

Notes to Consolidated Financial Statements

FOR THE FISCAL YEARS ENDED JULY 3, 2005, JUNE 27, 2004 AND JUNE 29, 2003

(1) Nature of Operations:

Briggs & Stratton (the "Company") is a U.S. based producer of air cooled gasoline engines and engine powered outdoor equipment. The engines are sold worldwide, primarily to original equipment manufacturers of lawn and garden equipment and other gasoline engine powered equipment. The Company's wholly owned subsidiary, Briggs & Stratton Power Products Group, LLC ("BSPPG"), is a designer, manufacturer and marketer of a wide range of outdoor power equipment and related accessories. BSPPG's products are sold worldwide.

(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 2005 fiscal year was 53 weeks long and the 2004 and 2003 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.

Receivables: Receivables are recorded at the original carrying value less reserves for estimated uncollectible accounts. In fiscal 2005, Briggs & Stratton wrote off a \$38.9 million trade receivable from Murray, Inc., a major original equipment manufacturer. See Note 3 for additional discussion of Murray, Inc.

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 48% of total inventories at July 3, 2005 and 56% of total inventories at June 27, 2004. The cost for the remaining portion of the inventories was determined using the first-in, first-out (FIFO) method. During fiscal 2003, 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. There was no such reduction of inventory in fiscal 2005 and 2004. If the FIFO inventory valuation method had been used exclusively, inventories would have been \$52.5 million and \$51.4 million higher in 2005 and 2004, respectively. The LIFO inventory adjustment was determined on an overall basis, and accordingly, each class of inventory reflects an allocation based on the FIFO amounts.

Goodwill and Other Intangible Assets: Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. Other Intangible Assets reflect identifiable intangible assets that arise from purchase acquisitions. Other Intangible Assets are comprised of trademarks, patents and customer relationships. Goodwill and trademarks, which are considered to have indefinite lives are not amortized; however, both must be tested for impairment annually. Amortization is recorded on a straight line basis for other intangible assets with finite lives. Patents have been assigned an estimated weighted average useful life of thirteen years. The customer relationships have been assigned an estimated useful life of twenty-five years. The Company is subject to financial statement risk in the event that goodwill and intangible assets become impaired. The Company performed the required impairment tests in fiscal 2005, 2004 and 2003, and found no impairment of the assets.

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 are accounted

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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 three to ten years. Accumulated amortization related to open issues amounted to \$7.7 million as of July 3, 2005 and \$5.9 million as of June 27, 2004.

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 \$11.3 million as of July 3, 2005 and \$8.7 million as of June 27, 2004.

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 3-16 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 2005, 2004 or 2003.

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 2005 and 2004 (in thousands):

	2005	2004
Balance, Beginning of Period	\$ 43,148	\$ 47,590
Adjustment Related to Acquisitions	10,623	-
Payments	(35,796)	(30,761)
Provision for Current Year Warranties	41,761	29,150
Credit for Prior Years Warranties	(111)	(2,831)
Balance, End of Period	<u>\$ 59,625</u>	<u>\$ 43,148</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 when the Company no longer has substantial

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involvement with the facility, is estimated to be \$6.2 million. As management believes it may cease operations at this facility by the end of fiscal 2006, this gain could be recognized during fiscal 2006, but will be recognized no later than the first quarter of fiscal 2007, when the Reservation Period expires. The annual cost of operating the warehouse portion of the facility is not material.

Revenue Recognition: Net sales include sales of engines, power products, and related service parts and accessories, net of allowances for cash discounts, customer volume rebates and discounts, and advertising allowances. In accordance with Staff Accounting Bulletin No. 104 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.

Included in net sales are costs associated with programs under which Briggs & Stratton shares the expense of financing certain dealer and distributor inventories, referred to as floor plan expense. This represents interest for a pre-established length of time based on a variable rate from a contract with a third party financing source for dealer and distributor inventory purchases. Sharing the cost of these financing arrangements is used by Briggs & Stratton as a marketing incentive for customers to buy inventory. The financing costs included in net sales in fiscal 2005 were \$10.6 million. There were no similar costs in fiscal 2004 and fiscal 2003.

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

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

Retirement Plans: The Company has noncontributory, defined benefit retirement plans and postretirement benefit plans covering certain employees. Retirement benefits represent a form of deferred compensation, which are subject to change due to changes in assumptions. Management reviews underlying assumptions on an annual basis. Refer to Note 14 of the Notes to Consolidated Financial Statements.

Research and Development Costs: Expenditures relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. The amounts charged against income were \$33.5 million in fiscal 2005, \$25.9 million in fiscal 2004 and \$26.4 million in fiscal 2003.

Advertising Costs: Advertising costs, included in Engineering, Selling, General and Administrative Expenses in the accompanying Consolidated Statements of Earnings, are expensed as incurred. These expenses totaled \$35.8 million in fiscal 2005, \$15.0 million in fiscal 2004 and \$13.2 million in fiscal 2003.

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 \$23.6 million in fiscal 2005, \$12.8 million in fiscal 2004 and \$9.5 million in fiscal 2003.

Shipping and Handling Fees and Costs: Revenue received from shipping and handling fees is reflected in net sales. Shipping fee revenue for fiscal 2005, 2004 and 2003 was \$4.1 million, \$1.8 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 dollars at the rates of exchange in effect at fiscal year-end. Income and expenses incurred in a foreign currency are translated at the average rates of exchange in effect during the year. The related translation adjustments are made directly to a separate component of Shareholders' Investment.

Earnings Per Share: Basic earnings per share, for each period presented, is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per

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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 fiscal 2005 diluted earnings per share calculation includes all options outstanding as of July 3, 2005. The shares outstanding used to compute diluted earnings per share for fiscal 2004 and 2003 excludes outstanding options to purchase 428,520* and 3,351,580* shares of common stock, respectively, with weighted-average exercise prices of \$37.27* and \$26.70*, respectively. The options are excluded because their exercise prices are greater than the average market price of the common shares, and their inclusion in the computation would be antidilutive.

