

Notes to Consolidated Financial Statements

FOR THE FISCAL YEARS ENDED JULY 1, 2001, JULY 2, 2000 AND JUNE 27, 1999

(1) Nature of Operations:

Briggs & Stratton Corporation (the Company) is a U.S. based producer of air cooled gasoline engines. These engines are sold worldwide, primarily to original equipment manufacturers of lawn and garden equipment and other gasoline engine powered equipment. Additionally, through the Company's wholly-owned subsidiary, Generac Portable Products, Inc., the company is a designer, manufacturer and marketer of portable generators, pressure washers and related accessories.

(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 2001 fiscal year was 52 weeks long, the 2000 fiscal year was 53 weeks long and the 1999 fiscal year was 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 Briggs & Stratton Corporation and its wholly 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 could 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 a maturity of three months or less to be cash equivalents.

Inventories: Inventories are stated at cost, which does not exceed market. The last-in, first-out (LIFO) method was used for determining the cost of approximately 77% of total inventories at July 1, 2001, 91% of total inventories at July 2, 2000 and

89% at June 27, 1999. The cost for the remaining portion of the inventories was determined using the first-in, first-out (FIFO) method. If the FIFO inventory valuation method had been used exclusively, inventories would have been \$51.2 million, \$45.2 million and \$43.9 million higher in the respective years. The LIFO inventory adjustment was determined on an overall basis, and accordingly, each class of inventory reflects an allocation based on the FIFO amounts.

Investments: This caption represents the Company's investments in four 50%-owned foreign joint ventures, preferred stock in a privately-held iron castings business and common stock in a publicly traded software company. The common stock in the publicly traded company is being classified as available-for-sale and is reported at a fair market value of \$.5 million as of July 1, 2001, \$2.1 million as of July 2, 2000 and \$2.7 million as of June 27, 1999. The unrealized loss incurred on this stock is recorded as Accumulated Other Comprehensive Loss in the Shareholders' Investment section of the balance sheet. The investments in the joint ventures and the privately held business are accounted for under the equity method.

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 effective interest rate method over periods ranging from five to ten years.

Capitalized Software: This caption represents 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 \$7.4 million as of July 1, 2001, \$6.2 million as of July 2, 2000 and \$5.7 million as of June 27, 1999.

Intangible Assets: This caption represents primarily goodwill, the recognized portion of the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired which is amortized on a straight-line basis over twenty years and other identifiable intangible assets, which are amortized

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on a straight-line basis over periods of six to seven years. As of July 1, 2001, accumulated amortization was \$1.1 million. The Company assesses the carrying value of goodwill and other intangibles for possible impairment at each balance sheet date.

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.

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 other income.

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 2001.

Revenue Recognition: Revenue is recognized when title to the products being sold transfers to the customer, which is generally upon shipment. The impact of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", did not have an impact on the results of operations.

Deferred Revenue on Sale of Plant & 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 the Company 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 a 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-Company occupied portion of the building. A pretax gain, which will be recognized at the earlier of the exercise of the buyout option or the expiration of the Reservation Period, is estimated to be \$10 million to \$12 million. The annual cost of operating the warehouse portion of the facility is not material.

Income Taxes: The Provision for Income Taxes includes Federal, state and foreign income taxes currently payable and those deferred or prepaid because of temporary differences between the financial statement and tax basis of assets and liabilities. The Future Income Tax Benefits represent temporary differences relating to current assets and current liabilities and the Deferred Income Tax Assets/Liabilities represent temporary differences relating to noncurrent assets and liabilities.

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 \$21.5 million in 2001, \$24.3 million in 2000 and \$17.9 million in 1999.

Advertising Costs: Advertising costs, included in Engineering, Selling, General and Administrative Expenses on the accompanying Consolidated Statements of Earnings, are expensed as incurred. These expenses totaled \$10.1 million in 2001, \$8.1 million in 2000 and \$7.7 million in 1999.

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EITF Abstract No. 00-25, "Vendor Income Statements Characterization of Consideration Paid to a Re-Seller of a Vendor's Products", is to be adopted as of December 31, 2001. The Company will be required to reclassify co-op advertising expense from selling expense to sales as a reduction of gross sales. The reclassification will not have a material adverse effect on results of operations.

Shipping and Handling Fees and Costs: During the fourth quarter of 2001, the company adopted the provisions of the EITF Abstract No. 00-10, "Accounting for Shipping and Handling Fees and Costs." In accordance with EITF No. 00-10, revenue received from shipping and handling fees is reflected in net sales. The reclassification of shipping fee revenue out of cost of sales for the years ended July 1, 2001, July 2, 2000 and June 27, 1999 was \$1.7 million, \$2.0 million and \$2.2 million respectively.

