BRIGGS & STRATTON CORP
Form 10-Q
February 07, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 30, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 1-1370

BRIGGS & STRATTON CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin	**39-0182330**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

12301 West Wirth Street, Wauwatosa, Wisconsin 53222

(Address of Principal Executive Offices) (Zip Code)

414/259-5333

(Registrant s telephone number, including area code)

Yes x No ¨ Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Yes ¨ No x Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at February 1, 2008**
COMMON STOCK, par value $0.01 per share	49,704,781 Shares

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

INDEX

	Page No.
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Condensed Balance Sheets December 30, 2007 and July 1, 2007	3
Consolidated Condensed Statements of Income Three and Six Months Ended December 30, 2007 and December 31, 2006	5
Consolidated Condensed Statements of Cash Flows Six Months Ended December 30, 2007 and December 31, 2006	6
Notes to Consolidated Condensed Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	26
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 6. Exhibits	27
Signatures	28
Exhibit Index	29

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands)

(Unaudited)

ASSETS

	December 30, 2007	As Adjusted July 1, 2007
CURRENT ASSETS:		
Cash and cash equivalents	$ 48,921	$ 29,469
Accounts receivable, net	342,410	327,475
Inventories -		
Finished products and parts	422,053	345,763
Work in process	205,966	199,215
Raw materials	8,262	7,804
Total inventories	636,281	552,782
Deferred income tax asset	52,695	55,520
Prepaid expenses and other current assets	38,726	30,547
Total current assets	1,119,033	995,793
OTHER ASSETS:		
Goodwill	250,107	250,107
Prepaid pension	105,032	103,247
Investments	18,170	47,326
Deferred loan costs, net	3,748	3,135
Other intangible assets, net	91,621	92,556
Other long-term assets, net	6,921	6,686
Total other assets	475,599	503,057
PLANT AND EQUIPMENT:		
Cost	1,008,428	1,006,402
Less-accumulated depreciation	614,959	618,084
Total plant and equipment, net	393,469	388,318
TOTAL ASSETS	$ 1,988,101	$ 1,887,168

The accompanying notes are an integral part of these statements.

3

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS (Continued)

(In thousands, except per share data)

(Unaudited)

LIABILITIES & SHAREHOLDERS INVESTMENT

	December 30, 2007	As Adjusted July 1, 2007
CURRENT LIABILITIES:		
Accounts payable	$ 130,105	$ 179,476
Accrued liabilities	172,857	170,555
Current maturity on long-term debt		116,139
Short-term debt	281,059	3,000
Total current liabilities	584,021	469,170
OTHER LIABILITIES:		
Long-term debt	266,197	267,909
Deferred income tax liability	38,942	37,300
Accrued pension cost	40,176	39,438
Accrued employee benefits	20,293	20,072
Accrued postretirement health care obligation	185,997	186,868
Other long-term liabilities	36,307	20,357
Total other liabilities	587,912	571,944
SHAREHOLDERS INVESTMENT:		
Common stock - Authorized 120,000 shares, $.01 par value, issued 57,854 shares	579	579
Additional paid-in capital	75,521	73,149
Retained earnings	1,074,296	1,115,114
Accumulated other comprehensive loss	(122,349)	(128,951)
Treasury stock at cost, 8,148 and 8,222 shares, respectively	(211,879)	(213,837)
Total shareholders investment	816,168	846,054
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 1,988,101	$ 1,887,168

The accompanying notes are an integral part of these statements.

4

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 30, 2007	As Adjusted December 31, 2006	December 30, 2007	As Adjusted December 31, 2006
NET SALES	$ 478,837	$ 423,059	$ 845,506	$ 761,308
COST OF GOODS SOLD	432,220	353,779	755,445	645,749
Gross profit on sales	46,617	69,280	90,061	115,559
ENGINEERING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	66,430	64,214	130,570	129,896
Income (Loss) from operations	(19,813)	5,066	(40,509)	(14,337)
INTEREST EXPENSE	(10,610)	(11,829)	(19,583)	(20,866)
OTHER INCOME, net	37,995	921	38,017	4,378
Income (Loss) before provision (credit) for income taxes	7,572	(5,842)	(22,075)	(30,825)
PROVISION (CREDIT) FOR INCOME TAXES	2,134	(1,490)	(7,060)	(9,995)
NET INCOME (LOSS)	$ 5,438	$ (4,352)	$ (15,015)	$ (20,830)
EARNINGS PER SHARE DATA -				
Average shares outstanding	49,536	50,583	49,543	49,983
Basic earnings (loss) per share	$ 0.11	$ (0.09)	$ (0.30)	$ (0.42)
Diluted average shares outstanding	49,637	50,583	49,543	49,983
Diluted earnings (loss) per share	$ 0.11	$ (0.09)	$ (0.30)	$ (0.42)
CASH DIVIDENDS PER SHARE	$ 0.22	$ 0.22	$ 0.44	$ 0.44