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

	Fiscal Year Ended		
	July 3, 2005	June 27, 2004	June 29, 2003
Net Income Before Extraordinary Gain Used in Basic Earnings Per Share	\$ 116,767	\$ 136,114	\$ 80,638
Adjustment to Net Income Before Extraordinary Gain to Add After-tax			
Interest Expense on Convertible Notes	-	4,053	4,760
Adjusted Net Income Before Extraordinary Gain Used in Diluted			
Earnings Per Share	\$ 116,767	\$ 140,167	\$ 85,398
Extraordinary Gain Used in Basic and Diluted Earnings Per Share	\$ 19,800	\$ -	\$ -
Net Income Used in Basic Earnings Per Share	\$ 136,567	\$ 136,114	\$ 80,638
Adjustment to Net Income to Add After-tax Interest Expense on			
Convertible Notes	-	4,053	4,760
Adjusted Net Income Used in Diluted Earnings Per Share	\$ 136,567	\$ 140,167	\$ 85,398
Average Shares of Common Stock Outstanding*	51,472	45,286	43,279
Incremental Common Shares Applicable to Common Stock Options Based			
on the Common Stock Average Market Price During the Period*	446	360	-
Incremental Common Shares Applicable to Restricted Common Stock Based			
on the Common Stock Average Market Price During the Period*	36	26	28
Incremental Common Shares Applicable to Convertible Notes Based on the			
Conversion Provisions of the Convertible Notes*	-	5,008	5,652
Diluted Average Common Shares Outstanding*	51,954	50,680	48,959

* Share data adjusted for effect of 2-for-1 stock split effective October 29, 2004.

Comprehensive Income: Comprehensive income is a more inclusive financial reporting method that includes disclosure of financial information that historically has not been recognized in the calculation of net income. The Company has chosen to report Comprehensive Income and Accumulated Other Comprehensive Income (Loss) which encompasses net income, unrealized gain (loss) on marketable securities, cumulative translation adjustments, unrealized gain (loss) on derivatives and minimum pension liability adjustments in the Consolidated Statements of Shareholders' Investment. 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 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
Fiscal Year Change	-	881	419	(53,659)	(52,359)
Balance at July 3, 2005	\$ -	\$ 5,739	\$ 919	\$(54,989)	\$(48,331)

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

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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 13.

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

(3) Acquisitions:

On July 7, 2004, Briggs & Stratton and its subsidiary, Briggs & Stratton Power Products Group, LLC ("BSPPG") acquired Simplicity Manufacturing, Inc. ("Simplicity"). Simplicity designs, manufactures and markets a wide variety of premium yard and garden tractors, lawn tractors, riding mowers, snow throwers, attachments, and other lawn and garden products like rototillers and chipper shredders. The purchase price included \$250.2 million of cash, a \$2.3 million liability for future tax benefits, and \$135.3 million of liabilities assumed. The cash paid included \$17.8 million of cash acquired and \$9.4 million of direct acquisition costs.

The Simplicity acquisition has been accounted for using the purchase method of accounting. The purchase price was allocated to identifiable assets acquired and liabilities assumed based upon their estimated fair values, with the excess purchase price recorded as goodwill. Final adjustments to the purchase price allocation, which will include the resolution of certain tax matters, are not expected to be material to the consolidated financial statements.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

<u>Assets Acquired:</u>	
Current Assets	\$ 123,055
Property, Plant and Equipment	62,960
Goodwill	102,853
Other Intangible Assets	98,120
Other Noncurrent Assets	867
Total Assets	<u>387,855</u>
<u>Liabilities Assumed:</u>	
Current Liabilities	51,299
Deferred Tax Liabilities	46,846
Post Retirement Benefits	36,665
Other Noncurrent Liabilities	503
Total Liabilities	<u>135,313</u>
Net Assets	<u>\$ 252,542</u>

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The following table summarizes pro forma results for the twelve months ended June 27, 2004, as though the business combination had been completed at the beginning of the earliest comparable period (in thousands, except per share data):

	<u>Twelve Months Ended</u>
	<u>June 27, 2004</u>
Net Sales	\$ 2,267,222
Net Income	\$ 142,815
Basic Earnings Per Share	\$ 3.15
Diluted Earnings Per Share	\$ 2.90

On February 11, 2005, Briggs & Stratton Corporation and its subsidiaries, Briggs & Stratton Power Products Group, LLC and Briggs & Stratton Canada, Inc. acquired certain assets of Murray, Inc. and Murray Canada Co. (collectively "Murray") and entered into a transition supply agreement ("TSA"). The TSA gives Briggs & Stratton the right to purchase finished lawn, garden and snow products from Murray for a period up to eighteen months. Briggs & Stratton has reached an agreement with Murray to end the TSA effective September 30, 2005. The cash purchase price was \$122.7 million, including direct acquisition costs of \$1.8 million. Briggs & Stratton financed the acquisition through the issuance of \$125 million variable rate Term Notes due February 11, 2008, with no prepayment penalty. The Term Notes have financial and operating restrictions consistent with other debt agreements, as disclosed in Note 8. Although no liabilities were assumed pursuant to the asset purchase agreement, there are certain consumer and customer related obligations incident to the acquisition that have been considered. In addition, there were certain obligations created by the TSA that have been considered in purchase accounting.

The Murray acquisition has been accounted for using the purchase method of accounting. The purchase price was allocated on a preliminary basis to identifiable assets acquired and liabilities recognized (as discussed above) based upon their estimated fair values. The estimated fair value of Murray assets acquired exceeded the acquisition cost by \$19.8 million, after all tax considerations, and this amount was recognized as an extraordinary gain. Final adjustments to the purchase price allocation are not expected to be material to the consolidated financial statements.