Foreign Currency Translation: Foreign currency balance sheet accounts are translated into United States dollars at the rates of exchange in effect at fiscal year end. Income and expenses are translated at the average rates of exchange in effect during the year. The related translation adjustments are made

directly to a separate component of Shareholders' Investment.

Earnings Per Share: The Company's earnings per share were computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share, for each period presented, were computed on the assumption that stock options were exercised at the beginning of the periods reported. The difference between weighted average shares outstanding and diluted average shares outstanding reflects the dilutive effects of stock options and the convertible senior notes. The Company's share repurchase program may affect the year-to-date comparisons.

The shares outstanding used to compute diluted earnings per share for fiscal 2001, 2000 and 1999 excluded outstanding options to purchase 1,679,564, 1,079,564 and 348,530 shares of common stock, respectively, with weighted-average exercise prices of \$56.33, \$61.95 and \$61.90, respectively. The options were excluded because their exercise prices were greater than the average market price of the common shares and their inclusion in the computation would have been antidilutive.

Comprehensive Income: Comprehensive income is a more inclusive financial reporting method that includes disclosure of certain 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, foreign currency translation, and unrealized gain on derivatives in the Consolidated Statements of Shareholders' Investment. Information on accumulated other comprehensive income (loss) is as follows (in thousands of dollars):

	Unrealized Gain (Loss) on Marketable Securities	Cumulative Translation Adjustments	Unrealized Gain on Derivatives	Accumulated Other Comprehensive Income (Loss)
Balance at June 28, 1998	\$ -	\$ (2,110)	\$ -	\$ (2,110)
Current year change	577	(199)	-	378
Balance at June 27, 1999	577	(2,309)	-	(1,732)
Current year change	(383)	(1,816)	-	(2,199)
Balance at July 2, 2000	194	(4,125)	-	(3,931)
Current year change	(947)	(2,530)	1,226	(2,251)
Balance at July 1, 2001	\$ (753)	\$ (6,655)	\$ 1,226	\$ (6,182)

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Derivatives: On July 2, 2000, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". This statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Any changes in fair value of these instruments are recorded in the income statement or other comprehensive income. The impact of adopting SFAS No. 133 on Accumulated Other Comprehensive Loss resulted in a loss of \$15 thousand. The Company reclassified derivative gains of \$1.8 million to the income statement during the fiscal year. The cumulative effect of adopting SFAS No. 133 on the results of operations was immaterial.

The Company enters into derivative contracts designated as cash flow hedges to manage its foreign currency exposures. These instruments generally do not have a maturity of more than twelve months. During the fiscal year, there were no derivative instruments that were deemed to be ineffective. The amounts included in Accumulated Other Comprehensive Loss will be reclassified into income when the forecasted transaction occurs, generally within the next twelve months. These forecasted transactions represent the exporting of products for which the Company will receive foreign currency and the importing of products for which the Company will be required to pay in a foreign currency.

Sales Incentives: In January 2001, EITF Abstract No. 00-22 "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers and Offers for Free Products or Services to be Delivered in the Future" was issued. EITF No. 00-22 prescribes guidance requiring certain rebate offers and free products that are delivered subsequent to a single exchange transaction to be recognized when incurred and reported as a reduction of revenue. The Company adopted EITF No. 00-22 in the fourth quarter of fiscal 2001. It did not impact the results of operations because the Company's past and current accounting policy is to report such costs as reductions of revenue.

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

Business Combinations: In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" having a required effective date for fiscal years beginning after December 31, 2001. Under certain circumstances companies are permitted to adopt these statements before the required date. Under the new rules, goodwill and other intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company adopted the new rules on accounting for goodwill and other intangible assets in the first quarter of fiscal 2002. Application of the nonamortization provisions of the SFAS No. 142 is expected to result in an increase in net income of approximately \$.7 million in fiscal 2002. The Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets during fiscal 2002.

(3) Acquisition:

On May 15, 2001, the Company acquired Generac, a designer, manufacturer and marketer of portable generators, pressure washers and related accessories. The aggregate purchase price of \$288.1 million included \$267.6 million of cash and \$20.5 million of liabilities assumed. The cash paid included \$.5 million of cash acquired and \$4.5 million of direct acquisition costs, and was funded through the issuance of the 8.875% senior notes as more fully described in Footnote 6.

The provisions of the acquisition include a contingent purchase price based on the operating results of Generac. The Company does not expect to pay any additional purchase price pursuant to these provisions.

