

## PART I

### ITEM 1. BUSINESS

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

Additionally, through its wholly owned subsidiary, Generac Portable Products, LLC, Briggs & Stratton is a leading designer, manufacturer and marketer of portable generators, pressure washers and related accessories. On May 15, 2001, Briggs & Stratton acquired Generac Portable Products, Inc. Generac Portable Products, Inc. was merged with, and into Generac Portable Products, LLC (GPP) on June 30, 2002.

Briggs & Stratton conducts its operations in two reportable segments: Engines and Power Products. Further information about Briggs & Stratton's business segments is contained in Note 5 of the Notes to Consolidated Financial Statements in Item 8 of this report.

#### Engines

##### **General**

Briggs & Stratton's engines are used primarily by the lawn and garden equipment industry, which accounted for 85% of fiscal 2002 OEM engine sales. Major lawn and garden equipment applications include walk-behind lawn mowers, riding lawn mowers and garden tillers. The remaining 15% of OEM sales in fiscal 2002 were for use on products for industrial, construction, agricultural and other consumer applications, that include generators, pumps and pressure washers. Many retailers specify Briggs & Stratton'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 2002, approximately 24% of Briggs & Stratton'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, Philippines, South Africa, Sweden and the United Kingdom. Briggs & Stratton is a leading supplier of gasoline engines in developed countries where there is an established lawn and garden equipment market. Briggs & Stratton also exports engines 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. Briggs & Stratton'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. Briggs & Stratton 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 35,000 independently owned, authorized service dealers throughout the world. These distributors and service dealers implement Briggs & Stratton's commitment to reliability and service.

##### **Customers**

Briggs & Stratton's engine sales are made primarily to OEMs. Briggs & Stratton's three largest engine customers in each of the last three fiscal years were AB Electrolux (principally its Electrolux Home Products Group), MTD Products Inc. and Murray Inc. (owned by Summersong Investments, Inc.). Sales to each of these customers were more than 10% of net sales in fiscal 2002, 2001, and 2000. Sales to all three combined were 47% of net sales in fiscal 2002, 46% of net sales in fiscal 2001 and 45% of net sales in fiscal 2000. Under purchasing plans available to all of its gasoline engine customers, Briggs & Stratton typically enters into annual engine supply arrangements with these large customers.

Over the years, sales of lawn and garden equipment by mass merchandisers have increased significantly in the United States, while sales by independent distributors and dealers have declined. Briggs & Stratton believes that in fiscal 2002 more than 75% of all lawn and garden equipment sold in the United States was sold through mass merchandisers such as Sears, Roebuck and Co. (Sears), The Home Depot, Inc. (The Home Depot), Wal-Mart Stores, Inc. and Lowe's Home Centers, Inc. (Lowe's). Given the buying power of the mass merchandisers, Briggs & Stratton, through its customers, has continued to experience pricing pressure. Briggs & Stratton expects that this pricing trend will continue in the foreseeable future. Briggs & Stratton believes that a similar trend has developed for its products in industrial and consumer applications outside of the lawn and garden market.

### **Competition**

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

Briggs & Stratton 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, 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 retail customer buying patterns. 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 Briggs & Stratton's fiscal third quarter have historically been the highest, while sales in the first fiscal quarter have historically been the lowest.

In order to efficiently use its capital investments and meet seasonal demand for engines, Briggs & Stratton pursues a relatively balanced production schedule throughout the year. The schedule is adjusted to reflect changes in estimated demand, customer inventory levels and other matters outside the control of Briggs & Stratton. Accordingly, inventory levels are generally higher during the first and second fiscal quarters in anticipation of increased customer demand. Inventory levels begin to decrease as sales increase in the third fiscal quarter. This seasonal pattern results in high inventories and low cash flow for Briggs & Stratton in the second and the beginning of the third fiscal quarters. The pattern results in 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: Wauwatosa, Wisconsin; Murray, Kentucky; Poplar Bluff and Rolla, Missouri; Auburn, Alabama; and Statesboro, Georgia. Briggs & Stratton 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, carburetors and ignition systems. Briggs & Stratton 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 consist primarily of aluminum and steel. Briggs & Stratton believes its sources of supply are adequate.

Briggs & Stratton 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.

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

## **Power Products**

### **General**

In May 2001, Briggs & Stratton acquired GPP. GPP's two principal product lines are portable generators and pressure washers. GPP sells its products through multiple channels of retail distribution, including home centers, warehouse clubs, mass merchants and independent dealers. Under the Craftsman™ label, GPP or its predecessor has been one of Sear's major suppliers of portable generators (since 1961) and pressure washers. GPP is also a core supplier of products to The Home Depot and Lowe's. In addition, GPP is a core supplier for many of the leading retail home centers and do-it-yourself retailers throughout the United States, Canada and Europe.

