# PART I

## ITEM 1. BUSINESS

### General

Briggs & Stratton Corporation is the world's largest producer of air cooled gasoline engines for outdoor power equipment. The Company designs, manufactures, markets and services these products for original equipment manufacturers (OEMs) worldwide. These engines are primarily aluminum alloy gasoline engines ranging from 3 through 25 horsepower.

The Company's engines are used primarily by the lawn and garden equipment industry, which accounted for 79% of fiscal 2000 OEM engine sales. Major lawn and garden equipment applications include walk-behind lawn mowers, riding lawn mowers and garden tillers. The remaining 21% of OEM sales in fiscal 2000 were for use on many products for industrial, construction, agricultural and consumer applications, including generators, pumps and pressure washers. Many retailers specify the Company's engines on the powered equipment they sell, and the Briggs & Stratton name is often featured prominently on a product despite the fact that the engine is just a component. Briggs & Stratton engines are marketed under various brand names including Classic™, Sprint™, Quattro™, Quantum®, INTEK™, I/C®, Industrial Plus™ and Vanguard™.

In fiscal 2000, approximately 21% of the Company's net sales were derived from sales in international markets, primarily to customers in Europe. Briggs & Stratton serves its key international markets through its European regional office in Switzerland, its distribution center in the Netherlands and sales and service subsidiaries in Australia, Austria, Canada, the Czech Republic, France, Germany, Mexico, New Zealand, South Africa, Sweden and the United Kingdom. The Company is a leading supplier of gasoline engines in developed countries where there is an established lawn and garden equipment market. The Company also exports to developing nations where its engines are used in agricultural, marine, construction and other applications.

Briggs & Stratton engines are sold primarily by its worldwide sales force through direct calls on customers. The Company's marketing staff and engineers in the United States provide support and technical assistance to its sales force.

Briggs & Stratton also manufactures replacement engines and service parts and sells them to sales and service distributors. The Company owns its principal international distributors. In the United States the distributors are independently owned and operated. These distributors supply service parts and replacement engines directly to approximately 33,000 independently owned, authorized service dealers throughout the world. These distributors and service dealers implement Briggs & Stratton's commitment to reliability and service.

### Customers

The Company's sales are made primarily to original equipment manufacturers. The Company's three largest customers in each of the last three fiscal years were AB Electrolux (principally its Electrolux Home Products group), MTD Products Inc., and Tomkins PLC (principally its Murray subsidiary). Sales to each of these customers were more than 10% of net sales in fiscal 2000, 1999, and 1998. Sales to all three combined were 45% of net sales in fiscal 2000, 42% of net sales in fiscal 1999 and 46% in 1998. Under purchasing plans available to all of its gasoline engine customers, the Company typically enters into annual engine supply arrangements with these large customers. The Company has no reason to anticipate a change in this practice.

Over the past several years, sales in the United States of lawn and garden equipment by mass merchandisers have increased significantly, while sales by independent distributors and dealers have declined. The Company believes that in fiscal 2000 more than 75% of all lawn and garden equipment sold in the United States was sold through mass merchandisers such as Sears, Home Depot, Wal-Mart, and Lowe's. Given the buying power of the mass merchandisers, the Company, through its customers, has continued to experience pricing pressure. The Company expects that this trend will continue in the foreseeable future. The Company believes that a similar trend has developed for engine products for industrial and consumer applications.

## Competition

The small gasoline engine industry is highly competitive. The Company's major domestic competitors in engine manufacturing are Tecumseh Products Company, Honda Motor Co., Ltd., Kohler Co. and Kawasaki Heavy Industries, Ltd. Also, a domestic lawn mower manufacturer, Toro Co. under its Lawn-Boy brand, manufactures its own engines. Eight Japanese small engine manufacturers, of which Honda and Kawasaki are the largest, compete directly with the Company in world markets in the sale of engines and indirectly through their sale of end products that compete with the end products produced by the Company's customers. Tecumseh Europa S.p.A., located in Italy, is a major competitor in Europe.

The Company believes the major areas of competition from all engine manufacturers include product quality, brand strength, price, timely delivery and service. Other factors affecting competition are short-term market share objectives, short-term profit objectives, exchange rate fluctuations, technology and product support and distribution strength. Briggs & Stratton believes its product value and service reputation have given it strong brand name recognition and enhance its competitive position.

## Seasonality of Demand

Sales of engines to lawn and garden equipment manufacturers are highly seasonal because of the buying patterns of retail customers. The majority of lawn and garden equipment is sold during the spring and summer months when most lawn care and gardening activities are performed. Sales of lawn and garden equipment are also influenced by weather conditions. Sales in the Company's fiscal third quarter have historically been the highest, while sales in the first fiscal quarter have historically been the lowest.