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The acquisition has been accounted for using the purchase method of accounting and accordingly, the purchase price was allocated on a preliminary basis 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 are not expected to be material to the consolidated financial statements. Goodwill of approximately \$167.7 million has been recorded as a result of the acquisition and has been amortized on a straight-line basis over twenty years. The following table sets forth the unaudited pro forma information for the Company as if the acquisition of Generac had occurred on June 28, 1999 (in millions, except per share data):

	<u>2001</u>	<u>2000</u>
Net Sales	\$ 1,465.3	\$ 1,911.2
Net Income	\$ 26.6	\$ 136.0
Basic Earnings Per Share	\$ 1.23	\$ 5.96
Diluted Earnings Per Share	\$ 1.21	\$ 5.96

In the first quarter of fiscal 2002, the Company adopted SFAS No. 142. Under the new rules, goodwill and other intangible assets with indefinite lives will no longer be amortized but will be subject to annual impairment tests.

(4) Income Taxes:

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Current			
Federal	\$ 4,042	\$ 66,169	\$ 51,344
State	594	10,425	7,014
Foreign	<u>1,251</u>	<u>2,014</u>	<u>1,260</u>
	5,887	78,608	59,618
Deferred	<u>17,973</u>	<u>1,542</u>	<u>4,052</u>
	<u>\$ 23,860</u>	<u>\$ 80,150</u>	<u>\$ 63,670</u>

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
U.S. statutory rate	35.0%	35.0%	35.0%
State taxes, net of			
Federal tax benefit	2.5%	3.2%	2.9%
Foreign Sales Corporation			
tax benefit	(3.5%)	(.5%)	(.5%)
Other	(.8%)	(.7%)	.1%
Effective tax rate	<u>33.2%</u>	<u>37.0%</u>	<u>37.5%</u>

The increase in the Foreign Sales Corporation tax benefit was attributable to a significant refund recorded by the Company.

The components of deferred income taxes at the end of the fiscal year were (in thousands of dollars):

	<u>2001</u>	<u>2000</u>
Future Income Tax Benefits:		
Inventory	\$ 3,424	\$ 4,152
Payroll related accruals	3,846	4,539
Warranty reserves	18,311	18,077
Other accrued liabilities	10,769	11,011
Miscellaneous	2,084	1,359
	<u>\$ 38,434</u>	<u>\$ 39,138</u>

Deferred Income Taxes:

Difference between book and tax methods applied to maintenance and supply inventories	\$ 10,723	\$ 11,429
Pension cost	(13,187)	(1,338)
Accumulated depreciation	(55,163)	(53,719)
Accrued employee benefits	10,060	9,405
Postretirement health care obligation	24,089	25,649
Deferred revenue on sale of plant & equipment	6,059	6,115
Miscellaneous	(932)	(1,552)
	<u>\$ (18,351)</u>	<u>\$ (4,011)</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 \$8.4 million at July 1, 2001. If these earnings were remitted to the U.S., they would be subject to U.S. income tax. However, this tax would be substantially less than the U.S. statutory income tax because of available foreign tax credits.

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(5) Segment and Geographic Information and Significant Customers:

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" and subsequent to the May 15, 2001 acquisition described in Footnote 3, the Company has concluded that it operates two reportable business segments which are managed separately based on fundamental differences in their operations. Certain information concerning the Company's business segments is presented below (in thousands of dollars):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
NET SALES –			
Engines	\$ 1,291,649	\$ 1,592,564	\$ 1,503,964
Generac Portable			
Products	30,069	–	–
Eliminations	(9,272)	–	–
	<u>\$1,312,446</u>	<u>\$1,592,564</u>	<u>\$1,503,964</u>
INCOME FROM OPERATIONS –			
Engines	\$ 99,156	\$ 205,229	\$ 180,136
Generac Portable			
Products	1,118	–	–
Eliminations	(1,168)	–	–
	<u>\$ 99,106</u>	<u>\$ 205,229</u>	<u>\$ 180,136</u>
ASSETS –			
Engines	\$ 1,012,438	\$ 930,245	\$ 875,885
Generac Portable			
Products	287,058	–	–
Eliminations	(3,301)	–	–
	<u>\$1,296,195</u>	<u>\$ 930,245</u>	<u>\$ 875,885</u>
CAPITAL EXPENDITURES –			
Engines	\$ 60,841	\$ 71,441	\$ 65,998
Generac Portable			
Products	481	–	–
	<u>\$ 61,322</u>	<u>\$ 71,441</u>	<u>\$ 65,998</u>
DEPRECIATION & AMORTIZATION –			
Engines	\$ 58,362	\$ 53,277	\$ 51,687
Generac Portable			
Products	1,349	–	–
	<u>\$ 59,711</u>	<u>\$ 53,277</u>	<u>\$ 51,687</u>

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
United States	\$ 1,228,307	\$ 1,503,730	\$ 1,425,226
All Other Countries	84,139	88,834	78,738
Total	<u>\$1,312,446</u>	<u>\$1,592,564</u>	<u>\$1,503,964</u>

