



August 25, 2000

Dear Shareholder:

Demand for engines for lawn and garden equipment was strong in fiscal 2000, both in the United States and in international markets. Our engine production increased enough to meet this demand and restore our year-end engine inventory to a normal level. As a result, our financial results improved. Sales increased 6%. Net income, excluding a gain on the disposition of our foundry business, increased 19%. The 22% increase in earnings per share was greater because our share buyback program reduced the number of shares outstanding.

The strength in U.S. demand for lawn and garden equipment was to a great degree the result of favorable weather. A warm moist early spring got retail sales off to a good start. Later in the spring, strength in the moist Midwest and Northeast offset weakness in the Southeast, parts of which were unusually dry. International unit demand was even stronger, but because of a less favorable mix and less favorable currency exchange rates, the percentage increase in dollar sales was similar to that for the domestic market.

Demand for other powered products increased in the first half of the year, but the first-half strength was more than offset by weakness in the second half, largely because of the impact of year 2000 concerns on the standby portable generator business. Retailers and manufacturers now have excessive inventories of generators and generator engines. We believe it will take at least six months to work these inventories down to normal levels. The market price of our stock followed the pattern of generator demand, reaching a high of \$71 when year 2000 concerns were being discussed in the media and a low of \$31 when year 2000 was just a fading memory. The apparent influence of the ups and downs of the generator business on our stock price is greatly disproportionate to the influence of that portion of our business on our results. Sales to generator manufacturers are less than 10% of our total sales.

In the first quarter of fiscal 2000 we contributed our foundry business to Metal Technologies Holding Company, Inc. (MTHC). This transaction produced a \$10 million after-tax gain. We retained an ownership interest in MTHC. Our strategy is to concentrate on our core engine business. We have spun off or disposed of other businesses. At the same time, our definition of our core engine business has evolved and is now broader than it once was. We have a growing interest in segments of the engine business that we once considered beyond our scope. For example, we are developing products for markets traditionally dominated by two-cycle engines in which increasingly stringent emission regulations may make four-cycle engines more competitive. This is a major reason for the 7% increase in engineering, selling, general and administrative expenses in fiscal 2000.

Engine unit shipments increased 6% in fiscal 2000. Net sales increased 6% to \$1.6 billion. Net income increased 29% to \$136 million. Fully diluted net income per share increased 32% to \$5.97. Fully diluted net income per share excluding the gain on the disposition of the foundry business increased 22% to \$5.51. Dividends increased 3% to \$1.20 per share. Net adjusted cash operating earnings were \$66 million more than the cost of capital. Return on average shareholders' investment increased to 35%.

Operating income plus depreciation provided \$160 million of cash flow in fiscal 2000. Working capital increased \$83 million, so the business generated available cash flow of \$77 million. We used this \$77 million plus \$44 million of cash reserves, \$28 million from the disposition of foundry and other assets, and \$14 million of additional debt to fund \$71 million of capital expenditures, \$64 million of share repurchases and \$27 million of dividends.

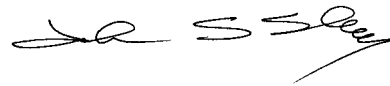
We completed a share buyback program in fiscal 2000 and announced a new, more aggressive program. Since we began buying back shares in fiscal 1997, we have reduced our shares outstanding 25%.

Our product line continues to evolve in response to the increasingly stringent exhaust emission requirements imposed by the U.S. Environmental Protection Agency and the California Air Resources Board. Significant investments in tooling, equipment, and processes have been required, increasing the cost of manufacturing emission compliant engines. We are committed to recovering these costs in the marketplace. We achieved some success in fiscal 2000 and expect to do the same in fiscal 2001.

As usual, it is not possible to make a precise forecast for fiscal 2001. It is too early to know what retail inventory levels will be at the end of the selling season. Because some areas of the U.S. have been very dry this summer, it is likely that retail inventories will be somewhat higher than last year's level. Some major retailers have not completed the process of selecting their suppliers and their product lines for the 2001 season. We are not aware of any changes that would have a significant effect on our business. Econometric forecasts indicate that U.S. retail sales of lawn and garden equipment next spring should remain strong if weather is normal. Retailers are optimistic. At this time we expect operating results similar to those achieved in fiscal 2000.



Chairman and
Chief Executive Officer



President and
Chief Operating Officer