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

Results of Operations

FISCAL 2003 COMPARED TO FISCAL 2002

Net Sales

Fiscal 2003 consolidated net sales were approximately $1.7 billion, an increase of $128 million, or 8% compared to the previous year. Power Products sales increased $105 million, accounting for the majority of the increase. Generator sales increased $54 million to $152 million, up from $98 million in 2002. These increased sales were due to both an increase in weather events that created demand and increased cooperative promotional activities. Pressure washer sales increased $49 million to $164 million, up from $115 million in fiscal 2002. Pressure washer sales were driven by strong promotional campaigns that increased demand at key retailers. The remainder of the consolidated sales increase was attributable to the Engine segment. Improved engine unit volume resulted in a $28 million sales increase and greater volume in component parts and international service sales provided another $22 million sales increase. The remainder of the increase was primarily price improvement on international sales, as a result of a stronger Euro. Offsetting the Engine segment improvements were $46 million of increased sales to the Power Products segment that were eliminated in consolidation. Engine segment volume improvements were driven by market growth.

Gross Profit

Consolidated gross profit increased $58 million over the previous year. Volume increases generated $23 million of the improvement, with approximately $13 million from volume increases in the Engine segment and the remainder from the Power Products segment volume. The remaining $35 million of gross margin increases came from improvements in gross margin percentages in both business segments. Engines improved from 18% to 20% and Power Products improved from 10% to 12%. The gross margin percentage change in Engines resulted in approximately $28 million of improvement to gross margins between years. Pricing improvement, primarily due to the impact on European sales of a stronger Euro, contributed $12 million to the improvement and net reductions in manufacturing costs and an 11% increase in production volume each provided another $8 million of gross margin improvement. The Power Products gross margin percentage increase of 2% resulted in approximately $7 million of improved gross margin. A 59% production volume increase was the primary driver of the improvement.

Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs increased $24 million or 16% compared to fiscal 2002. Increases in this category include salaries and fringe benefit cost increases of approximately $13 million, marketing cost increases of $6 million and international variable selling cost increases of $4 million. The increases in salaries and fringe benefits reflect increased incentive compensation awards in the current year, as well as increased employee benefit costs, essentially pension and health care. Increased marketing costs were driven by increased spending on Power Products market expansion and international marketing efforts.

Interest Expense

Interest Expense decreased $4 million in fiscal 2003 compared to fiscal 2002. The decrease is essentially the result of reduced working capital borrowings in the current year and the impact of a fixed to variable interest rate swap.

Other Income

Other income remained at $7 million in fiscal 2003, consistent with prior years. Refer to Note 8 of the Notes to Consolidated Financial Statements for detail as to the components of other income.

Provision for Income Taxes

The effective tax rate decreased from 34% in fiscal 2002 to 32% in fiscal 2003. This decrease is attributable to tax credits related to increased foreign sourced income.

FISCAL 2002 COMPARED TO FISCAL 2001

Net Sales

Fiscal 2002 net sales were approximately $1.5 billion, an increase of $223 million, or 17% compared to the previous year. Power Products included for a full fiscal year for the first time, added $188 million in sales this fiscal year. Our engine unit volume increase of 8%, offset by an unfavorable sales mix weighted towards lower priced engines, accounts for the majority of the remaining increase.

Gross Profit

The total Company gross profit rate of approximately 18% was comparable with fiscal 2001. The Engine segment gross profit rate remained approximately 18% in fiscal 2002. Reductions in manufacturing

costs of $25 million (primarily, repairs and maintenance, processing supplies, utilities and warranty) were offset by $17 million of increased costs (primarily, fringe benefits which included rising health care costs). Power Products margins were approximately 10% for fiscal 2002, similar to their results for the 12 months ended June, 2001.

Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs increased $16 million or 12% compared to fiscal 2001. The increase is entirely attributable to the inclusion of $18 million of Power Products engineering, selling, general, and administrative costs for a full year. The Engine segment engineering, selling, general and administrative cost category experienced increased salaries and fringe benefit expenses of approximately $8 million, but these increases were offset by a $6 million impact of lower bad debt write-off experience and a bad debt recovery, and $3 million of lower marketing expenses.

Interest Expense

Interest expense increased $14 million in fiscal 2002 compared to fiscal 2001, essentially the impact of increased borrowings associated with the Power Products acquisition.

Other Income

Other income was $7 million in fiscal 2002, consistent with fiscal 2001. Refer to Note 8 of the Notes to Consolidated Financial Statements for detail as to the components of other income.

Provision for Income Taxes

The effective tax rate increased to 34% in fiscal 2002 from 33%. Both effective rates reflect a refund on Foreign Sales Corporation tax benefits, however, the fiscal 2001 refund was larger.