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

In the fiscal years 2001, 2000 and 1999, there were sales to three major engine customers that individually exceeded 10% of total Company net sales. The sales to these customers are summarized below (in thousands of dollars and percent of total Company sales):

Customer	<u>2001</u>		<u>2000</u>		<u>1999</u>	
	Sales	%	Sales	%	Sales	%
A	\$ 267,516	20%	\$287,769	18%	\$250,755	17%
B	187,001	14%	229,873	14%	219,209	14%
C	150,682	12%	190,659	12%	161,857	11%
	<u>\$605,199</u>	<u>46%</u>	<u>\$708,301</u>	<u>44%</u>	<u>\$631,821</u>	<u>42%</u>

(6) Indebtedness:

The Company has access to a \$250.0 million revolving credit facility (the Credit Facility) which expires in April 2002. The Company also has access to additional domestic lines of credit totaling \$18.0 million which remain in effect until canceled by either party. They provide amounts for short-term use at the then prevailing rate. There are no significant compensating balance requirements for any of these lines. There were no borrowings at July 1, 2001 using these lines or the Credit Facility. On July 2, 2000, there were \$45 million of borrowings that were included in the domestic notes payable.

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

- (1) the higher of (a) the bank's reference rate or (b) 0.5% per annum above the Federal Funds rate; or
- (2) LIBOR plus a margin that may be adjusted up or down based on the Company's debt ratings.

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

	<u>2001</u>	<u>2000</u>
Balance at		
Fiscal Year End	\$ 3,300	\$48,809
Weighted Average		
Interest Rate at		
Fiscal Year End	5.18%	6.91%

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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 \$5.9 million, expire at various times through April, 2002 and are renewable. There were borrowings of \$1.4 million at July 1, 2001 using these lines of credit and are included in foreign loans. None of these arrangements had material commitment fees or compensating balance requirements.

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

	<u>2001</u>	<u>2000</u>
Balance at		
Fiscal Year End	\$ 16,291	\$ 13,356
Weighted Average		
Interest Rate at		
Fiscal Year End	5.80%	5.40%

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

	<u>2001</u>	<u>2000</u>
8.875% Senior Notes Due 2011, Net of Unamortized Discount of \$5,584 in 2001	\$ 269,416	\$ -
5.00% Convertible Senior Notes Due 2006	140,000	-
7.25% Senior Notes Due 2007, Net of Unamortized Discount of \$1,282 in 2001 and \$1,488 in 2000	98,718	98,512
Total Long-Term Debt	<u>\$ 508,134</u>	<u>\$ 98,512</u>

In May 2001 the Company issued \$275.0 million of 8.875% Senior Notes due March 15, 2011 and \$140.0 million of 5.00% Convertible Senior Notes due May 15, 2006. The convertible senior notes are convertible at the option of the holders into the Company's common stock at the conversion rate of 20.1846 shares per each \$1,000 of convertible

notes. Interest is paid semi-annually on both series of notes. No principal payments are due before the maturity dates.

The net proceeds from the sale of the 8.875% senior notes and 5.00% convertible senior notes were used to fund the Company's acquisition of Generac including the replacement of Generac's outstanding debt and to repay a portion of the Company's unrated commercial paper and short-term borrowings under its credit facilities.

The 7.25% senior notes are due September 15, 2007. No principal payments are due before that date.

The separate indentures providing for the 7.25% senior notes, the 8.875% senior notes and the 5.00% convertible senior notes and the Company's revolving credit agreement (collectively, the Domestic Indebtedness) each include a number of financial and operating restrictions. These covenants include, among other things, 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. In addition, the revolving credit facility contains financial covenants that, among other things, require the Company to maintain a minimum interest coverage ratio and that impose a maximum leverage ratio. As of July 1, 2001, the Company was in compliance with these covenants.

Additionally, under the terms of the indentures governing the Domestic Indebtedness, Generac and its subsidiaries became joint and several guarantors of amounts outstanding under the Domestic Indebtedness.

