

Notes to Consolidated Financial Statements

FOR THE FISCAL YEARS ENDED JULY 1, 2007, JULY 2, 2006 AND JULY 3, 2005

(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 primarily in the U.S.

(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 2007 fiscal year was 52 weeks long, the 2006 fiscal year was 52 weeks long and the 2005 fiscal year was 53 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. At July 2, 2007, \$16.2 million of book overdrafts are included in accounts payable.

Receivables: Receivables are recorded at the original carrying value less reserves for estimated uncollectible accounts.

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 50% of total inventories at July 1, 2007 and 53% of total inventories at July 2, 2006. The cost for the remaining inventories was determined using the first-in, first-out (FIFO) method. During fiscal 2007, a reduction in inventory quantities resulted in a liquidation of LIFO inventories carried at lower costs prevailing in prior years. The liquidation of these inventories increased cost of goods sold by \$92 thousand in 2007. There was no such reduction of inventory in fiscal 2006 or 2005. If the FIFO inventory valuation method had been used exclusively, inventories would have been \$63.3 million and \$56.8 million higher in 2007 and 2006, 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 acquisitions 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 2007, 2006 and 2005, 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 foundry business. The investments in the joint ventures are accounted for under the equity method.

Notes . . .

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 outstanding debt instruments amounted to \$12.3 million as of July 1, 2007 and \$10.4 million as of July 2, 2006.

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 or 2005. Refer to Note 18 of the Notes to Consolidated Financial Statements for impairment charges recognized in fiscal 2007.

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 2007 and 2006 (in thousands):

| | <u>2007</u> | <u>2006</u> |
|---|------------------|------------------|
| Balance, Beginning of Period | \$ 53,233 | \$ 59,625 |
| Payments | (34,046) | (36,733) |
| Provision for Current Year Warranties | 35,372 | 34,056 |
| Credit for Prior Years Warranties | 7 | (3,715) |
| Balance, End of Period | <u>\$ 54,566</u> | <u>\$ 53,233</u> |

Deferred Revenue on Sale of Plant and Equipment: During 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

Notes . . .

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 2007, 2006 and 2005 were \$13.1 million, \$12.7 million and \$10.6 million, respectively.

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 (Credit) 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 \$25.7 million in fiscal 2007, \$28.8 million in fiscal 2006 and \$33.5 million in fiscal 2005.

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 \$31.5 million in fiscal 2007, \$33.4 million in fiscal 2006 and \$35.8 million in fiscal 2005.

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 \$11.4 million in fiscal 2007, \$20.2 million in fiscal 2006 and \$23.6 million in fiscal 2005.

Shipping and Handling Fees and Costs: Revenue received from shipping and handling fees is reflected in net sales. Shipping fee revenue for fiscal 2007, 2006 and 2005 was \$4.3 million, \$4.5 million and \$4.1 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 2007 and 2006 excludes outstanding options to purchase 2,722,091 and 1,434,193 shares of common stock, respectively, with weighted average exercise prices of \$35.64 and \$37.21, respectively. The fiscal 2005 diluted earnings per share calculation includes all options outstanding as of July 3, 2005. For fiscal 2007 and 2006, 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.

Notes . . .

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

| | Fiscal Year Ended | | |
|--|-------------------|-------------------|-------------------|
| | July 1, 2007 | July 2, 2006 | July 3, 2005 |
| Net Income Before Extraordinary Gain Used in Basic Earnings Per Share | \$ 146 | \$ 102,346 | \$ 116,767 |
| Extraordinary Gain Used in Basic and Diluted Earnings Per Share | \$ - | \$ - | \$ 19,800 |
| Net Income Used in Basic and Diluted Earnings Per Share | <u>\$ 146</u> | <u>\$ 102,346</u> | <u>\$ 136,567</u> |
| Average Shares of Common Stock Outstanding | 49,715 | 51,479 | 51,472 |
| Incremental Common Shares Applicable to Common Stock Options Based on the Common Stock Average Market Price During the Period | 16 | 42 | 446 |
| Incremental Common Shares Applicable to Deferred and Restricted Common Stock Based on the Common Stock Average Market Price During the Period | 96 | 73 | 36 |
| Diluted Average Common Shares Outstanding | <u>49,827</u> | <u>51,594</u> | <u>51,954</u> |

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. For the year ended July 1, 2007, the Company's implementation of SFAS No. 158 affected Accumulated Other Comprehensive Income by recognizing the funded status of the Company's defined benefit pension and other postretirement plans. Information on Accumulated Other Comprehensive Income (Loss) is as follows (in thousands):

| | Cumulative Translation Adjustments | Unrealized Gain (Loss) on Derivatives | Minimum Pension Liability Adjustment | Unrecognized Pension and Postretirement Obligation | Accumulated Other Comprehensive Income (Loss) |
|--|--|---|---|---|--|
| Balance at June 27, 2004 | \$ 4,858 | \$ 500 | \$ (1,330) | \$ - | \$ 4,028 |
| Fiscal Year Change | 881 | 419 | (53,659) | - | (52,359) |
| Balance at July 3, 2005 | 5,739 | 919 | (54,989) | - | (48,331) |
| Fiscal Year Change | 1,785 | (1,255) | 52,761 | - | 53,291 |
| Balance at July 2, 2006 | 7,524 | (336) | (2,228) | - | 4,960 |
| Fiscal Year Change | 4,275 | (765) | 2,228 | (67,208) | (61,470) |
| Balance at July 1, 2007 | \$ 11,799 | \$ (1,101) | \$ - | \$ (67,208) | \$ (56,510) |

Derivatives: Derivatives are recorded on the Balance Sheets as assets or liabilities, measured at fair value. Briggs & Stratton enters into derivative contracts designated as cash flow hedges to manage currency and certain material exposures. These instruments generally do not have a maturity of more than twelve months.

Changes in the fair value of cash flow hedges to manage its foreign currency exposure are recorded on the Consolidated Statements of Earnings or as a component of Accumulated Other Comprehensive Income. The amounts included in Accumulated Other Comprehensive Income will be reclassified into income when the forecasted transactions occur. 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 to pay in a foreign currency. Changes in the fair value of all derivatives deemed to be ineffective would be recorded as either income or expense in the accompanying Consolidated Statements of Earnings.