GPP has assembled a comprehensive after-sales service network in North America for portable generators and pressure washers comprised of approximately 3,000 authorized independent dealers. GPP maintains its independent dealer network for the purpose of providing the after-sales service capability that supports its products.

To support GPP's European power generator business, local sales offices have been established in the United Kingdom, Germany and Spain.

### **Customers**

GPP sells to consumer home centers and warehouse clubs, as well as mass merchants and independent dealers. Historically, GPP's major customers have been Costco, Lowe's, The Home Depot and Sears. Other U.S. retail customers include B.J.'s Wholesale Club, Sam's Club, Tractor Supply Company and Tru-Serv Incorporated.

### **Competition**

The U.S. engine powered tools industry is highly concentrated with approximately five competitors. The principal competitive factors in the engine powered tools industry include price, service, product performance, technical innovation and delivery. In the manufacture and sale of portable generators, GPP competes primarily with Coleman Powermate (a division of The Coleman Company, Inc., an affiliate of Sunbeam Corporation) and Honda. In the manufacture and sale of pressure washers, GPP competes primarily with DeVilbiss Air Power Company (an affiliate of Pentair, Inc.) and to a lesser extent, with Coleman Powermate, Alfred Karcher GmbH & Co. and Campbell Hausfeld (an affiliate of Berkshire Hathaway, Inc.).

GPP believes it has a significant share of the North American market for portable generators and consumer pressure washers.

### **Seasonality of Demand**

Sales of GPP's products are subject to seasonal patterns. Due to seasonal and regional weather factors, sales of pressure washers and related working capital requirements are typically higher during the fiscal third and fourth quarters than at other times of the year. Sales of generators are typically higher during the summer storm season. The residential and commercial construction markets are sensitive to cyclical changes in the economy.

### **Manufacturing**

GPP's U.S. manufacturing facility is located in Jefferson, Wisconsin. GPP produces portable generators and pressure washers at this location.

GPP manufactures core components for portable generators, including alternators, where such integration improves operating profitability by providing lower costs.

GPP purchases engines from its parent, Briggs & Stratton, as well as from Generac Power Systems, Inc. and Honda. GPP has not experienced any difficulty obtaining necessary purchased components.

To service GPP's European customer base more effectively, GPP designs and assembles its European products in its Cheshire, England facility. This facility imports alternators, engines and other components and assembles portable generators to meet European product requirements.

## **Consolidated**

### **General Information**

Briggs & Stratton holds patents on features incorporated in its products; however, the success of Briggs & Stratton's business is not considered to be primarily dependent upon patent protection. Trademarks, licenses, franchises and concessions are not a material factor in Briggs & Stratton's business.

For the years ending June 30, 2002, July 1, 2001 and July 2, 2000, Briggs & Stratton spent approximately \$23.7 million, \$21.5 million and \$24.3 million, respectively, on research activities relating to the development of new products or the improvement of existing products.

The average number of persons employed by Briggs & Stratton during the fiscal year was 7,019. Employment ranged from a low of 6,192 in September 2001 to a high of 7,371 in December 2001.

### **Export Sales**

Export sales for fiscal 2002, 2001 and 2000 were \$365.5 million (24% of total sales), \$325.6 million (25% of total sales) and \$358.1 million (23% of total sales), respectively. These sales were principally to customers in European countries. Refer to Note 5 of Notes to Consolidated Financial Statements for financial information about geographic areas. Also, refer to Item 7A of this Form 10-K and Note 11 of Notes to Consolidated Financial Statements for information about Briggs & Stratton's foreign exchange risk management.

## **ITEM 2. PROPERTIES**

The corporate offices and one of Briggs & Stratton's engine manufacturing facilities are located in a suburb of Milwaukee, Wisconsin. Briggs & Stratton also has engine 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. Briggs & Stratton occupies warehouse space totalling approximately 400,000 square feet in a suburb of Milwaukee, Wisconsin under a reservation of interest agreement. Briggs & Stratton also leases warehouse space in the localities of its engine manufacturing facilities, except Wisconsin, totalling 810,000 square feet.

GPP's offices and domestic manufacturing facilities are located in Jefferson, Wisconsin. GPP also has a manufacturing facility in Cheshire, England. These are owned facilities containing 250,000 square feet of office and production area. GPP leases warehouse space totalling 210,000 square feet in three communities in Wisconsin.

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.

Briggs & Stratton leases approximately 300,000 square feet of space to house its foreign sales and service operations in Australia, Austria, Canada, China, the Czech Republic, France, Germany, Mexico, the Netherlands, New Zealand, Philippines, Russia, South Africa, Spain, Sweden, Switzerland, United Arab Emirates and the United Kingdom.

Briggs & Stratton's owned properties are well maintained. Briggs & Stratton believes that its owned and leased facilities are adequate to perform its operations in a reasonable manner.