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(7) Separate Financial Information of Subsidiary Guarantors of Indebtedness

Under the terms of the Company's Domestic Indebtedness as described in Footnote 6, Generac and its subsidiaries became joint and several guarantors of the Domestic Indebtedness. Additionally, if at any time a domestic subsidiary of the Company constitutes a significant domestic subsidiary, then such domestic subsidiary will also become a guarantor of the Domestic Indebtedness. Each guarantee of the Domestic Indebtedness is the obligation of the guarantor and ranks equally and ratably with the existing and future senior unsecured obligations of that guarantor accordingly, Generac has provided a full and unconditional guarantee of the Domestic Indebtedness. The following condensed supplemental consolidating financial information reflects the operations of Generac since the acquisition date of May 15, 2001 (in thousands of dollars):

BALANCE SHEET: As of July 1, 2001	Briggs & Stratton Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current Assets	\$ 482,158	\$ 98,523	\$ 52,182	\$ (19,433)	\$ 613,430
Investment in Subsidiary	292,543	—	—	(292,543)	—
Noncurrent Assets	491,624	188,535	2,606	—	682,765
	<u>\$1,266,325</u>	<u>\$ 287,058</u>	<u>\$ 54,788</u>	<u>\$(311,976)</u>	<u>\$1,296,195</u>
Current Liabilities	\$ 207,336	\$ 18,737	\$ 29,731	\$ (13,622)	\$ 242,182
Long-Term Debt	508,134	—	—	—	508,134
Other Long-Term Obligations	122,292	835	—	—	123,127
Stockholders' Equity	428,563	267,486	25,057	(298,354)	422,752
	<u>\$1,266,325</u>	<u>\$ 287,058</u>	<u>\$ 54,788</u>	<u>\$(311,976)</u>	<u>\$1,296,195</u>
STATEMENT OF EARNINGS:					
For the Fiscal Year Ended July 1, 2001					
Net Sales	\$1,253,253	\$ 30,069	\$ 80,701	\$ (51,577)	\$1,312,446
Cost of Goods Sold	1,037,817	25,814	61,159	(51,407)	1,073,383
Gross Profit	215,436	4,255	19,542	(170)	239,063
Engineering, Selling, General and Administrative Expenses	125,937	3,138	10,882	—	139,957
Income from Operations	89,499	1,117	8,660	(170)	99,106
Interest Expense	(28,024)	(23)	(2,642)	24	(30,665)
Other (Expense) Income, Net	8,574	(1,073)	8,841	(12,910)	3,432
Income Before Provision for Income Taxes . .	70,049	21	14,859	(13,056)	71,873
Provision for Income Taxes	22,036	7	1,817	—	23,860
Net Income	<u>\$ 48,013</u>	<u>\$ 14</u>	<u>\$ 13,042</u>	<u>\$(13,056)</u>	<u>\$ 48,013</u>

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STATEMENT OF CASH FLOWS: For the Fiscal Year Ended July 1, 2001	Briggs & Stratton Corporation	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net Income	\$ 48,013	\$ 14	\$ 13,042	\$ (13,056)	\$ 48,013
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities—					
Depreciation and Amortization	57,724	1,349	638	—	59,711
Equity (Earnings) Loss of Affiliates and Subsidiaries	(5,762)	—	159	562	(5,041)
(Gain) Loss on Disposition of Plant and Equipment	1,499	—	(6)	—	1,493
Pension (Income) Expense, Net	(28,646)	268	—	—	(28,378)
Provision for Deferred Taxes	17,691	282	—	—	17,973
Change in Operating Assets and Liabilities—					
Decrease in Receivables	35,479	1,868	5,375	(8,036)	34,686
(Increase) Decrease in Inventories	(6,325)	(2,811)	1,659	170	(7,307)
(Increase) Decrease in Other Current Assets	22	89	(161)	—	(50)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(47,372)	4,349	(11,753)	8,036	(46,740)
Other, Net	(6,183)	(209)	—	—	(6,392)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 66,140</u>	<u>\$ 5,199</u>	<u>\$ 8,953</u>	<u>\$ (12,324)</u>	<u>\$ 67,968</u>
Cash Flows from Investing Activities:					
Additions to Plant and Equipment	\$ (60,262)	\$ (481)	\$ (579)	\$ —	\$ (61,322)
Proceeds Received on Disposition of Plant and Equipment	4,113	—	39	—	4,152
Investments in Subsidiaries, Net of Cash Acquired	(270,632)	456	3,002	—	(267,174)
Other, Net	6,434	—	(138)	—	6,296
Net Cash Provided by (Used in) Investing Activities	<u>\$ (320,347)</u>	<u>\$ (25)</u>	<u>\$ 2,324</u>	<u>\$ —</u>	<u>\$ (318,048)</u>
Cash Flows from Financing Activities:					
Net Borrowings (Repayments) on Loans and Notes Payable	\$ (41,175)	\$ (4,334)	\$ 2,935	\$ —	\$ (42,574)
Net Proceeds from Issuance of Long-Term Debt	399,415	—	—	—	399,415
Dividends	(26,763)	—	(12,324)	12,324	(26,763)
Net Common and Treasury Stock Activities	(5,843)	—	—	—	(5,843)
Net Cash Provided by (Used in) Financing Activities	<u>\$ 325,634</u>	<u>\$ (4,334)</u>	<u>\$ (9,389)</u>	<u>\$ 12,324</u>	<u>\$ 324,235</u>
Effect of Exchange Rate Changes	<u>\$ —</u>	<u>\$ (157)</u>	<u>\$ (2,244)</u>	<u>\$ —</u>	<u>\$ (2,401)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 71,427	\$ 683	\$ (356)	\$ —	\$ 71,754
Cash and Cash Equivalents, Beginning	13,855	—	3,134	—	16,989
Cash and Cash Equivalents, Ending	<u>\$ 85,282</u>	<u>\$ 683</u>	<u>\$ 2,778</u>	<u>\$ —</u>	<u>\$ 88,743</u>