Briggs & Stratton manages its exposure to fluctuation in the cost of natural gas used by its operating facilities through participation in a third party managed dollar cost averaging program linked to NYMEX futures. As a participant in the program, Briggs & Stratton hedges a minimum of 50% of its anticipated monthly natural gas usage along with a pool of other companies. Briggs & Stratton does not hold any actual futures contracts, and actual delivery of natural gas is not required of the participants in the program. Cash settlements occur on a monthly basis based on the difference between the average dollar price of the underlying NYMEX futures held by the third party and the actual price of natural gas paid by Briggs & Stratton in the period. The fair value of

Notes . . .

the underlying NYMEX futures is reflected as an asset or liability on the accompanying Consolidated Condensed Balance Sheets. Changes in fair value are reflected as a Component of Accumulated Other Comprehensive Income, which are reclassified into the income statement as the monthly cash settlements occur and actual natural gas is consumed.

Briggs & Stratton manages its exposure to fluctuations in the cost of copper to be used in manufacturing by entering into forward purchase contracts designated as cash flow hedges. Briggs & Stratton hedges approximately 35% of its anticipated copper usage, and the fair value of outstanding future contracts is reflected as an asset or liability on the accompanying Consolidated Balance Sheets based on NYMEX prices. Changes in fair value are reflected as a component of Accumulated Other Comprehensive Income if the forward purchase contracts are deemed to be effective. Changes in the fair value of all derivatives deemed to be ineffective would be recorded as either income or expense in the accompanying Consolidated Statements of Earnings. Unrealized gains or losses associated with the forward purchase contracts are captured in inventory costs and are realized in the income statement when sales of inventory are made.

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 benefit postretirement 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, Accounting for Income Taxes. 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 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.

Notes . . .

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

(3) Acquisitions:

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 in fiscal 2005.

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.

(4) Goodwill and Other Intangible Assets:

The changes in the carrying amount of goodwill for the fiscal years ended July 1, 2007 and July 2, 2006 are as follows (in thousands):

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------|-------------------|-------------------|
| Beginning Goodwill Balance | \$ 251,885 | \$ 253,663 |
| Tax Benefit on Amortization | <u>(1,778)</u> | <u>(1,778)</u> |
| Ending Goodwill Balance | <u>\$ 250,107</u> | <u>\$ 251,885</u> |

The Company's other intangible assets for the years ended July 1, 2007 and July 2, 2006 are as follows (in thousands):

| | <u>2007</u> | | | <u>2006</u> | | |
|---|------------------------------|---------------------------------|------------------|------------------------------|---------------------------------|------------------|
| | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Net</u> | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
| <u>Amortized Intangible Assets:</u> | | | | | | |
| Patents | \$ 13,281 | \$ (3,488) | \$ 9,793 | \$ 13,281 | \$ (2,203) | \$ 11,078 |
| Customer Relationships | 17,910 | (2,149) | 15,761 | 17,910 | (1,433) | 16,477 |
| Miscellaneous | 279 | (277) | 2 | 279 | (238) | 41 |
| Total Amortized Intangible Assets | <u>31,470</u> | <u>(5,914)</u> | <u>25,556</u> | <u>31,470</u> | <u>(3,874)</u> | <u>27,596</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>\$ (5,914)</u> | <u>\$ 92,556</u> | <u>\$ 98,470</u> | <u>\$ (3,874)</u> | <u>\$ 94,596</u> |

Amortization expense of other intangible assets amounts to approximately \$2,039,200, \$1,850,000 and \$1,850,000 in 2007, 2006, and 2005, respectively.

Notes . . .

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

| | |
|------|-----------------|
| 2008 | \$ 1,860 |
| 2009 | 1,860 |
| 2010 | 1,860 |
| 2011 | 1,860 |
| 2012 | 1,860 |
| | <u>\$ 9,300</u> |

(5) Income Taxes:

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|----------|-------------------|------------------|------------------|
| Current | | | |
| Federal | \$ 11,861 | \$ 51,743 | \$ 51,144 |
| State | 961 | 7,796 | 7,948 |
| Foreign | 1,226 | 919 | 2,352 |
| | <u>14,048</u> | <u>60,458</u> | <u>61,444</u> |
| Deferred | (21,513) | (10,438) | (3,896) |
| | <u>\$ (7,465)</u> | <u>\$ 50,020</u> | <u>\$ 57,548</u> |

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---|---------------|--------------|--------------|
| U.S. Statutory Rate | 35.0% | 35.0% | 35.0% |
| State Taxes, Net of Federal Tax Benefit | 14.4% | 2.6% | 2.4% |
| Foreign Tax Benefits | (6.0%) | (0.1%) | (0.8%) |
| Resolution of Prior Period Tax Matters | - | (1.7%) | - |
| Benefit on Dividends Received | 48.7% | (2.9%) | (4.0%) |
| Other | 9.9% | (0.1%) | 0.4% |
| Effective Tax Rate | <u>102.0%</u> | <u>32.8%</u> | <u>33.0%</u> |

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

| | <u>2007</u> | <u>2006</u> |
|---|------------------|------------------|
| Current Asset (Liability): | | |
| Difference Between Book and Tax Related to: | | |
| Inventory | \$ 15,153 | \$ 13,844 |
| Payroll Related Accruals | 3,110 | 3,190 |
| Warranty Reserves | 14,670 | 13,097 |
| Workers Compensation Accruals | 2,971 | 3,000 |
| Other Accrued Liabilities | 23,765 | 18,749 |
| Pension Cost | 977 | 1,424 |
| Miscellaneous | (5,126) | (3,344) |
| Deferred Income Tax Asset | <u>\$ 55,520</u> | <u>\$ 49,960</u> |

Notes . . .