The sale of lawn and garden equipment has shifted from smaller dealers to larger mass merchandisers, who do not wish to carry large inventories of lawn and garden equipment. In order to efficiently use its capital investments and meet seasonal demand for engines, the Company pursues a balanced production schedule throughout the year, subject to ongoing adjustment to reflect changes in estimated demand, customer inventory levels and other matters outside the control of the Company. Accordingly, inventory levels are generally higher during the first and second fiscal quarters in anticipation of increased customer demand in the third fiscal quarter, at which time inventory levels begin to decrease as sales increase. This seasonal pattern, which results in high inventories and low cash flow for the Company in the second and the beginning of the third fiscal quarters, shifts ultimately to higher cash flow in the latter portion of the third fiscal quarter and in the fourth fiscal quarter as inventories are liquidated and receivables are collected.

## Manufacturing

Briggs & Stratton manufactures engines and parts at the following locations in the United States: Wauwatosa, Wisconsin; Murray, Kentucky; Poplar Bluff and Rolla, Missouri; Auburn, Alabama; and Statesboro, Georgia. The Company has a parts distribution center in Menomonee Falls, Wisconsin.

Briggs & Stratton manufactures a majority of the structural components used in its engines, including aluminum die castings and a high percentage of other major components, such as carburetors and ignition systems. The Company purchases certain parts such as piston rings, spark plugs, valves, ductile and grey iron castings, zinc die castings and plastic components, some stampings and screw machine parts and smaller quantities of other components. Raw material purchases are principally aluminum and steel. The Company believes its sources of supply are adequate.

The Company has joint ventures with Daihatsu Motor Company for the manufacture of engines in Japan, with Puling Machinery Works and Yimin Machinery Plant for the production of engines in China, and with Starting Industrial of Japan for the production of rewind starters in the U.S. The Company also has two joint ventures in India. Kirloskar Briggs & Stratton, a joint venture with Kirloskar Oil Engines Ltd., is responsible for sales and distribution of Briggs & Stratton engines and parts in India and assembles and distributes generators and pumps powered by Briggs & Stratton engines. Hero Briggs & Stratton is a joint venture with Hero Motors, part of the Hero Group, for the manufacture of engines and transmissions to be used in two wheel transportation vehicles.

The Company has a strategic relationship with Mitsubishi Heavy Industries (MHI) for the global distribution of air cooled gasoline engines manufactured by MHI in Japan under the Company's Vanguard™ brand.

### Other General Information

The Company holds certain patents on features incorporated in its products; however, the success of the Company's business is not considered to be primarily dependent upon patent protection. Licenses, franchises and concessions are not a material factor in the Company's business.

For the years ending July 2, 2000, June 27, 1999, and June 28, 1998, the Company spent approximately $24,305,000, $17,920,000, and $19,950,000, respectively, on Company sponsored research activities relating to the development of new products or the improvement of existing products. Included in fiscal 1998 were costs related to the Company's software business of $3,136,000. This business was sold in the first quarter of the 1999 fiscal year.

The average number of persons employed by the Company during the fiscal year was 7,814. Employment ranged from a low of 7,186 in June 2000 to a high of 8,098 in August 1999.

### Export Sales

Export sales for fiscal 2000 were $339,363,000 (21% of total sales), for fiscal 1999 were $316,115,000 (21% of total sales) and for fiscal 1998 were $288,510,000 (22% of total sales). These sales were principally to customers in European countries. See Note 4 of Notes to Consolidated Financial Statements for financial information about geographic areas. Also, see Item 7A and Note 10 of Notes to Consolidated Financial Statements for information about the Company's foreign exchange risk management.

## ITEM 2. PROPERTIES

The corporate offices and one of the Company's manufacturing facilities are located in a suburb of Milwaukee, Wisconsin. The Company also has manufacturing facilities in Murray, Kentucky; Poplar Bluff and Rolla, Missouri; Auburn, Alabama and Statesboro, Georgia. These are owned facilities containing 3.6 million square feet of office and production area. The Company occupies warehouse space totalling 400,000 square feet in a suburb of Milwaukee, Wisconsin under a reservation of interest agreement. The Company also leases 80,000 square feet of manufacturing space in the Milwaukee area.