Notes . . .

(8) Other Income:

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

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Interest income	\$ 2,069	\$ 1,589	\$ 1,993
Loss on the disposition of plant and equipment	(1,493)	(2,378)	(2,355)
Income from joint ventures	5,485	14,364	5,442
Translation gain (loss)	(4,973)	206	(364)
Amortization of intangibles	(1,052)	-	-
Other items	3,396	2,335	1,943
Total	<u>\$ 3,432</u>	<u>\$16,116</u>	<u>\$ 6,659</u>

(9) Commitments and Contingencies:

Product and general liability claims arise against the Company from time to time in the ordinary course of business. The Company is generally self-insured for claims up to \$1 million per claim. Accordingly, a reserve is maintained for the estimated costs of such claims. At July 1, 2001 and July 2, 2000 the reserve for product and general liability claims was \$3.6 million and \$4.0 million, respectively, based on available information. No reasonable range of possible losses can be determined, because there is inherent uncertainty as to the eventual resolution of unsettled claims. Management does not expect that the likely outcome of 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.

The Company has no material commitments for materials or capital expenditures at July 1, 2001.

(10) Stock Options:

The Company has a Stock Incentive Plan under which 5,361,935 shares of common stock have been reserved for issuance. The Company accounts for the plan under Accounting Principles Board Opinion No. 25, under which 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>2001</u>	<u>2000</u>	<u>1999</u>
Net Income (in thousands):			
As Reported	\$48,013	\$136,473	\$106,101
Pro Forma	\$44,814	\$134,600	\$105,283
Basic Earnings Per Share:			
As Reported	\$2.22	\$5.99	\$4.55
Pro Forma	\$2.07	\$5.91	\$4.51
Diluted Earnings Per Share:			
As Reported	\$2.21	\$5.97	\$4.52
Pro Forma	\$2.04	\$5.89	\$4.49

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to July 2, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Information on the options outstanding is as follows:

	Shares	Wtd. Avg. Ex. Price
Balance, June 28, 1998	1,791,819	\$ 47.98
Granted during the year	354,020	44.98
Exercised during the year	(926,000)	45.30
Expired during the year	(177,828)	48.37
Balance, June 27, 1999	1,042,011	\$ 49.28
Granted during the year	471,020	\$ 74.53
Exercised during the year	(151,033)	38.49
Expired during the year	(58,970)	67.55
Balance, July 2, 2000	1,303,028	\$ 58.83
Granted during the year	600,000	\$ 46.22
Exercised during the year	(13,449)	20.45
Expired during the year	(180,738)	49.08
Balance, July 1, 2001	<u>1,708,841</u>	\$ 55.73

Grant Summary

Fiscal Year	Grant Date	Exercise Price	Date Exercisable	Options Outstanding	Expiration Date
1992	5-18-92	21.525	50%, 1-1-96; 50%, 1-1-97	29,277	5-17-02
1997	8-6-96	53.300	8-6-99	86,584	8-6-01
1998	8-5-97	65.690	8-5-00	233,480	8-5-02
1999	8-5-98	44.980	8-5-01	327,560	8-5-03
2000	8-4-99	74.530	8-4-02	431,940	8-4-04
2001	8-3-00	46.220	8-3-03	600,000	8-3-07

Notes . . .

The exercise price of the 1992 grant has been adjusted as appropriate to reflect a two-for-one stock split in October 1994 and the spin-off of the Company's lock business in February 1995.

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 as follows:

Options granted during	<u>2001</u>	<u>2000</u>	<u>1999</u>
Grant date fair value	\$11.47	\$13.07	\$5.04
Assumptions:			
Risk-free interest rate	6.0%	6.0%	5.4%
Expected volatility	37.6%	30.1%	22.3%
Expected dividend yield	2.6%	2.5%	2.5%
Expected term (in years)	7.0	5.0	5.0

(11) Shareholder Rights Plan:

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

(12) Foreign Exchange Risk Management:

The Company enters into forward exchange contracts to hedge purchase commitments

denominated in foreign currencies. The term of these currency derivatives does 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 1.3 billion Japanese yen for \$11.4 million through December, 2001. These contracts are used to hedge the commitments to purchase engines from the Company's Japanese joint venture. At July 1, 2001 the loss on these contracts at fair value totaled \$.6 million.

