

Notes to Consolidated Financial Statements

FOR THE FISCAL YEARS ENDED JUNE 27, 2004, JUNE 29, 2003 AND JUNE 30, 2002

(1) Nature of Operations:

Briggs & Stratton ("the Company") is a U.S. based producer of air cooled gasoline engines. These engines are sold worldwide, primarily to original equipment manufacturers of lawn and garden equipment and other gasoline engine powered equipment. Additionally, through the Company's wholly owned subsidiary, Briggs & Stratton Power Products Group, LLC ("BSPPG"), the Company is a designer, manufacturer and marketer of portable and standby generators, pressure washers and related accessories. BSPPG's products are sold throughout the United States, Canada and Europe.

(2) Summary of Significant Accounting Policies:

Fiscal Year: The Company's fiscal year consists of 52 or 53 weeks, ending on the Sunday nearest the last day of June in each year. Therefore, the 2004, 2003 and 2002 fiscal years were 52 weeks long. All references to years relate to fiscal years rather than calendar years.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its majority owned domestic and foreign subsidiaries after elimination of intercompany accounts and transactions.

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents: This caption includes cash, commercial paper and certificates of deposit. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories: Inventories are stated at cost, which does not exceed market. The last-in, first-out (LIFO) method was used for determining the cost of approximately 56% of total inventories at June 27, 2004 and 60% of total inventories at June 29, 2003. The cost for the remaining portion of the inventories was determined using the first-in, first-out (FIFO) method. During fiscal 2003 and 2002, a reduction in inventory quantities resulted in a liquidation of LIFO inventories carried at lower costs prevailing in prior years. The liquidation of these inventories reduced cost of goods sold by \$0.2 million in 2003 and \$2.6 million in 2002. There was no such reduction of inventory in fiscal 2004. If the FIFO inventory valuation method had been used exclusively, inventories would have been \$51.4 million and \$47.3 million higher in 2004 and 2003, respectively. The LIFO inventory adjustment was determined on an overall basis, and accordingly, each class of inventory reflects an allocation based on the FIFO amounts.

Goodwill: This caption represents goodwill related to the acquisition of BSPPG in fiscal 2001 (See Note 3). Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. The Company performed the required goodwill impairment test in fiscal 2004, 2003 and 2002, and found no impairment of the asset.

Investments: This caption represents the Company's investment in its 50%-owned joint ventures and preferred stock in a privately held iron castings business. The investments in the joint ventures and the privately held business are accounted for under the equity method. In fiscal 2003, the Company determined losses on an investment in common stock of a publicly traded software company were "other than temporary", and as a result, the Company reclassified the pretax unrealized loss of \$1.8 million to earnings.

Deferred Loan Costs: Expenses associated with the issuance of debt instruments are capitalized and are being amortized over the terms of the respective financing arrangement using the straight-line method over periods ranging from five to ten years. Accumulated amortization related to open issues amounted to \$5.9 million as of June 27, 2004 and \$5.1 million as of June 29, 2003. In fiscal 2004, the Company expensed \$1.7 million in capitalized costs upon conversion of the 5.00% Convertible Senior Notes.

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Other Long-Term Assets: This caption includes costs of software used in the Company's business. Amortization of capitalized software is computed on an item-by-item basis over a period of three to ten years, depending on the estimated useful life of the software. Accumulated amortization amounted to \$8.7 million as of June 27, 2004 and \$6.0 million as of June 29, 2003. In fiscal 2003, this caption also included a long-term asset associated with interest rate swaps designated as effective fair value hedges. See discussion in Note 7.

Plant and Equipment and Depreciation: Plant and equipment are stated at cost and depreciation is computed using the straight-line method at rates based upon the estimated useful lives of the assets (20-30 years for land improvements, 20-50 years for buildings and 8-16 years for machinery and equipment).

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated. Upon retirement or disposition of plant and equipment, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income from operations.

Impairment of Long-Lived Assets: Property, plant and equipment and other long-term assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. There were no adjustments to the carrying value of long-lived assets in fiscal 2004, 2003 or 2002.

Warranty: The Company recognizes the cost associated with its standard warranty on engines and power products at the time of sale. The amount recognized is based on historical failure rates and current claim cost experience. The following is a reconciliation of the changes in accrued warranty costs for fiscal year 2004 and 2003 (in thousands):

	<u>2004</u>	<u>2003</u>
Balance, Beginning of Period	\$ 47,590	\$ 46,346
Payments	(30,761)	(30,613)
Provision for Current Year Warranties	29,150	27,605
(Credit) Provision for Prior Years Warranties	(2,831)	4,252
Balance, End of Period	<u>\$ 43,148</u>	<u>\$ 47,590</u>

Deferred Revenue on Sale of Plant and Equipment: In fiscal 1997, the Company sold its Menomonee Falls, Wisconsin facility for approximately \$16.0 million. The provisions of the contract state that the Company will continue to own and occupy the warehouse portion of the facility for a period of up to ten years (the Reservation Period). The contract also contains a buyout clause, at the buyer's option and under certain circumstances, of the remaining Reservation Period. Under the provisions of SFAS No. 66, "Accounting for Sales of Real Estate," the Company is required to account for this as a financing transaction as long as it continues to have substantial involvement with the facility during the Reservation Period or until the buyout option is exercised. Under this method, the cash received is reflected as deferred revenue and the assets and the accumulated depreciation remain on the Company's books. Depreciation expense continues to be recorded each period and imputed interest expense is also recorded and added to deferred revenue. Offsetting this is the imputed fair value lease income on the non-Briggs & Stratton occupied portion of the building. A pretax gain, which will be recognized at the earlier of the exercise of the buyout option or the expiration of the Reservation Period, is estimated to be \$5 million. The annual cost of operating the warehouse portion of the facility is not material.

Revenue Recognition: Net sales includes sales of engines, power products, and related component parts for servicing engines, net of allowances for cash discounts, customer volume rebates and discounts, and advertising allowances. In accordance with Staff Accounting Bulletin No. 101 as amended, the Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured. This is generally upon shipment, except for certain international shipments, where revenue is recognized when the customer receives the product.

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The Company also offers a variety of customer rebates and sales incentives. The Company accrues for estimated rebates/incentives at the time of sale, as a reduction in net sales.

Income Taxes: The Provision for Income Taxes includes Federal, state and foreign income taxes currently payable and those deferred because of temporary differences between the financial statement and tax basis of assets and liabilities. The Deferred Income Tax Asset represents temporary differences relating to current assets and current liabilities, and the Deferred Income Tax Liability represents temporary differences relating to noncurrent assets and liabilities.

Retirement Plans: The Company has noncontributory, defined benefit retirement plans and postretirement benefit plans covering certain employees. Retirement benefits represent a form of deferred compensation, which are subject to change due to changes in assumptions. Management reviews underlying assumptions on an annual basis. Refer to Note 13 of the Notes to Consolidated Financial Statements.

Research and Development Costs: Expenditures relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. The amounts charged against income were \$25.9 million in fiscal 2004, \$26.4 million in fiscal 2003 and \$23.7 million in fiscal 2002.

