



August 26, 1999

Dear Shareholder:

The outdoor power equipment business was very strong in fiscal 1999, so strong that demand for engines exceeded our production for a major portion of the year. We were not able to deliver all the engines our customers wanted when they wanted them despite operating at or close to capacity for most of the year. These circumstances rewarded you with a 50% increase in net income, but they frustrated our customers.

All markets for power equipment were strong in fiscal 1999. U.S. equipment manufacturers' shipments of lawn and garden equipment increased modestly. European manufacturers' shipments of engine powered lawn and garden equipment increased more because western European economies were somewhat stronger, because engine powered products gained market share from electric powered products, and because demand in central Europe continues to grow. The greatest growth was in shipments of other products, particularly generators and pressure washers. Engine unit shipments increased 8%, and U.S. dollar sales increased 13%.

The product category that received the most media attention in fiscal 1999 was small engine powered standby generators. Year 2000 computer problems have been well publicized, and this publicity has caused some consumers to fear that computer problems will cause the electric power grid to fail next January 1. It has been reported that, as a result, as many as 20% of U.S. households are considering purchase of a standby generator. Indeed, demand for generators exceeded the available supply through much of fiscal 1999. There are good reasons to buy a standby generator; we doubt that a year 2000 computer problem is one of them. We believe that increasing affluence, increasing dependence on home computers, an increase in the number of people working at home, and decreasing tolerance of power interruptions are fundamental reasons for continued growth in this product category.

The 50% increase in net income resulted from the sales increase, the spreading of costs over more units produced, and lower raw material costs. Better profit margins are a normal consequence of higher production; the combination of strong demand for engines and weak raw material costs was unusual. Manufacturing inefficiencies in some plants early in the fiscal year and component supply shortages later in the fiscal year limited the profit improvement.

These manufacturing inefficiencies and component supply shortages were reasons we were not able to deliver all the engines our customers wanted when they wanted them. Also, for some engine models, the combination of inventory and production capacity was inadequate to meet mid-season demand. The manufacturing inefficiencies and component supply shortages were greatly reduced by fiscal year-end. By maintaining a high assembly rate through the summer despite a seasonal easing of demand, we expect to build more inventory in the first half of fiscal 2000 than we did in the first half of fiscal 1999. Higher inventory combined with appropriate capacity increases should permit us to do a better job of satisfying our customers next spring.

Net income for fiscal 1999 was \$106.1 million or \$4.52 per share. Net adjusted cash operating earnings were \$51 million more than the cost of capital. This measure of economic value more than doubled in fiscal 1999. Return on average shareholders' investment increased to 31.1%. Dividends increased to \$1.16 per share.

Operating activities provided \$114 million of cash flow in fiscal 1999, compared with \$136 million in fiscal 1998. Earnings and depreciation provided \$156 million, but operating capital increased \$42 million. The operating capital increase was a consequence of strong fourth quarter business, which increased year-end receivables, and a restoration of more normal year-end inventory. We used this net cash flow plus \$24 million of cash reserves to fund \$66 million of capital expenditures, pay \$27 million of dividends, reduce debt by \$15 million, and buy back common shares with a net market value of \$30 million.

We completed our share buyback program in fiscal 1999 and announced a new, more modest program designed primarily to offset the increase in shares that results from stock option exercises. Since we began buying back shares in fiscal 1997, we have reduced our shares outstanding 20%.

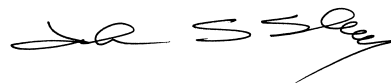
During fiscal 1999 we completed the conversion from old software for a large mainframe computer to new year 2000 compliant enterprise-wide software for a network of smaller computers. Now we are hard at work on the task of making this new generic software more responsive to our specific needs.

Increasingly stringent U.S. Environmental Protection Agency and California Air Resources Board exhaust emission standards have forced us to make many changes to our products and manufacturing systems. We have had to invest in tooling changes, in new equipment, and in new processes. In some cases, these changes have increased our costs, but we have been able to give consumers lower emissions without sacrificing performance. We are committed to capturing this added value in the marketplace. We were successful in 1999 and have communicated to our customers a modest price increase for fiscal 2000.

As usual, it is not possible to make a precise forecast for fiscal 2000. It is too early to know what retail inventory levels will be at the end of the selling season. Because some areas of the U.S. have been very dry this summer, it is likely that retail inventories of lawn and garden equipment will be somewhat higher than last year's unusually low level. Nevertheless, manufacturers are optimistic. Most major retailers have completed the process of selecting their suppliers and their product lines for the 2000 season. We have been informed of some changes related to fiscal 1999 delivery issues, but we do not believe that the net effect on our business will be significant. Econometric forecasts indicate that U.S. retail sales of lawn and garden equipment next spring should be good if weather is normal, and retailers are optimistic. We expect faster growth in Europe and continued increases in retail sales of other products. At this time we expect improved sales and earnings in fiscal 2000.



Chairman and
Chief Executive Officer



President and
Chief Operating Officer