occur if options or other contracts to issue common stock were exercised or converted into common stock at the beginning of the period.

The shares outstanding used to compute diluted earnings per share for fiscal 2006 and 2004 excludes outstanding options to purchase 1,434,193 and 428,520\* shares of common stock, respectively, with weighted average exercise prices of \$37.21 and \$37.27\*, respectively. The fiscal 2005 diluted earnings per share calculation includes all options outstanding as of July 3, 2005. For fiscal 2006 and fiscal 2004, the options are excluded because their exercise prices are greater than the average market price of the common shares, and their inclusion in the computation would be antidilutive.

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

	Fiscal Year Ended		
	July 2, 2006	July 3, 2005	June 27, 2004
Net Income Before Extraordinary Gain Used in Basic Earnings Per Share . . . . .	\$ 102,346	\$ 116,767	\$ 136,114
Adjustment to Net Income Before Extraordinary Gain to Add After-tax			
Interest Expense on Convertible Notes . . . . .	-	-	4,053
Adjusted Net Income Before Extraordinary Gain Used in Diluted Earnings Per Share . . . . .	\$ 102,346	\$ 116,767	\$ 140,167
Extraordinary Gain Used in Basic and Diluted Earnings Per Share . . . . .	\$ -	\$ 19,800	\$ -
Net Income Used in Basic Earnings Per Share . . . . .	\$ 102,346	\$ 136,567	\$ 136,114
Adjustment to Net Income to Add After-tax Interest Expense on			
Convertible Notes . . . . .	-	-	4,053
Adjusted Net Income Used in Diluted Earnings Per Share . . . . .	\$ 102,346	\$ 136,567	\$ 140,167
Average Shares of Common Stock Outstanding* . . . . .	51,479	51,472	45,286
Incremental Common Shares Applicable to Common Stock Options Based on the Common Stock Average Market Price During the Period* . . . . .	42	446	360
Incremental Common Shares Applicable to Deferred and Restricted Common Stock Based on the Common Stock Average Market Price During the Period* . . . . .	73	36	26
Incremental Common Shares Applicable to Convertible Notes Based on the Conversion Provisions of the Convertible Notes* . . . . .	-	-	5,008
Diluted Average Common Shares Outstanding* . . . . .	51,594	51,954	50,680

\* Share data adjusted for effect of 2-for-1 stock split effective October 29, 2004.

**Comprehensive Income:** Comprehensive income is a more inclusive financial reporting method that includes disclosure of financial information that historically has not been recognized in the calculation of net income. The Company has chosen to report Comprehensive Income and Accumulated Other Comprehensive Income (Loss) which encompasses net income, unrealized gain (loss) on marketable securities, cumulative translation adjustments, unrealized gain (loss) on derivatives and minimum pension liability adjustments in the Consolidated Statements of Shareholders' Investment. Information on Accumulated Other Comprehensive Income (Loss) is as follows (in thousands):

	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive (Loss) Income
Balance at June 29, 2003 . . . . .	\$ 1,816	\$ 13	\$ (2,563)	\$ (734)
Fiscal Year Change . . . . .	3,042	487	1,233	4,762
Balance at June 27, 2004 . . . . .	4,858	500	(1,330)	4,028
Fiscal Year Change . . . . .	881	419	(53,659)	(52,359)
<b>Balance at July 3, 2005 . . . . .</b>	<b>5,739</b>	<b>919</b>	<b>(54,989)</b>	<b>(48,331)</b>
Fiscal Year Change . . . . .	1,785	(1,255)	52,761	53,291
<b>Balance at July 2, 2006 . . . . .</b>	<b>\$ 7,524</b>	<b>\$ (336)</b>	<b>\$ (2,228)</b>	<b>\$ 4,960</b>

**Derivatives:** Derivatives are recorded on the balance sheet as assets or liabilities, measured at fair value. Briggs & Stratton enters into derivative contracts designated as cash flow hedges to manage its foreign currency exposures. These instruments generally do not have a maturity of more than twelve months. Briggs & Stratton has used interest rate swaps designated as fair value hedges to manage its debt portfolio. These instruments generally have maturities and terms consistent with the underlying debt instrument.

Changes in the fair value of cash flow hedges are recorded on the Consolidated Statement of Earnings or as a component of Accumulated Other Comprehensive Income (Loss). The amounts included in Accumulated Other Comprehensive Income (Loss) will be reclassified into income when the forecasted transactions occur, generally within the next twelve months. These forecasted transactions represent the exporting of products for which Briggs & Stratton will receive foreign currency and the importing of products for which it will be required

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to pay in a foreign currency. Changes in the fair value of fair value hedges related to interest rate swaps are recorded as an increase/decrease to long-term debt. Changes in the fair value of all derivatives deemed to be ineffective are recorded as either income or expense in the accompanying Consolidated Statements of Earnings. See discussion in Note 13.

Reclassification: Certain amounts in prior year financial statements have been reclassified to conform to current year presentation.

### (3) Acquisitions:

On July 7, 2004, Briggs & Stratton and its subsidiary, Briggs & Stratton Power Products Group, LLC ("BSPPG") acquired Simplicity Manufacturing, Inc. ("Simplicity"). Simplicity designs, manufactures and markets a wide variety of premium yard and garden tractors, lawn tractors, riding mowers, snow throwers, attachments, and other lawn and garden products like rototillers and chipper shredders. The purchase price included \$250.2 million of cash, a \$2.3 million liability for future tax benefits, and \$135.3 million of liabilities assumed. The cash paid included \$17.8 million of cash acquired and \$9.4 million of direct acquisition costs.

On February 11, 2005, Briggs & Stratton Corporation and its subsidiaries, Briggs & Stratton Power Products Group, LLC and Briggs & Stratton Canada, Inc. acquired certain assets of Murray, Inc. and Murray Canada Co. (collectively "Murray"). The cash purchase price was \$122.7 million, including direct acquisition costs of \$1.8 million. Briggs & Stratton financed the acquisition through the issuance of \$125 million variable rate Term Notes due February 11, 2008, with no prepayment penalty. The Term Notes have financial and operating restrictions consistent with other debt agreements, as disclosed in Note 8. The estimated fair value of Murray assets acquired exceeded the acquisition cost by \$19.8 million, after all tax considerations, and this amount was recognized as an extraordinary gain.

### (4) Goodwill and Other Intangible Assets:

The changes in the carrying amount of goodwill for the fiscal years ended July 2, 2006 and July 3, 2005 are as follows (in thousands):

	2006	2005
Beginning Goodwill Balance . . . . .	\$ 253,663	\$ 151,991
Goodwill Acquired During the Period . . . . .	-	103,450
Tax Benefit on Amortization . . . . .	(1,778)	(1,778)
Ending Goodwill Balance . . . . .	<u>\$ 251,885</u>	<u>\$ 253,663</u>

The Company's other intangible assets, primarily from acquisitions for the years ended July 2, 2006 and July 3, 2005 are as follows (in thousands):

	2006			2005		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
<u>Amortized Intangible Assets:</u>						
Patents . . . . .	\$ 13,281	\$ (2,203)	\$ 11,078	\$ 13,280	\$ (1,116)	\$ 12,164
Customer Relationships . . . . .	17,910	(1,433)	16,477	17,910	(716)	17,194
Miscellaneous . . . . .	279	(238)	41	279	(192)	87
Total Amortized Intangible Assets . . . . .	<u>31,470</u>	<u>(3,874)</u>	<u>27,596</u>	<u>31,469</u>	<u>(2,024)</u>	<u>29,445</u>
<u>Unamortized Intangible Assets:</u>						
Trademarks/Brand Names . . . . .	67,000	-	67,000	67,000	-	67,000
Total Unamortized Intangible Assets . . . . .	<u>67,000</u>	<u>-</u>	<u>67,000</u>	<u>67,000</u>	<u>-</u>	<u>67,000</u>
Total Intangible Assets . . . . .	<u>\$ 98,470</u>	<u>\$ (3,874)</u>	<u>\$ 94,596</u>	<u>\$ 98,469</u>	<u>\$ (2,024)</u>	<u>\$ 96,445</u>

Amortization expense of other intangible assets amounts to approximately \$1,850,000, \$1,850,000, and \$56,000 in 2006, 2005, and 2004, respectively.