Advertising Costs: Advertising costs, included in Engineering, Selling, General and Administrative Expenses on the accompanying Consolidated Statements of Earnings, are expensed as incurred. These expenses totaled \$15.0 million in fiscal 2004, \$13.2 million in fiscal 2003 and \$8.3 million in fiscal 2002.

The Company reports co-op advertising expense as a reduction in net sales. Co-op advertising expense reported as a reduction in net sales totaled \$12.8 million in fiscal 2004, \$9.5 million in fiscal 2003 and \$7.2 million in fiscal 2002.

Shipping and Handling Fees and Costs: Revenue received from shipping and handling fees is reflected in net sales. Shipping fee revenue for fiscal 2004, 2003 and 2002 was \$1.8 million, \$1.6 million and \$1.6 million, respectively. Shipping and handling costs are included in cost of goods sold.

Foreign Currency Translation: Foreign currency balance sheet accounts are translated into United States dollars at the rates of exchange in effect at fiscal year-end. Income and expenses are translated at the average rates of exchange in effect during the year. The related translation adjustments are made directly to a separate component of Shareholders' Investment.

Earnings Per Share: Basic earnings per share, for each period presented, is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share, for each period presented, is computed reflecting the potential dilution that would occur if options or other contracts to issue common stock were exercised or converted into common stock at the beginning of the period.

The shares outstanding used to compute diluted earnings per share for fiscal 2004, 2003 and 2002 excluded outstanding options to purchase 214,260, 1,675,790 and 1,886,640 shares of common stock, respectively, with weighted-average exercise prices of \$74.53, \$53.40 and \$55.20, respectively. The options were excluded because their exercise prices were greater than the average market price of the common shares, and their inclusion in the computation would have been antidilutive.

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

	Fiscal Year Ended		
	June 27, 2004	June 29, 2003	June 30, 2002
Net Income Used in Basic Earnings Per Share	\$ 136,114	\$ 80,638	\$ 53,120
Adjustment to Net Income to Add After-tax Interest Expense on Convertible Notes . . .	4,053	4,760	4,620
Adjusted Net Income Used in Diluted Earnings Per Share	<u>\$ 140,167</u>	<u>\$ 85,398</u>	<u>\$ 57,740</u>
Average Shares of Common Stock Outstanding	22,643	21,639	21,615
Incremental Common Shares Applicable to Common Stock Options Based on the Common Stock Average Market Price During the Period	180	-	6
Incremental Common Shares Applicable to Restricted Common Stock Based on the Common Stock Average Market Price During the Period	13	15	5
Incremental Common Shares Applicable to Convertible Notes Based on the Conversion Provisions of the Convertible Notes	2,504	2,826	2,826
Diluted Average Common Shares Outstanding	<u>25,340</u>	<u>24,480</u>	<u>24,452</u>

Comprehensive Income: Comprehensive income is a more inclusive financial reporting method that includes disclosure of financial information that historically has not been recognized in the calculation of net income. The Company has chosen to report Comprehensive Income and Accumulated Other Comprehensive Income (Loss) which encompasses net income, unrealized gain (loss) on marketable securities, cumulative translation adjustments, unrealized gain (loss) on derivatives and minimum pension liability adjustment in the Consolidated Statements of Shareholders' Investment. Information on Accumulated Other Comprehensive Income (Loss) is as follows (in thousands):

	Unrealized Gain (Loss) on Marketable Securities	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Derivatives	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at July 1, 2001	\$ (753)	\$ (6,655)	\$ 1,226	\$ -	\$ (6,182)
Fiscal Year Change	(148)	4,017	(4,313)	-	(444)
Balance at June 30, 2002	(901)	(2,638)	(3,087)	-	(6,626)
Fiscal Year Change	901	4,454	3,100	(2,563)	5,892
Balance at June 29, 2003	-	1,816	13	(2,563)	(734)
Fiscal Year Change	-	3,042	487	1,233	4,762
Balance at June 27, 2004	\$ -	\$ 4,858	\$ 500	\$ (1,330)	\$ 4,028

Derivatives: Derivatives are recorded on the balance sheet as assets or liabilities, measured at fair value. Briggs & Stratton enters into derivative contracts designated as cash flow hedges to manage its foreign currency exposures. These instruments generally do not have a maturity of more than twelve months. Briggs & Stratton has used interest rate swaps designated as fair value hedges to manage its debt portfolio. These instruments generally have maturities and terms consistent with the underlying debt instrument.

Changes in the fair value of cash flow hedges are recorded on the Consolidated Statement of Earnings or as a component of Accumulated Other Comprehensive Income (Loss). The amounts included in Accumulated Other Comprehensive Income (Loss) will be reclassified into income when the forecasted transactions occur, generally within the next twelve months. These forecasted transactions represent the exporting of products for which Briggs & Stratton will receive foreign currency and the importing of products for which it will be required to pay in a foreign currency. Changes in the fair value of fair value hedges related to interest rate swaps are recorded as an increase/decrease to long-term debt. Changes in the fair value of all derivatives deemed to be ineffective are recorded as either income or expense in the accompanying Consolidated Statements of Earnings. See discussion in Note 12.

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

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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 the 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. This statement is effective for fiscal 2004. The adoption had no effect on the Company’s financial condition or results of operations.

(3) Acquisition:

The Company acquired Generac Portable Products, Inc. on May 15, 2001. Generac Portable Products, Inc. was merged with, and into Generac Portable Products, LLC on June 30, 2002, and changed its name to Briggs & Stratton Power Products Group, LLC effective December 31, 2002. BSPPG is a designer, manufacturer and marketer of portable and standby generators, pressure washers and related accessories.

The provisions of the acquisition provided for a purchase price refund based on the final valuation of the acquired receivables and inventory. The Company received a purchase price refund of \$5.7 million, which was recorded as a reduction in goodwill during fiscal 2004.

In 2004 and 2003, the Company reduced goodwill by approximately \$2.1 and \$1.3 million, respectively, reflecting the tax benefit associated with the amortization of acquired goodwill for tax purposes.

(4) Income Taxes:

The provision for income taxes consists of the following (in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current			
Federal	\$ 46,506	\$ 11,404	\$ 4,950
State	8,039	291	587
Foreign	1,545	1,967	1,567
	<u>56,090</u>	<u>13,662</u>	<u>7,104</u>
Deferred	12,800	24,278	20,286
	<u>\$ 68,890</u>	<u>\$ 37,940</u>	<u>\$ 27,390</u>

A reconciliation of the U.S. statutory tax rates to the effective tax rates follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
U.S. Statutory Rate	35.0%	35.0%	35.0%
State Taxes, Net of Federal Tax Benefit	3.0%	1.8%	2.4%
Foreign Tax Benefits	(0.9%)	(3.3%)	(1.2%)
Resolution of Prior Period Tax Matters	(2.2%)	-	-
Other	(1.3%)	(1.5%)	(2.2%)
Effective Tax Rate	<u>33.6%</u>	<u>32.0%</u>	<u>34.0%</u>

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

	<u>2004</u>	<u>2003</u>
Deferred Income Tax Asset:		
Difference Between Book and Tax Methods Applied to		
Inventory	\$ 13,443	\$ 13,145
Payroll Related Accruals	2,627	2,483
Warranty Reserves	16,768	18,140
Other Accrued Liabilities	16,395	15,950
Miscellaneous	(1,610)	(1,044)
	<u>\$ 47,623</u>	<u>\$ 48,674</u>
Deferred Income Tax Liability:		
Difference Between Book and Tax Methods Applied to		
Pension Cost	\$ (31,875)	\$ (28,862)
Accumulated Depreciation	(59,271)	(58,806)
Accrued Employee Benefits	12,333	11,545
Postretirement Health Care Obligation	14,917	18,745
Deferred Revenue on Sale of Plant & Equipment	5,822	5,914
Miscellaneous	(12,380)	(6,453)
	<u>\$ (70,454)</u>	<u>\$ (57,917)</u>

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. These undistributed earnings amounted to approximately \$10.5 million at June 27, 2004. If these earnings were remitted to the U.S., they would be subject to U.S. income tax. However, this tax would be substantially less than the U.S. statutory income tax because of available foreign tax credits.

