

## 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 31 horsepower.

Additionally, through its wholly owned subsidiary, Briggs & Stratton Power Products Group, LLC, Briggs & Stratton is a leading designer, manufacturer and marketer of portable generators, pressure washers and related accessories.

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.

The Company's Internet address is [www.briggsandstratton.com](http://www.briggsandstratton.com). The Company makes available free of charge (other than an investor's own Internet access charges) through its Internet website the Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the Securities and Exchange Commission. Charters of the Audit, Compensation, Nominating and Governance Committees; Corporate Governance Guidelines and code of business conduct and ethics contained in the Briggs & Stratton Business Integrity Manual are available on the Company's website and are available in print to any shareholder upon request to the Corporate Secretary.

#### Engines

##### **General**

Briggs & Stratton's engines are used primarily by the lawn and garden equipment industry, which accounted for 77% of fiscal 2004 engine sales to OEMs. Major lawn and garden equipment applications include walk-behind lawn mowers, riding lawn mowers and garden tillers. The remaining 23% of OEM sales in fiscal 2004 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 only 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 2004, approximately 17% 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, China, the Czech Republic, England, France, Germany, Mexico, New Zealand, the Philippines, Russia, South Africa, Spain, Sweden and United Arab Emirates. 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. More detailed information about our foreign operations is in Note 5 of the Notes to Consolidated Financial Statements.

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 39,000 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 9% of net sales in fiscal 2004, 2003 and 2002. Sales to all three combined were 42%, 41% and 47% of consolidated net sales in fiscal 2004, 2003 and 2002, respectively. Under purchasing plans available to all of its gasoline engine customers, Briggs & Stratton typically enters into annual engine supply arrangements with these large customers.

Briggs & Stratton believes that in fiscal 2004 more than 80% 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. (Wal-Mart) 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**

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). Several 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 it has a significant share of the worldwide market for engines that power outdoor equipment.

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 OEMs are highly seasonal because of consumer 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 generally increase during the first and second fiscal quarters in anticipation of 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; Statesboro, Georgia; and Chongqing, China. 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 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**

Briggs & Stratton Power Products Group, LLC's (BSPPG) two principal product lines are portable and home stand-by generators ("generators") and pressure washers. BSPPG sells its products through multiple channels of retail distribution, including home centers, warehouse clubs, mass merchants and independent dealers.

BSPPG has assembled a comprehensive after-sales service network in North America for generators and pressure washers comprised of approximately 4,300 authorized independent dealers. BSPPG maintains its independent dealer network for the purpose of providing the after-sales service capability that supports its products.

To support its international business, BSPPG has leveraged the existing Briggs & Stratton worldwide distribution network.

### **Customers**

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

### **Competition**

The U.S. engine powered equipment industry (the "power products industry"), in which Briggs & Stratton competes is served by approximately five competitors. The principal competitive factors in the power products industry include price, service, product performance, technical innovation and delivery. In the manufacture and sale of generators, BSPPG competes primarily with Coleman Powermate and Honda. In the manufacture and sale of pressure washers, BSPPG competes primarily with DeVilbiss Air Power Company, and to a lesser extent with Coleman Powermate, Alfred Karcher GmbH & Co. and Campbell Hausfeld (part of Berkshire Hathaway, Inc.).

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

### **Seasonality of Demand**

Sales of BSPPG'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 and fall tropical storm seasons.

### **Manufacturing**

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

BSPPG manufactures core components for generators, where such integration improves operating profitability by providing lower costs.

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

To service BSPPG's international customer base more effectively, BSPPG designs and assembles its international products at its Jefferson, Wisconsin location and through a contract manufacturing arrangement in the Netherlands.

## **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 27, 2004, June 29, 2003 and June 30, 2002, Briggs & Stratton spent approximately \$25.9 million, \$26.4 million and \$23.7 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 7,438. Employment ranged from a low of 7,094 in September 2003 to a high of 7,732 in June 2004.

### **Export Sales**

Export sales for fiscal 2004, 2003 and 2002 were \$336.7 million (17% of net sales), \$401.2 million (24% of net sales) and \$365.5 million (24% of net 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 12 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 Wauwatosa, 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 380,000 square feet in Menomonee Falls, Wisconsin under a reservation of interest agreement. Briggs & Stratton also leases warehouse space in the localities of its engine manufacturing facilities, except Wisconsin, totalling 500,000 square feet.

