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

Results of Operations

FISCAL 2007 COMPARED TO FISCAL 2006

Net Sales

Fiscal 2007 consolidated net sales were approximately $2.16 billion, a decrease of $385 million compared to the previous year. The decrease is primarily due to lower sales volumes in both segments.

Engines Segment net sales were $1.45 billion compared to $1.65 billion in the prior year, a decrease of $201.2 million or 12%. The decrease is primarily the result of a 12% decrease in engine unit shipments between years. The shipment decline is due to a 66% reduction of engine shipments for portable generators caused by a lack of events, such as hurricanes, that cause power outages. The reminder of the decrease is due to lower retail demand for lawn and garden equipment in the U.S. along with a smaller market share in Europe. Unfavorable weather conditions and various economic factors contributed to difficult market conditions for lawn and garden products. Pricing improvements and the impact of favorable Euro exchange rates in fiscal 2007 were almost entirely offset by an unfavorable mix shift to smaller displacement, lower priced engines.

Power Products Segment net sales were $890.4 million in fiscal 2007 compared to $1.19 billion in fiscal 2006, a decrease of $295.6 million or 25%. Approximately $113.0 million of the decrease was the result of the anticipated reduction of Murray branded lawn and garden product sold to retailers. Excluding Murray branded product, lawn and garden equipment sales were comparable between years. The remainder of the net sales decrease was primarily due to a 58% reduction of portable generator unit shipments because of no landed hurricane activity in fiscal 2007 and lower pre-hurricane season sales. These sales decreases were partially offset by an increase in pressure washer unit shipments compared to the same period in the prior year and the introduction of new air compressor and home standby generator products.

Gross Profit

Consolidated gross profit was $287.1 million in fiscal 2007 compared to $491.7 million in fiscal 2006, a decrease of $204.6 million or 42%. 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. The remainder of the decrease is the result of lower sales and production volumes in both segments.

Engines Segment gross margins decreased to $208.4 million in fiscal 2007 from $381.9 million in fiscal 2006, a decrease of $173.5 million. Engines Segment gross profit margins decreased to 14.4% in fiscal 2007 from 23.2% in fiscal 2006. Approximately $33.9 million of the decline is attributable to expense incurred with the write–down of assets primarily associated with the rationalization of a major operating plant in the United States. The balance of the reduction resulted primarily from lower sales and production volumes, and increased costs for raw materials. Lower unit sales negatively impacted fiscal 2007 margins by approximately $70.0 million. Pricing improvements and the impact of favorable Euro exchange rates in fiscal 2007 were almost entirely offset by an unfavorable mix shift to smaller displacement, lower priced engines. Raw material cost increases primarily related to aluminum, steel, and zinc also negatively impacted margins. Engine production volumes decreased 18.9% in fiscal 2007 compared to fiscal 2006 reducing fixed cost absorption by approximately $45.0 million. In addition, fiscal 2006 included gains of approximately $12.2 million associated with certain asset sales that were not recurring in fiscal 2007.

The Power Products Segment gross margins decreased to $80.8 million in fiscal 2007 from $113.2 million in fiscal 2006, a decrease of $32.4 million. The Power Products Segment margin decreased to 9.1% in fiscal 2007 from 9.5% in fiscal 2006. Asset impairment charges of $9.2 million primarily related to the write-down of assets associated with a plan to close the Port Washington manufacturing facility by October 2008 accounted for a gross profit margin decline of approximately 1.0%. Portable generator production volume declines of 65% offset by increased production of pressure washers decreased fixed cost absorption by approximately $13.6 million. These declines were offset by a decrease of $19 million of 2006 expenses associated with the wind down of operations at the Murray, Inc. operating facility and the write-off of excess inventory related to Murray product.

Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs decreased to $265.6 million in fiscal 2007 from $315.7 million in fiscal 2006, a decrease of $50.1 million. Engineering, selling, general and administrative costs as a percent of sales decreased to 12.3% in fiscal 2007 from 12.4% in fiscal 2006.

The decrease in engineering, selling, general and administrative expenses is due to planned reductions in salaries and benefits of $14 million, reduced professional services and legal fees of $21 million and reduced selling, marketing and advertising expenses of $12 million.

Interest Expense

Interest expense increased $1.6 million in fiscal 2007 compared to fiscal 2006. The increase is attributable to higher average borrowings between years to support higher average working capital requirements.

Other Income

Other income decreased $3.7 million in fiscal 2007 as compared to fiscal 2006. The decrease in other income is due to lower dividends received as well as the Company's portion of lower earnings at its joint venture investments.

Provision for Income Taxes

The effective tax rate was 102% for fiscal 2007 and 33% for fiscal 2006. The fiscal 2007 effective tax rate results primarily from our ability to exclude from taxable income a portion of the distributions received from investments and the benefit from the research credit and the production activities deduction.