The Company also has forward contracts to sell 36 million Euros for \$33.6 million through October, 2001. The gain on these contracts on July 1, 2001 at fair market value totaled \$3.1 million.

The Company's foreign subsidiaries have the following forward currency contracts outstanding at the end of fiscal 2001:

Currency	In Millions		Dollars	Latest Expiration Date
	Local Currency	Amount		
Japanese Yen	27.6	.4	Australian	July 2001
U.S. Dollars	5.2	9.7	Australian	January 2001
British Pounds	.7	1.9	Australian	January 2001
U.S. Dollars	3.3	5.0	Canadian	June 2002

At July 1, 2001 the gain on these contracts at fair value totaled \$.2 million.

The Company continuously evaluates the effectiveness of its hedging program by evaluating its foreign exchange contracts compared to the anticipated underlying transactions.

Notes . . .

(13) Employee Benefit Costs:

Retirement Plan and Postretirement Benefits

The Company has noncontributory, defined benefit retirement plans and postretirement benefit plans covering most Wisconsin employees. The following provides a reconciliation of obligations, plan assets and funded status of the plans for the two years indicated, (dollars in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2001	2000	2001	2000
<u>Actuarial Assumptions:</u>				
Discounted Rate Used to Determine Present Value of Projected Benefit Obligation				
	7.5%	7.5%	7.5%	7.5%
Expected Rate of Future Compensation Level Increases				
	4.0-5.0%	5.0%	n/a	n/a
Expected Long-Term Rate of Return on Plan Assets				
	9.0%	9.0%	n/a	n/a
<u>Change in Benefit Obligations:</u>				
Actuarial Present Value of Benefit Obligations at Beginning of Year				
	\$ 666,392	\$ 689,397	\$ 99,793	\$ 109,485
Service Cost	9,482	10,622	1,215	1,307
Interest Cost	48,079	47,475	7,091	7,343
Plan Amendments	29,190	—	—	—
Acquisition	2,671	—	—	—
Actuarial (Gain) Loss	(10,478)	(37,124)	13,035	(6,657)
Benefits Paid	(42,061)	(43,978)	(12,577)	(11,685)
Actuarial Present Value of Benefit Obligation at End of Year	\$ 703,275	\$ 666,392	\$ 108,557	\$ 99,793
<u>Change in Plan Assets:</u>				
Plan Assets at Fair Value at Beginning of Year				
	\$ 951,757	\$ 886,422	\$ —	\$ —
Actual Return on Plan Assets	29,084	108,544	—	—
Acquisition	1,018	—	—	—
Employer Contributions	784	769	12,577	11,685
Benefits Paid	(42,061)	(43,978)	(12,577)	(11,685)
Plan Assets at Fair Value at End of Year	\$ 940,582	\$ 951,757	\$ —	\$ —
Plan Assets in Excess of (Less Than) Projected Benefit Obligation				
	\$ 237,307	\$ 285,365	\$ (108,557)	\$ (99,793)
Remaining Unrecognized Net Obligation (Asset)	(4,517)	(9,995)	321	368
Unrecognized Net Loss (Gain)	(244,579)	(285,144)	29,673	17,221
Unrecognized Prior Service Cost	32,739	3,024	103	134
Net Amount Recognized at End of Year	\$ 20,950	\$ (6,750)	\$ (78,460)	\$ (82,070)
<u>Amounts Recognized on the Balance Sheets:</u>				
Prepaid Pension				
	\$ 36,275	\$ 5,506	\$ —	\$ —
Accrued Pension Cost	(14,494)	(11,428)	—	—
Accrued Wages and Salaries	(831)	(828)	—	—
Accrued Post Retirement Health Care Obligation	—	—	(61,767)	(65,765)
Other Accruals	—	—	(4,800)	(4,800)
Accrued Employee Benefits	—	—	(11,893)	(11,505)
Net Amount Recognized at End of Year	\$ 20,950	\$ (6,750)	\$ (78,460)	\$ (82,070)

Notes . . .