| Long-Term Liability (Asset): | <u>2007</u> | <u>2006</u> |
|---|------------------|------------------|
| Difference Between Book and Tax Related to: | | |
| Pension Cost | \$ 34,114 | \$ 29,557 |
| Accumulated Depreciation | 48,198 | 69,318 |
| Intangibles | 64,952 | 61,630 |
| Accrued Employee Benefits | (24,165) | (18,507) |
| Postretirement Health Care Obligation | (72,558) | (32,462) |
| Warranty | (6,712) | (8,064) |
| Miscellaneous | (6,529) | (6,674) |
| Deferred Income Tax Liability | <u>\$ 37,300</u> | <u>\$ 94,798</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 \$6.5 million at July 1, 2007. 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>2007</u> | <u>2006</u> | <u>2005</u> |
|--------------------------|---------------------|---------------------|---------------------|
| NET SALES: | | | |
| Engines | \$ 1,447,051 | \$ 1,648,224 | \$ 1,739,184 |
| Power Products | 890,376 | 1,186,025 | 1,193,616 |
| Eliminations | (180,194) | (292,078) | (277,925) |
| | <u>\$ 2,157,233</u> | <u>\$ 2,542,171</u> | <u>\$ 2,654,875</u> |
| GROSS PROFIT ON SALES: | | | |
| Engines | \$ 208,444 | \$ 381,932 | \$ 372,162 |
| Power Products | 80,759 | 113,166 | 133,888 |
| Eliminations | (2,071) | (3,414) | (1,159) |
| | <u>\$ 287,132</u> | <u>\$ 491,684</u> | <u>\$ 504,891</u> |
| INCOME FROM OPERATIONS: | | | |
| Engines | \$ 15,493 | \$ 149,760 | \$ 142,653 |
| Power Products | 6,358 | 29,620 | 49,274 |
| Eliminations | (315) | (3,414) | (1,159) |
| | <u>\$ 21,536</u> | <u>\$ 175,966</u> | <u>\$ 190,768</u> |
| ASSETS: | | | |
| Engines | \$ 1,183,720 | \$ 1,174,569 | \$ 1,297,789 |
| Power Products | 1,180,992 | 1,148,279 | 877,933 |
| Eliminations | (477,544) | (378,648) | (176,754) |
| | <u>\$ 1,887,168</u> | <u>\$ 1,944,200</u> | <u>\$ 1,998,968</u> |
| CAPITAL EXPENDITURES: | | | |
| Engines | \$ 45,848 | \$ 54,208 | \$ 67,802 |
| Power Products | 22,152 | 15,310 | 18,273 |
| | <u>\$ 68,000</u> | <u>\$ 69,518</u> | <u>\$ 86,075</u> |

Notes . . .

DEPRECIATION & AMORTIZATION:

| | | | |
|----------------|------------------|------------------|------------------|
| Engines | \$ 54,757 | \$ 59,053 | \$ 59,069 |
| Power Products | 19,557 | 18,181 | 13,724 |
| | <u>\$ 74,314</u> | <u>\$ 77,234</u> | <u>\$ 72,793</u> |

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

| | | | |
|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2006 | 2005 |
| United States | \$ 1,960,471 | \$ 2,353,010 | \$ 2,481,374 |
| All Other Countries | 196,762 | 189,161 | 173,501 |
| Total | <u>\$ 2,157,233</u> | <u>\$ 2,542,171</u> | <u>\$ 2,654,875</u> |

Sales to the following customers in the Company's Engines Segment amount to greater than or equal to 10% of consolidated net sales, respectively:

| | | | | | | |
|-----------|-------------------|------------|-------------------|------------|-------------------|------------|
| | 2007 | | 2006 | | 2005 | |
| Customer: | <u>Net Sales</u> | <u>%</u> | <u>Net Sales</u> | <u>%</u> | <u>Net Sales</u> | <u>%</u> |
| HOP | \$ 443,393 | 21% | \$ 407,964 | 16% | \$ 374,941 | 14% |
| MTD | 206,291 | 10% | 230,123 | 9% | 316,911 | 12% |
| | <u>\$ 649,684</u> | <u>31%</u> | <u>\$ 638,087</u> | <u>25%</u> | <u>\$ 691,852</u> | <u>26%</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 2007, 2006 and 2005 was \$22.5 million, \$18.9 million and \$16.1 million, respectively.

Future minimum lease commitments for all non-cancelable leases as of July 1, 2007 are as follows (in thousands):

| | | |
|---|------------------|-----------------|
| <u>Fiscal Year</u> | <u>Operating</u> | <u>Capital</u> |
| 2008 | \$ 14,161 | \$ 1,221 |
| 2009 | 10,435 | 375 |
| 2010 | 8,854 | 381 |
| 2011 | 5,975 | 388 |
| 2012 | 3,725 | 395 |
| Thereafter | 6,323 | 132 |
| Total future minimum lease commitments | <u>\$ 49,473</u> | <u>2,892</u> |
| Less: Interest | | 513 |
| Present value of minimum capital lease payments | | <u>\$ 2,379</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 repurchases 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 1, 2007 or July 2, 2006.

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

Notes . . .

(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 \$15.0 million, expire at various times throughout fiscal 2008 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>2007</u> | <u>2006</u> |
|---|-------------|-------------|
| Balance at Fiscal Year-End | \$ 3,000 | \$ 3,474 |
| Weighted Average Interest Rate at Fiscal Year-End | 7.05% | 6.38% |

The Long-Term Debt and Current Maturities on Long-Term Debt captions consist of the following (in thousands):

| | <u>2007</u> | <u>2006</u> |
|--|-------------------|-------------------|
| 7.25% Senior Notes Due 2007, Net of Unamortized Discount of \$36 in 2007 and \$202 in 2006 | \$ 81,139 | \$ 80,973 |
| 8.875% Senior Notes Due 2011, Net of Unamortized Discount of \$2,091 in 2007 and \$2,649 in 2006 | 267,909 | 267,351 |
| Variable Rate Term Notes Due 2008 | 35,000 | 35,000 |
| Total Long-Term Debt | <u>\$ 384,048</u> | <u>\$ 383,324</u> |

On July 12, 2007, the Company entered into a \$500 million amended and restated multicurrency credit agreement. See further discussion in Note 19 of the Notes to Consolidated Financial Statements.

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 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 and impose a maximum leverage ratio. As of July 1, 2007, the Company was in compliance with these covenants.

Notes . . .