Liquidity and Capital Resources

FISCAL YEARS 2003, 2002 AND 2001

Cash flows from operating activities were $167 million, $200 million and $68 million, in fiscal 2003, 2002 and 2001, respectively.

The fiscal 2003 cash flow from operating activities was $33 million lower than the prior year. Fiscal 2003 did not experience the significant reduction in inventory investment experienced in fiscal 2002 which caused cash flows to be $134 million less between years. Inventories were exceptionally high at the beginning of fiscal 2002. Inventory balances were lower at the end of fiscal 2002 due to planned lower production. There was not a significant inventory change between fiscal 2003 and 2002. Offsetting this reduction in cash flow were improved cash flows related to increased earnings ($28 million), a lower accounts receivable increase between years ($51 million) and higher current liabilities ($20 million). Accounts receivable levels increased in fiscal 2002 because of strong fourth quarter sales versus the prior year. Sales strength in the fourth quarter was similar between fiscal 2003 and 2002 resulting in an accounts receivable balance that did not change significantly. Current liabilities, primarily accruals for profit sharing were greater between years because better performance in fiscal 2003 resulted in larger awards than the prior year.

The fiscal 2002 cash flow from operating activities increased $132 million, which was driven primarily by a reduction in inventory and an increase in accounts payable and accrued liabilities. The decrease in inventory levels was achieved through increased sales volume, while holding production levels consistent between years.

Cash used in investing activities was $27 million, $38 million and $318 million in fiscal 2003, 2002 and 2001, respectively. These cash flows include capital expenditures of $40 million, $44 million and $61 million in fiscal 2003, 2002 and 2001, respectively. These capital expenditures relate primarily to reinvestment in equipment, capacity additions and new products.

In fiscal 2003, Briggs & Stratton restructured and increased its investment in its China joint venture from 52% to 90%. This increase in ownership interest gave Briggs & Stratton control over the joint venture and accordingly its operating results are now reflected in Briggs & Stratton's consolidated financial statements. The actual cash outlay in fiscal 2003 for the restructuring was $343 thousand, however the consolidation resulted in an increase in cash of approximately $4 million.

The fiscal 2001 cash used in investing activities includes $267 million of cash paid for the BSPPG acquisition, net of cash acquired.

Briggs & Stratton used cash in financing activities totaling $37 million and $38 million in fiscal 2003 and 2002, respectively. Briggs & Stratton provided cash through financing activities in fiscal 2001 totaling $324 million. During fiscal 2003 the Company paid down $15 million of its short-term loans and notes payable. These loans were primarily used to fund the short-term working capital needs of Briggs & Stratton's foreign operations. Given the level of cash flows the last two fiscal years and the available cash on hand, Briggs & Stratton made the decision to pay off these borrowings and fund these operations with

available cash. During fiscal 2002 Briggs & Stratton repaid $10 million of its 7.25% Senior Notes due 2007. Financing activities in fiscal 2001 included $399 million of proceeds received from issuing the 5.00% Convertible Senior Notes due 2006 to replace an existing revolving line of credit and the 8.875% Senior Notes due 2011 to fund the acquisition of BSPPG. Briggs & Stratton also repurchased $6 million of its common shares in fiscal 2001. There were no shares repurchased in fiscal 2003 or 2002.

Future Liquidity and Capital Resources

Briggs & Stratton has a three-year $300 million revolving credit facility that expires in September 2004. This credit facility is used to fund seasonal working capital requirements and other financing needs. This facility and Briggs & Stratton's other indebtedness contain certain restrictive covenants as are fully disclosed in Note 7 of the Notes to Consolidated Financial Statements. Briggs & Stratton expects to begin renegotiating its revolving credit agreement late in fiscal 2004. At this time we do not foresee any difficulties in securing a comparable agreement in the future.

Briggs & Stratton expects capital expenditures to be $60 million in fiscal 2004. These anticipated expenditures reflect our plans to continue to reinvest in equipment, new products, and capacity enhancements.

It is currently Briggs & Stratton's plan to use its available cash in fiscal 2004 to reduce the Convertible Senior Notes due in 2006. Management believes that available cash, the credit facility, cash generated from future operations, existing lines of credit and access to debt markets will be adequate to fund Briggs & Stratton's capital requirements for the foreseeable future.

Financial Strategy

Management believes that the value of Briggs & Stratton is enhanced if the capital invested in operations yields a cash return that is greater than the cost of capital. Consequently, management's first priority is to reinvest capital into physical assets and products that maintain or grow the global cost leadership and market positions that Briggs & Stratton has achieved, and drive the economic value of the Company. Management's next financial objective is to identify strategic acquisitions or alliances that enhance revenues and provide a superior economic return. Several successful joint ventures and the acquisition of BSPPG are examples of our successful execution of this strategy. Finally, management believes that when capital cannot be invested for returns greater than the cost of capital, we should return capital to the capital providers. This approach is apparent in the programs we executed to repurchase common stock from fiscal 1997 through 2001, and our plans to reduce outstanding debt in fiscal 2004 by calling our convertible securities.