The following table summarizes the fair value of the assets acquired, liabilities assumed and extraordinary gain recognized at the date of acquisition (in thousands):

<u>Assets Acquired:</u>	
Accounts Receivable, net	\$ 78,851
Inventory, net	83,286
Deferred Tax Asset	3,263
Total Assets	<u>165,400</u>
<u>Liabilities Recognized:</u>	
Federal and State Taxes Payable	13,015
Rebates	4,241
Warranty	1,850
TSA Obligations	<u>3,810</u>
Total Liabilities	<u>22,916</u>
Net Assets	142,484
Cash Paid	122,684
Extraordinary Gain:	<u>\$ 19,800</u>

Subsequent to fiscal year 2005, Briggs & Stratton received a refund of \$6.3 million of its purchase price for receivables identified as uncollectible. All remaining acquired receivables, net, have been collected.

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(4) Goodwill and Other Intangible Assets:

The changes in the carrying amount of goodwill for the fiscal years ended July 3, 2005 and June 27, 2004 are as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Beginning Goodwill Balance	\$ 151,991	\$ 159,756
Goodwill Acquired During the Period	102,853	-
Tax Benefit on Amortization	(1,778)	(2,079)
Purchase Accounting Adjustments	-	(5,686)
Ending Goodwill Balance	<u>\$ 253,066</u>	<u>\$ 151,991</u>

See Note 3 for a discussion of goodwill from business acquisitions during fiscal 2005.

The Company's other intangible assets, primarily from acquisitions, are valued based on independent appraisals and, for the years ended July 3, 2005 and June 27, 2004 are as follows (in thousands):

	<u>2005</u>			<u>2004</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>
<u>Amortized Intangible Assets:</u>						
Patents	\$ 13,280	\$ (1,116)	\$ 12,164	\$ 70	\$ (29)	\$ 41
Customer Relationships	17,910	(716)	17,194	-	-	-
Miscellaneous	279	(192)	87	279	(145)	134
Total Amortized Intangible Assets	<u>31,469</u>	<u>(2,024)</u>	<u>29,445</u>	<u>349</u>	<u>(174)</u>	<u>175</u>
<u>Unamortized Intangible Assets:</u>						
Trademarks/Brand Names	67,000	-	67,000	-	-	-
Total Unamortized Intangible Assets	<u>67,000</u>	<u>-</u>	<u>67,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Intangible Assets	<u>\$ 98,469</u>	<u>\$ (2,024)</u>	<u>\$ 96,445</u>	<u>\$ 349</u>	<u>\$ (174)</u>	<u>\$ 175</u>

Amortization expense of other intangible assets amounts to approximately \$1,850,000, \$56,000, and \$56,000 in 2005, 2004, and 2003, respectively.

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

2006	\$ 1,850
2007	1,844
2008	1,804
2009	1,798
2010	1,794
	<u>\$ 9,090</u>

(5) Income Taxes:

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current			
Federal	\$ 51,144	\$ 46,506	\$ 11,404
State	7,948	8,039	291
Foreign	2,352	1,545	1,967
	<u>61,444</u>	<u>56,090</u>	<u>13,662</u>
Deferred	(3,896)	12,800	24,278
	<u>\$ 57,548</u>	<u>\$ 68,890</u>	<u>\$ 37,940</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
U.S. Statutory Rate	35.0%	35.0%	35.0%
State Taxes, Net of Federal Tax Benefit	2.4%	3.0%	1.8%
Foreign Tax Benefits	(0.8%)	(0.9%)	(3.3%)
Resolution of Prior Period Tax Matters	-	(2.2%)	-
Benefit on Dividends Received	(4.0%)	-	-
Other	0.4%	(1.3%)	(1.5%)
Effective Tax Rate	<u>33.0%</u>	<u>33.6%</u>	<u>32.0%</u>

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

	<u>2005</u>	<u>2004</u>
Current Asset (Liability):		
Difference Between Book and Tax Methods Applied to:		
Inventory	\$ 11,798	\$ 13,443
Payroll Related Accruals	4,702	2,627
Warranty Reserves	22,605	16,768
Workers Compensation Accruals	3,611	4,257
Other Accrued Liabilities	17,365	12,338
Minimum Pension Liability	35,157	850
Miscellaneous	(2,987)	(2,660)
Deferred Income Tax Asset	<u>\$ 92,251</u>	<u>\$ 47,623</u>

Long-Term Liability (Asset):

Difference Between Book and Tax Methods Applied to:		
Pension Cost	\$ 32,945	\$ 31,875
Accumulated Depreciation	79,029	59,271
Intangibles	58,473	16,401
Accrued Employee Benefits	(13,840)	(12,333)
Postretirement Health Care Obligation	(29,940)	(14,917)
Deferred Revenue on Sale of Plant & Equipment	(5,717)	(5,822)
Miscellaneous	(7,156)	(4,021)
Deferred Income Tax Liability	<u>\$ 113,794</u>	<u>\$ 70,454</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 \$11.1 million at July 3, 2005. If these earnings were remitted to the U.S., they would be subject to U.S. income tax. However, this tax would be less than the U.S. statutory income tax because of available foreign tax credits.

(6) Segment and Geographic Information and Significant Customers:

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
NET SALES:			
Engines	\$ 1,739,184	\$ 1,617,409	\$ 1,428,411
Power Products	1,193,616	489,250	329,488
Eliminations	(277,925)	(159,295)	(100,266)
	<u>\$ 2,654,875</u>	<u>\$ 1,947,364</u>	<u>\$ 1,657,633</u>