The engine business with the OEMs is seasonal, with demand for engines at its height in the winter and early spring. Engine manufacturing operations run at capacity levels during the peak season, with many operations running three shifts. Engine operations generally run fewer shifts in the summer, when demand is weakest and production is considerably under capacity. During the winter, when finished goods inventories reach their highest levels, owned warehouse space may be insufficient and capacity may be expanded through rented space. Excess warehouse space exists in the spring and summer seasons. The Company's owned properties are well maintained.

The Company leases 200,000 square feet of space to house its European warehouse in the Netherlands and its foreign sales and service operations in Australia, Austria, Canada, China, the Czech Republic, France, Germany, Mexico, New Zealand, Russia, South Africa, Sweden, Switzerland, United Arab Emirates and the United Kingdom.

## ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings that are required to be reported under this item.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the three months ended July 2, 2000.

### Executive Officers of the Registrant

| Name, Age, Position | Business Experience for Past Five Years |
|---|---|
| FREDERICK P. STRATTON, JR., 61<br>Chairman and Chief Executive Officer<br>(1) (2) (3) | Mr. Stratton was elected to the position of Chief Executive Officer in May 1977 and Chairman in November 1986. |
| JOHN S. SHIELY, 48<br>President and Chief Operating Officer<br>(1) (2) | Mr. Shiely was elected to his current position in August 1994. |
| MICHAEL D. HAMILTON, 58<br>Executive Vice President –<br>Sales and Service | Mr. Hamilton was elected to his current position effective June 1989. |
| JAMES E. BRENN, 52<br>Senior Vice President and<br>Chief Financial Officer | Mr. Brenn was elected to his current position in October 1998, after serving as Vice President and Controller since November 1988. He also served as Treasurer from November 1999 until January 2000. |
| RICHARD J. FOTSCH, 45<br>Senior Vice President and<br>General Manager | Mr. Fotsch was elected to his current position in May 1999 after serving as Senior Vice President – Operations since January 1999. He had previously held the position Senior Vice President – Engine Group since July 1997 and prior to that Vice President; General Manager – Small Engine Division. |
| HUGO A. KELTZ, 52<br>Vice President – International | Mr. Keltz was elected to his current position in May 1992. |
| CURTIS E. LARSON, JR., 52<br>Vice President – Distribution<br>Sales and Service | Mr. Larson was elected to this executive officer position in October 1995 after serving as Vice President – Industrial Engine Division since January 1993. |
| PAUL M. NEYLON, 53<br>Senior Vice President – Production | Mr. Neylon was elected to his current position in August 2000, after serving as Vice President – Production since May 1999. He previously served as Vice President – Operations Support since January 1999 and prior to that held the position of Vice President; General Manager – Spectrum Division. |

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| KASANDRA K. PRESTON, 56<br>Vice President and Secretary | Ms. Preston was elected to her current position in July 2000, after serving as Director of Corporate Compliance and Shareholder Relations since June 1995. |
| WILLIAM H. REITMAN, 44<br>Vice President – Marketing | Mr. Reitman was elected an executive officer effective April 1998. He had served as Vice President – Marketing since November 1995, after serving as Marketing Director – New Ventures since March 1993. |
| STEPHEN H. RUGG, 53<br>Senior Vice President – Sales and Service | Mr. Rugg was elected to his current position in May 1999, after serving as Vice President – Sales since November 1995. His prior position was Vice President – Sales and Marketing. |
| MICHAEL D. SCHOEN, 40<br>Vice President – Operations Support | Mr. Schoen was elected an executive officer in August 2000, after serving as Vice President – Operations Support since July 1999. He previously held the position of Vice President – International Operations since July 1996 after previously serving as International Marketing Director. |
| THOMAS R. SAVAGE, 52<br>Senior Vice President – Administration | Mr. Savage was elected to his current position effective July 1997, after serving as Vice President – Administration and General Counsel since November 1994. He also served as Secretary from November 1999 to June 2000. |
| TODD J. TESKE, 35<br>Controller | Mr. Teske was elected to his current position in October 1998, after serving as Assistant Controller since joining the Company in June 1996. He held the position of Audit Manager at Arthur Andersen LLP, a public accounting firm, from 1992 to 1996. |
| CARITA R. TWINEM, 45<br>Treasurer | Ms. Twinem was elected to her current position in February 2000, after serving as Tax Director since July 1994. |

(1) Officer is also a Director of the Company.

(2) Member of Executive Committee.

(3) Member of Planning Committee.

Officers are elected annually and serve until they resign, die, are removed, or a different person is appointed to the office.

# PART II

## ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information required by this Item is incorporated by reference to “Quarterly Financial Data, Dividend and Market Information” on page 26.