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

Acquisition

On July 7, 2004 Briggs & Stratton Corporation and its subsidiary, Briggs & Stratton Power Products Group, LLC, acquired Simplicity Manufacturing, Inc. ("Simplicity") for $227 million plus certain transaction related expenses. 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. See Note 15 of the Notes to Consolidated Financial Statements for additional information on this acquisition. The following Management Discussion and Analysis does not include a discussion of Simplicity's operating results because this transaction occurred subsequent to our fiscal year-end.

Results of Operations

FISCAL 2004 COMPARED TO FISCAL 2003

Net Sales

Fiscal 2004 consolidated net sales were approximately $1.9 billion, an increase of $290 million, or 17% compared to the previous year. The improvement was driven primarily by increased sales volume in both Segments. Engine Segment net sales were $1.6 billion in fiscal 2004, an increase of $189 million or 13% compared to the prior year. Engine Segment increases were driven by an 11% increase in unit volume resulting in $163 million in net sales. $59 million or 4% of the increase in engine unit volume is attributable to sales to our Power Products Segment. Lawn and garden sales volume gains were driven by a strong selling season at retail. Inventory levels were low at the major original equipment manufacturers going into this fiscal year. As a result, the demand for engines was high all year long in anticipation of a strong season, which materialized. We believe the volume increase is reflective of market growth and market penetration in the U.S. While our European sales unit volume was down due to the drought conditions in Europe during much of fiscal 2004, the Euro exchange rate drove a $26 million increase in net sales. Power Products net sales were $489 million in fiscal 2004, an increase of $160 million, or 48%, over fiscal 2003. Generator volume benefited significantly by the wide spread power outages that occurred in the first quarter of fiscal 2004, as a result of the eastern electrical grid failure and the landfall of a major hurricane. There were no major power outages in fiscal 2003. These events, along with increased marketing efforts, increased consumer awareness which continued to drive the demand for generators higher in fiscal 2004. Pressure washer net sales gains were driven by continued advertising and promotions at major retailers, consistent with programs launched in the prior year and increased placement at a major retailer.

Gross Profit

Consolidated gross profit increased $112 million between years. Volume increases generated $76 million of the improvement; with approximately $60 million from increases in the Engine Segment and the remainder from the Power Products Segment. The remaining $36 million of gross margin increases came from gross margin percentage improvements in the Engine Segment. Engine Segment margins improved from 20% to 24%. Pricing improvement due to the impact of a stronger Euro on European sales contributed $26 million to the improvement. A 14% increase in production volume contributed $18 million in absorption benefits and our manufacturing cost reduction programs contributed an additional $14 million to the improvement. These positive margin enhancers were partially offset by a $22 million net increase in manufacturing costs, primarily overhead, raw materials and component costs. These cost increases reflect initiatives by many vendors to pass along higher costs due to price pressures on scrap aluminum and steel. We expect these cost increases to continue in fiscal 2005. We currently anticipate that our cost reduction programs and sales pricing initiatives should offset these higher costs. The Power Products Segment margin was at 12% in both fiscal 2004 and fiscal 2003. A 55% production volume improvement and manufacturing cost reduction efforts were offset by increased purchased component costs. The Power Products Segment purchases a major pressure washer component from a European supplier in Euros. In fiscal 2004 the Euro purchases reduced gross margins of the Power Products Segment by approximately $12 million. Under the Company's foreign currency management program, this negative impact on margins was offset by the positive impact of the Euro discussed for the Engine Segment.

Engineering, Selling, General and Administrative Costs

Engineering, selling, general and administrative costs increased $28 million or 15% compared to fiscal 2003. Increases in this category include salaries and fringe benefit cost increases of approximately $6 million, professional services of $6 million, marketing cost increases of $5 million and international variable selling cost increases of $6 million. In addition, $2 million of the increase is attributable to bad debt expense associated with a prior fiscal year customer bankruptcy. 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. The increase in professional services is attributable to several consulting projects related to our distributor channels, emissions regulations and Sarbanes-Oxley compliance efforts. Increased marketing costs were driven by increased spending on Power Products' market expansion and international marketing efforts. Increases in international variable selling costs include $2 million attributable to translating Euro denominated expenditures by a stronger Euro.