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	<u>2005</u>	<u>2004</u>	<u>2003</u>
GROSS PROFIT ON SALES:			
Engines	\$ 372,162	\$ 382,713	\$ 291,937
Power Products	133,888	57,846	38,233
Eliminations	<u>(1,159)</u>	<u>(687)</u>	<u>(2,091)</u>
	<u>\$ 504,891</u>	<u>\$ 439,872</u>	<u>\$ 328,079</u>
INCOME FROM OPERATIONS:			
Engines	\$ 142,653	\$ 204,468	\$ 134,775
Power Products	49,274	30,428	17,238
Eliminations	<u>(1,159)</u>	<u>(687)</u>	<u>(2,091)</u>
	<u>\$ 190,768</u>	<u>\$ 234,209</u>	<u>\$ 149,922</u>
ASSETS:			
Engines	\$ 1,297,789	\$ 1,435,016	\$ 1,150,607
Power Products	877,933	402,618	339,970
Eliminations	<u>(176,754)</u>	<u>(200,481)</u>	<u>(15,384)</u>
	<u>\$ 1,998,968</u>	<u>\$ 1,637,153</u>	<u>\$ 1,475,193</u>
CAPITAL EXPENDITURES:			
Engines	\$ 67,802	\$ 47,408	\$ 35,903
Power Products	18,273	5,554	4,251
	<u>\$ 86,075</u>	<u>\$ 52,962</u>	<u>\$ 40,154</u>
DEPRECIATION & AMORTIZATION:			
Engines	\$ 59,819	\$ 63,744	\$ 60,875
Power Products	13,724	3,154	2,651
	<u>\$ 73,543</u>	<u>\$ 66,898</u>	<u>\$ 63,526</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
United States	\$ 2,481,374	\$ 1,795,128	\$ 1,546,520
All Other Countries	173,501	152,236	111,113
Total	<u>\$ 2,654,875</u>	<u>\$ 1,947,364</u>	<u>\$ 1,657,633</u>

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

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

Customer:	<u>2005</u>		<u>2004</u>		<u>2003</u>	
	Net Sales	%	Net Sales	%	Net Sales	%
EOP	\$ 374,941	14%	\$ 318,705	16%	\$ 260,253	16%
MTD	316,911	12%	334,748	17%	253,066	15%
Murray					168,928	10%
	<u>\$ 691,852</u>	<u>26%</u>	<u>\$ 653,453</u>	<u>33%</u>	<u>\$ 682,247</u>	<u>41%</u>

(7) Leases:

The Company leases certain facilities, vehicles, and equipment under both capital and operating leases. Assets held under capital leases are included in Other Long-Term Assets and Plant and Equipment and are charged to depreciation and interest over the life of the lease. Related liabilities are included in Other Accrued Liabilities and Other Long-Term Liabilities. Operating leases are not capitalized and lease payments are expensed on a straight-line basis over the life of the lease. Terms of the leases, including purchase options,

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renewals, and maintenance costs, vary by lease. Rental expense for fiscal 2005, 2004 and 2003 was \$16.1 million, \$10.2 million and \$8.1 million, respectively.

Future minimum lease commitments for all non-cancelable leases as of July 3, 2005 are as follows (in thousands):

Fiscal Year	Operating	Capital
2006	\$ 11,508	\$ 758
2007	9,365	686
2008	7,213	853
2009	5,163	-
2010	4,446	-
Thereafter	7,019	-
Total future minimum lease commitments	<u>\$ 44,714</u>	<u>2,297</u>
Less: Interest		(309)
Present value of minimum capital lease payments		<u>\$ 1,988</u>

(8) Indebtedness:

On March 18, 2005, the Company amended its unsecured five-year \$275 million revolving credit facility (the credit facility) that expires in May 2009 to increase the aggregate amount of the credit facility to \$350 million. There were no borrowings under the credit facility as of July 3, 2005 or June 27, 2004.

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):

	2005	2004
Balance at Fiscal Year-End	\$ -	\$ 1,220
Weighted Average Interest Rate at Fiscal Year-End	-	2.98%

The domestic notes payable balance was paid in full as of December 22, 2004.

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 \$11.6 million, expire at various times through November 2005 and are renewable. None of these arrangements had material commitment fees or compensating balance requirements. Borrowings using these lines of credit are included in short-term debt. Outstanding balances are as follows (in thousands):

	2005	2004
Balance at Fiscal Year-End	\$ 443	\$ 1,907
Weighted Average Interest Rate at Fiscal Year-End	5.93%	7.64%

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

	<u>2005</u>	<u>2004</u>
7.25% Senior Notes Due 2007, Net of Unamortized Discount of \$411 in 2005 and \$597 in 2004	\$ 89,589	\$ 89,403
8.875% Senior Notes Due 2011, Net of Unamortized Discount of \$3,268 in 2005 and \$3,841 in 2004	271,732	271,159
Variable Rate Term Notes Due 2008	125,000	-
Total Long-Term Debt	<u>\$ 486,321</u>	<u>\$ 360,562</u>

On February 11, 2005, the Company entered into an unsecured three-year \$125 million term loan agreement that expires on February 11, 2008. The Company is required to repay the loans under the agreement in two installments as follows: (a) \$40 million on August 11, 2006 (eighteen month anniversary of the closing date); and (b) the aggregate principal amount of the remaining loan on February 11, 2008 (maturity date). The outstanding balance of the loans as of July 3, 2005 was \$125 million.

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

(1) a 1, 2, 3 or 6 month LIBOR rate plus a margin varying from 0.50% to 1.75%, depending upon the rating of the Company's long-term debt by 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 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.

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 and the 8.875% senior notes, and the Credit Agreements for the variable rate term notes and the Company's revolving 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 (as of fiscal year end 2005 the Company was required to maintain a minimum net worth of \$634.0 million) and impose a maximum leverage ratio. As of July 3, 2005, the Company was in compliance with these covenants.

Additionally, under the terms of the indentures and Credit Agreements governing the Domestic Indebtedness, BSPPG and its wholly owned subsidiary, Simplicity became joint and several guarantors of amounts outstanding under the Domestic Indebtedness. Refer to Note 16 of the Notes to Consolidated Financial Statements for subsidiary guarantor financial information.

