August 28, 2008

Dear Shareholder:

Our financial results for fiscal 2008 were heavily impacted by an unprecedented fourth down year in the outdoor power products business and the second consecutive hurricane season without a major landed event. Revenues were basically flat at $2.15 billion, and our net income was a disappointing $23 million.

The state of our industry might best be exemplified by the observation: “What doesn’t kill you makes you stronger.” Our industry trade association reports that sales of front engine lawn tractors were down 12% this year, and sales of walk behind rotary mowers were off 16%. The cumulative effect of this string of poor selling years has been substantial. Since 2004, sales of ride products are off 38% and sales of walk products are off 32%. During this period, we have seen the demise of our largest domestic engine competitor, our largest domestic portable generator competitor and one of the top three producers of outdoor power products for the U.S. market.

In the midst of these market challenges, there were few bright spots this year. We continued to maintain market share above traditional levels, we continued to successfully execute on our strategy to significantly improve the cost effectiveness and productivity of our manufacturing footprint, we kept inventories in check and we had success with our cost reduction and expense management initiatives.

Our two most significant challenges remain the consolidation of power products retailers and the threat of competition from low cost countries (LCCs), particularly China. What is the substance of these challenges? Retail consolidation creates an environment of ever more demanding thresholds of price, quality and attractive features. Competition from LCCs is primarily a cost dynamic, but also involves an integration challenge. Absent an effective strategy, the potential impact of these challenges is the commoditization of the power products industry and our position in it, with the predictably negative effect on operating margins.

We continue to refine and execute on our “Powerful Solution” strategy as the most effective way of meeting these challenges. As you may recall from previous shareholder letters, this strategy is intended to achieve virtual integration of power products by engaging the (remaining) traditional industry end product producers in a cooperative effort. Successful implementation of the Powerful Solution will not only ensure our profitability, but also increase our presence in the category. The key elements of the Powerful Solution strategy include: integration of engine and end product, maintaining our low cost provider position, brand development, category management, and returns and service support. Following are advances we have made on these various elements of our strategy.

Integration

We are convinced that truly integrated companies (those involved either on their own or through strategic alliances in the seamless production of complete power products, including the engine and end product) will be best suited to survive and thrive in the face of modern retail demands and Chinese competition. Why is this so? Integration provides powerful economic and competitive benefits in purchasing, product development, operations and market development. In other words, the integrated player will produce the highest value, lowest relative cost product with a powerful brand proposition. We know this first hand, as we have proven the benefits through our integration of the generator and pressure washer businesses.

Moreover, we believe the current strategy of Chinese competitors of selling engines to U.S. and European power products producers is merely an interim one, designed to establish the credibility of their products in the market. We have little doubt that they will move quickly to market-integrated product into these markets. Traditional firms in the power products markets who fail to integrate will find themselves at a disadvantage.

We successfully brought up our new high volume walk mower facility in Newbern, Tennessee. Located contiguous to our walk mower engine factories in Poplar Bluff, Missouri and Murray, Kentucky this facility is delivering integrated product not only on delivery schedules previously unachievable, but with considerable economic benefits in terms of operating and purchasing synergies. The viability of this integration strategy was proven this year in that cost competitive and high quality product from our Newbern facility displaced Chinese-powered products at a major retailer.

Shortly before the end of our fiscal year, we announced our intention to acquire the business of Victa Lawncare PTY LTD. The transaction was completed after yearend. The Victa brand is recognized as the strongest in Australia, and the company claims a leading share of about 50% in that market. With this acquisition, we now claim the leading share in both the engine and mower markets in Australasia, our third largest market after North America and Europe. We intend to integrate engine and end product to achieve competitive advantage in that market.

These internal integration initiatives augment the strategic alliances we maintain and build upon each year with major traditional power products producers. We continue to increase the number and range of integrated product we produce for our partners, some of the biggest name brands in the industry, such as the mowers, pressure washers and snowthrowers we produce for John Deere.

Cost Leadership

Competing in the face of the previously described challenges requires an ever more firm commitment to our long held value discipline of cost leadership. We are executing a global strategy in which we will be the lowest cost producer of quality power products for each geographic region we serve. Our primary markets continue to be for mowing equipment where the selling season is compressed into three or four months. Accordingly, there is a clear competitive advantage in serving these markets with some modicum of domestic production, while maintaining the cost leadership value discipline.

During the last fiscal year we continued to refine and improve the productivity and cost efficiency of our plant in Ostrava, Czech Republic, the only high volume mower engine facility in Europe. While the Euro exchange rate causes this facility to suffer a current cost disadvantage relative to U.S. produced engines, it does earn us a superior preference in the European market over non-domestic alternatives. And when currency values swing back more toward parity, it will provide greater economic value.

We successfully moved utility engine production from our factory in Rolla, Missouri to our cost efficient plant in Chongqing, China. The balance of the Rolla production, engines used primarily on mowers, was successfully transferred to our Poplar Bluff, Missouri plant where they will accrue to the higher level of cost absorption and productivity, which will be achieved in a higher volume environment.

Our Yard Power Products group made positive progress on, and has nearly completed, its plan to shut down the Port Washington, Wisconsin plant to consolidate rider mower and other non-walk mower products into a higher volume, more productive and cost efficient facility in McDonough, Georgia.

With the completion of these initiatives, we will claim as a competitive advantage the most efficient and cost effective integrated manufacturing capability worldwide in our industry, achieving an unparalleled level of response to customer demands. This will make a huge contribution to the value creation calculus at Briggs & Stratton.