(5) Segment and Geographic Information and Significant Customers:

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
NET SALES:			
Engines	\$ 1,617,409	\$ 1,428,411	\$ 1,366,977
Power Products	489,250	329,488	215,904
Eliminations	(159,295)	(100,266)	(53,581)
	<u>\$ 1,947,364</u>	<u>\$ 1,657,633</u>	<u>\$ 1,529,300</u>
GROSS PROFIT ON SALES:			
Engines	\$ 387,582	\$ 291,937	\$ 250,150
Power Products	57,846	38,233	20,613
Eliminations	(5,556)	(2,091)	(799)
	<u>\$ 439,872</u>	<u>\$ 328,079</u>	<u>\$ 269,964</u>
INCOME FROM OPERATIONS:			
Engines	\$ 209,337	\$ 134,775	\$ 114,859
Power Products	30,428	17,238	2,192
Eliminations	(5,556)	(2,091)	(799)
	<u>\$ 234,209</u>	<u>\$ 149,922</u>	<u>\$ 116,252</u>

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	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS:			
Engines	\$ 1,435,016	\$ 1,150,607	\$ 1,087,943
Power Products	402,618	339,970	279,083
Eliminations	<u>(200,481)</u>	<u>(15,384)</u>	<u>(10,425)</u>
	<u>\$ 1,637,153</u>	<u>\$ 1,475,193</u>	<u>\$ 1,356,601</u>
CAPITAL EXPENDITURES:			
Engines	\$ 47,408	\$ 35,903	\$ 42,086
Power Products	5,554	4,251	1,842
	<u>\$ 52,962</u>	<u>\$ 40,154</u>	<u>\$ 43,928</u>
DEPRECIATION & AMORTIZATION:			
Engines	\$ 63,744	\$ 60,875	\$ 63,157
Power Products	3,154	2,651	2,811
	<u>\$ 66,898</u>	<u>\$ 63,526</u>	<u>\$ 65,968</u>

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
United States	\$ 1,795,128	\$ 1,546,520	\$ 1,437,667
All Other Countries	152,236	111,113	91,633
Total	<u>\$ 1,947,364</u>	<u>\$ 1,657,633</u>	<u>\$ 1,529,300</u>

The Company has no material long lived assets in an individual foreign country.

In fiscal years 2004, 2003 and 2002, there were sales to three major engine customers that exceeded 40% of our business and in certain years they individually exceeded 10% of total Company net sales. The sales to these customers are summarized below (in thousands of dollars and percent of total Company net sales):

Customer	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>Net Sales</u>	<u>%</u>	<u>Net Sales</u>	<u>%</u>	<u>Net Sales</u>	<u>%</u>
A	\$ 318,705	16%	\$ 260,253	16%	\$ 255,155	17%
B	334,748	17%	253,066	15%	299,864	19%
C	169,002	9%	168,928	10%	165,097	11%
	<u>\$ 822,455</u>	<u>42%</u>	<u>\$ 682,247</u>	<u>41%</u>	<u>\$ 720,116</u>	<u>47%</u>

(6) Leases:

The Company leases certain facilities, vehicles, and equipment under non-cancelable operating leases which expire at various dates. Terms of the leases, including purchase options, renewals, and maintenance costs, vary by lease. Rental expense for fiscal 2004, 2003, and 2002 was \$10.2 million, \$8.1 million and \$8.7 million, respectively.

Future minimum lease commitments for all non-cancelable operating leases as of June 27, 2004 are as follows (in thousands):

<u>Fiscal Year</u>	
2005	\$ 7,552
2006	4,570
2007	2,275
2008	1,718
2009	1,076
Thereafter	1,265
	<u>\$ 18,456</u>

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(7) Indebtedness:

On May 28, 2004, the Company replaced its unsecured three-year \$300 million revolving credit facility that would have expired in September 2004 with an unsecured five-year \$275 million revolving credit facility that expires in May 2009. There were no borrowings using these credit facilities as of June 27, 2004 or June 29, 2003.

Borrowings under the credit facility by the Company bear interest at a rate per annum equal to, at its option, either:

(1) a 1, 2, 3 or 6 month LIBOR rate plus a margin varying from 0.50% to 2.00%, depending upon the rating of the Company's long-term debt by Standard & Poor's Rating group, a division of McGraw-Hill Companies (S&P) and Moody's Investors Service, Inc. (Moody's); or

(2) the higher of (a) the federal funds rate plus 0.50% or (b) the bank's prime rate.

In addition, the Company is subject to a 0.10% to 0.375% commitment fee and a 0.50% to 2.00% letter of credit fee, depending on the Company's long-term credit ratings.

The following data relates to domestic notes payable (in thousands):

	<u>2004</u>	<u>2003</u>
Balance at Fiscal Year-End	\$ 1,220	\$ 2,075
Weighted Average Interest Rate at Fiscal Year-End	2.98%	2.86%

The lines of credit available to the Company in foreign countries are in connection with short-term borrowings and bank overdrafts used in the normal course of business. These amounts total \$31.1 million, expire at various times through April 2005 and are renewable. Borrowings of \$1.2 million at June 27, 2004 using these lines of credit are included in foreign loans. None of these arrangements had material commitment fees or compensating balance requirements.

The following information relates to foreign loans (in thousands):

	<u>2004</u>	<u>2003</u>
Balance at Fiscal Year-End	\$ 1,907	\$ 865
Weighted Average Interest Rate at Fiscal Year-End	7.64%	5.73%

The Long-Term Debt caption consists of the following (in thousands):

	<u>2004</u>	<u>2003</u>
5.00% Convertible Senior Notes Due 2006	\$ -	\$ 140,000
7.25% Senior Notes Due 2007, Net of Unamortized Discount of \$597 in 2004 and \$783 in 2003	89,403	89,217
8.875% Senior Notes Due 2011, Net of Unamortized Discount of \$3,841 in 2004 and \$4,413 in 2003	271,159	270,587
Fair Value of Interest Rate Swaps	-	3,593
Total Long-Term Debt	<u>\$ 360,562</u>	<u>\$ 503,397</u>

In May 2004, the Company initiated and completed the redemption of its 5.00% Convertible Senior Notes due 2006 ("Notes"). With the exception of \$22,000 principal amount of Notes which were redeemed for cash, all holders exercised their conversion rights prior to the redemption dates and were issued 2,825,363 shares of Briggs & Stratton Corporation common stock from shares held in treasury.