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(9) Other Income:

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest Income	\$ 1,155	\$ 2,970	\$ 2,500
Income on Preferred Stock and Equity in Earnings from Unconsolidated Affiliates	17,781	7,876	5,224
Deferred Financing Costs	(1,233)	(3,778)	(1,519)
Gain on Investment in China	-	386	2,972
Other Items	2,727	1,006	(132)
Total	<u>\$ 20,430</u>	<u>\$ 8,460</u>	<u>\$ 9,045</u>

(10) Commitments and Contingencies:

Product and general liability claims arise against the Company from time to time in the ordinary course of business. The Company is generally self-insured for claims up to \$2.0 million per claim. Accordingly, a reserve is maintained for the estimated costs of such claims. On July 3, 2005 and June 27, 2004 the reserve for product and general liability claims (which includes asbestos-related liabilities) was \$8.0 million and \$6.3 million, respectively. Because there is inherent uncertainty as to the eventual resolution of unsettled claims, no reasonable range of possible losses can be determined. Management does not anticipate that these claims, excluding the impact of insurance proceeds and reserves, will have a material adverse effect on the financial condition or results of operations of the Company.

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

Certain Independent Dealers and Distributors finance inventory purchases through a third party financing company. Briggs & Stratton has indemnified the third party finance company against credit default. The Company's maximum exposure under this agreement due to customer credit default in a fiscal year is \$1.6 million. In fiscal 2005, the third party financing company provided financing for \$339.4 million of Briggs & Stratton product in fiscal 2005. As of the end of fiscal 2005 there were \$188.1 million in receivables outstanding under this arrangement. Briggs & Stratton made no payments under this indemnity in fiscal 2005.

The Company has no material commitments for materials or capital expenditures as of July 3, 2005.

(11) Stock Incentives:

The Company had a Stock Incentive Plan under which 5,361,935 shares of common stock were reserved for issuance. Effective October 20, 2004, the Company adopted an Incentive Compensation Plan under which 4,000,000 shares of common stock (8,000,000 shares as a result of the 2-for-1 stock split) were reserved for future issuance. The adoption of this Plan reduced the number of shares available for future issuance under the Stock Incentive Plan to zero. However, as of July 3, 2005, there were 3,092,168 outstanding option and restricted stock awards granted under the Stock Incentive Plan that are or may become exercisable in the future. In accordance with both plans, the Company can issue eligible employees stock options, stock appreciation rights, restricted stock, deferred stock and cash bonus awards subject to certain annual limitations. The plans also allow the Company to issue directors non-qualified stock options and directors' fees in stock.

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The Company has issued stock options to certain employees and directors in accordance with the plans, which are accounted for under Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees", and no compensation cost has been recognized. Had compensation cost for these plans 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>2005</u>	<u>2004</u>	<u>2003</u>
Net income as reported (in thousands):	\$ 136,567	\$ 136,114	\$ 80,638
Basic EPS:			
Deduct employee compensation expense determined under a fair value based method, net of related tax effects	<u>(5,837)</u>	<u>(3,528)</u>	<u>(3,056)</u>
Income Available to Common Stockholders:	130,730	132,586	77,582
Diluted EPS:			
Add reduction in interest expense related to convertible debt	<u>-</u>	<u>4,053</u>	<u>4,760</u>
Income Available to Common Stockholders:	<u>\$ 130,730</u>	<u>\$ 136,639</u>	<u>\$ 82,342</u>
Basic Earnings Per Share:*			
As Reported	\$ 2.65	\$ 3.01	\$ 1.86
Pro Forma	\$ 2.54	\$ 2.93	\$ 1.79
Diluted Earnings Per Share:*			
As Reported	\$ 2.63	\$ 2.77	\$ 1.74
Pro Forma	\$ 2.52	\$ 2.70	\$ 1.69

The exercise price 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>2005</u>	<u>2004</u>	<u>2003</u>
Options Granted During			
Grant Date Fair Value*	\$12.12	\$9.98	\$5.31
Assumptions:			
Risk-free Interest Rate	4.2%	4.6%	4.3%
Expected Volatility	28.4%	33.1%	38.4%
Expected Dividend Yield	1.9%	2.3%	3.3%
Expected Term (In Years)	10.0	10.0	7.0

* Share data adjusted for effect of 2-for-1 stock split effective October 29, 2004.

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Information on the options outstanding is as follows:

	Shares*	Wtd. Avg. Ex. Price
Balance, June 30, 2002	3,773,280	\$ 27.60
Granted During the Year	411,960	23.35
Exercised During the Year	(244,120)	22.49
Expired During the Year	(589,540)	31.86
Balance, June 29, 2003	<u>3,351,580</u>	\$ 26.70
Granted During the Year	876,100	30.44
Exercised During the Year	(1,723,390)	26.29
Expired During the Year	(6,000)	37.27
Balance, June 27, 2004	<u>2,498,290</u>	\$ 28.27
Granted During the Year	1,149,340	36.68
Exercised During the Year	(622,262)	32.67
Expired During the Year	(18,200)	37.27
Balance, July 3, 2005	<u>3,007,168</u>	\$ 30.52

Grant Summary*

Fiscal Year	Grant Date	Date Exercisable	Expiration Date	Exercise Price	Options Outstanding
2001	8-3-00	8-3-03	8-3-07	\$ 23.11	326,348
2002	8-7-01	8-7-04	8-7-08	24.60	402,200
2003	8-13-02	8-13-05	8-13-09	23.35	302,580
2004	8-15-03	8-15-06	8-15-13	30.44	826,700
2005	8-13-04	8-13-07	8-13-14	36.68	1,149,340

Under the plans, the Company has issued restricted stock to certain employees. During fiscal years 2005, 2004 and 2003, the Company issued 26,000, 49,000* and 14,000* shares, respectively. The restricted stock 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 \$1.0 million in fiscal 2005, \$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 plans, the Company may also issue stock to its directors in lieu of directors fees. The Company has issued 3,463 shares, 5,250* shares and 2,634* shares in fiscal 2005, 2004 and 2003, respectively under this provision of the plans.

Under the Incentive Compensation Plan, the Company may also issue deferred stock to its officers and key employees. During fiscal 2005, the Company has issued 1,000 shares under this provision. The aggregate market value on the date of issue was \$34,000. Expense is recognized ratably over the five-year vesting period.

* Share data adjusted for effect of 2-for-1 stock split effective October 29, 2004.