FISCAL 2006 COMPARED TO FISCAL 2005

Net Sales

Fiscal 2006 consolidated net sales were approximately $2.5 billion, a decrease of $113 million compared to the previous year. The decrease is primarily due to lower sales volumes in both segments.

Engines Segment net sales were $1.6 billion versus $1.7 billion in the prior year, a decrease of $91 million or 5%. The decrease is primarily the result of a 7% decrease in engine unit shipments between years. The shipment decline is attributable to softer retail demand for lawn and garden equipment and efforts by retailers and OEMs to control inventory levels in the wake of reduced demand. This unit shipment decline was partially offset by $30 million from a price increase implemented in the beginning of the fiscal year, as well as a favorable mix of engine unit shipments.

Power Products net sales were $1.2 billion in both fiscal 2006 and 2005. Lower volumes in fiscal 2006 of $105 million for pressure washer and lawn and garden equipment sales were almost fully offset by $75 million of increased volume and pricing on generators as well as $23 million from a favorable mix of lawn and garden product. Management believes the decline in volume of lawn and garden and pressure washer sales is attributable to lower consumer discretionary spending, which resulted in lower demand at retailers.

Gross Profit

Consolidated gross profit decreased $13 million in fiscal 2006. The decrease is primarily the result of the volume decreases noted above offset by pricing improvements in both segments.

Engines Segment margins increased from 21% in fiscal 2005 to 23% in fiscal 2006. The increase in margin is attributable to the price increase discussed above as well as $13 million in gains on the sale of operating assets. In addition, ongoing cost reduction programs contributed $8 million to the margin. These positive margin enhancers were enough to overcome the impact of a 4% production volume decline, a mix of product that favored lower margin units and other manufacturing cost increases.

The Power Products Segment margin decreased to 10% in fiscal 2006 from 11% in fiscal 2005. The decline is primarily attributable to $19 million in losses associated with the wind down of operations at the Murray, Inc. operating facility and the write-off of excess inventory related to Murray product. Partially offsetting these losses was $16 million in pricing improvements, primarily on generators.

Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs increased $2 million between years. Excluding the impact of the $39 million write-off of the Murray, Inc. trade receivable that occurred in fiscal 2005 the category increased $41 million between years.

Increases in this category in fiscal 2006 as compared to fiscal 2005 included: $9 million from the expensing of stock based compensation in fiscal 2006, $12 million in increased legal fees associated with litigation, $9 million associated with increased information technology spending, and $2 million from increased engineering costs associated with new product development in the Power Products Segment. Planned increases of $9.0 million in selling and advertising costs also contributed to the year over year increase in this category.

Interest Expense

Interest expense increased $5 million in fiscal 2006 compared to fiscal 2005. The increase is attributable to higher borrowings between years associated with the term notes used for the Murray, Inc. asset acquisition in February 2005.

Other Income

Other income decreased $2 million in fiscal 2006 as compared to fiscal 2005. The decrease is attributed primarily to higher deferred financing expenses. Deferred financing expense increased as a result of the acceleration of debt repayments and the write-off of associated deferred financing costs.

Provision for Income Taxes

The effective tax rate was approximately 33% in both fiscal 2006 and fiscal 2005.

Liquidity and Capital Resources

FISCAL YEARS 2007, 2006 AND 2005

Cash flows from operating activities were $88 million, $155 million and $149 million in fiscal 2007, 2006 and 2005, respectively.

The fiscal 2007 cash flows from operating activities were $67 million less than the prior year. The primary reason for the decrease is due to net income being lower by $102 million in fiscal 2007 compared to fiscal 2006. The decrease in net income was partially offset by non-cash impairment charges of $43 million in fiscal 2007. In addition, higher fourth quarter sales within our Engines Segment increased working capital requirements for accounts receivable by $54 million partially offset by higher accounts payable and accrued liabilities.

The fiscal 2006 cash flows from operating activities were $6 million higher than the prior year. The primary reason for the increase is lower working capital requirements in fiscal 2006. Lower fourth quarter sales in fiscal 2006 resulted in higher inventory levels offset by lower receivables and accrued liabilities including rebates, incentive compensation and income taxes. The reduction in net income between years was more than offset by a series of increased non-cash items in fiscal 2006 including non-cash pension charges, stock compensation expense, gains on fixed asset sales, the deferred tax credit, and the elimination of the extraordinary gain.

The fiscal 2005 cash flows from operations were $98 million higher than the prior year. Fiscal 2005 did not experience the significant increase in inventories experienced in 2004, resulting in a $141 million improvement in cash flows in fiscal 2005. During fiscal 2004, inventories for engines and power products were increased to what management believes were a more normal level. Accordingly, no such incremental inventory build-up was required in fiscal 2005. Offsetting the favorable impact of inventory levels on cash flows was a $27 million reduction in accounts payable and accrued liabilities between years. The decrease is primarily attributable to a $19 million reduction in incentive compensation accruals between years and $5 million in lower rebate accruals.