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The estimated amortization expense of other intangible assets for the next five years is (in thousands):

2007	\$ 1,844
2008	1,804
2009	1,798
2010	1,794
2011	1,794
	<u>\$ 9,034</u>

### (5) Income Taxes:

The provision for income taxes on income before extraordinary gain consists of the following (in thousands):

Current	2006	2005	2004
Federal	\$ 51,743	\$ 51,144	\$ 46,506
State	7,796	7,948	8,039
Foreign	919	2,352	1,545
	<u>60,458</u>	<u>61,444</u>	<u>56,090</u>
Deferred	(10,438)	(3,896)	12,800
	<u>\$ 50,020</u>	<u>\$ 57,548</u>	<u>\$ 68,890</u>

A reconciliation of the U.S. statutory tax rates to the effective tax rates on income before extraordinary gain follows:

	2006	2005	2004
U.S. Statutory Rate	35.0%	35.0%	35.0%
State Taxes, Net of Federal Tax Benefit	2.6%	2.4%	3.0%
Foreign Tax Benefits	(0.1%)	(0.8%)	(0.9%)
Resolution of Prior Period Tax Matters	(1.7%)	-	(2.2%)
Benefit on Dividends Received	(2.9%)	(4.0%)	-
Other	(0.1%)	0.4%	(1.3%)
Effective Tax Rate	<u>32.8%</u>	<u>33.0%</u>	<u>33.6%</u>

The components of deferred income taxes were as follows (in thousands):

	2006	2005
Current Asset (Liability):		
Difference Between Book and Tax Related to:		
Inventory	\$ 13,844	\$ 11,798
Payroll Related Accruals	3,190	4,702
Warranty Reserves	21,161	22,605
Workers Compensation Accruals	3,000	3,611
Other Accrued Liabilities	18,749	17,365
Minimum Pension Liability	1,424	35,157
Miscellaneous	(3,344)	(2,987)
Deferred Income Tax Asset	<u>\$ 58,024</u>	<u>\$ 92,251</u>

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	<u>2006</u>	<u>2005</u>
Long-Term Liability (Asset):		
Difference Between Book and Tax Related to:		
Pension Cost . . . . .	\$ 29,557	\$ 32,945
Accumulated Depreciation . . . . .	69,318	79,029
Intangibles . . . . .	61,630	58,473
Accrued Employee Benefits . . . . .	(18,507)	(13,840)
Postretirement Health Care Obligation . . . . .	(32,462)	(29,940)
Deferred Revenue on Sale of Plant & Equipment . . . . .	-	(5,717)
Miscellaneous . . . . .	(6,674)	(7,156)
Deferred Income Tax Liability . . . . .	<u>\$ 102,862</u>	<u>\$ 113,794</u>

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. These undistributed earnings amounted to approximately \$7.9 million at July 2, 2006. If these earnings were remitted to the U.S., they would be subject to U.S. income tax. However, this tax would be less than the U.S. statutory income tax because of available foreign tax credits.

### (6) Segment and Geographic Information and Significant Customers:

The Company has concluded that it operates two reportable business segments that are managed separately based on fundamental differences in their operations. Summarized segment data is as follows (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
NET SALES:			
Engines . . . . .	\$ 1,648,224	\$ 1,739,184	\$ 1,617,409
Power Products . . . . .	1,186,025	1,193,616	489,250
Eliminations . . . . .	(292,078)	(277,925)	(159,295)
	<u>\$ 2,542,171</u>	<u>\$ 2,654,875</u>	<u>\$ 1,947,364</u>
GROSS PROFIT ON SALES:			
Engines . . . . .	\$ 381,932	\$ 372,162	\$ 382,713
Power Products . . . . .	113,166	133,888	57,846
Eliminations . . . . .	(3,414)	(1,159)	(687)
	<u>\$ 491,684</u>	<u>\$ 504,891</u>	<u>\$ 439,872</u>
INCOME FROM OPERATIONS:			
Engines . . . . .	\$ 149,760	\$ 142,653	\$ 204,468
Power Products . . . . .	29,620	49,274	30,428
Eliminations . . . . .	(3,414)	(1,159)	(687)
	<u>\$ 175,966</u>	<u>\$ 190,768</u>	<u>\$ 234,209</u>
ASSETS:			
Engines . . . . .	\$ 1,174,569	\$ 1,297,789	\$ 1,446,514
Power Products . . . . .	1,148,279	877,933	391,121
Eliminations . . . . .	(378,648)	(176,754)	(200,482)
	<u>\$ 1,944,200</u>	<u>\$ 1,998,968</u>	<u>\$ 1,637,153</u>
CAPITAL EXPENDITURES:			
Engines . . . . .	\$ 54,208	\$ 67,802	\$ 47,444
Power Products . . . . .	15,310	18,273	5,518
	<u>\$ 69,518</u>	<u>\$ 86,075</u>	<u>\$ 52,962</u>

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	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>DEPRECIATION &amp; AMORTIZATION:</b>			
Engines . . . . .	\$ 59,053	\$ 59,069	\$ 63,454
Power Products . . . . .	18,181	13,724	3,154
	<u>\$ 77,234</u>	<u>\$ 72,793</u>	<u>\$ 66,608</u>

Information regarding the Company's geographic sales by the location in which the sale originated is as follows (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
United States . . . . .	\$ 2,353,010	\$ 2,481,374	\$ 1,795,128
All Other Countries . . . . .	189,161	173,501	152,236
Total . . . . .	<u>\$ 2,542,171</u>	<u>\$ 2,654,875</u>	<u>\$ 1,947,364</u>

The Company has no material long lived assets in an individual foreign country.

Sales to the following customers in the Company's Engine Segment amount to greater than or equal to 9% of consolidated net sales, respectively:

Customer:	<u>2006</u>		<u>2005</u>		<u>2004</u>	
	Net Sales	%	Net Sales	%	Net Sales	%
HOP . . . . .	\$ 407,964	16%	\$ 374,941	14%	\$ 318,705	16%
MTD . . . . .	217,339	9%	316,911	12%	334,748	17%
	<u>\$ 625,303</u>	<u>25%</u>	<u>\$ 691,852</u>	<u>26%</u>	<u>\$ 653,453</u>	<u>33%</u>

### (7) Leases:

The Company leases certain facilities, vehicles, and equipment under both capital and operating leases. Assets held under capital leases are included in Plant and Equipment and are charged to depreciation and interest over the life of the lease. Related liabilities are included in Other Accrued Liabilities and Other Long-Term Liabilities. Operating leases are not capitalized and lease payments are expensed over the life of the lease. Terms of the leases, including purchase options, renewals, and maintenance costs, vary by lease. Rental expense for fiscal 2006, 2005 and 2004 was \$18.9 million, \$16.1 million and \$10.2 million, respectively.

Future minimum lease commitments for all non-cancelable leases as of July 2, 2006 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Operating</u>	<u>Capital</u>
2007 . . . . .	\$ 13,716	\$ 686
2008 . . . . .	10,624	854
2009 . . . . .	8,053	-
2010 . . . . .	6,730	-
2011 . . . . .	4,365	-
Thereafter . . . . .	5,986	-
Total future minimum lease commitments . . . . .	<u>\$ 49,474</u>	1,540
Less: Interest . . . . .		(155)
Present value of minimum capital lease payments . . . . .		<u>\$ 1,385</u>

### (8) Indebtedness:

On August 8, 2006, the Company amended its unsecured five-year \$350 million revolving credit facility (the credit facility) that expires in May 2009 to allow a repurchase of its common stock for aggregate consideration not to exceed \$120 million during the period from August 10, 2006 through February 8, 2008. There were no borrowings under the credit facility as of July 2, 2006 or July 3, 2005.

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Borrowings under the credit facility by the Company bear interest at a rate per annum equal to, at its option, either:

- (1) a 1, 2, 3 or 6 month LIBOR rate plus a margin varying from 0.50% to 2.00%, depending upon the rating of the Company's long-term debt by Standard & Poor's Rating group, a division of McGraw-Hill Companies (S&P) and Moody's Investors Service, Inc. (Moody's); or
- (2) the higher of (a) the federal funds rate plus 0.50% or (b) the bank's prime rate.

In addition, the Company is subject to a 0.10% to 0.375% commitment fee and a 0.50% to 2.00% letter of credit fee, depending on the Company's long-term credit ratings.