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>2007</u> | <u>2006</u> | <u>2005</u> |
|---|------------------|------------------|------------------|
| Interest Income | \$ 1,916 | \$ 2,856 | \$ 1,155 |
| Income on Preferred Stock | 10,000 | 12,000 | 12,492 |
| Equity in Earnings from Unconsolidated Affiliates | 3,303 | 4,174 | 5,289 |
| Deferred Financing Costs | (1,173) | (1,708) | (1,233) |
| Other Items | 790 | 1,169 | 2,727 |
| Total | <u>\$ 14,836</u> | <u>\$ 18,491</u> | <u>\$ 20,430</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 1, 2007 and July 2, 2006 the reserve for product and general liability claims (which includes asbestos-related liabilities) was \$7.2 million and \$7.3 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 2007 and fiscal 2006, the third party financing company provided financing for \$289.1 million and \$294.4 million of Briggs & Stratton product, respectively. As of July 1, 2007 and July 2, 2006 there were \$184.7 million and \$180.3 million in receivables outstanding under this arrangement. Briggs & Stratton made no payments under this indemnity agreement in fiscal 2007 and fiscal 2006.

Certain of the Company's vendors in Asia require their customers to obtain letters of credit, payable upon shipment of the product. At the end of fiscal 2007, the Company had three letters of credit issued by Bank of America, totaling \$14.1 million. At July 2, 2006, the Company held two letters of credit from Bank of America, totaling \$7.5 million. The products ordered typically arrive in partial shipments spanning several months, with payment initiated at the time the vendor provides documentation to the bank of the quantity and occurrence of shipment.

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

Notes . . .

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 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 cross claims against each other for indemnification and contribution, and filed a motion to dismiss the amended complaint. On March 30, 2007, the Court issued an order granting the defendants' motion to dismiss the amended complaint in its entirety, but the order permits the plaintiffs to refile a complaint after amending several claims. An opinion of the Court providing more detail concerning its order is expected but has not yet been filed. Two defendants, MTD Products, Inc. and American Honda Motor Company, have notified the Court that they have reached a settlement with the putative plaintiff class, but neither defendant's agreement has yet been approved by the Court. 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.

(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 1, 2007, there were 2,444,978 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 fiscal 2007 and 2006, Briggs & Stratton recognized stock based compensation expense of approximately \$8.5 million and \$10.0 million, respectively. Prior to July 4, 2005, the plans were accounted for according to Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." 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 year ended July 3, 2005 (in thousands, except per share data):

All share data is adjusted for the effect of the 2-for-1 stock split effective October 29, 2004.

| | <u>2005</u> |
|--|-------------------|
| Net income as reported (in thousands): | \$ 136,567 |
| Basic EPS: | |
| Deduct employee compensation expense determined under a fair value based method, net of related tax effects | <u>(5,837)</u> |
| Income Available to Common Stockholders: | 130,730 |
| Diluted EPS: | |
| Add reduction in interest expense related to convertible debt | - |
| Income Available to Common Stockholders: | <u>\$ 130,730</u> |

Notes . . .

Basic Earnings Per Share:

| | | |
|-----------------------|----|------|
| As Reported | \$ | 2.65 |
| Pro Forma | \$ | 2.54 |

Diluted Earnings Per Share:

| | | |
|-----------------------|----|------|
| As Reported | \$ | 2.63 |
| Pro Forma | \$ | 2.52 |

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>2007</u> | <u>2006</u> | <u>2005</u> |
|--|---------------|-------------|-------------|
| Grant Date Fair Value | \$5.46 | \$7.37 | \$12.12 |
| (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 | 5.0% | 4.3% | 4.2% |
| Expected Volatility | 27.4% | 25.1% | 28.4% |
| Expected Dividend Yield | 3.2% | 1.9% | 1.9% |
| Expected Term (In Years) | 5.0 | 5.0 | 10.0 |

Information on the options outstanding is as follows:

| | <u>Shares</u> | <u>Wtd. Avg. Ex. Price</u> | <u>Wtd. Avg. Remaining Contractual Term</u> | <u>Aggregate Intrinsic Value (in thousands)</u> |
|--|------------------|--------------------------------|---|---|
| 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 | | |
| Balance, July 3, 2005 | 3,007,168 | \$ 30.52 | | |
| Granted During the Year | 355,123 | 38.83 | | |
| Exercised During the Year | (418,858) | 26.92 | | |
| Expired During the Year | - | - | | |
| Balance, July 2, 2006 | 2,943,433 | \$ 32.05 | | |
| Granted During the Year | 554,020 | 29.87 | | |
| Exercised During the Year | (143,332) | 23.36 | | |
| Expired During the Year | (24,442) | 33.26 | | |
| Balance, July 1, 2007 | 3,329,679 | \$ 32.05 | 4.97 | \$ 6,400 |
| Exercisable, July 1, 2007 | 1,365,908 | \$ 27.54 | 4.07 | \$ 5,490 |

Notes . . .

The total intrinsic value of options exercised during the fiscal years ended 2007, 2006 and 2005, was \$0.8 million, \$3.4 million and \$3.3 million, respectively, and the total fair value of options exercised during fiscal 2007 was \$4.1 million. The exercise of options resulted in cash receipts of \$3.3 million, \$11.3 million and \$20.0 million in fiscal 2007, 2006 and 2005, 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 | 40,948 |
| 2002 | 8-7-01 | 8-7-04 | 8-7-08 | 24.60 | 286,180 |
| 2003 | 8-13-02 | 8-13-05 | 8-13-09 | 23.35 | 280,460 |
| 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 | 345,881 |
| 2007 | 8-15-06 | 8-15-09 | 8-15-11 | 29.87 | 538,820 |

Below is a summary of the status of the Company's nonvested shares as of July 1, 2007, 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 2, 2006 | 28,905 | \$ 35.45 | 127,574 | \$ 32.11 | 2,192,513 | \$ 32.69 |
| Granted | 735 | 27.59 | 21,425 | 29.24 | 554,020 | 27.59 |
| Cancelled | - | - | (4,772) | 33.42 | (24,442) | 30.38 |
| Vested | - | - | (12,000) | 26.79 | (758,320) | 28.49 |
| Nonvested shares, July 1, 2007 | 29,640 | 35.26 | 132,227 | 32.08 | 1,963,771 | 32.90 |

As of July 1, 2007, there was \$3.7 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 1.7 years. The total fair value of shares vested during fiscal 2007 was \$21.3 million.

Under the plans, the Company has issued restricted stock to certain employees. During fiscal years 2007, 2006 and 2005, the Company has issued 21,425, 42,574 and 26,000 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 is approximately \$0.6 million, \$1.5 million and \$1.0 million in fiscal 2007, 2006 and 2005, respectively, and has been recorded within 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 3,497, 3,477 and 3,463 shares in fiscal 2007, 2006 and 2005, 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 735 and 27,905 shares in fiscal 2007 and 2006, respectively, under this provision. The aggregate market value on the date of issue was approximately \$20,000 and \$990,000, respectively. Expense is recognized ratably over the five-year vesting period.