**ITEM 3. LEGAL PROCEEDINGS**

Briggs & Stratton has announced the voluntary recall of approximately 162,000 engines used on Fun Karts. Fuel from the engine can spill out if the Fun Kart overturns making serious injury a possibility. The recall only applies to engines that are installed on Fun Karts, which look and ride like go carts, but were sold for personal use. The models included in the recall are:

- All 5 hp model series beginning with numbers 1352XX installed on Fun Karts.
- Only Fun Power model series beginning with numbers 1362XX made before June 22, 1995 and installed on Fun Karts.

Briggs & Stratton discontinued sale of these engines to OEM manufacturers in 1995.

The entire estimated cost of the recall and a related civil penalty imposed by the Consumer Product Safety Commission is reflected in fiscal 2002 net income at \$1.5 million or \$.06 per diluted share.

We do not believe the recall will have a material effect on Briggs & Stratton's financial condition or results of operations.

**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 June 30, 2002.

## Executive Officers of the Registrant

<u>Name, Age, Position</u>	<u>Business Experience for Past Five Years</u>
FREDERICK P. STRATTON, JR., 63 Chairman of the Board (1)(2)	Mr. Stratton was elected to the position of Chairman in November 1986. Mr. Stratton also held the position of Chief Executive Officer from May 1977 through June 2001.
JOHN S. SHIELY, 50 President and Chief Executive Officer (1)(2)(3)	Mr. Shiely was elected to his current position effective July 2001, after serving as President and Chief Operating Officer since August 1994.
MICHAEL D. HAMILTON, 60 Executive Vice President and President – Briggs & Stratton Asia	Mr. Hamilton was elected to his current position effective July 2001, after serving as Executive Vice President – Sales and Service since June 1989.
JAMES E. BRENN, 54 Senior Vice President and 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.
MARK R. HAZELTINE, 59 Vice President and Sales Manager – Consumer Products	Mr. Hazeltine was elected to his current position in May 2002, after serving as Vice President and Sales Manager – Consumer Lawn & Garden since July 1999. He also served as Sales Manager since February 1995.
ROBERT F. HEATH, 54 Secretary	Mr. Heath was elected to his current position in January 2002. He served as Assistant Secretary since January 2001. In addition, Mr. Heath is Vice President and General Counsel and has served in these positions since January 2001. He also served as General Counsel since December 1997.
CURTIS E. LARSON, JR., 54 Vice President – Distribution Sales and Customer Support	Mr. Larson was elected to his current position in October 1995.
PAUL M. NEYLON, 55 Senior Vice President – Engine Products Division	Mr. Neylon was elected to his current position in October 2001, after serving as Senior Vice President – Production from August 2000 to October 2001 and 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 and General Manager – Spectrum Division.
DORRANCE J. NOONAN, JR., 49 Senior Vice President and President – Briggs & Stratton Home Power Products	Mr. Noonan was elected to his current position effective upon completion of Briggs & Stratton's acquisition of Generac Portable Products, Inc. in May 2001. Prior to the acquisition, he held the position of President, Chief Executive Officer and Director of Generac Portable Products, LLC and Director of Generac Portable Products, Inc. since July 1998.
WILLIAM H. REITMAN, 46 Vice President – Marketing	Mr. Reitman was elected an executive officer effective April 1998. He has served as Vice President – Marketing since November 1995.

STEPHEN H. RUGG, 55  
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.

THOMAS R. SAVAGE, 54  
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.

MICHAEL D. SCHOEN, 42  
Vice President – International

Mr. Schoen was elected to his current position effective July 2001. He 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.

VINCENT R. SHIELY, 42  
Vice President and General  
Manager – Engine Products  
(3)

Mr. Shiely was elected to the position of Vice President and General Manager – Engine Products effective in September 2002 after serving as Vice President and General Manager – Business Units since December 2001. He also served as Vice President and General Manager – Electrical Products Division since October 1998.

TODD J. TESKE, 37  
Vice President – Corporate Development

Mr. Teske was elected to his current position effective March 2001 after serving as Controller since October 1998. He previously served as Assistant Controller.

CARITA R. TWINEM, 47  
Treasurer

Ms. Twinem was elected to her current position in February 2000, after serving as Tax Director since July 1994.

JOSEPH C. WRIGHT, 43  
Vice President and General  
Manager – Small Engine Division

Mr. Wright was elected an executive officer effective September 2002. He has served as Vice President and General Manager – Small Engine Division since July 1997. He previously served at Plant Manager.

(1) Officer is also a Director of Briggs & Stratton. (2) Member of Executive Committee.

(3) John S. Shiely and Vincent R. Shiely are brothers.

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

Briggs & Stratton common stock and its common share purchase rights are traded on the NYSE under the symbol "BGG". Information required by this Item is incorporated by reference from the "Quarterly Financial Data, Dividend and Market Information" (unaudited) on page 36.