In April 2004, the Company terminated all outstanding interest rate swaps relating to its 8.875% Senior Notes due 2011. Prior to termination, the swaps converted \$50 million of notional amounts from a fixed rate to a floating rate (LIBOR-set-in-arrears), and had a maturity of 2011. The swaps were terminated at a gain of \$0.5 million.

In May 2001, the Company issued \$275.0 million of 8.875% Senior Notes due March 15, 2011. No principal payments are due before the maturity date.

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The 7.25% senior notes are due September 15, 2007. In accordance with the agreement, no principal payments are due before the maturity date; however, the Company repurchased \$10 million of the bonds in the fourth quarter of fiscal year 2002 after receiving unsolicited offers from bondholders.

The separate indentures provided for the 7.25% senior notes, the 8.875% senior notes and the Company's credit facility (collectively, the Domestic Indebtedness) each include a number of financial and operating restrictions. These covenants include restrictions on the Company's ability to: pay dividends; incur indebtedness; create liens; enter into sale and leaseback transactions; consolidate, merge, sell or lease all or substantially all of its assets; and dispose of assets or the proceeds of sales of its assets. The credit facility contains financial covenants that require the Company to maintain a minimum interest coverage ratio and net worth (for the first quarter of fiscal 2005 the Company is required to maintain a minimum net worth of \$575.0 million) and impose a maximum leverage ratio. As of June 27, 2004, the Company was in compliance with these covenants.

Additionally, under the terms of the indentures governing the Domestic Indebtedness, BSPPG became a joint and several guarantor of amounts outstanding under the Domestic Indebtedness. Refer to Note 16 of the Notes to Consolidated Financial Statements for subsidiary guarantor financial information.

(8) Other Income:

The components of other income (expense) are as follows (in thousands):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interest Income	\$ 2,970	\$ 2,500	\$ 2,189
Equity in Earnings of Unconsolidated Affiliates	7,876	5,224	6,181
Deferred Financing Costs	(3,778)	(1,519)	(1,420)
Amortization of Intangibles	(56)	(56)	(56)
Gain on Investment in China	386	2,972	-
Other Items	1,062	(76)	1,797
Total	<u>\$ 8,460</u>	<u>\$ 9,045</u>	<u>\$ 8,691</u>

(9) Commitments and Contingencies:

Product and general liability claims arise against the Company from time to time in the ordinary course of business. The Company is generally self-insured for claims up to \$2.0 million per claim. Accordingly, a reserve is maintained for the estimated costs of such claims. On June 27, 2004 and June 29, 2003 the reserve for product and general liability claims (which includes asbestos-related liabilities) was \$6.3 million and \$4.7 million, respectively. Because there is inherent uncertainty as to the eventual resolution of unsettled claims, no reasonable range of possible losses can be determined. Management does not anticipate that these claims, excluding the impact of insurance proceeds and reserves, will have a material adverse effect on the financial condition or results of operations of the Company.

In October 1998, the Company joined seventeen other companies in guaranteeing a \$17.9 million letter of credit issued as a guarantee of certain City of Milwaukee Revenue Bonds used to develop a residential rental property. The Revenue Bonds were issued on behalf of a not-for-profit organization established to manage the project and rental property post construction. The revenues from the rental property are used to fund operating expenses and all debt service requirements. The Company's share of the guarantee and the maximum exposure to the Company under the agreement is \$1.8 million. The letter of credit and underlying guarantee expires August 15, 2008. Management believes the likelihood is remote that material payments will be required under this guarantee. Accordingly, no liability has been reflected in the accompanying Consolidated Balance Sheets related to this item.

The Company has no material commitments for materials or capital expenditures as of June 27, 2004.

(10) Stock Incentives:

The Company has a Stock Incentive Plan under which 5,361,935 shares of common stock have been reserved for issuance. In accordance with the plan, the Company can issue eligible employees stock options,

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stock appreciation rights, restricted stock, deferred stock, stock purchase rights and cash bonus awards. The plan also allows the Company to issue directors non-qualified stock options and directors' fees in stock.

The Company has issued stock options to certain employees and directors in accordance with the plan, which are accounted for under Accounting Principles Board Opinion No. 25, and no compensation cost has been recognized. Had compensation cost for this plan been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net Income (in thousands):			
As Reported	\$ 136,114	\$ 80,638	\$ 53,120
Compensation Cost	<u>(3,528)</u>	<u>(3,056)</u>	<u>(3,626)</u>
Pro Forma	<u>\$ 132,586</u>	<u>\$ 77,582</u>	<u>\$ 49,494</u>
Basic Earnings Per Share:			
As Reported	\$ 6.01	\$ 3.73	\$ 2.46
Pro Forma	\$ 5.86	\$ 3.59	\$ 2.29
Diluted Earnings Per Share:			
As Reported	\$ 5.53	\$ 3.49	\$ 2.36
Pro Forma	\$ 5.40	\$ 3.38	\$ 2.21

The exercise prices of each stock option issued is in excess of the market value of the stock on the date of grant. The fair value of each option is estimated using the Black-Scholes option pricing model. The grant-date fair market value of the options and assumptions used to determine such value are:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Options Granted During			
Grant Date Fair Value	\$19.95	\$10.61	\$12.53
Assumptions:			
Risk-free Interest Rate	4.6%	4.3%	5.1%
Expected Volatility	33.1%	38.4%	40.3%
Expected Dividend Yield	2.3%	3.3%	3.1%
Expected Term (In Years)	10.0	7.0	7.0

Information on the options outstanding is as follows:

	<u>Shares</u>	<u>Wtd. Avg. Ex. Price</u>
Balance, July 1, 2001	1,753,841	\$ 55.78
Granted During the Year	371,490	\$ 49.19
Exercised During the Year	(39,597)	27.64
Expired During the Year	(199,094)	54.59
Balance, June 30, 2002	<u>1,886,640</u>	\$ 55.20
Granted During the Year	205,980	\$ 46.69
Exercised During the Year	(122,060)	44.98
Expired During the Year	(294,770)	63.71
Balance, June 29, 2003	<u>1,675,790</u>	\$ 53.40
Granted During the Year	438,050	\$ 60.88
Exercised During the Year	(861,695)	52.59
Expired During the Year	(3,000)	74.53
Balance, June 27, 2004	<u>1,249,145</u>	\$ 56.53

Notes . . .

Grant Summary

<u>Fiscal Year</u>	<u>Grant Date</u>	<u>Date Exercisable</u>	<u>Expiration Date</u>	<u>Exercise Price</u>	<u>Options Outstanding</u>
2000	8-4-99	8-4-02	8-31-04	\$ 74.53	214,260
2001	8-3-00	8-3-03	8-3-07	46.22	221,805
2002	8-7-01	8-7-04	8-7-08	49.19	224,820
2003	8-13-02	8-13-05	8-13-09	46.69	174,910
2004	8-15-03	8-15-06	8-15-13	60.88	413,350

Under the Stock Incentive Plan, the Company has issued restricted stock to certain employees. During fiscal years 2004 and 2003, the Company issued 24,500 and 7,000 shares, respectively. No restricted shares were issued during fiscal year 2002. The restricted stock issued vests on the fifth anniversary date of issue provided that the recipient is still employed by the Company. The aggregate market value on the date of issue of \$1.5 million in fiscal 2004 and \$0.2 million in fiscal 2003 has been recorded as unearned compensation, a separate component of the Shareholders' Investment section of the Consolidated Balance Sheets, and is being amortized over the five-year vesting period.