Notes . . .

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|-----------------|-----------------|---------------|
| Stock Options: | | | |
| Pretax compensation expense | \$ 7,258 | \$ 8,252 | \$ 754 |
| Tax benefit | (2,831) | (3,218) | (294) |
| Stock option expense, net of tax | <u>\$ 4,427</u> | <u>\$ 5,034</u> | <u>\$ 460</u> |
| Restricted Stock: | | | |
| Pretax compensation expense | \$ 900 | \$ 1,142 | \$ 511 |
| Tax benefit | (351) | (445) | (199) |
| Restricted stock expense, net of tax | <u>\$ 549</u> | <u>\$ 697</u> | <u>\$ 312</u> |
| Deferred Stock: | | | |
| Pretax compensation expense | \$ 326 | \$ 605 | \$ 3 |
| Tax benefit | (127) | (236) | (1) |
| Deferred stock expense, net of tax | <u>\$ 199</u> | <u>\$ 369</u> | <u>\$ 2</u> |
| Total Stock-Based Compensation: | | | |
| Pretax compensation expense | \$ 8,484 | \$ 9,999 | \$ 1,268 |
| Tax benefit | (3,309) | (3,899) | (494) |
| Total stock-based compensation, net of tax | <u>\$ 5,175</u> | <u>\$ 6,100</u> | <u>\$ 774</u> |

(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 ratified the amended rights agreement at their annual meeting on October 18, 2006.

(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.

The Company has the following forward currency contracts outstanding at the end of fiscal 2007:

| Hedge | | In Millions | | | | Conversion Currency | Latest Expiration Date |
|-------------------|-----------------|-------------------|-------------------|----------------------|------------------------------|------------------------|---------------------------|
| | | Notional Value | Contract Value | Fair Market Value | (Gain)/Loss at Fair Value | | |
| <u>Currency</u> | <u>Contract</u> | | | | | | |
| Japanese Yen | Buy | 2,300.0 | 19.2 | 19.0 | .2 | U.S. | March 2008 |
| Euro | Sell | 38.0 | 51.4 | 51.6 | .2 | U.S. | March 2008 |
| Australian Dollar | Sell | 4.5 | 3.6 | 3.8 | .2 | U.S. | October 2007 |

Notes . . .

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

| | | In Millions | | | | | |
|-------------------|----------|-------------|----------|-------------|---------------|------------|-----------------|
| Hedge | | Notional | Contract | Fair Market | (Gain)/Loss | Conversion | Latest |
| Currency | Contract | Value | Value | Value | 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 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 2007 or 2006.

(14) Employee Benefit Costs:

Retirement Plan and Other Postretirement Benefits

The prior accounting for defined pension and other postretirement plans allowed for delayed recognition of changes in plan assets and benefit obligations and recognition of a liability that may have been significantly less than the underfunded status of the plans or an asset for plans that may have been overfunded. The following table illustrates the incremental effect of applying SFAS 158 for pension, postretirement and postemployment benefits on individual line items in the Company's Consolidated Balance Sheets as of July 1, 2007 (in millions):

| | Before Application of SFAS 158 | SFAS 158 Adjustments Increase (Decrease) | After Application of SFAS 158 |
|---|--------------------------------------|---|-------------------------------------|
| Other assets | | | |
| Other intangible assets, net | \$ 94 | \$ (1) | \$ 93 |
| Prepaid Pension | 76 | 27 | 103 |
| Total assets | 1,861 | 26 | 1,887 |
| Long-term liabilities | | | |
| Deferred income tax liability | 79 | (42) | 37 |
| Accrued Pension Cost | 27 | 12 | 39 |
| Accrued Employee Benefits | 17 | 3 | 20 |
| Accrued Postretirement Health Care Obligation | 69 | 118 | 187 |
| Shareholders' equity | | | |
| Accumulated other comprehensive income (loss), net of tax: | | | |
| Defined benefit plans | | | |
| Minimum Pension Liability | (2) | 2 | - |
| Prior service cost | - | (9) | (9) |
| Net actuarial loss | - | (58) | (58) |
| Shareholders' equity | 911 | (65) | 846 |
| Total liabilities and shareholders' equity | 1,861 | 26 | 1,887 |

The amounts in accumulated other comprehensive income that are expected to be recognized as components of net periodic benefit cost during the next fiscal year are as follows (in thousands):

| | Pension Plans | Other Postretirement Plans |
|-----------------------------|------------------|----------------------------------|
| Prior service credit (cost) | \$ (3,290) | \$ 850 |
| Net actuarial gain (loss) | 3,560 | (11,077) |

Notes . . .