The accompanying notes are an integral part of these statements.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	December 30, 2007	As Adjusted December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (15,015)	$ (20,830)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	34,930	36,410
Stock compensation expense	3,261	4,896
Earnings of unconsolidated affiliates, net of dividends	955	2,082
Loss (Gain) on disposition of plant and equipment	(404)	174
Gain on sale of investment	(36,960)	
Provision (Credit) for deferred income taxes	465	(2,735)
Change in operating assets and liabilities:		
Increase in accounts receivable	(14,933)	(32,971)
Increase in inventories	(83,498)	(215,389)
Decrease in prepaid expenses and other current assets	8,797	10,515
Decrease in accounts payable, accrued liabilities, and income taxes	(52,329)	(13,231)
Decrease in accrued/prepaid pension	(1,129)	(2,925)
Other, net	(6,783)	(7,189)
Net cash used in operating activities	(162,643)	(241,193)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to plant and equipment	(34,177)	(29,866)
Proceeds received on sale of plant and equipment	523	442
Proceeds received on sale of investment	66,011	
Other, net	(503)	
Net cash provided by (used in) investing activities	31,854	(29,424)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on loans and notes payable	159,920	270,040
Issuance cost of amended revolver	(1,286)	
Dividends paid	(10,901)	(11,267)
Stock option proceeds and tax benefits	991	750
Treasury stock purchases		(48,232)
Net cash provided by financing activities	148,724	211,291
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,517	828
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,452	(58,498)
CASH AND CASH EQUIVALENTS, beginning	29,469	95,091

CASH AND CASH EQUIVALENTS, ending	$	48,921	$	36,593
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid	$	20,952	$	18,745
Income taxes paid	$	2,798	$	1,320

The accompanying notes are an integral part of these statements.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

General Information

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. However, in the opinion of Briggs & Stratton Corporation (the Company), adequate disclosures have been presented to prevent the information from being misleading, and all adjustments necessary to present fair statements of the results of operations and financial position have been included. All of these adjustments are of a normal recurring nature. These consolidated condensed financial statements should be read in conjunction with the financial statements and the notes thereto which were included in our latest Annual Report on Form 10-K.

Change in Accounting Principle

Effective July 2, 2007, the Company has changed the method it uses to compute the market-related value of the assets within its qualified defined benefit pension plan. The market-related value of pension assets (MRVA) is used to calculate the expected return on plan assets. Previously, the Company computed the market-related value of plan assets by adding actual dividends and interest to the MRVA balance and amortizing unrealized and realized gains and losses on assets on a straight line basis over five years. Under the new method, the expected return on plan assets will be added to the MRVA balance and any differences between the expected and actual returns on plan assets will be deferred and amortized on a straight line basis over five years. The Company believes that the former and new methods of computing the market-related value of plan assets both recognize changes in fair value in a systematic and rational manner. However, the Company believes that the new method is preferable because the new method has the effect of deferring less investment gains and losses during periods of volatile investment markets and therefore more closely approximates the fair market value of the plan assets. The Company recorded pension income of $1.8 million (pre-tax) and $2.5 million (pre-tax) in the three and six months ended December 30, 2007, respectively. Generally accepted accounting principles require that the impact of this change in accounting be applied retrospectively to all periods presented. As a result, all prior period financial statements have been adjusted to give effect to the cumulative impact of this change. The adjusted three and six months ended December 31, 2006 now reflect pension income of $0.7 million (pre-tax) and $1.3 million (pre-tax), respectively. The following financial statement items for fiscal 2007 were affected by this change in accounting principle:

Consolidated Condensed Balance Sheet:

	July 1, 2007		
	As Reported	Adjustment	As Adjusted
Retained earnings	1,042,673	72,441	1,115,114
Accumulated other comprehensive loss	(56,510)	(72,441)	(128,951)

Consolidated Condensed Statements of Income:

	Three months ended December 31, 2006		
	As Reported	Adjustment	As Adjusted
Cost of goods sold	355,695	(1,916)	353,779
Gross profit on sales	67,364	1,916	69,280
Engineering, selling, general and administrative expenses	64,853	(639)	64,214
Income from operations	2,511	2,555	5,066
Loss before credit for income taxes	(8,397)	2,555	(5,842)
Credit for income taxes	(2,487)	997	(1,490)
Net loss	(5,910)	1,558	(4,352)
Basic loss per share	(0.12)	0.03	(0.09)
Diluted loss per share	(0.12)	0.03	(0.09)

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

	Six months ended December 31, 2006		
	As Reported	**Adjustment**	**As Adjusted**
Cost of goods sold	649,582	(3,833)	645,749
Gross profit on sales	111,726	3,833	115,559
Engineering, selling, general and administrative expenses	131,174	(1,278)	129,896
Loss from operations	(19,448)	5,111	(14,337)
Loss before credit for income taxes	(35,936)	5,111	(30,825)
Credit for income taxes	(11,988)	1,993	(9,995)
Net loss	(23,948)	3,118	(20,830)
Basic loss per share	(0.48)	0.06	(0.42)
Diluted loss per share	(0.48)	0.06	(0.42)

Consolidated Condensed Statement of Cash Flows:

	Six months ended December 31, 2006		
	As Reported	**Adjustment**	**As Adjusted**
Net loss	(23,948)	3,118	(20,830)
Provision for deferred income taxes	(4,728)	1,993	(2,735)
Other, net	(2,078)	(5,111)	(7,189)

Common Stock

The Company did not repurchase any common shares during the first or second quarters of fiscal 2008. The Company repurchased 1,733,200 common shares at a total cost of $48.2 million during the first quarter of fiscal 2007, and did not repurchase any common shares during the second quarter of fiscal 2007.

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.

Shares outstanding used to compute diluted earnings per share for the three months ended December 30, 2007 excluded outstanding options to purchase approximately 3,885,000 of common stock because the options exercise price was greater than the average market price of the common shares. Shares outstanding used to compute diluted earnings per share for the six months ended December 30, 2007 excluded approximately 180,000 shares for restricted and deferred stock and outstanding options to purchase

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

approximately 567,000 shares of common stock as their inclusion would have been anti-dilutive. Additionally, outstanding options to purchase approximately 3,179,000 shares of common stock were excluded from the diluted earnings per share for the six months ended December 30, 2007 because the options exercise price was greater than the average market price of the common shares.

Shares outstanding used to compute diluted earnings per share for the three months ended December 31, 2006 excluded approximately 147,000 shares for restricted and deferred stock and outstanding options to purchase approximately 721,000 shares of common stock as their inclusion would have been anti-dilutive. Additionally, outstanding options to purchase approximately 2,722,000 shares of common stock were excluded from the diluted earnings per share for the three months ended December 31, 2006 because the options exercise price was greater than the average market price of the common shares. Shares outstanding used to compute diluted earnings per share for the six months ended December 31, 2006 excluded approximately 144,000 shares for restricted and deferred stock and outstanding options to purchase approximately 721,000 shares of common stock as their inclusion would have been anti-dilutive. Additionally, outstanding options to purchase approximately 2,596,000 shares of common stock were excluded from the diluted earnings per share for the six months ended December 31, 2006 because the options exercise price was greater than the average market price of the common shares.