Under the Stock Incentive Plan the Company may also issue stock to its directors in lieu of directors fees. The Company has issued 2,625 shares, 1,317 shares and 800 shares in fiscal 2004, 2003 and 2002, respectively under this provision of the plan.

(11) Shareholder Rights Plan:

On August 6, 1996, the Board of Directors declared a dividend distribution of one common stock purchase right (a right) for each share of the Company's common stock outstanding on August 19, 1996. Each right would entitle shareowners to buy one-half of one share of the Company's common stock at an exercise price of \$160.00 per full common share, subject to adjustment. The rights are not currently exercisable, but would become exercisable if events occurred relating to a person or group acquiring or attempting to acquire 15 percent or more of the outstanding shares of common stock. The rights expire on August 19, 2006, unless redeemed or exchanged by the Company earlier.

(12) Foreign Exchange Risk Management:

The Company enters into forward exchange contracts to hedge purchases and sales that are denominated in foreign currencies. The terms of these currency derivatives do not exceed twelve months, and the purpose is to protect the Company from the risk that the eventual dollars being transferred will be adversely affected by changes in exchange rates.

The Company has forward foreign currency exchange contracts to purchase Japanese yen. These contracts are used to hedge the commitments to purchase engines from the Company's Japanese joint venture. The Company also has forward contracts to sell foreign currency. These contracts are used to hedge foreign currency collections on sales of inventory. The Company's foreign currency forward contracts are carried at fair value based on current exchange rates.

The Company has the following forward currency contracts outstanding at the end of fiscal 2004:

Hedge		In Millions				Conversion	Latest
<u>Currency</u>	<u>Contract</u>	<u>Notional Value</u>	<u>Contract Value</u>	<u>Fair Market Value</u>	<u>(Gain)/Loss at Fair Value</u>	<u>Currency</u>	<u>Expiration Date</u>
Japanese Yen	Buy	1,680.0	15.5	15.7	(0.2)	U.S.	March 2005
Euro	Sell	87.0	103.0	105.8	2.8	U.S.	April 2005
Australian Dollar	Sell	0.4	0.2	0.3	0.1	U.S.	September 2004

Notes . . .

The Company had the following forward currency contracts outstanding at the end of fiscal 2003:

Hedge		In Millions				Conversion	Latest
<u>Currency</u>	<u>Contract</u>	<u>Notional Value</u>	<u>Contract Value</u>	<u>Fair Market Value</u>	<u>(Gain)/Loss at Fair Value</u>	<u>Currency</u>	<u>Expiration Date</u>
Japanese Yen	Buy	410.0	3.5	3.4	(0.1)	U.S.	October 2003
Euro	Sell	46.0	51.0	52.4	1.4	U.S.	February 2004
Australian Dollar	Sell	1.5	0.9	1.0	0.1	U.S.	December 2003
Canadian Dollar	Sell	1.6	1.1	1.2	0.1	U.S.	November 2003

The Company reclassified approximately \$1.1 million of unrealized loss into earnings during fiscal 2004 as forecasted transactions did not materialize in accordance with the hedging plan.

Notes . . .

(13) Employee Benefit Costs:

Retirement Plan and Postretirement Benefits

The Company has noncontributory, defined benefit retirement plans and postretirement benefit plans covering certain employees. The Company uses a June 30 measurement date for all of its plans. The following provides a reconciliation of obligations, plan assets and funded status of the plans for the two years indicated, (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Actuarial Assumptions:				
Discounted Rate Used to Determine Present Value of Projected Benefit Obligation	6.25%	6.00%	6.25%	6.00%
Expected Rate of Future Compensation Level Increases	3.0-5.0%	3.0-5.0%	n/a	n/a
Expected Long-Term Rate of Return on Plan Assets	8.75%	8.75%	n/a	n/a
Change in Benefit Obligations:				
Actuarial Present Value of Benefit Obligations at Beginning of Year	\$ 879,588	\$ 747,621	\$ 190,410	\$ 123,465
Service Cost	13,188	11,263	1,673	1,594
Interest Cost	51,089	52,276	10,766	8,258
Plan Amendments	1,048	1,234	-	-
Plan Participant Contributions	-	-	4,018	3,464
Actuarial Loss	21,171	127,441	65,629	74,534
Benefits Paid	(63,759)	(60,247)	(29,039)	(20,905)
Actuarial Present Value of Benefit Obligation at End of Year	\$ 902,325	\$ 879,588	\$ 243,457	\$ 190,410
Change in Plan Assets:				
Plan Assets at Fair Value at Beginning of Year	\$ 851,918	\$ 856,503	\$ -	\$ -
Actual Return on Plan Assets	126,575	54,350	-	-
Plan Participant Contributions	135	-	4,018	3,464
Employer Contributions	1,411	1,312	25,021	17,441
Benefits Paid	(63,759)	(60,247)	(29,039)	(20,905)
Plan Assets at Fair Value at End of Year	\$ 916,280	\$ 851,918	\$ -	\$ -
Funded Status:				
Plan Assets in Excess (Less Than) of Projected Benefit Obligation	\$ 13,955	\$ (27,670)	\$ (243,457)	\$ (190,410)
Remaining Unrecognized Net Obligation	74	82	182	228
Unrecognized Net Loss	22,682	56,237	169,559	112,284
Minimum Pension Liability	(3,063)	(4,522)	-	-
Unrecognized Prior Service Cost	26,179	28,210	9	41
Net Amount Recognized at End of Year	\$ 59,827	\$ 52,337	\$ (73,707)	\$ (77,857)
Amounts Recognized on the Balance Sheets:				
Prepaid Pension	\$ 81,730	\$ 74,005	\$ -	\$ -
Accrued Pension Cost	(20,603)	(20,368)	-	-
Accrued Wages and Salaries	(1,300)	(1,300)	-	-
Accrued Postretirement Health Care Obligation	-	-	(38,248)	(48,065)
Accrued Liabilities	-	-	(22,000)	(17,000)
Accrued Employee Benefits	-	-	(13,459)	(12,792)
Net Amount Recognized at End of Year	\$ 59,827	\$ 52,337	\$ (73,707)	\$ (77,857)

Notes . . .

The accumulated benefit obligation for all defined benefit pension plans was \$855,859 and \$831,919 at June 30, 2004 and 2003, respectively.