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 | |
|---|------------------|-------------|-------------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| <u>Actuarial Assumptions:</u> | | | | |
| Discounted Rate Used to Determine Present Value of Projected Benefit Obligation | 6.35% | 6.35% | 6.09% | 6.09% |
| 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 |
| <u>Change in Benefit Obligations:</u> | | | | |
| Projected Benefit Obligation at Beginning of Year | \$ 949,634 | \$1,032,014 | \$ 276,952 | \$ 305,091 |
| Service Cost | 13,324 | 15,430 | 1,777 | 3,031 |
| Interest Cost | 57,940 | 52,595 | 16,007 | 15,025 |
| Plan Amendments | - | 3,881 | - | (6,970) |
| Plan Participant Contributions | - | - | 1,696 | 3,558 |
| Actuarial (Gain) Loss | 38,877 | (88,200) | (17,830) | (13,551) |
| Benefits Paid | (73,303) | (66,086) | (35,057) | (29,232) |
| Projected Benefit Obligation at End of Year | \$ 986,472 | \$ 949,634 | \$ 243,545 | \$ 276,952 |
| <u>Change in Plan Assets:</u> | | | | |
| Fair Value of Plan Assets at Beginning of Year | \$ 945,203 | \$ 917,443 | \$ - | \$ - |
| Actual Return on Plan Assets | 167,244 | 92,112 | - | - |
| Plan Participant Contributions | - | - | 1,696 | 3,558 |
| Employer Contributions | 9,737 | 1,734 | 33,361 | 25,674 |
| Benefits Paid | (73,303) | (66,086) | (35,057) | (29,232) |
| Fair Value of Plan Assets at End of Year | \$1,048,881 | \$ 945,203 | \$ - | \$ - |
| <u>Funded Status:</u> | | | | |
| Plan Assets (Less Than) in Excess of Projected Benefit Obligation | \$ 62,409 | \$ (4,431) | \$ (243,545) | \$ (276,952) |
| Remaining Unrecognized Net Obligation | - | 57 | - | 89 |
| Unrecognized Net (Gain) Loss | - | 33,740 | - | 157,711 |
| Minimum Pension Liability | - | (4,192) | - | - |
| Unrecognized Prior Service Cost | - | 23,628 | - | (6,362) |
| Net Amount Recognized at End of Year | \$ 62,409 | \$ 48,802 | \$ (243,545) | \$ (125,514) |
| <u>Amounts Recognized on the Balance Sheets:</u> | | | | |
| Prepaid Pension | \$ 103,247 | \$ 75,789 | \$ - | \$ - |
| Accrued Pension Cost | (39,438) | (25,587) | - | - |
| Accrued Wages and Salaries | (1,400) | (1,400) | - | - |
| Accrued Postretirement Health Care Obligation | - | - | (186,868) | (84,136) |
| Accrued Liabilities | - | - | (37,504) | (26,000) |
| Accrued Employee Benefits | - | - | (19,173) | (15,378) |
| Net Amount Recognized at End of Year | \$ 62,409 | \$ 48,802 | \$ (243,545) | \$ (125,514) |
| <u>Amounts Recognized in Accumulated Other Comprehensive Income (Loss):</u> | | | | |
| Minimum Pension Liability | - | (2,228) | - | - |
| Transition assets (obligation) | - | - | (56) | - |
| Net Actuarial Gain (Loss) | \$ 19,282 | \$ - | \$ (77,179) | \$ - |
| Prior Service (Credit) Cost | (12,406) | - | 3,363 | - |
| Net Amount Recognized at End of Year | \$ 6,876 | \$ (2,228) | \$ (73,872) | \$ - |

Notes . . .

The accumulated benefit obligation for all defined benefit pension plans was \$933 million and \$898 million at June 30, 2007 and 2006, respectively.

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

| | Pension Benefits | | | Other Postretirement Benefits | | |
|---|------------------|------------------|---------------|-------------------------------|------------------|------------------|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| <u>Components of Net Periodic Expense (Income):</u> | | | | | | |
| Service Cost-Benefits Earned During the Year | \$ 13,324 | \$ 15,430 | \$ 12,993 | \$ 1,777 | \$ 3,031 | \$ 2,734 |
| Interest Cost on Projected Benefit Obligation | 57,940 | 52,595 | 54,448 | 16,007 | 15,025 | 16,703 |
| Expected Return on Plan Assets | (68,394) | (68,998) | (70,806) | - | - | - |
| Amortization of: | | | | | | |
| Transition Obligation (Asset) | 8 | 8 | 8 | 46 | 46 | 46 |
| Prior Service Cost | 3,290 | 3,292 | 3,140 | (849) | (629) | 31 |
| Actuarial Loss (Gain) | 5,398 | 10,254 | 772 | 13,337 | 15,793 | 14,249 |
| Net Periodic Expense | <u>\$ 11,566</u> | <u>\$ 12,581</u> | <u>\$ 555</u> | <u>\$ 30,318</u> | <u>\$ 33,266</u> | <u>\$ 33,763</u> |

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

| | Pension Benefits | | | Other Postretirement Benefits | | |
|--|------------------|----------|----------|-------------------------------|-------|-------|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Discount Rate | 6.35% | 5.25% | 6.25% | 6.09% | 5.25% | 6.25% |
| 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 1, 2007, the Company's additional pension obligation was \$6.7 million, of which \$4.1 million was included as a reduction in accumulated other comprehensive income, net of tax benefit of \$2.6 million. 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.

The "Other Postretirement Benefit" plans are essentially unfunded.

For measurement purposes a 9% annual rate of increase in the per capita cost of covered health care claims was assumed for Briggs & Stratton for the fiscal year 2007 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 also assumes a 9% annual rate of increase in the per capita cost decreasing gradually to 5% for the fiscal year 2011. 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 \$11.5 million and would increase the service and interest cost by \$0.9 million for fiscal 2007. 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 the fiscal year 2007.

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

Notes . . .

selling, unless the Committee gives prior approval. Briggs & Stratton's pension plans weighted-average asset allocations and target allocations at June 30, 2007, and 2006, by asset category are as follows:

| <u>Asset Category</u> | <u>Target %</u> | <u>Plan Assets at Year-end</u> | |
|---|-----------------|--------------------------------|--------------------|
| | | <u>2007</u> | <u>2006</u> |
| Cash | 0%-2% | 3% | 0% |
| Domestic Bonds | 12%-30% | 21% | 14% |
| Non-Investment Grade Bonds | 0%-15% | 0% | 8% |
| Non-US Bonds | 0%-10% | 0% | 5% |
| Domestic Equities | 24%-46% | 35% | 38% |
| Global & International Equities | 8%-22% | 19% | 16% |
| Alternative & Absolute Return | 5%-25% | 18% | 15% |
| Real Estate | 4%-10% | 4% | 4% |
| | | <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, nor intends to, make any contributions to the pension plans in fiscal 2008.

Estimated Future Benefit Payments

Projected benefit payments from the plans as of July 1, 2007 are estimated as follows (in thousands):

| <u>Year Ending</u> | <u>Pension Benefits</u> | | <u>Other Postretirement Benefits</u> | | |
|---------------------|-------------------------|----------------------|--------------------------------------|---------------------|------------|
| | <u>Qualified</u> | <u>Non-Qualified</u> | <u>Retiree Medical</u> | <u>Retiree Life</u> | <u>LTD</u> |
| 2008 | \$ 71,723 | \$ 1,664 | \$ 27,581 | \$ 1,147 | \$ 108 |
| 2009 | 66,113 | 1,658 | 26,718 | 1,177 | 108 |
| 2010 | 66,680 | 1,661 | 24,548 | 1,205 | 107 |
| 2011 | 67,397 | 2,330 | 24,815 | 1,231 | 106 |
| 2012 | 67,968 | 2,323 | 23,212 | 1,255 | 95 |
| 2013-2017 | 353,276 | 14,384 | 83,729 | 6,546 | 307 |

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 \$6.1 million in 2007, \$6.7 million in 2006 and \$5.7 million in 2005.