When discussing our cost leadership strategy, we often make the distinction between mower engines and utility engines. Mower engines are produced to serve the highly seasonal market for lawn and garden product. Utility engines primarily serve the less seasonal markets for industrial, commercial and agricultural equipment. For example, the engines we currently produce in China are utility engines, which are used in the less seasonal and more international applications.

The prospect of competition in the U.S. and European markets from Chinese produced mower engines has been very real in the last several years. While the seasonality of the mower engine business represents a huge challenge for Chinese producers in terms of delivery response in season, the substantial cost savings in terms of Chinese production helped to offset that competitive disadvantage. We had received considerable pressure from various corporate constituencies over the years to move all or most of our mower engine production to China. The experience of Chinese producers in the last fiscal year underscores the conclusion that the Chinese cost advantage is substantially narrowing. The reasons for this are numerous: Chinese government enforcement of labor and tax laws and reduction of export subsidies, tightening policies of Chinese banks, huge commodity cost increases experienced more acutely in China, demands for prompt payment by Chinese suppliers and the skyrocketing costs of shipping containers from China to the U.S. and Europe.

These insights serve to justify our decision over the last few years to maintain the vast majority of our mower production in our highly productive and cost efficient “focus factories” in the U.S. In our Murray, Kentucky facility, for example, we are able to produce a mower engine with about one-half hour of labor, and we can deliver that product into the seasonal mower market in a matter of hours. This continues to provide us with a huge competitive advantage, and when combined with the demise of our only major domestic walk mower engine competitor gives us a unique competitive position and secures our claim as the cost leader in quality engine production for our biggest market.

Brand Development

It is axiomatic that the perfect antidote to commoditization is strong brands. The Powerful Solution strategy approaches brand development at two levels: First, we are positioning the “Briggs & Stratton” brand as an umbrella brand which provides to customers a broad guarantee of meeting threshold demands for quality, affordability and consumer confidence. We have built this brand over generations of delivering preferred product across all channels and retailers. And market research confirms that this equity applies not only to engines, but also carries over to a broad range of power products. We continue to invest heavily in supporting the Briggs & Stratton brand with “The Power Within” initiative, to effectively distinguish our products from those of the commodity producers in both the consumer and commercial markets. An element of this strategy is the development of the “Engines Matter” advertising program and website, intended to remind consumers that the engine is the critical component in the performance of any power product. The campaign of radio and new media generated a 73% (800,000) increase in visitors to the web site and micro-site.

The second level involves trade brands. By that we mean brands that can be exploited by individual retailers to differentiate their products and drive sales. Recent acquisitions have brought us valuable trade brands: Simplicity, Snapper, Ferris, Giant Vac and Murray. We have established “Brute by Briggs & Stratton” as the fastest growing brand in outdoor power products, leveraged our relationship with Brett Favre to support the launch of the Snapper brand at Sears as well as at Snapper dealers, and continued to pursue brand-licensing agreements to give us added differentiation in the market place (including the acquisition of the “Allis-Chalmers” brand for ag-flavored lawn tractors).

Category Management

The outdoor power equipment category is one that has not traditionally been merchandized as effectively as others in home products retailing. The category is often represented by limited product offerings, which are displaced with other products outside of the core spring selling season. But, in fact, the retailers in the category claiming the greatest shares are those that sell the broadest range of products during an extended selling season.

One of the primary motivations for our aggressive acquisition and product development tactics has been to be able to achieve a position where we are able to offer our retail customers a full complement of product offerings for the category. We will continue to make the necessary investments in market research, product development and promotion to be the preferred provider for our retail customers for broad product and seasonal requirements.

Returns and Service Support

The key to success in the outdoor power equipment business is in managing returns and service support. Outdoor power equipment is a mechanical product that requires a certain modicum of knowledge and maintenance for proper operation. Accordingly, product return and service rates have been significantly higher than other products in the retail space. While we maintain the most capable service network in the industry, we have also invested heavily in human factor analysis and service technologies intended to significantly reduce return and service costs in the category. This is another example of the ways in which we distinguish ourselves from the commodity producer.

Our Future

The outdoor power products business is an exceptionally competitive one, but for the reasons stated above, we believe our Company is well geared to continue our profitable leadership position in the industry, and we are committed to doing everything required to make that happen.

It bears repeating what we have said in the past regarding recent developments in our industry. If important consumer brands become available in the market place, we will invest in acquiring those brands on behalf of our key customers and ourselves. If our customers are interested in cooperative product development initiatives, we are prepared to make the required investments. If our customers wish to pursue investments in efficient capacity of high value consumer products, we are an interested partner. If our customers see integrating efficiencies in a merger of complementary industry players, we are prepared to support such business combinations as a co-investor and, if our customers are so disposed, we will invest in cooperative marketing initiatives that have a high probability of producing a positive economic value.

Outlook for 2009

While we believe we have positioned the company for excellent financial performance when the market recuperates, we are guarded in our optimism for next year. For fiscal 2009, we project that net income will be in the range of $42 to $46 million or $0.85 to $0.93 per diluted share. The estimate is based on the assumption that consolidated net sales will grow 5% to 6% between years, primarily due to pricing initiatives. The estimate assumes that the markets for all our product categories will be relatively flat in fiscal 2009 and production levels will be similar to those in fiscal 2008. Significant weather events, an improvement in the housing picture or an up tick in consumer confidence would be cause for the expectation of improved performance.

John S Shiely

John S. Shiely
Chairman, President and Chief Executive Officer