(12) 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 (\$80.00 per full common share after taking into consideration the effect of 2-for-1 stock split effective October 29, 2004), 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

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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.

(13) Foreign Exchange Risk Management:

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

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

The Company has the following forward currency contracts outstanding at the end of fiscal 2005:

Hedge		In Millions				Conversion	Latest
Currency	Contract	Notional Value	Contract Value	Fair Market Value	(Gain)/Loss at Fair Value	Currency	Expiration Date
Japanese Yen	Buy	2,550.0	24.4	23.2	1.2	U.S.	June 2006
Euro	Sell	35.0	43.9	42.3	(1.6)	U.S.	June 2006
Australian Dollar	Sell	2.4	1.8	1.8	0	U.S.	May 2006

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

Hedge		In Millions				Conversion	Latest
Currency	Contract	Notional Value	Contract Value	Fair Market Value	(Gain)/Loss at Fair Value	Currency	Expiration Date
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

The Company continuously evaluates the effectiveness of its hedging program by evaluating its foreign exchange contracts compared to the anticipated underlying transactions. In fiscal 2004, the Company reclassified approximately \$1.1 million of unrealized loss into earnings as forecasted transactions did not materialize in accordance with the hedging plan. The Company did not have any ineffective hedges in fiscal 2005.

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(14) Employee Benefit Costs:

Retirement Plan and Other Postretirement Benefits

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

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Actuarial Assumptions:				
Discounted Rate Used to Determine Present Value of Projected Benefit Obligation	5.25%	6.25%	5.25%	6.25%
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:				
Projected Benefit Obligation at Beginning of Year	\$ 902,325	\$ 879,588	\$ 243,457	\$ 190,410
Service Cost	12,993	13,188	2,734	1,673
Interest Cost	54,448	51,089	16,703	10,766
Plan Amendments	-	1,048	-	-
Acquisition	-	-	36,665	-
Plan Participant Contributions	-	-	3,730	4,018
Actuarial Loss	124,756	21,171	31,744	65,629
Benefits Paid	(62,508)	(63,759)	(29,942)	(29,039)
Projected Benefit Obligation at End of Year	<u>\$1,032,014</u>	<u>\$ 902,325</u>	<u>\$ 305,091</u>	<u>\$ 243,457</u>
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	\$ 916,280	\$ 851,918	\$ -	\$ -
Actual Return on Plan Assets	62,165	126,575	-	-
Plan Participant Contributions	-	0	3,730	4,018
Employer Contributions	1,506	1,546	26,212	25,021
Benefits Paid	(62,508)	(63,759)	(29,942)	(29,039)
Fair Value of Plan Assets at End of Year	<u>\$ 917,443</u>	<u>\$ 916,280</u>	<u>\$ -</u>	<u>\$ -</u>
Funded Status:				
Plan Assets (Less Than) in Excess of Projected Benefit Obligation	\$ (114,571)	\$ 13,955	\$ (305,091)	\$ (243,457)
Remaining Unrecognized Net Obligation	65	74	135	182
Unrecognized Net Loss	155,308	22,682	187,056	169,559
Minimum Pension Liability	(113,185)	(3,063)	-	-
Unrecognized Prior Service Cost	23,039	26,179	(22)	9
Net Amount Recognized at End of Year	<u>\$ (49,344)</u>	<u>\$ 59,827</u>	<u>\$ (117,922)</u>	<u>\$ (73,707)</u>
Amounts Recognized on the Balance Sheets:				
Prepaid Pension	\$ -	\$ 81,730	\$ -	\$ -
Accrued Pension Cost	(47,944)	(20,603)	-	-
Accrued Wages and Salaries	(1,400)	(1,300)	-	-
Accrued Postretirement Health Care Obligation	-	-	(77,607)	(38,248)
Accrued Liabilities	-	-	(26,000)	(22,000)
Accrued Employee Benefits	-	-	(14,315)	(13,459)
Net Amount Recognized at End of Year	<u>\$ (49,344)</u>	<u>\$ 59,827</u>	<u>\$ (117,922)</u>	<u>\$ (73,707)</u>

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The accumulated benefit obligation for all defined benefit pension plans was \$967 million and \$856 million at June 30, 2005 and 2004, respectively.

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

	Pension Benefits			Other Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
Components of Net Periodic (Income) Expense:						
Service Cost-Benefits Earned During the Year	\$ 12,993	\$ 13,188	\$ 11,263	\$ 2,734	\$ 1,673	\$ 1,594
Interest Cost on Projected Benefit Obligation	54,448	51,089	52,276	16,703	10,766	8,258
Expected Return on Plan Assets	(70,806)	(72,458)	(76,403)	-	-	-
Amortization of:						
Transition Obligation (Asset)	8	8	8	46	46	46
Prior Service Cost	3,140	3,080	2,965	31	31	31
Actuarial Loss (Gain)	772	607	(2,398)	14,249	8,354	2,428
Net Periodic (Income) Expense	\$ 555	\$ (4,486)	\$ (12,289)	\$ 33,763	\$ 20,870	\$ 12,357

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

	Pension Benefits			Other Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
Discount Rate	6.25%	6.0%	7.25%	6.25%	6.0%	7.25%
Expected Return on Plan Assets	8.75%	8.75%	9.0%	n/a	n/a	n/a
Compensation Increase Rate	3.0-5.0%	3.0-5.0%	4.0-5.0%	n/a	n/a	n/a

An additional pension obligation is required when the accumulated benefit obligation exceeds the sum of the fair value of plan assets and the accrued pension expense. At July 3, 2005, the Company's additional pension obligation was \$113.2 million, of which \$55.0 million was included as a reduction in accumulated other comprehensive income, net of tax benefit of \$35.2 million, and \$23.0 million was included as an intangible asset as part of the other assets in the consolidated balance sheet. 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.

The "other postretirement benefit" plans are essentially unfunded.