The lines of credit available to the Company in foreign countries are in connection with short-term borrowings and bank overdrafts used in the normal course of business. These amounts total \$14.8 million, expire at various times through November 2006 and are renewable. None of these arrangements had material commitment fees or compensating balance requirements. Borrowings using these lines of credit are included in short-term debt. Outstanding balances are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Balance at Fiscal Year-End . . . . .	\$ 3,474	\$ 443
Weighted Average Interest Rate at Fiscal Year-End . . . . .	6.38%	5.93%

The Long-Term Debt caption consists of the following (in thousands):

	<u>2006</u>	<u>2005</u>
7.25% Senior Notes Due 2007, Net of Unamortized Discount of \$202 in 2006 and \$411 in 2005 . . . . .	\$ 80,973	\$ 89,589
8.875% Senior Notes Due 2011, Net of Unamortized Discount of \$2,649 in 2006 and \$3,268 in 2005 . . . . .	267,351	271,732
Variable Rate Term Notes Due 2008 . . . . .	35,000	125,000
Total Long-Term Debt . . . . .	<u>\$ 383,324</u>	<u>\$ 486,321</u>

On August 8, 2006, the Company amended its unsecured three-year \$125 million term loan agreement (the term loan) that expires on February 11, 2008 to allow a repurchase of its common stock for aggregate consideration not to exceed \$120 million during the period from August 10, 2006 through February 8, 2008. The Company prepaid \$90 million of the term loan in the fourth quarter of fiscal 2006. The Company is required to repay the aggregate principal balance of the term loan on February 11, 2008 (maturity date).

Borrowings under the term loan by the Company bear interest at a rate per annum equal to, at its option, either:

- (1) a 1, 2, 3 or 6 month LIBOR rate plus a margin varying from 0.50% to 1.75%, depending upon the rating of the Company's long-term debt by S&P and Moody's; or
- (2) the higher of (a) the federal funds rate plus 0.50% or (b) the bank's prime rate.

In May 2001, the Company issued \$275 million of 8.875% Senior Notes due March 15, 2011. No principal payments are due before the maturity date; however, the Company repurchased \$5.0 million of the bonds in the second quarter of fiscal year 2006 after receiving unsolicited offers from bondholders.

In May 1997, the Company issued \$100 million of 7.25% Senior Notes due September 15, 2007. No principal payments are due before the maturity date; however, the Company repurchased \$10.0 million of the bonds in the fourth quarter of fiscal year 2002 and \$8.825 million in the fourth quarter of fiscal year 2006 after receiving unsolicited offers from bondholders.

The separate indentures provided for the 7.25% Senior Notes and the 8.875% Senior Notes and the Credit Agreements for the term loan and the credit facility (collectively, the "Domestic Indebtedness") each include a number of financial and operating restrictions. These covenants include restrictions on the Company's ability to: pay dividends; repurchase shares; incur indebtedness; create liens; enter into sale and leaseback

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transactions; consolidate, merge, sell or lease all or substantially all of its assets; and dispose of assets or the proceeds of sales of its assets. The credit facility contains financial covenants that require the Company to maintain a minimum interest coverage ratio and net worth (as of fiscal year end 2006 the Company was required to maintain a minimum net worth of \$685.4 million) and impose a maximum leverage ratio. As of July 2, 2006, the Company was in compliance with these covenants.

Additionally, under the terms of the indentures and Credit Agreements governing the Domestic Indebtedness, BSPPG and its wholly owned subsidiary, Simplicity became joint and several guarantors of amounts outstanding under the Domestic Indebtedness. Refer to Note 16 of the Notes to Consolidated Financial Statements for subsidiary guarantor financial information.

### (9) Other Income:

The components of other income (expense) are as follows (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest Income . . . . .	\$ 2,856	\$ 1,155	\$ 2,970
Income on Preferred Stock . . . . .	12,000	12,492	2,293
Equity in Earnings from Unconsolidated Affiliates . . . . .	4,174	5,289	5,583
Deferred Financing Costs . . . . .	(1,708)	(1,233)	(3,778)
Other Items . . . . .	1,169	2,727	1,392
Total . . . . .	<u>\$ 18,491</u>	<u>\$ 20,430</u>	<u>\$ 8,460</u>

### (10) Commitments and Contingencies:

Product and general liability claims arise against the Company from time to time in the ordinary course of business. The Company is generally self-insured for claims up to \$2.0 million per claim. Accordingly, a reserve is maintained for the estimated costs of such claims. On July 2, 2006 and July 3, 2005 the reserve for product and general liability claims (which includes asbestos-related liabilities) was \$7.3 million and \$8.0 million, respectively. Because there is inherent uncertainty as to the eventual resolution of unsettled claims, no reasonable range of possible losses can be determined. Management does not anticipate that these claims, excluding the impact of insurance proceeds and reserves, will have a material adverse effect on the financial condition or results of operations of the Company.

In October 1998, the Company joined seventeen other companies in guaranteeing a \$17.9 million letter of credit issued as a guarantee of certain City of Milwaukee Revenue Bonds used to develop a residential rental property. The Revenue Bonds were issued on behalf of a not-for-profit organization established to manage the project and rental property post construction. The revenues from the rental property are used to fund operating expenses and all debt service requirements. The Company's share of the guarantee and the maximum exposure to the Company under the agreement is \$1.8 million. The letter of credit and underlying guarantee expires August 15, 2008. Management believes the likelihood is remote that material payments will be required under this guarantee. Accordingly, no liability has been reflected in the accompanying Consolidated Balance Sheets related to this item.

Certain independent dealers and distributors finance inventory purchases through a third party financing company. Briggs & Stratton has indemnified the third party finance company against credit default. The Company's maximum exposure under this agreement due to customer credit default in a fiscal year is \$1.6 million. In fiscal 2006 and fiscal 2005, the third party financing company provided financing for \$294.4 million and \$339.4 million of Briggs & Stratton product, respectively. As of July 2, 2006 and July 3, 2005 there were \$180.3 million and \$187.9 million in receivables outstanding under this arrangement. Briggs & Stratton made no payments under this indemnity in fiscal 2006 and fiscal 2005.

On June 3, 2004, eight individuals who claim to have purchased lawnmowers in Illinois and Minnesota filed a lawsuit (Ronnie Phillips et al. v. Sears Roebuck Corporation et al., No. 04-L-334 (20th Judicial Circuit, St. Clair County, IL)) against the Company and other defendants alleging that the horsepower labels on the products they purchased were inaccurate. The plaintiffs have amended their complaint several times and currently seek an injunction, compensatory and punitive damages, and attorneys' fees under various federal and state

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laws including the Racketeer Influenced and Corrupt Organization Act on behalf of all persons in the United States who, beginning January 1, 1994 through the present, purchased a lawnmower containing a two-stroke or four-stroke gasoline combustion engine up to 30 horsepower that was manufactured by the defendants. On May 31, 2006, the defendants removed the case to the U.S. District Court for the Southern District of Illinois (No. 06-412-DRH). The defendants subsequently filed crossclaims against each other for indemnification and contribution, and filed a motion to dismiss the amended complaint. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss, Briggs & Stratton believes these unresolved legal actions will not have a material effect on its financial position.

The Company has no material commitments for materials or capital expenditures as of July 2, 2006.

### (11) Stock Incentives:

Effective October 20, 2004, Briggs & Stratton adopted an Incentive Compensation Plan under which 4,000,000 shares of common stock (8,000,000 shares as a result of the 2-for-1 stock split) were reserved for future issuance. Briggs & Stratton previously had a Stock Incentive Plan under which 5,361,935 shares of common stock were reserved for issuance. The adoption of the Incentive Compensation Plan reduced the number of shares available for future issuance under the Stock Incentive Plan to zero. However, as of July 2, 2006, there were 2,663,310 outstanding option and restricted stock awards granted under the Stock Incentive Plan that are or may become exercisable in the future. In accordance with both plans, Briggs & Stratton can issue eligible employees stock options, stock appreciation rights, restricted stock, deferred stock and cash bonus awards subject to certain annual limitations. The plans also allow Briggs & Stratton to issue directors non-qualified stock options and directors' fees in stock.