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

	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Components of Net Periodic (Income) Expense:						
Service Cost-Benefits Earned During the Year	\$ 13,188	\$ 11,263	\$ 10,014	\$ 1,673	\$ 1,594	\$ 1,341
Interest Cost on Projected Benefit Obligation	51,089	52,276	51,203	10,766	8,258	8,028
Expected Return on Plan Assets	(72,458)	(76,403)	(77,192)	-	-	-
Amortization of:						
Transition Obligation (Asset)	8	8	(4,517)	46	46	46
Prior Service Cost	3,080	2,965	2,797	31	31	31
Actuarial Loss (Gain)	607	(2,398)	(8,328)	8,354	2,428	1,834
Net Periodic (Income) Expense	\$ (4,486)	\$ (12,289)	\$ (26,023)	\$ 20,870	\$ 12,357	\$ 11,280

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

	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Discount Rate	6.0%	7.25%	7.5%	6.0%	7.25%	7.5%
Expected Return on Plan Assets	8.75%	9.0%	9.0%	n/a	n/a	n/a
Compensation Increase Rate	3.0-5.0%	4.0-5.0%	4.0-5.0%	n/a	n/a	n/a

In the second quarter of fiscal 2002, the Company offered and finalized an early retirement incentive program. As a result, the Company recorded \$4.9 million of expense offsetting pension income of \$26 million and \$2.2 million was added to postretirement health care expense. The impact for the full fiscal year of 2002 reduced net income on an after-tax basis by \$2.5 million, after consideration of salary and related expenditures savings.

The Company's supplemental pension plan has benefit obligations in excess of plan assets. The benefit obligation, accumulated benefit obligation and fair value of plan assets were \$28.4 million, \$22.0 million and \$0.1 million respectively for fiscal year 2004 and \$26.5 million, \$21.7 million and \$0.1 million respectively for fiscal year 2003.

An additional pension obligation is required when the accumulated benefit obligation exceeds the sum of the fair value of plan assets and the accrued pension expense. At June 27, 2004, the Company's additional pension obligation was \$3.1 million, of which \$1.3 million was included as a reduction in accumulated other comprehensive income, net of tax benefit of \$0.9 million, and \$0.9 million was included as an intangible asset as part of the other assets in the consolidated balance sheet. At June 29, 2003, the Company's additional pension obligation was \$4.5 million, of which \$2.6 million was included as an increase in accumulated other comprehensive loss, net of tax benefit of \$1.6 million, and \$0.3 million was included as an intangible asset.

The postretirement benefit plans are essentially unfunded.

For measurement purposes a 10% annual rate of increase in the per capita cost of covered health care claims was assumed for the fiscal year 2004 decreasing gradually to 5% for the fiscal year 2010. The health care cost trend rate assumption has a significant effect on the amounts reported. An increase of one percentage point, would increase the accumulated postretirement benefit by \$16.1 million and would increase the service and interest cost by \$0.9 million for the year. 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 \$0.9 million for the fiscal year.

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Plan Assets

A Board of Directors appointed Investment Committee ("Committee") manages the investment of the pension plan assets. The Committee has established and operates under an Investment Policy. It determines the asset allocation and target ranges based upon periodic asset/liability studies and capital market projections. The Committee retains external investment managers to invest the assets. The Investment Policy prohibits certain investment transactions, such as letter stock, commodity contracts, margin transactions and short selling, unless the Committee gives prior approval. Briggs & Stratton's pension plans weighted-average asset allocations and target allocations at June 30, 2004, and 2003, by asset category are as follows:

<u>Asset Category</u>	<u>Target %</u>	<u>Plan Assets at Year-end</u>	
		<u>2004</u>	<u>2003</u>
Domestic bonds	24%-34%	26%	30%
High yield	3%-10%	7%	7%
Domestic equities	36%-56%	48%	45%
International equities	5%-15%	10%	9%
Alternatives	2%-10%	5%	5%
Real estate	4%-8%	4%	4%
		<u>100%</u>	<u>100%</u>

The plan's investment strategy is based on an expectation that, over time, equity securities will provide higher total returns than debt securities. The plan primarily minimizes the risk of large losses through diversification of investments by asset class, by investing in different types of styles within the classes and by using a number of different managers. The Committee monitors the asset allocation and investment performance monthly, with a more comprehensive quarterly review with its consultant.

The plan's expected return on assets is based on management's and the Committee's expectations of long-term average rates of return to be achieved by the plan's investments. These expectations are based on the plan's historical returns and expected returns for the asset classes in which the plan is invested.

Contributions

The Company does not expect to make any contributions to the pension plans in fiscal 2005.

Estimated Future Benefit Payments

<u>Year Ending</u>	<u>Pension Benefits</u>		<u>Other Postretirement Benefits</u>		
	<u>Qualified</u>	<u>Non-Qualified</u>	<u>Retiree Medical</u>	<u>Retiree Life</u>	<u>LTD</u>
2005	\$ 60,004,000	\$1,433,000	\$ 25,390,000	\$1,271,000	\$208,000
2006	58,148,000	1,451,000	27,507,000	1,291,000	149,000
2007	58,634,000	1,461,000	28,889,000	1,311,000	98,000
2008	58,550,000	1,461,000	29,121,000	1,330,000	100,000
2009	58,576,000	1,461,000	28,817,000	1,348,000	102,000
2010-2014	283,856,000	7,302,000	129,336,000	6,985,000	368,000

Defined Contribution Plans

The Company has a defined contribution retirement plan that includes most U.S. non-Wisconsin employees. Under the plan, the Company makes an annual contribution on behalf of covered employees equal to 2% of each participant's gross income, as defined. For fiscal 2002, the net expense related to these plans was \$1.6 million. Effective July 1, 2002, this plan was frozen, and no future employer contributions will be made.

Employees of the Company may participate in a salary reduction deferred compensation retirement plan. A maximum of 1-1/2% or 3% of each participant's salary, depending upon the participant's group, is matched by the Company. For certain employees, this Company matching contribution is discretionary. The Company contributions totaled \$4.6 million in 2004, \$4.3 million in 2003 and \$4.1 million in 2002.

Notes . . .

Postemployment Benefits

The Company accrues the expected cost of postemployment benefits over the years that the employees render service. These benefits are substantially smaller amounts because they apply only to employees who permanently terminate employment prior to retirement. The items include disability payments, life insurance and medical benefits. These amounts are also discounted using an interest rate of 6.25% and 6.00% for fiscal year 2004 and 2003, respectively. Amounts are included in Accrued Employee Benefits in the Consolidated Balance Sheets.

(14) Disclosures About Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents, Receivables, Accounts Payable, Domestic Notes Payable, Foreign Loans, Accrued Liabilities and Income Taxes Payable: The carrying amounts approximate fair market value because of the short maturity of these instruments.

Long-Term Debt: The fair market value of the Company's long-term debt is estimated based on market quotations at year-end.

The estimated fair market values of the Company's Long-Term Debt is (in thousands):

	2004		2003	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term Debt -				
5.00% Convertible Notes Due 2006	\$ -	\$ -	\$ 140,000	\$ 168,725
7.25% Notes Due 2007	\$ 89,403	\$ 98,683	\$ 89,217	\$ 91,873
8.875% Notes Due 2011	\$ 271,159	\$ 328,502	\$ 270,587	\$ 324,237

(15) Subsequent Event

On July 7, 2004 Briggs & Stratton Corporation and its subsidiary, Briggs & Stratton Power Products Group, LLC acquired Simplicity Manufacturing, Inc. for \$227 million in cash 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. This acquisition will be accounted for using the purchase accounting provisions of SFAS No. 141 "Business Combinations". While we have not completed our preliminary purchase price allocation, we have engaged a third party to assist in determining the fair value of the assets acquired. Simplicity has estimated net assets of approximately \$75 million as of July 7, 2004.

