PART I

ITEM 1. BUSINESS

General

Briggs & Stratton Corporation is the world's largest producer of air cooled gasoline engines for outdoor power equipment. The Company designs, manufactures, markets and services these products for original equipment manufacturers (OEMs) worldwide. These engines are aluminum alloy gasoline engines ranging from 3 through 22 horsepower.

The Company's engines are used primarily by the lawn and garden equipment industry, which accounted for 79% of fiscal 1998 OEM engine sales. The major lawn and garden equipment applications include walk-behind lawn mowers, riding lawn mowers and garden tillers. The remaining 21% of OEM sales in fiscal 1998 were for use on many products for industrial, construction, agricultural and consumer applications, including generators, pumps and pressure washers. Many retailers specify the Company's engines on the powered equipment they sell, and the Briggs & Stratton name is often featured prominently on a product despite the fact that its engine is just a component. Briggs & Stratton engines are marketed under various brand names including Classic™, Sprint™, Quattro™, Quantum®, INTEK™, I/C®, Diamond I/C®, Industrial Plus™ and Vanguard™.

In fiscal 1998, approximately 22% of the Company'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, Czech Republic, France, Germany, New Zealand, Sweden, the United Kingdom and Mexico. The Company is a leading supplier of gasoline engines in developed countries where there is an established lawn and garden equipment market. The Company also exports 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. The Company's marketing staff and engineers 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. The Company 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 30,000 independently owned authorized service dealers throughout the world. These distributors and service dealers implement Briggs & Stratton's commitment to reliability and service.

Customers

The Company's sales are primarily made directly to original equipment manufacturers. The Company's three largest customers accounted for 46%, 46% and 48% of net sales in fiscal 1998, 1997 and 1996, respectively. Sales to the Company's largest engine customer, MTD Products Inc., were 18%, 21% and 21% of net sales in fiscal 1998, 1997 and 1996, respectively. Sales to its second largest customer, AB Electrolux (including its Frigidaire Home Products group), were 15%, 14% and 14% of net sales in fiscal 1998, 1997 and 1996, respectively, and sales to its third largest customer, Tomkins PLC (including its Murray subsidiary products), were 13%, 11% and 13% of net sales in fiscal 1998, 1997 and 1996, respectively. Under purchasing plans available to all of its gasoline engine customers, the Company typically enters into annual engine supply arrangements with these large customers. The Company has no reason to anticipate a change in this practice or in its historical business relationships with these equipment manufacturers.

Over the past several years, sales in the United States of lawn and garden equipment by mass merchandisers have increased significantly, while sales by independent distributors and dealers have declined. The Company believes that in 1998 more than 75% of all lawn and garden equipment sold in the United States was sold through mass merchandisers such as Sears, Wal-Mart, Kmart, Home Depot and Lowe's. Given the buying power of the mass merchandisers, the Company, through its customers, has experienced pricing pressure. The Company expects that this trend will continue in the foreseeable future. The Company believes that a similar trend has developed for commercial products for industrial and consumer applications.

Competition

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

The Company 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 and product support and distribution strength. Briggs & Stratton believes its product quality 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 the buying patterns of retail customers. 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 the Company's fiscal third quarter have historically been the highest, while sales in the first fiscal quarter have historically been the lowest.

The sale of lawn and garden equipment has shifted from smaller dealers to larger mass merchandisers, who do not wish to carry large inventories of lawn and garden equipment. In order to efficiently use its capital investments and meet seasonal demand for engines, the Company pursues a balanced production schedule throughout the year, subject to ongoing adjustment to reflect changes in estimated demand, customer inventory levels and other matters outside the control of the Company. Accordingly, inventory levels are generally higher during the first and second fiscal quarters in anticipation of increased customer demand in the third fiscal quarter, at which time inventory levels begin to decrease as sales increase.

In recent years, lawn and garden equipment manufacturers have tended to place orders with engine manufacturers and to take deliveries later in the selling season, specifically later in the Company's third fiscal quarter and in the Company's fourth fiscal quarter. This seasonal pattern results in high inventories and receivables and low cash for the Company in the second and the beginning of the third fiscal quarters, with a rapid shift to lower inventories and receivables and ultimately higher cash in the latter portion of the third fiscal quarter and in the fourth fiscal quarter.

Manufacturing

Briggs & Stratton manufactures engines and parts at the following locations in the United States: Wauwatosa, Wisconsin; Murray, Kentucky; Poplar Bluff and Rolla, Missouri; Auburn, Alabama; and Statesboro, Georgia. The Company has a parts distribution center in Menomonee Falls, Wisconsin. Parts and components are manufactured at foundries located in West Allis, Wisconsin and Ravenna, Michigan. The Company believes that it has adequate capacity to meet its currently anticipated production needs.

Briggs & Stratton manufactures a majority of the structural components used in its engines, including ductile iron castings, aluminum die castings and a high percentage of other major components, such as carburetors and ignition systems. The Company purchases certain finished standard commercial parts such as piston rings, spark plugs, valves, grey iron castings, zinc die castings and plastic components, some stampings and screw machine parts and smaller quantities of other components. Raw material purchases are principally for aluminum, iron and steel. The Company believes its sources of supply are adequate.