Effective July 4, 2005, Briggs & Stratton's stock based compensation plans are accounted for under Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share Based Payment" using the modified prospective method. During the year ended July 2, 2006, Briggs & Stratton recognized stock based compensation expense of approximately \$10.0 million. Prior to July 4, 2005, the plans were accounted for according to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Thus, no compensation cost was recognized prior to fiscal 2006. Had compensation cost for the plans been determined consistent with SFAS No. 123(R), Briggs & Stratton's net income and earnings per share would have been reduced to the following pro forma amounts for the fiscal years ended July 3, 2005 and June 27, 2004 (in thousands, except per share data):

	<u>2005</u>	<u>2004</u>
Net income as reported (in thousands): . . . . .	\$ 136,567	\$ 136,114
Basic EPS:		
Deduct employee compensation expense determined under a fair value based method, net of related tax effects . . . . .	(5,837)	(3,528)
Income Available to Common Stockholders: . . . . .	130,730	132,586
Diluted EPS:		
Add reduction in interest expense related to convertible debt . . . . .	-	4,053
Income Available to Common Stockholders: . . . . .	<u>\$ 130,730</u>	<u>\$ 136,639</u>
Basic Earnings Per Share:*		
As Reported . . . . .	\$ 2.65	\$ 3.01
Pro Forma . . . . .	\$ 2.54	\$ 2.93
Diluted Earnings Per Share:*		
As Reported . . . . .	\$ 2.63	\$ 2.77
Pro Forma . . . . .	\$ 2.52	\$ 2.70

\* Share data adjusted for effect of 2-for-1 stock split effective October 29, 2004.

## Notes . . .

On the grant date, the exercise price of each stock option issued exceeds the market value of the stock. The fair value of each option is estimated using the Black-Scholes option pricing model, and the assumptions are based on historical data and standard industry valuation practices and methodology. The assumptions used to determine fair value are as follows:

Options Granted During	<u>2006</u>	<u>2005</u>	<u>2004</u>
Grant Date Fair Value* . . . . .	<b>\$7.37</b>	\$12.12	\$9.98
(Since options are only granted once per year, the grant date fair value equals the weighted average grant date fair value.)			
Assumptions:			
Risk-free Interest Rate . . . . .	<b>4.3%</b>	4.2%	4.6%
Expected Volatility . . . . .	<b>25.1%</b>	28.4%	33.1%
Expected Dividend Yield . . . . .	<b>1.9%</b>	1.9%	2.3%
Expected Term (In Years) . . . . .	<b>5.0</b>	10.0	10.0

Information on the options outstanding is as follows:

	Shares*	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Balance, June 29, 2003 . . . . .	3,351,580	\$ 26.70		
Granted During the Year . . . . .	876,100	30.44		
Exercised During the Year . . . . .	(1,723,390)	26.29		
Expired During the Year . . . . .	(6,000)	37.27		
Balance, June 27, 2004 . . . . .	2,498,290	\$ 28.27		
Granted During the Year . . . . .	1,149,340	36.68		
Exercised During the Year . . . . .	(622,262)	32.67		
Expired During the Year . . . . .	(18,200)	37.27		
<b>Balance, July 3, 2005 . . . . .</b>	<b>3,007,168</b>	<b>\$ 30.52</b>		
<b>Granted During the Year . . . . .</b>	<b>355,123</b>	<b>38.83</b>		
<b>Exercised During the Year . . . . .</b>	<b>(418,858)</b>	<b>26.92</b>		
<b>Expired During the Year . . . . .</b>	<b>-</b>	<b>-</b>		
<b>Balance, July 2, 2006 . . . . .</b>	<b>2,943,433</b>	<b>\$ 32.05</b>	<b>5.90</b>	<b>\$5,985</b>
<b>Exercisable, July 2, 2006 . . . . .</b>	<b>750,920</b>	<b>\$ 23.81</b>	<b>2.32</b>	<b>\$5,477</b>

\* Share data adjusted for effect of 2-for-1 stock split effective October 29, 2004.

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The total intrinsic value of options exercised during the fiscal years ended 2006, 2005 and 2004, was \$3.4 million, \$3.3 million and \$11.2 million, respectively, and the total fair value of options exercised during fiscal 2006 was \$14.7 million. The exercise of options resulted in cash receipts of \$11.3 million, \$20.0 million and \$45.3 million in fiscal 2006, 2005 and 2004, respectively.

### Grant Summary\*

Fiscal Year	Grant Date	Date Exercisable	Expiration Date	Exercise Price	Options Outstanding
2001	8-3-00	8-3-03	8-3-07	\$ 23.11	141,208
2002	8-7-01	8-7-04	8-7-08	24.60	307,132
2003	8-13-02	8-13-05	8-13-09	23.35	302,580
2004	8-15-03	8-15-06	8-15-13	30.44	758,320
2005	8-13-04	8-13-07	8-13-14	36.68	1,079,070
2006	8-16-05	8-16-08	8-16-10	38.83	355,123

Below is a summary of the status of the Company's nonvested shares as of July 2, 2006, and changes during the year then ended:

	Deferred Stock		Restricted Stock		Stock Options	
	Shares	Wtd. Avg. Grant Date Fair Value	Shares	Wtd. Avg. Grant Date Fair Value	Shares	Wtd. Avg. Grant Date Fair Value
Nonvested shares, July 3, 2005	1,000	\$ 34.25	99,000	\$ 29.54	2,139,970	\$ 30.36
Granted	27,905	35.50	42,574	34.99	355,123	34.96
Cancelled	-	-	(4,000)	34.25	-	-
Vested	-	-	(10,000)	18.13	(302,580)	18.88
Nonvested shares, July 2, 2006	28,905	35.45	127,574	32.11	2,192,513	32.69

As of July 2, 2006, there was \$8.7 million of total unrecognized compensation cost related to nonvested share-based compensation. That cost is expected to be recognized over a weighted average period of 1.40 years. The total fair value of shares vested during fiscal 2006 was \$10.7 million.

Under the plans, the Company has issued restricted stock to certain employees. During fiscal years 2006, 2005 and 2004, the Company has issued 42,574, 26,000 and 49,000\* shares, respectively. The restricted stock vests on the fifth anniversary date of the issue provided the recipient is still employed by the Company. The aggregate market value on the date of issue of approximately \$1.5 million, \$1.0 million and \$1.5 million in fiscal 2006, 2005 and 2004, respectively, has been recorded as unearned compensation, a separate component of the Shareholders' Investment section of the Consolidated Balance Sheets, and is being amortized over the five-year vesting period.

Under the plans, the Company may also issue stock to its directors in lieu of directors fees. The Company has issued 3,477, 3,463 and 5,250\* shares in fiscal 2006, 2005 and 2004, respectively, under this provision of the plans.

Under the Incentive Compensation Plan, the Company may also issue deferred stock to its officers and key employees. The Company has issued 27,905 and 1,000 shares in fiscal 2006 and 2005, respectively, under this provision. The aggregate market value on the date of issue was approximately \$990,000 and \$34,000, respectively. Expense is recognized ratably over the five-year vesting period.

\* Share data adjusted for effect of 2-for-1 stock split effective October 29, 2004.

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The following table summarizes the components of the Company's stock-based compensation programs recorded as expense:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Stock Options:			
Pretax compensation expense . . . . .	\$ 8,252	\$ 754	\$ -
Tax benefit . . . . .	(2,707)	(249)	-
Stock option expense, net of tax . . . . .	<u>\$ 5,545</u>	<u>\$ 505</u>	<u>\$ -</u>
Restricted Stock:			
Pretax compensation expense . . . . .	\$ 1,142	\$ 511	\$ 291
Tax benefit . . . . .	(374)	(169)	(98)
Restricted stock expense, net of tax . . . . .	<u>\$ 768</u>	<u>\$ 342</u>	<u>\$ 193</u>
Deferred Stock:			
Pretax compensation expense . . . . .	\$ 605	\$ 3	\$ -
Tax benefit . . . . .	(198)	(1)	-
Deferred stock expense, net of tax . . . . .	<u>\$ 407</u>	<u>\$ 2</u>	<u>\$ -</u>
Total Stock-Based Compensation:			
Pretax compensation expense . . . . .	\$ 9,999	\$ 1,268	\$ 291
Tax benefit . . . . .	(3,279)	(419)	(98)
Total stock-based compensation, net of tax . . . . .	<u>\$ 6,720</u>	<u>\$ 849</u>	<u>\$ 193</u>

\* Share data adjusted for effect of 2-for-1 stock split effective October 29, 2004.