Cash used in investing activities was $67 million, $55 million and $437 million in fiscal 2007, 2006 and 2005, respectively. These cash flows include capital expenditures of $68 million, $70 million and $86 million in fiscal 2007, 2006 and 2005, respectively. The capital expenditures relate primarily to reinvestment in equipment, capacity additions and new products. During fiscal 2007, we increased our 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 is adding lawn and garden product capacity with a new plant in Newbern, Tennessee that accounted for $6 million of capital expenditures in fiscal 2007. This plant is expected to begin production in the second quarter of fiscal 2008.

In fiscal 2006, Briggs & Stratton received $12 million in cash from the sale of certain operating assets. In addition, Briggs & Stratton received $6 million as a refund of a portion of the cash paid for certain assets of Murray, Inc. in fiscal 2005.

In fiscal 2005, cash used in investing activities also includes $232 million in cash paid for the Simplicity acquisition and $123 million for the acquisition of certain Murray assets.

Briggs & Stratton used cash of $89 million and $169 million in financing activities in fiscal 2007 and fiscal 2006, respectively. Briggs & Stratton provided cash from financing activities of $106 million in fiscal 2005.

In fiscal 2007, Briggs & Stratton repurchased $48.2 million of its common shares outstanding as part of a $120 million share repurchase program authorized by the Board of Directors in fiscal 2007. In addition, the Company paid common stock dividends of $44 million in fiscal 2007.

In fiscal 2006, the Company paid off $104 million of its long term debt, including $90 million of its term notes due in fiscal 2008. In addition, Briggs & Stratton repurchased $35 million of its common shares in fiscal 2006.

Early in fiscal 2005, the Company used its available cash to finance the acquisition of Simplicity. To finance the acquisition of the Murray assets, the Company issued $125 million in term notes in fiscal 2005. The Company incurred $1 million in fees in fiscal 2005 negotiating the term notes and an amendment to its revolving credit facility.

The Company received $4 million, $12 million, and $20 million in fiscal years 2007, 2006 and 2005, respectively, from the exercise of stock options. The stock option activity is a direct reflection of the market value of the Company's stock and option strike prices that encourage the exercise of the options.

Future Liquidity and Capital Resources

At the end of fiscal 2007, the Company had no borrowings outstanding under its $350 million revolving credit facility that was to expire in May 2009. 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 will use proceeds of the Revolver to, among other things, pay off amounts outstanding under the Company's Term Loan Agreement dated February 11, 2005 with various financial institutions. The Revolver will also be used to fund seasonal working capital requirements and other financing needs. At any time during the term of the Revolver, the Company may, so long as no event of default has occurred and is continuing and certain other conditions are satisfied, elect to increase the maximum amount available under the Revolver from $500 million by up to an amount not to exceed $250 million through, at the Company's election, increases of commitments by existing lenders and/or the addition of new lenders. The Revolver has a term of five years and all outstanding borrowings on the Revolver will be due and payable on July 12, 2012.

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 timing and amount of actual purchases will depend upon certain governing loan covenants. As of August 30, 2007, approximately $48.2 million of common stock has been repurchased under this plan.

Briggs & Stratton expects capital expenditures to be approximately $80 million in fiscal 2008. These anticipated expenditures reflect our plans to continue to reinvest in equipment, new products, and capacity enhancements.

Management believes that available cash, the credit facility, cash generated from future operations, existing lines of credit and access to debt markets 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. Several successful joint ventures and the acquisition of Generac Portable Products, Inc. and Simplicity are examples of our successful execution of this strategy. 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 stock buy-backs.

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 8 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, 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 2008. 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 July 1, 2007 is as follows (in thousands):

	Total	2008	2009-2010	2011-2012	Thereafter
Long-Term Debt	$ 386,139	$116,139	$ –	$270,000	$ –
Interest on Long-Term Debt	89,658	24,760	47,925	16,973	–
Capital Leases	2,892	1,222	755	782	133
Operating Leases	49,473	14,161	19,289	9,700	6,323
Consulting Agreement	153	153	–	–	–
	$ 528,315	$156,435	$ 67,969	$297,455	$ 6,456

Other Matters

Labor Agreement

Briggs & Stratton has collective bargaining agreements with its unions. These agreements expire at various times ranging from 2007-2011.