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% for fiscal years 2007 and 2006. Amounts are included in Accrued Employee Benefits in the Consolidated Balance Sheets.

Notes . . .

(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):

| | 2007 | | 2006 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term Debt - | | | | |
| 7.25% Notes Due 2007 | \$ 81,139 | \$ 83,124 | \$ 80,973 | \$ 83,672 |
| 8.875% Notes Due 2011 | \$ 267,909 | \$ 287,868 | \$ 267,351 | \$ 298,007 |
| Variable Term Notes Due 2008 | \$ 35,000 | \$ 35,000 | \$ 35,000 | \$ 35,000 |

(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 had a \$350 million revolving credit facility that was to expire in May 2009 used to finance seasonal working capital needs. On July 12, 2007, Briggs & Stratton entered into a \$500 million amended and restated multicurrency credit agreement. See further discussion in Note 19 of the Notes to Consolidated Financial Statements.

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 1, 2007 | |
|---|-----------------|-------------------|
| | Carrying Amount | Maximum Guarantee |
| 8.875% Senior Notes, due March 15, 2011 | \$ 267,909 | \$ 270,000 |
| Variable Rate Term Notes, due February 11, 2008 | \$ 35,000 | \$ 35,000 |
| 7.25% Senior Notes, due September 15, 2007 | \$ 81,139 | \$ 81,175 |
| Revolving Credit Facility, expiring May 2009 | \$ - | \$ 350,000 |

Notes . . .

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

| BALANCE SHEET: | Briggs & Stratton | Guarantor | Non-Guarantor | | |
|---------------------------------------|------------------------------|---------------------|----------------------|----------------------|---------------------|
| As of July 1, 2007 | Corporation | Subsidiaries | Subsidiaries | Eliminations | Consolidated |
| Current Assets | \$ 566,656 | \$ 833,255 | \$ 176,817 | \$ (580,935) | \$ 995,793 |
| Investment in Subsidiary | 793,747 | - | - | (793,747) | - |
| Noncurrent Assets | 418,213 | 438,506 | 34,656 | - | 891,375 |
| | <u>\$ 1,778,616</u> | <u>\$1,271,761</u> | <u>\$ 211,473</u> | <u>\$(1,374,682)</u> | <u>\$ 1,887,168</u> |
| Current Liabilities | \$ 443,188 | \$ 449,475 | \$ 140,043 | \$ (563,536) | \$ 469,170 |
| Long-Term Debt | 267,909 | - | - | - | 267,909 |
| Other Long-Term Obligations | 204,066 | 99,571 | 398 | - | 304,035 |
| Shareholders' Equity | 863,453 | 722,715 | 71,032 | (811,146) | 846,054 |
| | <u>\$ 1,778,616</u> | <u>\$1,271,761</u> | <u>\$ 211,473</u> | <u>\$(1,374,682)</u> | <u>\$ 1,887,168</u> |
| As of July 2, 2006 | | | | | |
| Current Assets | \$ 529,870 | \$ 693,450 | \$ 191,913 | \$ (391,645) | \$ 1,023,588 |
| Investment in Subsidiary | 794,317 | - | - | (794,317) | - |
| Noncurrent Assets | 451,150 | 442,853 | 18,545 | - | 912,548 |
| | <u>\$ 1,775,337</u> | <u>\$1,136,303</u> | <u>\$ 210,458</u> | <u>\$(1,185,962)</u> | <u>\$ 1,936,136</u> |
| Current Liabilities | \$ 247,291 | \$ 314,349 | \$ 137,325 | \$ (376,497) | \$ 322,468 |
| Long-Term Debt | 383,324 | - | - | - | 383,324 |
| Other Long-Term Obligations | 142,368 | 100,428 | 342 | - | 243,138 |
| Shareholders' Equity | 1,002,354 | 721,526 | 72,791 | (809,465) | 987,206 |
| | <u>\$ 1,775,337</u> | <u>\$1,136,303</u> | <u>\$ 210,458</u> | <u>\$(1,185,962)</u> | <u>\$ 1,936,136</u> |

Notes . . .

| STATEMENT OF EARNINGS: For the Fiscal Year Ended July 1, 2007 | Briggs & Stratton Corporation | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|--|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Net Sales | \$ 1,397,336 | \$ 861,835 | \$ 196,762 | \$ (298,700) | \$ 2,157,233 |
| Cost of Goods Sold | 1,175,437 | 782,465 | 163,635 | (294,524) | 1,827,013 |
| Impairment Charge | 33,900 | 7,907 | 1,281 | - | 43,088 |
| Gross Profit | 187,999 | 71,463 | 31,846 | (4,176) | 287,132 |
| Engineering, Selling, General and Administrative Expenses | 164,352 | 74,502 | 26,742 | - | 265,596 |
| Income (Loss) from Operations | 23,647 | (3,039) | 5,104 | (4,176) | 21,536 |
| Interest Expense | (45,877) | (122) | (284) | 2,592 | (43,691) |
| Other Income (Expense), Net | 12,352 | 3,143 | (948) | 289 | 14,836 |
| Income (Loss) Before Provision for Income Taxes . . | (9,878) | (18) | 3,872 | (1,295) | (7,319) |
| Provision (Credit) for Income Taxes | (10,076) | (318) | 1,226 | 1,703 | (7,465) |
| Net Income | \$ 198 | \$ 300 | \$ 2,646 | \$ (2,998) | \$ 146 |
| <u>For the Fiscal Year Ended July 2, 2006</u> | | | | | |
| 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 |
| <u>For the Fiscal Year Ended July 3, 2005</u> | | | | | |
| 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 (Loss) 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 |

Notes . . .