For measurement purposes an 11% annual rate of increase in the per capita cost of covered health care claims was assumed for Briggs & Stratton for the fiscal year 2005 decreasing gradually to 5% for the fiscal year 2011. In fiscal 2005, Briggs & Stratton acquired the liabilities associated with the Simplicity Post-Retirement Benefit Plan covering certain Port Washington, Wisconsin employees. For measurement purposes this plan assumes a 6.875% annual rate of increase in the per capita cost decreasing gradually to 5% for the fiscal year 2011. The health care cost trend rate assumptions have a significant effect on the amounts reported. An increase of one percentage point, would increase the accumulated postretirement benefit by \$22.2 million and would increase the service and interest cost by \$1.7 million for the year. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by \$20.3 million and decrease the service and interest cost by \$1.5 million for the fiscal year.

Plan Assets

A Board of Directors appointed Investment Committee ("Committee") manages the investment of the pension plan assets. The Committee has established and operates under an Investment Policy. It determines the asset allocation and target ranges based upon periodic asset/liability studies and capital market projections. The Committee retains external investment managers to invest the assets. The Investment Policy prohibits certain investment transactions, such as lettered stock, commodity contracts, margin transactions and short

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selling, unless the Committee gives prior approval. Briggs & Stratton's pension plans weighted-average asset allocations and target allocations at June 30, 2005, and 2004, by asset category are as follows:

Asset Category	Target %	Plan Assets at Year-end	
		2005	2004
Domestic Bonds	12%-30%	15%	26%
Non-Investment Grade Bonds	0%-15%	10%	7%
Non-US Bonds	0%-10%	5%	-
Domestic Equities	24%-46%	41%	48%
Global & International Equities	8%-22%	15%	10%
Alternative & Absolute Return	5%-25%	9%	5%
Real Estate	4%-10%	5%	4%
		<u>100%</u>	<u>100%</u>

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

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

Contributions

The Company is not required to make any contributions to the pension plans in fiscal 2006.

Estimated Future Benefit Payments

Projected benefit payments from the plans as of July 3, 2005 are estimated as follows (in thousands):

Year Ending	Pension Benefits		Other Postretirement Benefits		
	Qualified	Non-Qualified	Retiree Medical	Retiree Life	LTD
2006	\$ 59,890	\$ 1,494	\$ 25,047	\$ 1,283	\$ 149
2007	60,309	1,487	25,893	1,303	105
2008	61,212	1,487	26,235	1,323	107
2009	62,344	1,487	26,148	1,342	110
2010	63,256	1,487	24,653	1,360	111
2011-2015	331,975	7,436	114,807	7,018	378

Defined Contribution Plans

Employees of the Company may participate in various defined contribution savings plans that allow participants to contribute a portion of their earnings in accordance with plan specifications. A maximum of 1-1/2% or 3% of each participant's salary, depending upon the participant's group, is matched by the Company. For certain employees, this Company matching contribution is discretionary. The Company contributions totaled \$5.5 million in 2005, \$4.6 million in 2004 and \$4.3 million in 2003.

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 5.25% and 6.25% for fiscal year 2005 and 2004, respectively. Amounts are included in Accrued Employee Benefits in the Consolidated Balance Sheets.

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(15) Disclosures About Fair Value of Financial Instruments:

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

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

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

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

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term Debt -				
7.25% Notes Due 2007	\$ 89,589	\$ 95,209	\$ 89,403	\$ 98,683
8.875% Notes Due 2011	\$ 271,732	\$ 321,457	\$ 271,159	\$ 328,502
Variable Term Notes Due 2008	\$ 125,000	\$ 125,000	\$ -	\$ -

(16) Separate Financial Information of Subsidiary Guarantors of Indebtedness

In June of 1997, Briggs & Stratton issued \$100 million of 7.25% senior notes, in May 2001, the Company issued \$275 million of 8.875% senior notes and in February 2005, the Company issued \$125 million of variable rate term notes. In addition, Briggs & Stratton has a \$350 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, variable rate term notes and revolving credit agreement, (collectively, the "Domestic Indebtedness"), BSPPG and effective July 7, 2004, its wholly owned subsidiary Simplicity Manufacturing, Inc., are joint and several guarantors of the Domestic Indebtedness (the "Guarantor"). The guarantees are full and unconditional guarantees. Additionally, if at any time a domestic subsidiary of Briggs & Stratton constitutes a significant domestic subsidiary, then such domestic subsidiary will also become a guarantor of the Domestic Indebtedness. Currently all of the Domestic Indebtedness is unsecured. If Briggs & Stratton were to fail to make a payment of interest or principal on its due date, the Guarantor is obligated to pay the outstanding Domestic Indebtedness. Briggs & Stratton had the following outstanding amounts related to the guaranteed debt (in thousands):

	July 3, 2005	
	Carrying Amount	Maximum Guarantee
8.875% Senior Notes, due March 15, 2011	\$ 271,732	\$ 275,000
Variable Rate Term Notes, due February 11, 2008	\$ 125,000	\$ 125,000
7.25% Senior Notes, due September 15, 2007	\$ 89,589	\$ 90,000
Revolving Credit Facility, expiring May 2009	\$ -	\$ 350,000

Notes . . .

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

BALANCE SHEET: As of July 3, 2005	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current Assets	\$ 702,178	\$ 424,473	\$ 185,436	\$ (192,882)	\$ 1,119,205
Investment in Subsidiary	770,539	-	-	(770,539)	-
Noncurrent Assets	416,503	447,986	15,274	-	879,763
	<u>\$ 1,889,220</u>	<u>\$ 872,459</u>	<u>\$ 200,710</u>	<u>\$ (963,421)</u>	<u>\$ 1,998,968</u>
Current Liabilities	\$ 328,914	\$ 74,890	\$ 130,483	\$ (181,619)	\$ 352,668
Long-Term Debt	486,321	-	-	-	486,321
Other Long-Term Obligations	173,536	96,974	283	-	270,793
Shareholders' Equity	900,449	700,595	69,944	(781,802)	889,186
	<u>\$ 1,889,220</u>	<u>\$ 872,459</u>	<u>\$ 200,710</u>	<u>\$ (963,421)</u>	<u>\$ 1,998,968</u>
 As of June 27, 2004					
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>

Notes . . .