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

	Three Months Ended		Six Months Ended	
	December 30, 2007	As Adjusted December 31, 2006	December 30, 2007	As Adjusted December 31, 2006
Net income (loss)	$ 5,438	$ (4,352)	$ (15,015)	$ (20,830)
Average shares of common stock outstanding	49,536	50,583	49,543	49,983
Incremental common shares applicable to restricted and deferred common stock based on the common stock average market price during the period	101			
Diluted average shares of common stock outstanding	49,637	50,583	49,543	49,983

Comprehensive Income

Comprehensive income is a more inclusive financial reporting method that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Comprehensive income is defined as net income and other changes in shareholders investment from transactions and events other than with shareholders. Total comprehensive income (loss) is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 30, 2007	As Adjusted December 31, 2006	December 30, 2007	As Adjusted December 31, 2006
Net income (loss)	$ 5,438	$ (4,352)	$ (15,015)	$ (20,830)
Cumulative translation adjustments	2,321	1,057	4,096	1,518
Unrealized gain (loss) on derivative instruments	974	(1,586)	(530)	(2,776)
Amortization of net actuarial loss and prior service cost	1,518		3,036	
Total comprehensive income (loss)	$ 10,251	$ (4,881)	$ (8,413)	$ (22,088)

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

The components of Accumulated Other Comprehensive Loss are as follows (in thousands):

	December 30, 2007	As Adjusted July 1, 2007
Cumulative translation adjustments	$ 15,895	$ 11,799
Unrealized loss on derivative instruments	(1,631)	(1,101)
Pension and postretirement plans	(136,613)	(139,649)
Accumulated other comprehensive loss	$ (122,349)	$ (128,951)

Derivatives

Derivatives are recorded on the balance sheet as assets or liabilities, measured at fair value. The Company 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 Condensed Statements of Income or as a component of Accumulated Other Comprehensive Loss. The amounts included in Accumulated Other Comprehensive Loss will be reclassified into income when the forecasted transactions occur. These forecasted transactions represent the exporting of products for which the Company 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 Condensed Statements of Income.

The Company 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, the Company hedges approximately 50-80% of its anticipated monthly natural gas usage along with a pool of other companies. The Company 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 the Company in the period. The fair value of 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 Loss, which are reclassified into the Consolidated Condensed Statements of Income as the monthly cash settlements occur and actual natural gas is consumed.

The Company 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. The Company 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 Condensed Balance Sheet based on NYMEX prices. Changes in fair value are reflected as a Component of Accumulated Other Comprehensive Loss

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

if the forward purchase contracts are deemed to be effective and are reclassified into the Consolidated Condensed Statements of Income when sales of inventory are made. Changes in the fair value of any derivative deemed to be ineffective would be immediately recorded as either income or expense in the accompanying Consolidated Condensed Statements of Income.

Segment Information

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

	Three Months Ended		Six Months Ended	
	December 30, 2007	As Adjusted December 31, 2006	December 30, 2007	As Adjusted December 31, 2006
NET SALES:				
Engines	$ 315,537	$ 279,018	$ 523,953	$ 468,614
Power Products	196,995	170,406	383,986	357,293
Inter-Segment Eliminations	(33,695)	(26,365)	(62,433)	(64,599)
Total *	$ 478,837	$ 423,059	$ 845,506	$ 761,308
* Includes sales originating in foreign countries of	$ 52,551	$ 47,204	$ 98,396	$ 93,189
GROSS PROFIT ON SALES:				
Engines	$ 43,421	$ 55,344	$ 78,675	$ 81,960
Power Products	2,536	13,477	10,561	33,730
Inter-Segment Eliminations	660	459	825	(131)
Total	$ 46,617	$ 69,280	$ 90,061	$ 115,559
INCOME (LOSS) FROM OPERATIONS:				
Engines	$ (4,857)	$ 8,585	$ (15,085)	$ (12,981)
Power Products	(15,616)	(3,978)	(26,249)	(1,225)
Inter-Segment Eliminations	660	459	825	(131)
Total	$ (19,813)	$ 5,066	$ (40,509)	$ (14,337)

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. In the second quarter of fiscal 2008, the Company incurred $17.7 million of expenses to accrue for current and future warranty claims related to a snow thrower engine recall. The snow thrower engines were recalled due to a potential risk of fire. The amounts accrued were to repair the units to reduce or eliminate the potential fire hazard. As of December 30, 2007, the balance sheet includes $7.7 million of reserves for this specific engine warranty matter. Product liability reserves totaling less than $50,000 have been reserved for product liability matters related to this recall as the Company has had minimal product liability claims asserted for nominal amounts related to the snow engine recall. The following is a reconciliation of the changes in accrued warranty costs for the reporting period (in thousands):