(16) Separate Financial Information of Subsidiary Guarantors of Indebtedness

In June of 1997, Briggs & Stratton issued \$100 million of 7.25% senior notes and in May 2001, the Company issued \$275 million of 8.875% senior notes. In addition, Briggs & Stratton has a \$275 million revolving credit facility that expires in May 2009 used to finance seasonal working capital needs.

Under the terms of Briggs & Stratton's 8.875% senior notes, 7.25% senior notes and revolving credit agreement, (collectively, the "Domestic Indebtedness"), BSPPG became a joint and several guarantor of the Domestic Indebtedness (the "Guarantor"). The guarantee is a full and unconditional guarantee. Additionally, if at any time a domestic subsidiary of Briggs & Stratton constitutes a significant domestic subsidiary, then such domestic subsidiary will also become a guarantor of the Domestic Indebtedness. Currently all of the Domestic Indebtedness is unsecured. If Briggs & Stratton were to fail to make a payment of interest or principal on its

Notes . . .

due date, the Guarantor is obligated to pay the outstanding Domestic Indebtedness. Briggs & Stratton had the following outstanding amounts related to the guaranteed debt (in thousands):

	June 27, 2004 Carrying Amount	Maximum Guarantee
8.875% Senior Notes, due March 15, 2011	\$ 271,159	\$ 275,000
7.25% Senior Notes, due September 15, 2007	\$ 89,403	\$ 90,000
Revolving Credit Facility, expiring May 2009	\$ -	\$ 275,000

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

BALANCE SHEET: As of June 27, 2004	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current Assets	\$ 739,007	\$ 243,300	\$ 227,786	\$ (228,100)	\$ 981,993
Investment in Subsidiary	352,207	-	-	(352,207)	-
Noncurrent Assets	471,395	175,439	8,326	-	655,160
	<u>\$ 1,562,609</u>	<u>\$ 418,739</u>	<u>\$ 236,112</u>	<u>\$ (580,307)</u>	<u>\$ 1,637,153</u>
Current Liabilities	\$ 226,627	\$ 111,992	\$ 180,791	\$ (218,849)	\$ 300,561
Long-Term Debt	360,562	-	-	-	360,562
Other Long-Term Obligations	148,574	9,861	-	-	158,435
Shareholders' Equity	826,846	296,886	55,321	(361,458)	817,595
	<u>\$ 1,562,609</u>	<u>\$ 418,739</u>	<u>\$ 236,112</u>	<u>\$ (580,307)</u>	<u>\$ 1,637,153</u>
As of June 29, 2003					
Current Assets	\$ 617,409	\$ 159,067	\$ 99,311	\$ (68,640)	\$ 807,147
Investment in Subsidiary	333,848	-	-	(333,848)	-
Noncurrent Assets	483,227	180,903	3,916	-	668,046
	<u>\$ 1,434,484</u>	<u>\$ 339,970</u>	<u>\$ 103,227</u>	<u>\$ (402,488)</u>	<u>\$ 1,475,193</u>
Current Liabilities	\$ 256,476	\$ 51,610	\$ 53,846	\$ (60,537)	\$ 301,395
Long-Term Debt	503,397	-	-	-	503,397
Other Long-Term Obligations	151,521	3,855	38	-	155,414
Shareholders' Equity	523,090	284,505	49,343	(341,951)	514,987
	<u>\$ 1,434,484</u>	<u>\$ 339,970</u>	<u>\$ 103,227</u>	<u>\$ (402,488)</u>	<u>\$ 1,475,193</u>

Notes . . .

STATEMENT OF EARNINGS: For the Fiscal Year Ended June 27, 2004	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	\$ 1,562,114	\$ 460,122	\$ 152,236	\$ (227,108)	\$ 1,947,364
Cost of Goods Sold	1,205,950	405,720	120,253	(224,431)	1,507,492
Gross Profit	356,164	54,402	31,983	(2,677)	439,872
Engineering, Selling, General and Administrative Expenses	155,830	24,029	25,804	-	205,663
Income from Operations	200,334	30,373	6,179	(2,677)	234,209
Interest Expense	(37,236)	(2)	(84)	(343)	(37,665)
Other (Expense) Income, Net	28,787	(55)	983	(21,255)	8,460
Income Before Provision for Income Taxes	191,885	30,316	7,078	(24,275)	205,004
Provision for Income Taxes	64,473	11,574	1,545	(8,702)	68,890
Net Income	<u>\$ 127,412</u>	<u>\$ 18,742</u>	<u>\$ 5,533</u>	<u>\$ (15,573)</u>	<u>\$ 136,114</u>
 <u>For the Fiscal Year Ended June 29, 2003</u>					
Net Sales	\$ 1,369,785	\$ 319,000	\$ 116,875	\$ (148,027)	\$ 1,657,633
Cost of Goods Sold	1,107,515	279,436	88,158	(145,555)	1,329,554
Gross Profit	262,270	39,564	28,717	(2,472)	328,079
Engineering, Selling, General and Administrative Expenses	141,497	20,776	15,884	-	178,157
Income from Operations	120,773	18,788	12,833	(2,472)	149,922
Interest Expense	(39,912)	(10)	(644)	177	(40,389)
Other (Expense) Income, Net	28,177	(346)	(8,941)	(9,845)	9,045
Income Before Provision for Income Taxes	109,038	18,432	3,248	(12,140)	118,578
Provision for Income Taxes	34,892	6,328	2,856	(6,136)	37,940
Net Income	<u>\$ 74,146</u>	<u>\$ 12,104</u>	<u>\$ 392</u>	<u>\$ (6,004)</u>	<u>\$ 80,638</u>
 <u>For the Fiscal Year Ended June 30, 2002</u>					
Net Sales	\$ 1,334,921	\$ 216,243	\$ 80,976	\$ (102,840)	\$ 1,529,300
Cost of Goods Sold	1,104,862	195,630	62,340	(103,496)	1,259,336
Gross Profit	230,059	20,613	18,636	656	269,964
Engineering, Selling, General and Administrative Expenses	123,165	18,421	12,126	-	153,712
Income from Operations	106,894	2,192	6,510	656	116,252
Interest Expense	(43,600)	(50)	(889)	106	(44,433)
Other Income, Net	14,800	8	13,521	(19,638)	8,691
Income Before Provision for Income Taxes	78,094	2,150	19,142	(18,876)	80,510
Provision for Income Taxes	26,552	761	1,567	(1,490)	27,390
Net Income	<u>\$ 51,542</u>	<u>\$ 1,389</u>	<u>\$ 17,575</u>	<u>\$ (17,386)</u>	<u>\$ 53,120</u>

Notes . . .