### (12) Shareholder Rights Agreement:

On August 6, 1996, the Board of Directors declared a dividend distribution of one common stock purchase right (a right) for each share of the Company's common stock outstanding on August 19, 1996. Each right would entitle shareowners to buy one-half of one share of the Company's common stock at an exercise price of \$160.00 per full common share (\$80.00 per full common share after taking into consideration the effect of a 2-for-1 stock split effective October 29, 2004), subject to adjustment. The rights agreement relating to the rights was amended by the Board of Directors on August 9, 2006 to extend the term of the rights agreement by three years to October 18, 2009, to increase from 15 percent to 20 percent or more the percentage of outstanding shares that a person or group must acquire or attempt to acquire in order for the rights to become exercisable, and to add a qualifying offer clause that permits shareholders to vote to redeem the rights in certain circumstances. Shareholders have the opportunity to ratify the rights agreement in an effort to determine the viewpoint of shareholders on the advisability of the rights agreement at their annual meeting scheduled for October 18, 2006. If the rights agreement is not ratified by shareholders as proposed, the Board of Directors of the Company intends to reevaluate the rights agreement and determine whether it believes the rights agreement in its current form continues to be in the shareholders' best interests. The Board may, as a result of such reevaluation and determination, terminate the rights agreement, modify the terms of the rights agreement or allow the rights agreement to remain in place without change, among other actions.

### (13) Foreign Exchange Risk Management:

The Company enters into forward exchange contracts to hedge purchases and sales that are denominated in foreign currencies. The terms of these currency derivatives do not exceed twelve months, and the purpose is to protect the Company from the risk that the eventual dollars being transferred will be adversely affected by changes in exchange rates.

The Company has forward foreign currency exchange contracts to purchase Japanese yen. These contracts are used to hedge the commitments to purchase engines from the Company's Japanese joint venture. The Company also has forward contracts to sell foreign currency. These contracts are used to hedge foreign currency collections on sales of inventory. The Company's foreign currency forward contracts are carried at fair value based on current exchange rates.

## Notes . . .

The Company has the following forward currency contracts outstanding at the end of fiscal 2006:

Hedge		In Millions				Conversion	Latest
Currency	Contract	Notional Value	Contract Value	Fair Market Value	(Gain)/Loss at Fair Value	Currency	Expiration Date
Japanese Yen	Buy	1,650.0	14.4	14.6	(.2)	U.S.	January 2007
Euro	Sell	81.0	103.8	104.8	1.0	U.S.	May 2007
Australian Dollar	Sell	4.2	3.2	3.1	(.1)	U.S.	December 2006

The Company had the following forward currency contracts outstanding at the end of fiscal 2005:

Hedge		In Millions				Conversion	Latest
Currency	Contract	Notional Value	Contract Value	Fair Market Value	(Gain)/Loss at Fair Value	Currency	Expiration Date
Japanese Yen	Buy	2,550.0	24.4	23.2	1.2	U.S.	June 2006
Euro	Sell	35.0	43.9	42.3	(1.6)	U.S.	June 2006
Australian Dollar	Sell	2.4	1.8	1.8	0	U.S.	May 2006

The Company continuously evaluates the effectiveness of its hedging program by evaluating its foreign exchange contracts compared to the anticipated underlying transactions. The Company did not have any ineffective hedges in fiscal 2006 or 2005.

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## (14) Employee Benefit Costs:

### Retirement Plan and Other Postretirement Benefits

The Company has noncontributory, defined benefit retirement plans and other postretirement benefit plans covering certain employees. The Company uses a June 30 measurement date for all of its plans. The following provides a reconciliation of obligations, plan assets and funded status of the plans for the two years indicated (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
<b>Actuarial Assumptions:</b>				
Discounted Rate Used to Determine Present Value of Projected Benefit Obligation . . . . .	6.35%	5.25%	6.09%	5.25%
Expected Rate of Future Compensation Level Increases . . . . .	3.0-5.0%	3.0-5.0%	n/a	n/a
Expected Long-Term Rate of Return on Plan Assets . . . . .	8.75%	8.75%	n/a	n/a
<b>Change in Benefit Obligations:</b>				
Projected Benefit Obligation at Beginning of Year . . . . .	\$ 1,032,014	\$ 902,325	\$ 305,091	\$ 243,457
Service Cost . . . . .	15,430	12,993	3,031	2,734
Interest Cost . . . . .	52,595	54,448	15,025	16,703
Plan Amendments . . . . .	3,881	-	(6,970)	-
Acquisition . . . . .	-	-	-	36,665
Plan Participant Contributions . . . . .	-	-	3,558	3,730
Actuarial (Gain) Loss . . . . .	(88,200)	124,756	(13,551)	31,744
Benefits Paid . . . . .	(66,086)	(62,508)	(29,232)	(29,942)
Projected Benefit Obligation at End of Year . . . . .	<u>\$ 949,634</u>	<u>\$ 1,032,014</u>	<u>\$ 276,952</u>	<u>\$ 305,091</u>
<b>Change in Plan Assets:</b>				
Fair Value of Plan Assets at Beginning of Year . . . . .	\$ 917,443	\$ 916,280	\$ -	\$ -
Actual Return on Plan Assets . . . . .	92,112	62,165	-	-
Plan Participant Contributions . . . . .	-	-	3,558	3,730
Employer Contributions . . . . .	1,734	1,506	25,674	26,212
Benefits Paid . . . . .	(66,086)	(62,508)	(29,232)	(29,942)
Fair Value of Plan Assets at End of Year . . . . .	<u>\$ 945,203</u>	<u>\$ 917,443</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Funded Status:</b>				
Plan Assets (Less Than) in Excess of Projected Benefit Obligation . . . . .	\$ (4,431)	\$ (114,571)	\$ (276,952)	\$ (305,091)
Remaining Unrecognized Net Obligation . . . . .	57	65	89	135
Unrecognized Net Loss . . . . .	33,740	155,308	157,711	187,056
Minimum Pension Liability . . . . .	(4,192)	(113,185)	-	-
Unrecognized Prior Service Cost . . . . .	23,628	23,039	(6,362)	(22)
Net Amount Recognized at End of Year . . . . .	<u>\$ 48,802</u>	<u>\$ (49,344)</u>	<u>\$ (125,514)</u>	<u>\$ (117,922)</u>
<b>Amounts Recognized on the Balance Sheets:</b>				
Prepaid Pension . . . . .	\$ 75,789	\$ -	\$ -	\$ -
Accrued Pension Cost . . . . .	(25,587)	(47,944)	-	-
Accrued Wages and Salaries . . . . .	(1,400)	(1,400)	-	-
Accrued Postretirement Health Care Obligation . . . . .	-	-	(84,136)	(77,607)
Accrued Liabilities . . . . .	-	-	(26,000)	(26,000)
Accrued Employee Benefits . . . . .	-	-	(15,378)	(14,315)
Net Amount Recognized at End of Year . . . . .	<u>\$ 48,802</u>	<u>\$ (49,344)</u>	<u>\$ (125,514)</u>	<u>\$ (117,922)</u>

## Notes . . .

The accumulated benefit obligation for all defined benefit pension plans was \$898 million and \$967 million at June 30, 2006 and 2005, respectively.