Six Months Ended

	December 30, 2007	December 31, 2006
Beginning balance	$ 54,566	$ 53,233
Payments	(32,335)	(17,518)
Provision for current year warranties	31,952	16,756
Adjustment to prior years warranties	(2,846)	(2,900)
Ending balance	$ 51,337	$ 49,571

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

Stock Incentives

Stock based compensation is calculated by estimating the fair value of incentive stock awards granted and amortizing the estimated value over the awards vesting period. Stock based compensation expense was $0.6 million and $3.3 million for the quarter and six months ended December 30, 2007. For the quarter and six months ended December 31, 2006, stock based compensation expense was $2.1 million and $4.9 million, respectively.

Pension and Postretirement Benefits

The Company has noncontributory, defined benefit retirement plans and postretirement plans covering certain employees. The following tables summarize the plans income and expense for the periods indicated (in thousands):

	Pension Benefits Three Months Ended		Other Postretirement Benefits Three Months Ended	
	December 30, 2007	As Adjusted December 31, 2006	December 30, 2007	December 31, 2006
Components of net periodic (income) expense:				
Service cost-benefits earned	$ 2,406	$ 3,272	$ 471	$ 606
Interest cost on projected benefit obligation	15,049	14,484	3,475	3,981
Expected return on plan assets	(20,293)	(19,562)		
Amortization of:				
Transition obligation	2	2	11	12
Prior service cost	823	823	(213)	(213)
Actuarial loss	1,543	1,243	2,682	3,560
Net periodic (income) expense	$ (470)	$ 262	$ 6,426	$ 7,946

	Pension Benefits Six Months Ended		Other Postretirement Benefits Six Months Ended	
	December 30, 2007	As Adjusted December 31, 2006	December 30, 2007	December 31, 2006
Components of net periodic (income) expense:				
Service cost-benefits earned	$ 6,029	$ 6,545	$ 943	$ 1,212
Interest cost on projected benefit obligation	30,163	28,969	6,950	7,962
Expected return on plan assets	(40,672)	(39,125)		
Amortization of:				
Transition obligation	4	4	21	24
Prior service cost	1,645	1,645	(426)	(426)
Actuarial loss	2,684	2,487	5,364	7,120
Net periodic (income) expense	$ (147)	$ 525	$ 12,852	$ 15,892

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

The Company is not required to, nor has or intends to, make any contributions to the pension plans in fiscal 2008. The Company was not required to make any contributions to the pension plans in fiscal 2007, but did contribute $8.0 million during the six months ended December 31, 2006.

The Company expects to make benefit payments of approximately $1.8 million attributable to its non-qualified pension plans during fiscal 2008. During the six months ended December 30, 2007, the Company made payments of approximately $0.7 million for its non-qualified pension plans. The Company anticipates making benefit payments of approximately $30.6 million for its other postretirement benefit plans during fiscal 2008. During the six months ended December 30, 2007, the Company had made payments of approximately $15.5 million for its other postretirement benefit plans.

New Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, Business Combinations (SFAS 141R). SFAS 141R states that all business combinations (whether full, partial or step acquisitions) will result in all assets and liabilities of an acquired business being recorded at their fair values. Certain forms of contingent consideration and certain acquired contingencies will be recorded at fair value at the acquisition date. SFAS 141R also states acquisition costs will generally be expensed as incurred and restructuring costs will be expensed in periods after the acquisition date. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of SFAS 141R on its consolidated financial position.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests (NCI) and classified as a component of equity. This new consolidation method will significantly change the accounting for transactions with minority interest holders. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of SFAS 160 on its consolidated financial position.

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. The Company adopted the SFAS 158 in the fourth quarter of fiscal 2007.

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48) on July 2, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The cumulative effect of adopting FIN 48 was an increase of $4 million in tax reserves and a decrease of $4 million to the July 2, 2007 retained earnings balance.

As of July 2, 2007, the Company had $23 million of gross unrecognized tax benefits. Of this amount, $15 million represents the portion that, if recognized, would impact the effective tax rate. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of July 2, 2007, the Company had $6 million accrued for interest and penalties. We do not anticipate that there will be a significant change in the amount of unrecognized tax benefits in the next twelve months.