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

	Pension Benefits			Other Postretirement Benefits		
	2001	2000	1999	2001	2000	1999
Components of Net Periodic Benefit Cost:						
Service Cost-Benefits Earned During the Year	\$ 9,482	\$ 10,622	\$ 10,073	\$ 1,215	\$ 1,307	\$ 1,437
Interest Cost on Projected Benefit Obligation	48,079	47,475	44,911	7,091	7,343	6,466
Expected Return on Plan Assets	(73,053)	(63,845)	(58,252)	-	-	-
Amortization of:						
Transition Obligation (Asset)	(5,306)	(5,306)	(5,306)	47	46	47
Prior Service Cost	242	186	(106)	31	31	71
Actuarial (Gain) Loss	(7,822)	359	291	583	1,111	41
Net Periodic Benefit Expense (Income)	<u>\$ (28,378)</u>	<u>\$ (10,509)</u>	<u>\$ (8,389)</u>	<u>\$ 8,967</u>	<u>\$ 9,838</u>	<u>\$ 8,062</u>

In July 2001, the Company extended its collective bargaining agreement with one of its unions. As part of this contract extension, the Company agreed to pay certain amounts to employees who were hired prior to January 1, 1980 upon their retirement. The impact of this plan amendment is included in the above tables.

As described in Note 15, the Company contributed its two ductile iron foundries to MTHC. In connection with the contribution, MTHC agreed to assume pension and postretirement benefit obligations related to employees working at the foundries at the time of the transaction. The Company transferred to MTHC pension assets amounting to \$11.3 million in fiscal 2001. The assumption of obligations by MTHC and transfer of pension assets did not result in a gain or loss to the Company.

The Company's supplemental pension plan has benefit obligations in excess of plan assets. The benefit obligation, accumulated benefit obligation and fair value of plan assets were \$19.0 million, \$14.9 million and \$0 respectively for the 2001 fiscal year and \$17.7 million, \$14.9 million and \$0 respectively for the 2000 fiscal year. The postretirement benefit plans are unfunded.

For measurement purposes a 10% annual rate of increase in the per capita cost of covered health care claims was assumed for the year 2002 decreasing gradually to 5% for the year 2008. The health care cost trend rate assumption has a significant effect on the amounts reported. An increase of one percentage point, would increase the accumulated postretirement benefit by \$6.7 million and would

increase the service and interest cost by \$.7 million for the year. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by \$6.4 million and decrease the service and interest cost by \$.6 million for the year.

Defined Contribution Plans

The Company has a defined contribution retirement plan that includes most U.S. non-Wisconsin employees. Under the plan the Company makes an annual contribution on behalf of covered employees equal to 2% of each participant's gross income, as defined. For the fiscal years 2001, 2000 and 1999, the net expense related to these plans was \$.2 million, \$2.1 million and \$1.9 million, respectively.

Wisconsin employees of the Company may participate in a salary reduction deferred compensation retirement plan. A maximum of 1-1/2% or 3% of each participant's salary, depending upon the participant's group is matched by the Company. Company contributions totaled \$4.7 million in 2001, \$4.6 million in 2000 and \$4.2 million in 1999.

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 a

Notes . . .

7.5% interest rate. Amounts are included in Accrued Employee Benefits in the balance sheet.

(14) Disclosures About Fair Value of Financial Instruments:

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

Cash and Cash Equivalents, Domestic Notes Payable and Foreign Loans: The carrying amounts approximate fair value because of the short maturity of these instruments.

Long-Term Debt: The fair value of the Company's long-term debt is estimated based on quotations made on similar issues.

The estimated fair values of the Company's financial instruments are as follows (in thousands of dollars):

	2001	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 88,743	\$ 88,743
Domestic notes payable	\$ 3,300	\$ 3,300
Foreign loans	\$ 16,291	\$ 16,291
Long-term debt –		
7.25% Notes due 2007	\$ 98,718	\$ 96,237
5.00% Convertible Notes due 2006	\$ 140,000	\$ 150,066
8.875% Notes due 2011	\$ 269,416	\$ 277,608

	2000	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 16,989	\$ 16,989
Domestic notes payable	\$ 48,809	\$ 48,809
Foreign loans	\$ 13,356	\$ 13,356
Long-term debt –		
7.25% Notes due 2007	\$ 98,512	\$ 98,633

(15) Disposition of Business:

At the end of August 1999, the Company contributed its two ductile iron foundries to MTHC in exchange for \$23.6 million in cash and \$45.0 million aggregate par value convertible preferred stock. The provisions of the preferred stock include a 15% cumulative dividend and conversion rights into a minimum of 31% of MTHC common stock. Pursuant to EITF Abstract No. 86-29, the Company considered this contribution to be a monetary transaction, given the significant amount of cash received and recorded the consideration received at fair value. The preferred stock received was determined to have a fair value of \$21.6 million based on provisions of the stock and the prevailing market returns for similar investments, estimated to be 30%, as of the date of the transaction.

MTHC is the primary supplier to the Company for iron castings. There are no other material arrangements between the Company and MTHC.

Based on the above and the fair value of all consideration received, the transaction resulted in a \$16.5 million gain.