The following table summarizes the plans' income and expense for the three years indicated (in thousands):

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
<b>Components of Net Periodic Expense (Income):</b>						
Service Cost-Benefits Earned During the Year . . . . .	\$ 15,430	\$ 12,993	\$ 13,188	\$ 3,031	\$ 2,734	\$ 1,673
Interest Cost on Projected Benefit Obligation . . . . .	52,595	54,448	51,089	15,025	16,703	10,766
Expected Return on Plan Assets . . . . .	(68,988)	(70,806)	(72,458)	-	-	-
<b>Amortization of:</b>						
Transition Obligation (Asset) . . . . .	8	8	8	46	46	46
Prior Service Cost . . . . .	3,292	3,140	3,080	(629)	31	31
Actuarial Loss (Gain) . . . . .	10,254	772	607	15,793	14,249	8,354
<b>Net Periodic Expense (Income) . . . . .</b>	<b>\$ 12,591</b>	<b>\$ 555</b>	<b>\$ (4,486)</b>	<b>\$ 33,266</b>	<b>\$ 33,763</b>	<b>\$ 20,870</b>

Significant assumptions used in determining net periodic benefit cost for the fiscal years indicated are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Discount Rate . . . . .	5.25%	6.25%	6.0%	5.25%	6.25%	6.0%
Expected Return on Plan Assets . . . . .	8.75%	8.75%	8.75%	n/a	n/a	n/a
Compensation Increase Rate . . . . .	3.0-5.0%	3.0-5.0%	3.0-5.0%	n/a	n/a	n/a

An additional pension obligation is required when the accumulated benefit obligation exceeds the sum of the fair value of plan assets and the accrued pension expense. At July 2, 2006, the Company's additional pension obligation was \$4.2 million, of which \$2.2 million was included as a reduction in accumulated other comprehensive income, net of tax benefit of \$1.4 million, and \$0.5 million was included as an intangible asset as part of the other assets in the consolidated balance sheet. At July 3, 2005, the Company's additional pension obligation was \$113.2 million, of which \$55.0 million was included as a reduction in accumulated other comprehensive income, net of tax benefit of \$35.2 million, and \$23.0 million was included as an intangible asset as part of the other assets in the consolidated balance sheet.

The "other postretirement benefit" plans are essentially unfunded.

For measurement purposes a 10% annual rate of increase in the per capita cost of covered health care claims was assumed for Briggs & Stratton for the fiscal year 2006 decreasing gradually to 5% for the fiscal year 2011. In fiscal 2005, Briggs & Stratton acquired the liabilities associated with the Simplicity Post-Retirement Benefit Plan covering certain Port Washington, Wisconsin employees. For measurement purposes this plan assumes a 6.5% annual rate of increase in the per capita cost decreasing gradually to 5% for the fiscal year 2009. The health care cost trend rate assumptions have a significant effect on the amounts reported. An increase of one percentage point, would increase the accumulated postretirement benefit by \$14.5 million and would increase the service and interest cost by \$1.5 million for fiscal 2006. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by \$13.5 million and decrease the service and interest cost by \$1.3 million for the fiscal year 2006.

### Plan Assets

A Board of Directors appointed Investment Committee ("Committee") manages the investment of the pension plan assets. The Committee has established and operates under an Investment Policy. It determines the asset allocation and target ranges based upon periodic asset/liability studies and capital market projections. The Committee retains external investment managers to invest the assets. The Investment Policy prohibits certain investment transactions, such as lettered stock, commodity contracts, margin transactions and short

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selling, unless the Committee gives prior approval. Briggs & Stratton's pension plans weighted-average asset allocations and target allocations at June 30, 2006, and 2005, by asset category are as follows:

Asset Category	Target %	Plan Assets at Year-end	
		2006	2005
Domestic Bonds . . . . .	12%-30%	14%	15%
Non-Investment Grade Bonds . . . . .	0%-15%	8%	10%
Non-US Bonds . . . . .	0%-10%	5%	5%
Domestic Equities . . . . .	24%-46%	38%	41%
Global & International Equities . . . . .	8%-22%	16%	15%
Alternative & Absolute Return . . . . .	5%-25%	15%	9%
Real Estate . . . . .	4%-10%	4%	5%
		<u>100%</u>	<u>100%</u>

The plan's investment strategy is based on an expectation that, over time, equity securities will provide higher total returns than debt securities. The plan primarily minimizes the risk of large losses through diversification of investments by asset class, by investing in different types of styles within the classes and by using a number of different managers. The Committee monitors the asset allocation and investment performance monthly, with a more comprehensive quarterly review with its consultant.

The plan's expected return on assets is based on management's and the Committee's expectations of long-term average rates of return to be achieved by the plan's investments. These expectations are based on the plan's historical returns and expected returns for the asset classes in which the plan is invested.

### Contributions

The Company is not required to make any contributions to the pension plans in fiscal 2007; however, the Company expects to contribute \$12 million as approved by the Board of Directors.

### Estimated Future Benefit Payments

Projected benefit payments from the plans as of July 2, 2006 are estimated as follows (in thousands):

Year Ending	Pension Benefits		Other Postretirement Benefits		
	Qualified	Non-Qualified	Retiree Medical	Retiree Life	LTD
2007 . . . . .	\$ 62,227	\$ 1,627	\$ 26,577	\$ 1,228	\$ 134
2008 . . . . .	63,119	1,610	26,663	1,257	135
2009 . . . . .	64,112	1,594	26,351	1,283	135
2010 . . . . .	65,146	2,147	24,501	1,307	111
2011 . . . . .	65,869	2,117	25,360	1,328	89
2012-2016 . . . . .	344,979	12,636	103,538	6,888	173

### Defined Contribution Plans

Employees of the Company may participate in various defined contribution savings plans that allow participants to contribute a portion of their earnings in accordance with plan specifications. A maximum of 1-1/2% or 3% of each participant's salary, depending upon the participant's group, is matched by the Company. For certain employees, this Company matching contribution is discretionary. The Company contributions totaled \$6.7 million in 2006, \$5.7 million in 2005 and \$4.6 million in 2004.

### Postemployment Benefits

The Company accrues the expected cost of postemployment benefits over the years that the employees render service. These benefits are substantially smaller amounts because they apply only to employees who permanently terminate employment prior to retirement. The items include disability payments, life insurance and medical benefits. These amounts are also discounted using an interest rate of 6.09% and 5.25% for fiscal

## Notes . . .

year 2006 and 2005, respectively. Amounts are included in Accrued Employee Benefits in the Consolidated Balance Sheets.

### (15) Disclosures About Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents, Receivables, Accounts Payable, Domestic Notes Payable, Foreign Loans, Accrued Liabilities and Income Taxes Payable: The carrying amounts approximate fair market value because of the short maturity of these instruments.

Long-Term Debt: The fair market value of the Company's long-term debt is estimated based on market quotations at year-end.

The estimated fair market values of the Company's Long-Term Debt is (in thousands):

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term Debt -				
7.25% Notes Due 2007 . . . . .	\$ 80,973	\$ 83,672	\$ 89,589	\$ 95,209
8.875% Notes Due 2011 . . . . .	\$ 267,351	\$ 298,007	\$ 271,732	\$ 321,457
Variable Term Notes Due 2008 . . . . .	\$ 35,000	\$ 35,000	\$ 125,000	\$ 125,000

### (16) Separate Financial Information of Subsidiary Guarantors of Indebtedness

In June of 1997, Briggs & Stratton issued \$100 million of 7.25% senior notes, in May 2001, the Company issued \$275 million of 8.875% senior notes and in February 2005, the Company issued \$125 million of variable rate term notes. In addition, Briggs & Stratton has a \$350 million revolving credit facility that expires in May 2009 used to finance seasonal working capital needs.

Under the terms of Briggs & Stratton's 8.875% senior notes, 7.25% senior notes, variable rate term notes and revolving credit agreement, (collectively, the "Domestic Indebtedness"), BSPPG and its wholly owned subsidiary Simplicity Manufacturing, Inc., are joint and several guarantors of the Domestic Indebtedness (the "Guarantor"). The guarantees are full and unconditional guarantees. Additionally, if at any time a domestic subsidiary of Briggs & Stratton constitutes a significant domestic subsidiary, then such domestic subsidiary will also become a guarantor of the Domestic Indebtedness. Currently all of the Domestic Indebtedness is unsecured. If Briggs & Stratton were to fail to make a payment of interest or principal on its due date, the Guarantor is obligated to pay the outstanding Domestic Indebtedness. Briggs & Stratton had the following outstanding amounts related to the guaranteed debt (in thousands):

	July 2, 2006	
	Carrying Amount	Maximum Guarantee
8.875% Senior Notes, due March 15, 2011 . . . . .	\$ 267,351	\$ 270,000
Variable Rate Term Notes, due February 11, 2008 . . . . .	\$ 35,000	\$ 35,000
7.25% Senior Notes, due September 15, 2007 . . . . .	\$ 80,973	\$ 81,175
Revolving Credit Facility, expiring May 2009 . . . . .	\$ -	\$ 350,000