The Company files income tax returns in the U.S. federal and various state and foreign jurisdictions. In the U.S., the Company is no longer subject to U.S. federal income tax examinations by tax authorities before 2004 and is currently under examination by the IRS for taxable years ending in 2004 and 2005. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities before 1997.

Commitments and Contingencies

The Company is subject to various unresolved legal actions that arise in the normal course of its business. These actions typically relate to product liability (including asbestos-related liability), patent and trademark matters, and disputes with customers, suppliers, distributors and dealers, competitors and employees.

On June 3, 2004, eight individuals who claim to have purchased lawnmowers in Illinois and Minnesota filed a lawsuit (Ronnie Phillips et al. v. Sears Roebuck Corporation et al., No. 04-L-334 (20th Judicial Circuit, St. Clair County, IL)) against the Company and other defendants alleging that the horsepower labels on the products they purchased were inaccurate. The plaintiffs amended their complaint several times and were seeking 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 re-file 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, the Company believes these unresolved legal actions will not have a material effect on its financial position.

Impairment and Disposal Charges

During fiscal 2007, 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

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

(Rolla) engine manufacturing facility that closed in the second quarter of fiscal 2008. A decision was made to close the Rolla facility as a result of our analysis to reduce our fixed manufacturing costs by consolidating production into our other existing engine plants in Poplar Bluff, MO and Chongqing, China. The $9.2 million recognized in the Power Products Segment primarily relates to the closure of the Port Washington, WI production facility expected to be completed in the second quarter of fiscal 2009. Management of the Company conducted an analysis of our manufacturing facilities that had been acquired through acquisitions over the past several years. Management concluded to consolidate the lawn and garden manufacturing facilities into three focused factories. A new factory in Newbern, TN, located near our high volume lawnmower engine plants, will build walk behind lawnmowers for the consumer market. An existing factory in McDonough, GA will build riding lawnmowers for the consumer market. A third factory in Munnsville, NY will build commercial riding lawnmowers and zero turn lawnmowers. The production from Port Washington, WI will primarily move to the McDonough, GA facility. For each segment, it was determined that the carrying value of the assets exceeded the undiscounted future cash flows. The impairment was computed as the difference between the estimated fair value and the carrying value of the assets. Fair value was determined based on market prices for comparable assets. The Rolla facility ceased manufacturing operations during the second quarter of fiscal 2008 and the impaired machinery and equipment no longer used in production was sold in an auction or scrapped in December 2007.

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, all of which was recorded in the fourth quarter of fiscal 2007. Another approximately $1.4 million was accrued in the first six months of fiscal 2008 and approximately $1.8 million was paid in the first six months of fiscal 2008, resulting in a total accrual of approximately $0.7 million at December 30, 2007. Severance payments are contingent upon an employee working through the scheduled end dates.

Sale of Investment

During the second quarter of fiscal 2008, the Company and Metal Technologies Holding Company, Inc. (MTHC) entered into a Class B Preferred Share Redemption Agreement that provided for MTHC to pay all dividends in arrears on the 45,000 MTHC Class B preferred shares held by the Company and redeem the shares in exchange for a payment to the Company. The shares were received as part of the payment from MTHC when it acquired certain foundry operations of the Company in 1999. The Company received $66.0 million, resulting in a $37.0 million gain ($25.0 million after tax) on this sale of preferred stock and final dividend payment.

Financial Information of Subsidiary Guarantor of Indebtedness

In June 1997, the Company 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, the Company had a $350 million revolving credit facility used to finance seasonal working capital needs 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 used the proceeds of the Revolver to, among other things, pay off the remaining amount outstanding under the Company s variable rate term notes issued in February 2005 and retire the 7.25% senior notes that were due in September 2007. The Revolver has a term of five years and all outstanding borrowings on the Revolver are 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. Certain of the Company s subsidiaries are required to be guarantors of the Company s obligations under the Revolver.