Interest Expense

Interest expense decreased $3 million in fiscal 2004 compared to fiscal 2003. 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. On March 16, 2004, the Company called for the redemption of its $140 million 5% convertible senior notes due in 2006. Substantially all of the holders of the notes exercised their conversion rights prior to the redemption date of May 15, 2004. This resulted in the issuance of approximately three million treasury shares in May 2004 and the write-off of approximately $2 million in deferred financing costs. The redemption of these bonds eliminated all convertible debt and reduced our long-term debt to approximately $361 million. The redemption will also eliminate approximately $7 million in interest expense in fiscal 2005. In April 2004, all interest rate swaps were terminated resulting in a net gain of approximately $500 thousand.

Other Income

Other income remained at approximately $9 million in fiscal 2004, consistent with prior years. Refer to Note 8 of the Notes to Consolidated Financial Statements for detail of the components of other income.

Provision for Income Taxes

The effective tax rate increased from 32% in fiscal 2003 to 34% in fiscal 2004. The rate reflects less of a benefit from foreign and state tax credits. Earnings from some of our foreign subsidiaries was down due to market conditions, while the domestic income contribution increased. The impact of lower tax credits was offset by a reduction in the tax provision due to the closing of a tax audit year and recording additional tax benefits related to the filing of our fiscal 2003 income tax return.

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. Fiscal 2003 marked the return of significant demand-creating events such as hurricanes and ice storms after a two-year absence of significant activity. The generator market decreased significantly after the record demand created by the concern over year 2000 issues. We do not believe this market to be mature and have developed marketing campaigns to increase brand awareness and drive purchase decisions. We believe our efforts have generated demand resulting in increased household penetration. Our marketing efforts in fiscal 2003 included retailer specific flyers and promotions, national and regional advertising, and television and radio ads. We believe the return of weather events and our cooperative promotional activities together resulted in the sales increase in fiscal 2003. Pressure washer sales increased $49 million to $164 million, up from $115 million in fiscal 2002. Pressure washer sales also benefited from similar promotional campaigns, as described above. 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.

On an ongoing basis we challenge our operations group to lower our manufacturing costs in order to remain competitive in the marketplace. Historical areas of focus have been product engineering, labor productivity, controllable overhead spending, warranty and quality costs, as well as purchased component pricing. While none of these items account for an individually significant portion of our savings, the net impact across our six production facilities was a reduction in cost of $8 million.

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. As previously discussed, an increase in weather related events and promotional activities increased demand for generators and pressure washers in fiscal 2003. The increased demand allowed us to increase production volume between years.

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 fiscal 2003, 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 $9 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.

Liquidity and Capital Resources

FISCAL YEARS 2004, 2003 AND 2002

Cash flows from operating activities were $46 million, $167 million and $200 million, in fiscal 2004, 2003 and 2002, respectively.

The fiscal 2004 cash flow from operating activities were $122 million lower than the prior year. Fiscal 2004 experienced a significant increase in inventory levels, which reduced cash flows from operating activities by $129 million in fiscal 2004 and $117 million between years. Engine inventories increased $76 million between years. This increase is attributable to strong production levels through the end of the fiscal year driven by a strong selling season at retail. In addition we believe that the increased inventory is needed to meet our forecast for fiscal 2005. Our Power Products Segment also experienced an increase in inventory levels of $53 million between years. This increase in inventory reflects strong production levels throughout the year in order to replenish depleted inventories after the demand creating events for generators in the current year. The current inventory levels reflect our judgment of levels needed to maintain our position as the market leader in responsiveness to customer demand. Pressure washer inventory levels reflect increasing demand for the product due to significant market growth in the category. Inventory on hand will always reflect demand and our ability to respond to market changes at our production facilities in a timely manner.

Also contributing to the lower cash flows from operating activities were increased receivables growth between years of $23 million, which reflects our sales growth at both Segments and timing of payments, lower payable increases between years of $40 million and lower deferred tax provisions between years of $11 million. Offsetting these reductions in cash flows were increased earnings of $55 million, a reduction in prepaid expenses between years of $7 million and lower pension income of $7 million.