STATEMENT OF EARNINGS: For the Fiscal Year Ended July 3, 2005	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net Sales	\$ 1,687,476	\$1,240,377	\$ 173,501	\$ (446,479)	\$ 2,654,875
Cost of Goods Sold	1,341,686	1,112,885	139,269	(443,856)	2,149,984
Gross Profit	345,790	127,492	34,232	(2,623)	504,891
Engineering, Selling, General and Administrative Expenses	200,086	80,888	33,149	-	314,123
Income from Operations	145,704	46,604	1,083	(2,623)	190,768
Interest Expense	(36,352)	(31)	(109)	(391)	(36,883)
Other (Expense) Income, Net	64,312	844	1,227	(45,953)	20,430
Income Before Provision for Income Taxes	173,664	47,417	2,201	(48,967)	174,315
Provision for Income Taxes	59,046	18,099	2,352	(21,949)	57,548
Income Before Extraordinary Item	114,618	29,318	(151)	(27,018)	116,767
Extraordinary Gain	-	19,800	-	-	19,800
Net Income (Loss)	<u>\$ 114,618</u>	<u>\$ 49,118</u>	<u>\$ (151)</u>	<u>\$ (27,018)</u>	<u>\$ 136,567</u>
 For the Fiscal Year Ended June 27, 2004					
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>
 For the Fiscal Year Ended June 29, 2003					
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>

Notes . . .

STATEMENT OF CASH FLOWS: For the Fiscal Year Ended July 3, 2005	Briggs & Stratton Corporation	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net Income (Loss)	\$ 114,618	\$ 49,118	\$ (151)	\$ (27,018)	\$ 136,567
Adjustments to Reconcile Net Income to Net Cash Provided by (Used by) Operating Activities:					
Extraordinary Gain	-	(19,800)	-	-	(19,800)
Depreciation and Amortization	58,821	13,693	1,029	-	73,543
Earnings of Unconsolidated Affiliates, Net of Dividends	(17,090)	-	(745)	18,513	678
Loss (Gain) on Disposition of Plant and Equipment	2,702	109	(393)	-	2,418
Provision for Deferred Income Taxes	(4,829)	2,790	(1,857)	-	(3,896)
Change in Operating Assets and Liabilities, Net of Effects of Acquisition:					
(Increase) Decrease in Receivables	(91,296)	23,037	67,106	(25,739)	(26,892)
(Increase) Decrease in Inventories	(16,956)	34,470	(6,740)	2,010	12,784
(Increase) Decrease in Prepaid Expenses and Other Current Assets	(218)	4,184	(1,316)	-	2,650
(Decrease) Increase in Accounts Payable, Accrued Liabilities and Income Taxes	(30,142)	25,720	(61,468)	38,217	(27,673)
(Increase) Decrease in Accrued/Prepaid Pension	(1,056)	6	-	-	(1,050)
Other, Net	4,460	(5,214)	29	(46)	(771)
Net Cash Provided by (Used by) Operating Activities	19,014	128,113	(4,506)	5,937	148,558
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to Plant and Equipment	(60,117)	(17,206)	(8,752)	-	(86,075)
Proceeds Received on Disposition of Plant and Equipment	908	16	1,016	-	1,940
Proceeds Received on Sale of Certain Assets of a Subsidiary	-	-	4,050	-	4,050
Cash Investment in Subsidiary	(375,799)	-	(14,069)	389,868	-
Cash Paid for Acquisitions, Net of Cash Acquired	(719)	(337,713)	(16,662)	-	(355,094)
Investment in Joint Venture	(1,500)	-	-	-	(1,500)
Net Cash Used by Investing Activities	(437,227)	(354,903)	(34,417)	389,868	(436,679)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net Borrowings (Repayments) on Loans and Notes Payable	125,289	(125,434)	9,937	(12,476)	(2,684)
Net Borrowings on Long-Term Debt	125,000	-	-	-	125,000
Issuance Cost of Debt	(925)	-	-	-	(925)
Cash Dividends Paid	(35,065)	-	(6,539)	6,539	(35,065)
Capital Contributions Received	-	354,593	35,275	(389,868)	-
Proceeds from Exercise of Stock Options	20,139	-	-	-	20,139
Net Cash Provided by Financing Activities	234,438	229,159	38,673	(395,805)	106,465
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS					
	-	-	835	-	835
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS					
	(183,775)	2,369	585	-	(180,821)
Cash and Cash Equivalents, Beginning of Year	326,809	4,007	11,578	-	342,394
Cash and Cash Equivalents, End of Year	\$ 143,034	\$ 6,376	\$ 12,163	\$ -	\$ 161,573

Notes . . .

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
Earnings of Unconsolidated Affiliates, Net of Dividends	(12,657)	-	(725)	9,898	(3,484)
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 Accrued/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	97,320	(42,478)	(18,824)	14,138	50,156
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
Net Cash Used by Investing Activities	(37,181)	(5,457)	(3,918)	-	(46,556)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net (Repayments) Borrowings on Loans and Notes Payable	(50,528)	51,042	17,740	(18,067)	187
Net Repayments on Long-Term Debt	(22)	-	-	-	(22)
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	\$ 326,809	\$ 4,007	\$ 11,578	\$ -	\$ 342,394

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
Earnings of Unconsolidated Affiliates, Net of Dividends	(2,974)	-	427	3,653	1,106
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 Accrued/Prepaid Pension	(13,609)	43	-	-	(13,566)
Other, Net	(5,700)	42	(2,217)	-	(7,875)
Net Cash Provided by (Used by) Operating Activities	162,052	(11,290)	22,963	-	173,725
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
Investment in Joint Venture	-	-	3,531	-	3,531
Net Cash (Used by) Provided by Investing Activities	(34,600)	(1,116)	2,557	-	(33,159)
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