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

Under the terms of the Company s 8.875% senior notes and the Revolver (collectively, the Domestic Indebtedness), Briggs & Stratton Power Products Group, LLC 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 the Company 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 the Company 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. The Company had the following outstanding amounts related to the guaranteed debt (in thousands):

	December 30, 2007 Carrying Amount	Maximum Guarantee
8.875% Senior Notes, due March 15, 2011	$ 266,197	$ 268,000
Revolving Credit Facility, expiring July 12, 2012	$ 276,965	$ 500,000

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

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

BALANCE SHEET

As of December 30, 2007

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets	$ 712,580	$ 730,478	$ 191,361	$ (515,386)	$ 1,119,033
Investment in subsidiaries	820,495			(820,495)	
Non-current assets	384,583	447,598	36,887		869,068
	$ 1,917,658	$ 1,178,076	$ 228,248	$ (1,335,881)	$ 1,988,101
Current liabilities	$ 600,780	$ 337,667	$ 147,177	$ (501,603)	$ 584,021
Long-term debt	266,197				266,197
Other long-term obligations	220,731	100,615	369		321,715
Shareholders investment	829,950	739,794	80,702	(834,278)	816,168
	$ 1,917,658	$ 1,178,076	$ 228,248	$ (1,335,881)	$ 1,988,101

BALANCE SHEET

As of July 1, 2007

As Adjusted

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets	$ 566,656	$ 833,255	$ 176,817	$ (580,935)	$ 995,793
Investment in subsidiaries	793,747			(793,747)	
Non-current assets	418,213	438,506	34,656		891,375
	$ 1,778,616	$ 1,271,761	$ 211,473	$ (1,374,682)	$ 1,887,168
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 investment	863,453	722,715	71,032	(811,146)	846,054
	$ 1,778,616	$ 1,271,761	$ 211,473	$ (1,374,682)	$ 1,887,168

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

STATEMENT OF INCOME

For the Three Months Ended December 30, 2007

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 302,053	$ 189,015	$ 52,551	$ (64,782)	$ 478,837
Cost of goods sold	264,339	188,623	43,143	(63,885)	432,220
Gross profit	37,714	392	9,408	(897)	46,617
Engineering, selling, general and administrative expenses	40,715	18,710	7,005		66,430
Income (loss) from operations	(3,001)	(18,318)	2,403	(897)	(19,813)
Interest expense	(10,465)	(38)	(107)		(10,610)
Other income (expense), net	20,347	789	(122)	16,981	37,995
Income (loss) before income taxes	6,881	(17,567)	2,174	16,084	7,572
Provision (credit) for income taxes	7,198	(6,179)	1,115		2,134
Net income (loss)	$ (317)	$ (11,388)	$ 1,059	$ 16,084	$ 5,438

STATEMENT OF INCOME

For the Six Months Ended December 30, 2007

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 498,919	$ 366,669	$ 98,396	$ (118,478)	$ 845,506
Cost of goods sold	433,743	360,784	80,038	(119,120)	755,445
Gross profit	65,176	5,885	18,358	642	90,061
Engineering, selling, general and administrative expenses	77,928	37,142	15,500		130,570
Income (loss) from operations	(12,752)	(31,257)	2,858	642	(40,509)
Interest expense	(19,309)	(110)	(164)		(19,583)
Other income (expense), net	6,801	1,694	(735)	30,257	38,017
Income (loss) before income taxes	(25,260)	(29,673)	1,959	30,899	(22,075)
Provision (credit) for income taxes	1,662	(10,198)	1,476		(7,060)
Net income (loss)	$ (26,922)	$ (19,475)	$ 483	$ 30,899	$ (15,015)

Table of Contents

BRIGGS & STRATTON CORPORATION AND SUBSIDIARIES

STATEMENT OF INCOME

For the Three Months Ended December 31, 2006

As Adjusted

	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$ 270,431	$ 166,225	$ 47,204	$ (60,801)	$ 423,059
Cost of goods sold	221,857	154,134	37,775	(59,987)	353,779
Gross profit	48,574	12,091	9,429	(814)	69,280
Engineering, selling, general and administrative expenses	39,677	16,710	7,827		64,214
Income (loss) from operations	8,897	(4,619)	1,602	(814)	5,066
Interest expense	(12,587)	(32)	(63)	853	(11,829)
Other income (expense), net	(1,531)	1,206	(165)	1,411	921
Income (loss) before income taxes	(5,221)	(3,445)	1,374	1,450	(5,842)
Provision (credit) for income taxes	(1,296)	(939)	318	427	(1,490)
Net income (loss)	$ (3,925)	$ (2,506			