Emissions

The U.S. Environmental Protection Agency (EPA) has developed national emission standards under a two-phase process 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 to further reduce engine exhaust emissions and to control evaporative emissions from small off-road engines and equipment they are used in. The proposed standards are similar to those adopted by the California Air Resources Board (CARB). The proposed Phase III program would require some evaporative controls in 2007 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 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 is phased in between 2006 and 2008 depending upon the size of the engine and type of control. 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 engines manufactured by Briggs & Stratton. The Directive parallels the regulations previously promulgated by the U.S. EPA. Stage 1 was effective in February 2004 and Stage 2 phases in between calendar years 2005 and 2007, with some limited extensions available for specific size and type engines until 2010. Briggs & Stratton's full European product line has been compliant with Stage 1 since 2004. Briggs & Stratton has certified the majority of its Class 2 engines to be compliant with the Stage 2 standards and intends to have a full European product line compliant with Stage 2 before the end of calendar year 2007. Briggs & Stratton does not believe 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 14 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 estimates as to the recovery of accounts receivable and inventory reserves, as well as those used in the determination of liabilities related to customer rebates, pension obligations, postretirement benefits, warranty, product liability, litigation and taxation.

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'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.

The pension benefit obligation and related pension expense or income are calculated in accordance with Statement of Financial Accounting Standard (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 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. Actuarial valuations at July 1, 2007 used a discount rate of 6.35% 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 increase annual pension expense by approximately $0.1 million. A 0.25% decrease in the expected return on plan assets would increase our annual pension expense by approximately $2.0 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. 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 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 July 1, 2007 the fair value of plan assets exceeded the projected benefit obligation by approximately $63 million.

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 $11.5 million and would increase the service and interest cost by $0.9 million. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by $10.8 million and decrease the service and interest cost by $0.8 million.

For pension and postretirement benefits, actuarial gains and losses are accounted for in accordance with GAAP. Refer to Note 14 of the Notes to the Consolidated Financial Statements for additional discussion.

New Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115," (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option permits a company to choose to measure eligible items at fair value at specified election dates. A company will report unrealized gains and losses on items for which the fair value option has been elected in earnings after adoption. Statement 159 is effective for fiscal years beginning after November 15, 2007. At this time, the impact of adoption of SFAS 159 on our consolidated financial position is being assessed.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. At this time, the impact of adoption of SFAS 157 on our consolidated financial position is being assessed.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)," (SFAS 158). SFAS 158 requires recognition of the overfunded or underfunded status of a postretirement benefit plan in the statement of financial position, as well as recognition of changes in that funded status through comprehensive income in the year in which they occur. SFAS 158 also requires a change in the measurement of a plan's assets and benefit obligations as of the end date of the employer's fiscal year. SFAS 158 is effective for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. See Note 14 – Pension and Other Postretirement Benefits in the Notes to Consolidated Financial Statements for further discussion regarding the Company's adoption of SFAS 158 in its 2007 fiscal year.

In June 2006, the FASB issued FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) an interpretation of FASB Statement No. 109 (SFAS 109). This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109. FIN 48 details how companies should recognize, measure, present and disclose uncertain tax positions that have been or expect to be taken. As such, financial statements will reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts. FIN 48 is effective for public companies for annual periods that begin after December 15, 2006. Briggs & Stratton Corporation is required to and intends to adopt the provisions of FIN 48 as of July 2, 2007. The cumulative effect of adoption will be recorded as an adjustment to the opening balance of retained earnings for fiscal 2008. We have evaluated the impact of FIN 48 and do not expect it to have a material impact on our financial condition or results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs – an amendment of ARB No. 43, Chapter 4," (SFAS No. 151). SFAS No. 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. This statement became effective for the company on July 2, 2006. The adoption of SFAS No. 151 did not have a material impact on the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Briggs & Stratton is exposed to market risk from changes in foreign exchange and interest rates. To reduce the risk from changes in foreign exchange rates, 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 previously purchased inventory from the parent in U.S. dollars. Starting mid-year of fiscal 2007, subsidiaries make these purchases in Euros. Forward foreign exchange contracts are used to partially hedge against the earnings effects of such fluctuations. At July 1, 2007, 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
Japanese Yen	2,300,000	$ 18,998	U.S.	$ 229
Euro	38,000	$ 51,590	U.S.	$ 206
Australian Dollars	4,471	$ 3,790	U.S.	$ 211

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 increased $4.3 million during the year. Using the year-end exchange rates, the total amount invested in non-U.S. subsidiaries on July 1, 2007 was approximately $86 million.

Interest Rates

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

On July 1, 2007, Briggs & Stratton had the following short-term loans outstanding (in thousands):

Currency	Amount	Weighted Average Interest Rate
U.S. Dollars	$ 3,000	7.05%

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
7.25% Senior Notes	$ 81,139	2007
8.875% Senior Notes	$ 267,909	2011
Variable Rate Term Notes	$ 35,000	2008

The Senior Notes carry fixed rates of interest and are therefore not subject to market fluctuation. The Variable Rate Term Note is subject to interest rate fluctuations, therefore an increase (decrease) of one percentage point in the weighted average interest rate would increase (decrease) interest expense by $350 thousand.