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

<b>BALANCE SHEET:</b>	<b>Briggs &amp; Stratton</b>	<b>Guarantor</b>	<b>Non-Guarantor</b>		
<b>As of July 2, 2006</b>	<b>Corporation</b>	<b>Subsidiary</b>	<b>Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Current Assets . . . . .	\$ 536,849	\$ 694,535	\$ 191,913	\$ (391,645)	\$ 1,031,652
Investment in Subsidiary . . . . .	794,317	-	-	(794,317)	-
Noncurrent Assets . . . . .	451,150	442,853	18,545	-	912,548
	<u>\$ 1,782,316</u>	<u>\$1,137,388</u>	<u>\$ 210,458</u>	<u>\$(1,185,962)</u>	<u>\$ 1,944,200</u>
Current Liabilities . . . . .	\$ 265,185	\$ 317,133	\$ 137,325	\$ (376,497)	\$ 343,146
Long-Term Debt . . . . .	383,324	-	-	-	383,324
Other Long-Term Obligations . . . . .	131,453	98,729	342	-	230,524
Shareholders' Equity . . . . .	1,002,354	721,526	72,791	(809,465)	987,206
	<u>\$ 1,782,316</u>	<u>\$1,137,388</u>	<u>\$ 210,458</u>	<u>\$(1,185,962)</u>	<u>\$ 1,944,200</u>
<b>As of July 3, 2005</b>					
Current Assets . . . . .	\$ 702,178	\$ 424,473	\$ 185,436	\$ (192,882)	\$ 1,119,205
Investment in Subsidiary . . . . .	770,539	-	-	(770,539)	-
Noncurrent Assets . . . . .	416,503	447,986	15,274	-	879,763
	<u>\$ 1,889,220</u>	<u>\$ 872,459</u>	<u>\$ 200,710</u>	<u>\$(963,421)</u>	<u>\$ 1,998,968</u>
Current Liabilities . . . . .	\$ 328,914	\$ 74,890	\$ 130,483	\$ (181,619)	\$ 352,668
Long-Term Debt . . . . .	486,321	-	-	-	486,321
Other Long-Term Obligations . . . . .	173,536	96,974	283	-	270,793
Shareholders' Equity . . . . .	900,449	700,595	69,944	(781,802)	889,186
	<u>\$ 1,889,220</u>	<u>\$ 872,459</u>	<u>\$ 200,710</u>	<u>\$(963,421)</u>	<u>\$ 1,998,968</u>

# Notes . . .

<b>STATEMENT OF EARNINGS: For the Fiscal Year Ended July 2, 2006</b>	<b>Briggs &amp; Stratton Corporation</b>	<b>Guarantor Subsidiary</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net Sales . . . . .	\$ 1,611,327	\$1,160,175	\$ 189,160	\$ (418,491)	\$ 2,542,171
Cost of Goods Sold . . . . .	1,254,911	1,052,361	156,079	(412,864)	2,050,487
Gross Profit . . . . .	356,416	107,814	33,081	(5,627)	491,684
Engineering, Selling, General and Administrative Expenses . . . . .	201,926	81,852	31,940	-	315,718
Income from Operations . . . . .	154,490	25,962	1,141	(5,627)	175,966
Interest Expense . . . . .	(45,143)	(52)	(206)	3,310	(42,091)
Other Income (Expense), Net . . . . .	31,977	4,761	(919)	(17,328)	18,491
Income Before Provision for Income Taxes . . . . .	141,324	30,671	16	(19,645)	152,366
Provision for Income Taxes . . . . .	46,354	10,123	919	(7,376)	50,020
Net Income (Loss) . . . . .	\$ 94,970	\$ 20,548	\$ (903)	\$ (12,269)	\$ 102,346
<b>For the Fiscal Year Ended July 3, 2005</b>					
Net Sales . . . . .	\$ 1,687,476	\$1,240,377	\$ 173,501	\$ (446,479)	\$ 2,654,875
Cost of Goods Sold . . . . .	1,341,686	1,112,885	139,269	(443,856)	2,149,984
Gross Profit . . . . .	345,790	127,492	34,232	(2,623)	504,891
Engineering, Selling, General and Administrative Expenses . . . . .	200,086	80,888	33,149	-	314,123
Income from Operations . . . . .	145,704	46,604	1,083	(2,623)	190,768
Interest Expense . . . . .	(36,352)	(31)	(109)	(391)	(36,883)
Other Income (Expense), Net . . . . .	64,312	844	1,227	(45,953)	20,430
Income Before Provision for Income Taxes . . . . .	173,664	47,417	2,201	(48,967)	174,315
Provision for Income Taxes . . . . .	59,046	18,099	2,352	(21,949)	57,548
Income Before Extraordinary Item . . . . .	114,618	29,318	(151)	(27,018)	116,767
Extraordinary Gain . . . . .	-	19,800	-	-	19,800
Net Income (Loss) . . . . .	\$ 114,618	\$ 49,118	\$ (151)	\$ (27,018)	\$ 136,567
<b>For the Fiscal Year Ended June 27, 2004</b>					
Net Sales . . . . .	\$ 1,562,114	\$ 460,122	\$ 152,236	\$ (227,108)	\$ 1,947,364
Cost of Goods Sold . . . . .	1,205,950	405,720	120,253	(224,431)	1,507,492
Gross Profit . . . . .	356,164	54,402	31,983	(2,677)	439,872
Engineering, Selling, General and Administrative Expenses . . . . .	155,830	24,029	25,804	-	205,663
Income from Operations . . . . .	200,334	30,373	6,179	(2,677)	234,209
Interest Expense . . . . .	(37,236)	(2)	(84)	(343)	(37,665)
Other Income (Expense), Net . . . . .	28,787	(55)	983	(21,255)	8,460
Income Before Provision for Income Taxes . . . . .	191,885	30,316	7,078	(24,275)	205,004
Provision for Income Taxes . . . . .	64,473	11,574	1,545	(8,702)	68,890
Net Income . . . . .	\$ 127,412	\$ 18,742	\$ 5,533	\$ (15,573)	\$ 136,114

## Notes . . .

<b>STATEMENT OF CASH FLOWS: For the Fiscal Year Ended July 2, 2006</b>	<b>Briggs &amp; Stratton Corporation</b>	<b>Guarantor Subsidiary</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net Income (Loss) . . . . .	\$ 94,970	\$ 20,548	\$ (903)	\$ (12,269)	\$ 102,346
Adjustments to Reconcile Net Income to Net Cash Provided by (Used by) Operating Activities:					
Depreciation and Amortization . . . . .	57,437	18,030	1,767	-	77,234
Earnings of Unconsolidated Affiliates, Net of Dividends . . . . .	(4,802)	-	58	5,203	459
(Gain) Loss on Disposition of Plant and Equipment . . . . .	(12,059)	584	336	-	(11,139)
Stock Compensation Expense . . . . .	9,999	-	-	-	9,999
Provision for Deferred Income Taxes . . . . .	(11,477)	266	773	-	(10,438)
Change in Operating Assets and Liabilities:					
Decrease (Increase) in Receivables . . . . .	93,660	(225,177)	16,959	201,842	87,284
(Increase) Decrease in Inventories . . . . .	(58,310)	(31,992)	(5,932)	3,884	(92,350)
Decrease (Increase) in Prepaid Expenses and Other Current Assets . . . . .	3,161	(15,675)	212	-	(12,302)
(Decrease) Increase in Accounts Payable, Accrued Liabilities and Income Taxes . . . . .	(26,673)	213,070	887	(194,979)	(7,695)
Change in Accrued/Prepaid Pension . . . . .	10,813	34	-	-	10,847
Other, Net . . . . .	5,868	(5,370)	(136)	1	363
Net Cash Provided by (Used by) Operating Activities . . . . .	162,587	(25,682)	14,021	3,682	154,608
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Additions to Plant and Equipment . . . . .	(50,084)	(14,745)	(4,689)	-	(69,518)
Proceeds Received on Disposition of Plant and Equipment . . . . .	11,420	51	47	-	11,518
Cash Investment in Subsidiary . . . . .	(391)	-	9	382	-
Refund of Cash Paid for Acquisition . . . . .	-	6,347	-	-	6,347
Other, Net . . . . .	(3,400)	-	-	-	(3,400)
Net Cash Used by Investing Activities . . . . .	(42,455)	(8,347)	(4,633)	382	(55,053)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Net (Repayments) Borrowings on Loans and Notes Payable . . . . .	(33,977)	34,082	9,308	(6,382)	3,031
Net Repayment on Long-Term Debt . . . . .	(103,826)	-	-	-	(103,826)
Cash Dividends Paid . . . . .	(45,278)	-	(2,701)	2,701	(45,278)
Capital Contributions Received . . . . .	-	383	-	(383)	-
Stock Option Exercise Proceeds and Tax Benefits . .	12,457	-	-	-	12,457
Treasury Stock Repurchases . . . . .	(34,919)	-	-	-	(34,919)
Net Cash (Used by) Provided by Financing Activities . . . . .	(205,543)	34,465	6,607	(4,064)	(168,535)
<b>EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS . . . . .</b>					
	-	-	2,498	-	2,498
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS . . . . .</b>					
	(85,411)	436	18,493	-	(66,482)
Cash and Cash Equivalents, Beginning of Year . . . . .	143,034	6,376	12,163	-	161,573
Cash and Cash Equivalents, End of Year . . . . .	\$ 57,623	\$ 6,812	\$ 30,656	\$ -	\$ 95,091