| STATEMENT OF CASH FLOWS: For the Fiscal Year Ended July 1, 2007 | Briggs & Stratton Corporation | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|--|-----------------------------------|---------------------------------------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net Income (Loss) | \$ 198 | \$ 300 | \$ 2,646 | \$ (2,998) | \$ 146 |
| Adjustments to Reconcile Net Income to Net Cash Provided by (Used by) Operating Activities: | | | | | |
| Depreciation and Amortization | 52,681 | 19,347 | 2,286 | - | 74,314 |
| Stock Compensation Expense | 8,484 | - | - | - | 8,484 |
| Impairment Items | 33,900 | 7,907 | 1,281 | - | 43,088 |
| Earnings of Unconsolidated Affiliates, Net of Dividends | (878) | (175) | (327) | 2,956 | 1,576 |
| (Gain) Loss on Disposition of Plant and Equipment | 2,783 | 75 | 81 | - | 2,939 |
| Provision for Deferred Income Taxes | (20,941) | (514) | (58) | - | (21,513) |
| Change in Operating Assets and Liabilities: | | | | | |
| (Increase) Decrease in Receivables | (108,828) | (46,758) | 4,970 | 96,644 | (53,972) |
| (Increase) Decrease in Inventories | 26,367 | (21,983) | 1,097 | 2,251 | 7,732 |
| (Increase) Decrease in Prepaid Expenses and Other Current Assets | 1,959 | 9,081 | 518 | - | 11,558 |
| Increase (Decrease) in Accounts Payable, Accrued Liabilities and Income Taxes | 20,829 | 88,184 | (1,094) | (91,501) | 16,418 |
| Change in Accrued/Prepaid Pension | 1,795 | 35 | - | - | 1,830 |
| Other, Net | (4,276) | (38) | (445) | (2) | (4,761) |
| Net Cash Provided by Operating Activities | <u>14,073</u> | <u>55,461</u> | <u>10,955</u> | <u>7,350</u> | <u>87,839</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Additions to Plant and Equipment | (28,446) | (22,038) | (17,516) | - | (68,000) |
| Proceeds Received on Disposition of Plant and Equipment | 487 | 52 | 60 | - | 599 |
| Cash Investment in Subsidiary | 8,619 | - | 181 | (8,800) | - |
| Net Cash Used by Investing Activities | <u>(19,340)</u> | <u>(21,986)</u> | <u>(17,275)</u> | <u>(8,800)</u> | <u>(67,401)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Net (Repayments) Borrowings on Loans and Notes Payable | 44,838 | (42,071) | 3,811 | (7,051) | (473) |
| Cash Dividends Paid | (43,870) | - | (1,201) | 1,201 | (43,870) |
| Capital Contributions Received | - | 382 | (7,682) | 7,300 | - |
| Stock Option Exercise Proceeds and Tax Benefits | 3,694 | - | - | - | 3,694 |
| Treasury Stock Repurchases | (48,232) | - | - | - | (48,232) |
| Net Cash Used by Financing Activities | <u>(43,570)</u> | <u>(41,689)</u> | <u>(5,072)</u> | <u>1,450</u> | <u>(88,881)</u> |
| EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | | | |
| | (1) | - | 2,822 | - | 2,821 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | | | | |
| | (48,838) | (8,214) | (8,570) | - | (65,622) |
| Cash and Cash Equivalents, Beginning of Year | 57,623 | 6,812 | 30,656 | - | 95,091 |
| Cash and Cash Equivalents, End of Year | <u>\$ 8,785</u> | <u>\$ (1,402)</u> | <u>\$ 22,086</u> | <u>\$ -</u> | <u>\$ 29,469</u> |

Notes . . .

| STATEMENT OF CASH FLOWS: For the Fiscal Year Ended July 2, 2006 | Briggs & Stratton Corporation | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|----------------------------------|---------------------------|-------------------------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| 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 |
| Stock Compensation Expense | 9,999 | - | - | - | 9,999 |
| 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) |
| Provision for Deferred Income Taxes | (11,477) | 266 | 773 | - | (10,438) |
| Change in Operating Assets and Liabilities: | | | | | |
| (Increase) Decrease 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) |
| (Increase) Decrease in Prepaid Expenses and Other Current Assets | 3,161 | (15,675) | 212 | - | (12,302) |
| Increase (Decrease) 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 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| 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) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| 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) |
| EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | | | |
| | - | - | 2,498 | - | 2,498 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | | | | |
| | (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 Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|----------------------------------|---------------------------|-------------------------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| 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 |
| Stock Compensation Expense | 1,268 | - | - | - | 1,268 |
| 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 |
| 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 |
| Increase (Decrease) 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 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| 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) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| 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) | - |
| Stock Option Exercise Proceeds and Tax Benefits . | 20,139 | - | - | - | 20,139 |
| Net Cash Provided by Financing Activities | 234,438 | 229,159 | 38,673 | (395,805) | 106,465 |
| EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | | | |
| | - | - | 835 | - | 835 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | | | | |
| | (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 . . .

(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. No reserve remained as of the year ended July 1, 2007.

(18) Impairment and Disposal Charges

Impairment charges were recognized in the Consolidated Statements of Earnings for \$43.1 million pretax (\$26.2 million after tax) during fiscal 2007, of which \$33.9 and \$9.2 million were recognized in the Engines and Power Products Segments, respectively. The Engines Segment \$33.9 million charge was primarily for the write-down of assets of the Rolla, Missouri (Rolla) engine manufacturing facility that will be closing in fiscal 2008. The \$9.2 million recognized in the Power Products Segment primarily relates to the closure of the Port Washington, Wisconsin production facility expected to be completed in the second quarter of fiscal 2009. For each segment, it was determined that the carrying value of the assets exceeded the undiscounted cash flows. The impairment was computed as the difference between estimated fair value and the carrying value of the assets. Fair value was determined based on market prices for comparable assets.

Additionally, a liability was recorded within costs of goods sold to accrue for severance payments to be paid to the employees of the Rolla facility upon its close. Accrued severance at July 1, 2007 was approximately \$1.1 million. Severance payments are contingent upon an employee working through the scheduled end date, and will continue to accrue until the plant closes.

(19) Subsequent Events

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 has a term of five years and all outstanding borrowings on the Revolver will be due and payable on July 12, 2012. The Revolver contains covenants that the Company considers usual and customary for an agreement of this type, including a Maximum Total Leverage Ratio and Minimum Interest Coverage Ratio, but does not contain a Minimum Net Worth Covenant. Certain of the Company's subsidiaries are required to be guarantors of the Company's obligations under the Revolver. 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.