BSPPG's office and domestic manufacturing facility are located in Jefferson, Wisconsin and contain 250,000 square feet of office and production area. BSPPG leases warehouse space totalling 625,000 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 levels are lower. 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.

Briggs & Stratton leases approximately 360,000 square feet of space to house its foreign sales and service operations in Australia, Austria, Canada, China, the Czech Republic, England, France, Germany, Mexico, the Netherlands, New Zealand, the Philippines, Russia, South Africa, Spain, Sweden, Switzerland and United Arab Emirates.

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 is subject to various unresolved legal actions which arise in the normal course of its business, the most prevalent of which relate to product liability (including asbestos-related liability) and patent and trademark matters.

On June 3, 2004, eight individuals who claim to have purchased lawnmowers in Illinois and Minnesota filed a lawsuit (*Ronnie Phillips et al. v. Sears Roebuck Corporation et al.*, No. 04-L-334 (20th Judicial Circuit, St. Clair County, IL)) against the Company and other defendants alleging that the horsepower labels on the products they purchased were inaccurate. The plaintiffs seek certification of a class of all persons in the United States who, beginning January 1, 1995 through the present, purchased a lawnmower containing a two stroke or four stroke gas combustible engine up to 20 horsepower that was manufactured by defendants.

The complaint seeks an injunction, compensatory and punitive damages, and attorneys' fees. No orders have been entered in the case, and there has been no discovery. The Company intends to vigorously defend this case.

Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss, Briggs & Stratton believes these unresolved legal actions will not have a material effect on its financial position 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 27, 2004.

## Executive Officers of the Registrant

| <u>Name, Age, Position</u>  | <u>Business Experience for Past Five Years</u>  |
|---|---|
| JOHN S. SHIELY, 52<br>Chairman, President and Chief Executive Officer<br>(1)(2)(3)    | Mr. ShIELy was elected to his current position effective January 2003, after serving as President and Chief Executive Officer since July 2001 and President and Chief Operating Officer since August 1994.  |
| JAMES E. BRENN, 56<br>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.   |
| DAVID G. DEBAETS, 41<br>Vice President and<br>General Manager – Large Engine Division | Mr. DeBaets was elected to his current position effective September 2003. He has served as Vice President and General Manager – Large Engine Division since April 2000. He also served as Vice President and General Manager – Die Cast Components from May 1996 to April 2000.   |
| RICKY T. DILLON, 33<br>Controller   | Mr. Dillon was elected an executive officer effective September 1, 2004. He has served as Controller since March 2002. He previously served for 9 years with Arthur Andersen LLP.   |
| MARK R. HAZELTINE, 61<br>Vice President and<br>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 from February 1995 to June 1999.   |
| ROBERT F. HEATH, 56<br>Secretary  | Mr. Heath was elected to his current position in January 2002. He served as Assistant Secretary from January 2001 to December 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.   |
| PAUL M. NEYLON, 57<br>Senior Vice President – Engine Products Group                   | 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 from May 1999 to July 2000. 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. |
| WILLIAM H. REITMAN, 48<br>Vice President – Marketing                                  | Mr. Reitman was elected to his current position effective April 1998. He has served as Vice President – Marketing since November 1995.  |
| STEPHEN H. RUGG, 57<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.  |
| THOMAS R. SAVAGE, 56<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.  |

MICHAEL D. SCHOEN, 44  
Vice President – International Group

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, 44  
Vice President and  
General Manager – Engine Products Group  
(3)

Mr. Shiely was elected to his current position effective 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, 39  
Senior Vice President and  
President – Briggs & Stratton  
Power Products Group, LLC

Mr. Teske was elected to his current position effective September 2003 after serving as Vice President and President – Briggs & Stratton Power Products Group, LLC since February 2003. He also served as Vice President – Corporate Development from March 2001 after serving as Controller since October 1998.

CARITA R. TWINEM, 49  
Treasurer

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

JOSEPH C. WRIGHT, 45  
Vice President and  
General Manager – Lawn and Garden Division

Mr. Wright was elected to his current position in September 2004. He was elected an executive officer effective September 2002. He previously served as Vice President and General Manager – Small Engine Division since July 1997.

- (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, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

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 45.

#### **Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

Briggs & Stratton did not make any purchases of equity securities registered by the Company pursuant to Section 12 of the Exchange Act.