STATEMENT OF CASH FLOWS: For the Fiscal Year Ended June 27, 2004	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net Income	\$ 127,412	\$ 18,742	\$ 5,533	\$ (15,573)	\$ 136,114
Adjustments to Reconcile Net Income to Net Cash Provided by (Used by) Operating Activities:					
Depreciation and Amortization	62,995	3,154	749	-	66,898
Equity in Earnings of Unconsolidated Affiliates	(17,274)	-	(500)	9,898	(7,876)
Loss on Disposition of Plant and Equipment	6,252	163	975	-	7,390
Provision for Deferred Income Taxes	5,604	7,196	-	-	12,800
Change in Operating Assets and Liabilities:					
Increase in Receivables	(34,485)	(10,492)	(132,053)	148,442	(28,588)
Increase in Inventories	(61,003)	(63,860)	(5,475)	1,744	(128,594)
(Increase) Decrease in Prepaid Expenses and Other Current Assets	(76)	645	1,448	-	2,017
Increase in Accounts Payable, Accrued Liabilities and Income Taxes	24,386	2,144	108,539	(130,373)	4,696
Increase in Prepaid Pension	(6,022)	(10)	(38)	-	(6,070)
Other, Net	(15,086)	(160)	2,223	-	(13,023)
Net Cash Provided by (Used by) Operating Activities	92,703	(42,478)	(18,599)	14,138	45,764
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to Plant and Equipment	(43,526)	(5,518)	(3,918)	-	(52,962)
Proceeds Received on Disposition of Plant and Equipment	659	61	-	-	720
Refund of Cash Paid for Acquisition	5,686	-	-	-	5,686
Other, Net	4,617	-	(225)	-	4,392
Net Cash Used by Investing Activities	(32,564)	(5,457)	(4,143)	-	(42,164)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net (Repayments) Borrowings on Loans and Notes Payable	(50,550)	51,042	17,740	(18,067)	165
Issuance Cost of Debt	(1,789)	-	-	-	(1,789)
Cash Dividends Paid	(30,408)	-	(3,929)	3,929	(30,408)
Proceeds from Exercise of Stock Options	45,314	-	-	-	45,314
Net Cash (Used by) Provided by Financing Activities	(37,433)	51,042	13,811	(14,138)	13,282
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS					
	-	(675)	1,372	-	697
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	22,706	2,432	(7,559)	-	17,579
Cash and Cash Equivalents, Beginning of Year	304,103	1,575	19,137	-	324,815
Cash and Cash Equivalents, End of Year	<u>\$ 326,809</u>	<u>\$ 4,007</u>	<u>\$ 11,578</u>	<u>\$ -</u>	<u>\$ 342,394</u>

Notes . . .

STATEMENT OF CASH FLOWS: For the Fiscal Year Ended June 29, 2003	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net Income	\$ 74,146	\$ 12,104	\$ 392	\$ (6,004)	\$ 80,638
Adjustments to Reconcile Net Income to Net Cash Provided by (Used by) Operating Activities:					
Depreciation and Amortization	60,268	2,651	607	-	63,526
Equity in (Earnings) Loss of Unconsolidated Affiliates	(9,054)	-	177	3,653	(5,224)
Loss (Gain) on Disposition of Plant and Equipment	4,900	(1,005)	(45)	-	3,850
Provision for Deferred Income Taxes	17,569	6,709	-	-	24,278
Change in Operating Assets and Liabilities:					
(Increase) Decrease in Receivables	(1,122)	(29,141)	449	23,856	(5,958)
Decrease (Increase) in Inventories	9,542	(14,217)	(9,608)	2,351	(11,932)
Increase in Prepaid Expenses and Other Current Assets	(2,098)	(807)	(1,758)	-	(4,663)
Increase in Accounts Payable, Accrued Liabilities and Income Taxes	21,130	12,331	34,716	(23,856)	44,321
(Increase) Decrease in Prepaid Pension	(13,609)	43	-	-	(13,566)
Other, Net	(5,700)	42	(2,217)	-	(7,875)
Net Cash Provided by (Used by) Operating Activities	155,972	(11,290)	22,713	-	167,395
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to Plant and Equipment	(34,855)	(4,251)	(1,048)	-	(40,154)
Proceeds Received on Disposition of Plant and Equipment	255	3,135	74	-	3,464
Other, Net	6,080	-	3,781	-	9,861
Net Cash (Used by) Provided by Investing Activities	(28,520)	(1,116)	2,807	-	(26,829)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net (Repayments) Borrowings on Loans and Notes Payable	(12,741)	12,191	(14,405)	-	(14,955)
Cash Dividends Paid	(27,709)	-	-	-	(27,709)
Proceeds from Exercise of Stock Options	5,490	-	-	-	5,490
Net Cash (Used by) Provided by Financing Activities	(34,960)	12,191	(14,405)	-	(37,174)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS					
	-	835	4,643	-	5,478
NET INCREASE IN CASH AND CASH EQUIVALENTS					
	92,492	620	15,758	-	108,870
Cash and Cash Equivalents, Beginning of Year	211,611	955	3,379	-	215,945
Cash and Cash Equivalents, End of Year	\$ 304,103	\$ 1,575	\$ 19,137	\$ -	\$ 324,815

Notes . . .

STATEMENT OF CASH FLOWS: For the Fiscal Year Ended June 30, 2002	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net Income	\$ 51,542	\$ 1,389	\$ 17,575	\$ (17,386)	\$ 53,120
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	62,590	2,812	566	-	65,968
Equity in (Earnings) Loss of Unconsolidated Affiliates	(21,645)	-	189	15,275	(6,181)
Loss (Gain) on Disposition of Plant and Equipment	3,593	(387)	(14)	-	3,192
Provision for Deferred Income Taxes	12,103	8,183	-	-	20,286
Change in Operating Assets and Liabilities:					
Increase in Receivables	(44,710)	(1,341)	(15,945)	5,312	(56,684)
Decrease (Increase) in Inventories	126,271	(2,352)	(1,549)	(657)	121,713
Increase in Prepaid Expenses and Other Current Assets	(1,286)	(122)	(111)	-	(1,519)
Increase (Decrease) in Accounts Payable, Accrued Liabilities and Income Taxes	31,650	(2,976)	1,617	(5,312)	24,979
(Increase) Decrease in Prepaid Pension	(23,101)	289	-	-	(22,812)
Other, Net	(1,494)	(751)	-	-	(2,245)
Net Cash Provided by Operating Activities	195,513	4,744	2,328	(2,768)	199,817
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to Plant and Equipment	(41,048)	(1,824)	(1,056)	-	(43,928)
Proceeds Received on Disposition of Plant and Equipment	362	9	35	-	406
Other, Net	5,120	-	-	-	5,120
Net Cash Used by Investing Activities	(35,566)	(1,815)	(1,021)	-	(38,402)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net Borrowings (Repayments) on Loans and Notes Payable	3,022	(3,697)	(1,021)	-	(1,696)
Repayments on Long-Term Debt	(10,393)	-	-	-	(10,393)
Cash Dividends Paid	(27,219)	-	(2,768)	2,768	(27,219)
Proceeds from Exercise of Stock Options	1,078	-	-	-	1,078
Net Cash Used by Financing Activities	(33,512)	(3,697)	(3,789)	2,768	(38,230)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS					
	(106)	1,040	3,083	-	4,017
NET INCREASE IN CASH AND CASH EQUIVALENTS					
	126,329	272	601	-	127,202
Cash and Cash Equivalents, Beginning of Year	85,282	683	2,778	-	88,743
Cash and Cash Equivalents, End of Year	\$ 211,611	\$ 955	\$ 3,379	\$ -	\$ 215,945