The fiscal 2003 cash flow from operating activities was $32 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. Inventory levels are a function of planned production levels based on anticipated demand, contrasted with actual sell through of product at retail. In fiscal 2001 the market was soft resulting in lower than anticipated sales for the year and increased inventory levels throughout the channel. As a result of the unusually high inventory levels at the end of fiscal 2001, we lowered our planned production in 2002. The 2002 lawn and garden selling season was strong, and we were successful in getting our inventory levels back to a level we considered normal. The fiscal 2003 selling season was also strong resulting in no significant change in our inventory levels.

Offsetting this reduction in cash flow were improved cash flows related to increased earnings of $28 million, a lower accounts receivable increase between years of $51 million and higher current liabilities of $19 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 bonus awards than the prior year.

Cash used in investing activities was $42 million, $27 million and $38 million in fiscal 2004, 2003 and 2002, respectively. Cash flows include capital expenditures of $53 million, $40 million and $44 million in fiscal 2004, 2003 and 2002, respectively. These capital expenditures relate primarily to reinvestment in equipment, capacity additions and new products.

In fiscal 2004, Briggs & Stratton received $6 million as a refund of a portion of the cash paid for the BSPPG acquisition in fiscal 2001. The amount was to adjust the original purchase price for the actual value received in acquired receivables and inventory.

In fiscal 2003, Briggs & Stratton 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. 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.

Briggs & Stratton provided cash from financing activities totaling $13 million in fiscal 2004. Briggs & Stratton used cash in financing activities totaling $37 million and $38 million in fiscal 2003 and 2002, respectively. During fiscal 2004 the company received $45 million from the exercise of stock options as opposed to $5 million and $1 million in fiscal 2003 and 2002, respectively. The stock option activity is a direct reflection of option strike prices, which encouraged the exercise of the options. 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. Briggs & Stratton did not use its revolver to finance working capital needs during fiscal 2004. In fiscal 2004 Briggs & Stratton also incurred $2 million to negotiate a new revolving credit agreement. During fiscal 2002 Briggs & Stratton repaid $10 million of its 7.25% Senior Notes due in 2007.

Future Liquidity and Capital Resources

As previously noted, Briggs & Stratton acquired Simplicity Manufacturing, Inc. in July of fiscal 2005, using its available cash. We don't believe the acquisition of Simplicity will significantly alter our future liquidity and capital needs given its profitability and existing receivable financing arrangements.

Briggs & Stratton has negotiated a new five-year $275 million revolving credit facility that expires in May 2009. This credit facility will be used to fund seasonal working capital requirements and other financing needs. This facility and Briggs & Stratton's other indebtedness contain certain restrictive covenants described in Note 7 of the Notes to Consolidated Financial Statements. Because of our financial strength we were able to negotiate less restrictive covenants under the new revolving credit facility, specifically the covenants do not include the springing lien provisions of our previous credit facility.

Briggs & Stratton expects capital expenditures to be $87 million in fiscal 2005. These anticipated expenditures reflect our plans to continue to reinvest in equipment, new products, and capacity enhancements.

Management believes that available cash, the credit facility, cash generated from future operations, existing lines of credit and access to debt markets will be adequate to fund Briggs & Stratton's capital requirements for the foreseeable future.

Financial Strategy

Management believes that the value of Briggs & Stratton is enhanced if the capital invested in operations yields a cash return that is greater than the cost of capital. Consequently, management's first priority is to reinvest capital into physical assets and products that maintain or grow the global cost leadership and market positions that Briggs & Stratton has achieved, and drive the economic value of the Company. Management's next financial objective is to identify strategic acquisitions or alliances that enhance revenues and provide a superior economic return. Several successful joint ventures and the acquisition of 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.

Off-Balance Sheet Arrangements

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

Briggs & Stratton is subject to financial and operating restrictions in addition to certain financial covenants under its domestic debt agreements. As is fully disclosed in Note 7 of the Notes to Consolidated Financial Statements, these restrictions could limit our ability to: pay dividends; incur further indebtedness; create liens; enter into sale and/or leaseback transactions; consolidate, sell or lease all or substantially all of our assets; and dispose of assets or the proceeds of our assets. We believe we will remain in compliance with these covenants in fiscal 2005. 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.