Briggs & Stratton has remaining authorization to buy up to 1.8 million shares of its stock in the open market or private transactions under the June 2000 Board of Directors' authorization to repurchase up to two million shares. Briggs & Stratton did not repurchase shares in fiscal 2003 and does not anticipate repurchases in fiscal 2004.

Off-Balance Sheet Arrangements and Contractual Obligations

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

Briggs & Stratton is subject to certain financial and operating restrictions under its domestic debt agreements. As is fully disclosed in Note 7 of the Notes to Consolidated Financial Statements, these restrictions limit our ability to: pay dividends; incur further indebtedness; create liens; enter into sale and/or leaseback transactions; consolidate, sell or lease all or substantially all of our assets; and dispose of assets or the proceeds of our assets, in addition to certain financial covenants. We believe we will remain in compliance with these covenants in fiscal 2004. Briggs & Stratton has obligations concerning certain employee benefits including its pension plans, post retirement benefit obligations and deferred compensation arrangements. All of these obligations are recorded on our Balance Sheets and disclosed more fully in the Notes to Consolidated Financial Statements.

Other Matters

Early Retirement Incentive Program

In the second quarter of fiscal 2002, Briggs & Stratton offered and finalized an early retirement incentive program. The net reduction in the global salaried workforce was approximately 7%.

The impact for fiscal year 2002 was a reduction in net income on an after-tax basis of $2.5 million, after consideration of approximately $3 million in savings for lower salary related expenditures. The majority of the impact on net income was the result of recognizing the cost of the special termination benefits, which reduced net periodic pension income.

Labor Agreement

In July 2001, Briggs & Stratton extended its collective bargaining agreement with one of its unions. This agreement expires in 2006, and contains provisions for future wage increases, medical cost sharing and increased pension benefits.

Emissions

The U.S. Environmental Protection Agency (EPA) has developed national emission standards under a two phase process for small air cooled engines. Briggs & Stratton currently has a complete product offering which complies with the EPA's Phase I engine emission standards. The Phase II program imposes more stringent standards over the useful life of the engine and is being phased in through 2005 for Class II (225 or greater cubic centimeter) displacement engines and through 2008 for Class I (under 225 cubic centimeter) displacement engines. The majority of Briggs & Stratton's engines are certified to be compliant with the EPA's Phase II standards. Accordingly, Briggs & Stratton does not believe compliance with the new standards will have a material adverse effect on its financial position or results of operations.

The California Air Resources Board (CARB) staff have proposed Tier 3 regulations requiring additional reductions to engine exhaust emissions and also requiring new controls on evaporative emissions from small engines. The CARB staff proposal is phased in between 2006 and 2008 depending upon the size of the engine and type of control. While Briggs & Stratton believes the cost of the proposed regulation on a per engine basis is significant, Briggs & Stratton does not believe the CARB staff proposal will have a material effect on its financial condition or results of operations, given that California represents a relatively small percentage of Briggs & Stratton's engine sales and that increased costs will be passed on to California consumers.

The European Commission adopted an engine emission Directive regulating exhaust emissions from engines manufactured by Briggs & Stratton. The European Directive parallels the regulation previously promulgated by the U.S. EPA, therefore Briggs & Stratton anticipates having a full product line offering which complies with Stage I and II of the Directive. Briggs & Stratton does not believe compliance with the new Directive will have a material adverse effect on its financial position or results of operations.

Critical Accounting Policies

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

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

The reserves for customer rebates, warranty, product liability, inventory reserves and doubtful accounts are fact specific and take into account such factors as specific customer situations, historical experience, and current and expected economic conditions. Changes in these reserves may be required if actual experience differs from the original estimates.

The Company's estimate of income taxes payable, deferred income taxes, and the effective tax rate is based on a complex analysis of many factors including interpretations of Federal and state income tax laws, the difference between tax and financial reporting basis of assets and liabilities, estimates of amounts currently due or owed in various jurisdictions, and current accounting standards. We review and update our estimates on a quarterly basis as facts and circumstances change and actual results are known. In addition, Federal and state taxing authorities periodically review the Corporation's estimates and interpretation of income tax laws. Adjustments to the effective income tax rate and recorded assets and liabilities may occur in future periods if actual results differ significantly from original estimates and interpretations.