The Company 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. The Company also has two new joint ventures in India. Kirloskar Briggs & Stratton, a joint venture with Kirloskar Oil Engines Ltd., will be responsible for sales and distribution of Briggs & Stratton engines and parts in India and will assemble and distribute generators and pumps powered by Briggs & Stratton engines. Hero Briggs & Stratton is a joint venture with Hero Motors, part of the Hero Group, for the manufacture of engines and transmissions to be used in two wheel transportation vehicles.

The Company has a strategic relationship with Mitsubishi Heavy Industries (MHI) for the international distribution of engines for outdoor power equipment manufactured by MHI in Japan.

Other General Information

The Company holds certain patents on features incorporated in its products; however, the success of the Company's business is not considered to be primarily dependent upon patent protection. Licenses, franchises and concessions are not a material factor in the Company's business.

For the years ending June 28, 1998, June 29, 1997 and June 30, 1996, the Company spent approximately $19,950,000, $19,525,000 and $15,019,000, respectively, on Company sponsored research activities relating to the development of new products or the improvement of existing products.

The average number of persons employed by the Company during the fiscal year was 7,350. Employment ranged from a low of 7,205 in July 1997 to a high of 7,486 in October 1997.

Export Sales

Export sales for fiscal 1998 were $288,510,000 (22% of total sales), for fiscal 1997 were $304,230,000 (23% of total sales) and for fiscal 1996 were $323,747,000 (25% of total sales). These sales were principally to customers in European countries.

ITEM 2. PROPERTIES

The corporate offices and two of the Company's manufacturing facilities are located in suburbs of Milwaukee, Wisconsin. The Company also has manufacturing facilities in Murray, Kentucky; Poplar Bluff and Rolla, Missouri; Auburn, Alabama; Statesboro, Georgia; and Ravenna, Michigan. These are owned facilities containing over 3.9 million square feet of office and production area. The Company occupies warehouse space totalling 400,000 square feet in a suburb of Milwaukee, Wisconsin under a reservation of interest agreement.

The engine business 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 one shift 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. The Company's owned properties are well maintained.

The Company leases 174,000 square feet of space to house its European warehouse in the Netherlands and its foreign sales and service operations in Australia, Austria, Canada, the Czech Republic, France, Germany, Mexico, New Zealand, Sweden, Switzerland and the United Kingdom.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings that are required to be reported under this item.

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 28, 1998.

Executive Officers of the Registrant

Name, Age, Position	Business Experience for Past Five Years
FREDERICK P. STRATTON, JR., 59 Chairman and Chief Executive Officer (1) (2) (3)	Mr. Stratton was elected to the position of Chief Executive Officer in May 1977 and Chairman in November 1986. He also served in the position of President from January 1992 to August 1994.
JOHN S. SHIELY, 46 President and Chief Operating Officer (1) (2)	Mr. Shiely was elected to his current position in August 1994, after serving as Executive Vice President – Administration since November 1991.
ROBERT H. ELDRIDGE, 59 Executive Vice President and Chief Financial Officer, Secretary-Treasurer (1)	Mr. Eldridge was elected to his current position effective April 1995. He has served as Secretary-Treasurer since January 1984.
MICHAEL D. HAMILTON, 56 Executive Vice President – Sales and Service	Mr. Hamilton was elected to his present position effective June 1989.
JAMES A. WIER, 55 Executive Vice President – Operations	Mr. Wier was elected to his current position in April 1989.
JAMES E. BRENN, 50 Vice President and Controller	Mr. Brenn was elected to his current position in November 1988.
RICHARD J. FOTSCH, 43 Senior Vice President – Engine Group	Mr. Fotsch was elected to his current position effective July 1997, after serving in the executive officer position of Vice President; General Manager – Small Engine Division since May 1993.
HUGO A. KELTZ, 50 Vice President – International	Mr. Keltz was elected to his present position in May 1992.
CURTIS E. LARSON, JR., 50 Vice President – Distribution Sales and Service	Mr. Larson was elected to this executive officer position in October 1995 after serving as Vice President – Industrial Engine Division since January 1993.

PAUL M. NEYLON, 51 Vice President; General Manager – Spectrum Division	Mr. Neylon was elected to his current position in May 1993.
WILLIAM H. REITMAN, 42 Vice President – Marketing	Mr. Reitman was elected an executive officer effective April 20, 1998. He has served as Vice President – Marketing since November 1995, after serving as Marketing Director – New Ventures since March 1993.
STEPHEN H. RUGG, 51 Vice President – Sales	Mr. Rugg was elected to his current position in November 1995, after serving as Vice President – Sales and Marketing since November 1988.
THOMAS R. SAVAGE, 50 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 joined the Company in April 1992 as General Counsel.
GREGORY D. SOCKS, 49 Vice President; General Manager – Castings Division	Mr. Socks was elected to his current position effective July 1997, after serving in the executive officer position of Vice President; General Manager – Large Engine Division since May 1993.
GERALD E. ZITZER, 51 Vice President – Human Resources	Mr. Zitzer was elected to his current position in November 1988.

(1) Officer is also a Director of the Company.

(2) Member of Executive Committee.

(3) Member of Planning Committee.

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

Information required by this Item is incorporated by reference to "Quarterly Financial Data, Dividend and Market Information" on page 27.