Contractual Obligations

A summary of the Company's expected payments for significant contractual obligations as of June 27, 2004 is as follows (in thousands):

	2005	2006-2007	2008-2009	Thereafter	Total
Long-Term Debt	$ –	$ 89,403	$ –	$271,159	$ 360,562
Interest on Long-Term Debt	30,931	57,512	48,812	42,710	179,965
Operating Leases	7,552	6,845	2,794	1,265	18,456
	$ 38,483	$153,760	$ 51,606	$315,134	$ 558,983

As of June 27, 2004, the Company had no material purchase obligations other than those created in the ordinary course of business related to inventory and property, plant and equipment which generally have terms of less than 90 days. The Company also has long-term obligations related to its pension and postretirement plans which are discussed in detail in Note 13 to the financial statements. As of its most recent actuarial measurement date, no pension plan contributions are required in fiscal 2005, and postretirement medical claims are paid as they are submitted.

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

Briggs & Stratton has collective bargaining agreements with its unions. These agreements expire in 2006 for the Engines Segment and in 2007 for the Power Products Segment.

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.

EPA is also evaluating the development of Phase III standards to further reduce engine exhaust emissions and to control evaporative emissions from small off-road engines and equipment they are used in. A draft regulation is scheduled for publication by the end of calendar year 2004. We cannot predict the scope of any proposal or of the final regulations that EPA may ultimately adopt, and accordingly cannot estimate what, if any, impact such regulations could have on future financial performance.

The California Air Resources Board (CARB) staff issued a revised proposed Tier 3 regulation 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 may be significant, Briggs & Stratton does not believe the CARB staff proposal will have a material effect on its financial condition or results of operations. This assessment is based on a number of factors, including the "Bond Amendment" which precludes other states from opting into the California standard, revisions CARB made to its proposal from that published in September 2003 in response to recommendations from Briggs & Stratton and others in the regulated category, the fact that California represents a relatively small percentage of Briggs & Stratton's engine sales and our ability and intention to pass increased costs associated with the CARB regulation 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 and Note 9 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, litigation 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, state and foreign 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, state and foreign 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 27, 2004 used a discount rate of 6.25% and an expected rate of return on plan assets of 8.75%. A 0.25% decrease in the discount rate would decrease annual pension income by approximately $1.3 million. A 0.25% decrease in the expected return on plan assets would decrease our annual pension income by approximately $2.0 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 in health care costs would increase the accumulated postretirement benefit obligation by $16.1 million and would increase the service and interest cost by $900 thousand. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by $15.0 million and decrease the service and interest cost by $900 thousand.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities, and an Interpretation of ARB No. 51". This statement addresses the consolidation by business enterprises of variable interest entities ("VIEs"), as defined by the statement. The Company has adopted the provisions of this statement, evaluated its interest in VIEs and determined it is not the primary beneficiary of any VIEs. The Company also does not believe its variable interest in any VIE is significant to its financial statements taken as a whole. As such, the adoption of this statement did not have an effect on the Company's financial condition or results of operations.

In December 2003, the FASB revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits". This statement revises employers' disclosure about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, "Employers' Accounting for Pensions", SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". It requires additional disclosures to those in the original SFAS No. 132. The adoption of this statement had no effect on the Company's financial condition or results of operations.

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 the 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 27, 2004, 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	1,680,000	$ 15,698	U.S.	$ (171)
Euro	87,000	$ 105,747	U.S.	$ 2,839
Australian Dollars	375	$ 261	U.S.	$ 14

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 $3.0 million during the year. Using the year-end exchange rates, the total amount invested in non-U.S. subsidiaries on June 27, 2004 was $59.4 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 27, 2004, Briggs & Stratton had the following short-term loans outstanding (in thousands):

Currency	Amount	Weighted Average Interest Rate
Australian Dollars	1,000	7.01%
Euro	993	8.00%
U.S. Dollars	1,220	2.98%

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
7.25% Notes	$ 89,403	2007
8.875% Notes	$ 271,159	2011

These loans carry fixed rates of interest.