The pension benefit obligation and related pension income are calculated in accordance with Statement of Financial Accounting Standard (SFAS) No. 87, "Employers Accounting for Pensions", and are impacted by certain actuarial assumptions, including the discount rate and the expected rate of return on plan assets. These rates are evaluated on an annual basis considering such factors as market interest rates and historical asset performance. Actuarial valuations at June 29, 2003 used a discount rate of 6.0% and an expected rate of return on plan assets of

8.75%. A 0.25% decrease in the discount rate would increase annual pension income by approximately $166 thousand. A 0.25% decrease in the expected return on plan assets would decrease our annual pension income by approximately $2.1 million.

The Other Postretirement Benefits Obligation and related expense charge are calculated in accordance with SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions” and are impacted by certain actuarial assumptions, including the health care trend rate. An increase of one percentage point, would increase the accumulated postretirement benefit obligation by $12.9 million and would increase the service and interest cost by $700 thousand. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by $12.2 million and decrease the service and interest cost by $700 thousand.

New Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”). FIN 45 requires that the guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing such guarantee. FIN 45 also requires additional disclosure requirements about the guarantor’s obligations under certain guarantees that it has issued. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of this interpretation are effective for financial statement periods ending after December 15, 2002. Briggs & Stratton adopted the disclosure requirements of this interpretation in the current year. The adoption did not have a material impact on its consolidated financial position, results of operations or cash flows.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (“SFAS”) No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure”. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation as originally provided by SFAS No. 123, “Accounting for Stock-Based Compensation”. Additionally, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both the annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The transitional requirements of SFAS No. 148 are effective for all financial statements for fiscal years ending after December 15, 2002. Briggs & Stratton adopted this statement in the current year. The adoption of this statement did not have a material impact on its consolidated financial position, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency

Briggs & Stratton's earnings are affected by fluctuations in the value of the U.S. dollar against the Japanese Yen and Euro. The Yen is used to purchase engines from Briggs & Stratton's joint venture. Briggs & Stratton purchases components in Euros from third parties and receives Euros for certain products sold to European customers. Forward foreign exchange contracts are used to partially hedge against the earnings effects of such fluctuations. At June 29, 2003, Briggs & Stratton had the following forward foreign exchange contracts outstanding with the Fair Value Gains (Losses) shown (in thousands):

Hedge Currency	Notional Value	Fair Market Value	Conversion Currency	(Gain)/Loss at Fair Value
Japanese Yen	410,000	$ 3,434	U.S.	$ 87
Euro	46,000	$ 52,441	U.S.	$ 1,407
Australian Dollars	1,450	$ 959	U.S.	$ 67
Canadian Dollars	1,600	$ 1,184	U.S.	$ 38

All of the above contracts expire within twelve months.

Fluctuations in currency exchange rates may also impact the shareholders' investment in Briggs & Stratton. Amounts invested in Briggs & Stratton's non-U.S. subsidiaries are translated into U.S. dollars at the exchange rates in effect at fiscal year end. The resulting cumulative translation adjustments are recorded in shareholders' investment as Accumulated Other Comprehensive Income. The cumulative translation adjustments component of shareholders' investment increased $4.5 million during the year. Using the year-end exchange rates, the total amount invested in non-U.S. subsidiaries on June 29, 2003 was $46.5 million.

Interest Rates

Briggs & Stratton is exposed to interest rate fluctuations on its borrowings. Depending on general economic conditions, Briggs & Stratton has typically used variable rate debt for short-term borrowings and fixed rate debt for longer-term borrowings.

On June 29, 2003, Briggs & Stratton had the following short-term loans outstanding (in thousands):

Currency	Amount	Weighted Average Interest Rate
Euro	432	7.19%
U.S. Dollars	2,075	2.86%
Canadian Dollars	500	3.78%

These loans carry variable interest rates. Assuming borrowings are outstanding for an entire year an increase (decrease) of one percentage point in the weighted average interest rate, would increase (decrease) interest expense by $32 thousand.

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

Description		Amount	Maturity
5.00%	Convertible Notes	$ 140,000	2006
7.25%	Notes	$ 89,217	2007
8.875%	Notes	$ 270,587	2011

These loans carry fixed rates of interest.

In fiscal 2003, Briggs & Stratton began managing its long-term debt portfolio using interest rate swaps to achieve a desired mix of fixed and variable rates. At June 29, 2003, Briggs & Stratton had interest rate swaps relating to the $275 million 8.875% senior notes due in 2011. The swaps convert $50 million in notional amounts from fixed to a floating rate (LIBOR-set-in-arrears) and mature in 2011. The floating rate on interest rate swaps at June 29, 2003 was 5.3%. The fair market value of these derivatives was approximately $3.6 million. A one percentage point change in this floating interest rate would increase/decrease interest expense by $500 thousand.