## Notes . . .

STATEMENT OF CASH FLOWS: For the Fiscal Year Ended July 3, 2005	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net Income (Loss) . . . . .	\$ 114,618	\$ 49,118	\$ (151)	\$ (27,018)	\$ 136,567
Adjustments to Reconcile Net Income to Net Cash Provided by (Used by)					
Operating Activities:					
Extraordinary Gain . . . . .	-	(19,800)	-	-	(19,800)
Depreciation and Amortization . . . . .	58,071	13,693	1,029	-	72,793
Earnings of Unconsolidated Affiliates, Net of Dividends . . . . .	(17,090)	-	(745)	18,513	678
Loss (Gain) on Disposition of Plant and Equipment . . . . .	2,702	109	(393)	-	2,418
Stock Compensation Expense . . . . .	1,268	-	-	-	1,268
Provision for Deferred Income Taxes . . . . .	(4,829)	2,790	(1,857)	-	(3,896)
Change in Operating Assets and Liabilities, Net of Effects of Acquisition:					
(Increase) Decrease in Receivables . . . . .	(91,296)	23,037	67,106	(25,739)	(26,892)
(Increase) Decrease in Inventories . . . . .	(16,956)	34,470	(6,740)	2,010	12,784
(Increase) Decrease in Prepaid Expenses and Other Current Assets . . . . .	(218)	4,184	(1,316)	-	2,650
(Decrease) Increase in Accounts Payable, Accrued Liabilities and Income Taxes . . . . .	(30,142)	25,720	(61,468)	38,217	(27,673)
Change in Accrued/Prepaid Pension . . . . .	(1,056)	6	-	-	(1,050)
Other, Net . . . . .	3,942	(5,214)	29	(46)	(1,289)
Net Cash Provided by (Used by) Operating Activities . . . . .	19,014	128,113	(4,506)	5,937	148,558
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Additions to Plant and Equipment . . . . .	(60,117)	(17,206)	(8,752)	-	(86,075)
Proceeds Received on Disposition of Plant and Equipment . . . . .	908	16	1,016	-	1,940
Proceeds Received on Sale of Certain Assets of a Subsidiary . . . . .	-	-	4,050	-	4,050
Cash Investment in Subsidiary . . . . .	(375,799)	-	(14,069)	389,868	-
Cash Paid for Acquisitions, Net of Cash Acquired . . . . .	(719)	(337,713)	(16,662)	-	(355,094)
Other, Net . . . . .	(1,500)	-	-	-	(1,500)
Net Cash Used by Investing Activities . . . . .	(437,227)	(354,903)	(34,417)	389,868	(436,679)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Net Borrowings (Repayments) on Loans and Notes Payable . . . . .	125,289	(125,434)	9,937	(12,476)	(2,684)
Net Borrowings on Long-Term Debt . . . . .	125,000	-	-	-	125,000
Issuance Cost of Debt . . . . .	(925)	-	-	-	(925)
Cash Dividends Paid . . . . .	(35,065)	-	(6,539)	6,539	(35,065)
Capital Contributions Received . . . . .	-	354,593	35,275	(389,868)	-
Proceeds from Exercise of Stock Options . . . . .	20,139	-	-	-	20,139
Net Cash Provided by Financing Activities . . . . .	234,438	229,159	38,673	(395,805)	106,465
<b>EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS . . . . .</b>					
	-	-	835	-	835
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS . . . . .</b>					
	(183,775)	2,369	585	-	(180,821)
Cash and Cash Equivalents, Beginning of Year . . . . .	326,809	4,007	11,578	-	342,394
Cash and Cash Equivalents, End of Year . . . . .	\$ 143,034	\$ 6,376	\$ 12,163	\$ -	\$ 161,573

## Notes . . .

STATEMENT OF CASH FLOWS: For the Fiscal Year Ended June 27, 2004	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net Income . . . . .	\$ 127,412	\$ 18,742	\$ 5,533	\$ (15,573)	\$ 136,114
Adjustments to Reconcile Net Income to Net Cash Provided by (Used by) Operating Activities:					
Depreciation and Amortization . . . . .	62,705	3,154	749	-	66,608
Earnings of Unconsolidated Affiliates, Net of Dividends . . . . .	(12,657)	-	(725)	9,898	(3,484)
Loss on Disposition of Plant and Equipment . . . . .	6,252	163	975	-	7,390
Stock Compensation Expense . . . . .	291	-	-	-	291
Provision for Deferred Income Taxes . . . . .	5,604	7,196	-	-	12,800
Change in Operating Assets and Liabilities:					
Increase in Receivables . . . . .	(34,485)	(10,492)	(132,053)	148,442	(28,588)
Increase in Inventories . . . . .	(61,003)	(63,860)	(5,475)	1,744	(128,594)
(Increase) Decrease in Prepaid Expenses and Other Current Assets . . . . .	(76)	645	1,448	-	2,017
Increase in Accounts Payable, Accrued Liabilities and Income Taxes . . . . .	24,386	2,144	108,539	(130,373)	4,696
Change in Accrued/Prepaid Pension . . . . .	(6,022)	(10)	(38)	-	(6,070)
Other, Net . . . . .	(15,087)	(160)	2,223	-	(13,024)
Net Cash Provided by (Used by) Operating Activities . . . . .	97,320	(42,478)	(18,824)	14,138	50,156
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Additions to Plant and Equipment . . . . .	(43,526)	(5,518)	(3,918)	-	(52,962)
Proceeds Received on Disposition of Plant and Equipment . . . . .	659	61	-	-	720
Refund of Cash Paid for Acquisition . . . . .	5,686	-	-	-	5,686
Net Cash Used by Investing Activities . . . . .	(37,181)	(5,457)	(3,918)	-	(46,556)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Net (Repayments) Borrowings on Loans and Notes Payable . . . . .	(50,528)	51,042	17,740	(18,067)	187
Net Repayments on Long-Term Debt . . . . .	(22)	-	-	-	(22)
Issuance Cost of Debt . . . . .	(1,789)	-	-	-	(1,789)
Cash Dividends Paid . . . . .	(30,408)	-	(3,929)	3,929	(30,408)
Proceeds from Exercise of Stock Options . . . . .	45,314	-	-	-	45,314
Net Cash (Used by) Provided by Financing Activities . . . . .	(37,433)	51,042	13,811	(14,138)	13,282
<b>EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS . . . . .</b>					
	-	(675)	1,372	-	697
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .</b>					
	22,706	2,432	(7,559)	-	17,579
Cash and Cash Equivalents, Beginning of Year . . . . .	304,103	1,575	19,137	-	324,815
Cash and Cash Equivalents, End of Year . . . . .	\$ 326,809	\$ 4,007	\$ 11,578	\$ -	\$ 342,394

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### **(17) Reduction in Force**

Briggs & Stratton recorded an expense of approximately \$4.1 million associated with a worldwide employee reduction during the year ended July 2, 2006. The amount recorded represents expected expenditures for severance and other related employee separation costs associated with the reduction. As of the year ended July 2, 2006, a reserve of \$0.4 million remained.