

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED JULY 2, 2000, JUNE 27, 1999, AND JUNE 28, 1998

## (1) Nature of Operations:

Briggs & Stratton Corporation (the Company) is a U.S. based producer of air cooled gasoline engines. These engines are sold worldwide, primarily to original equipment manufacturers of lawn and garden equipment and other gasoline engine powered equipment.

## (2) Summary of Significant Accounting Policies:

Fiscal Year: The Company's fiscal year consists of 52 or 53 weeks, ending on the Sunday nearest the last day of June in each year. Therefore, the 2000 fiscal year was 53 weeks long and the 1999 and 1998 fiscal years were 52 weeks long. All references to years relate to fiscal years rather than calendar years.

Principles of Consolidation: The consolidated financial statements include the accounts of Briggs & Stratton Corporation and its wholly owned domestic and foreign subsidiaries after elimination of intercompany accounts and transactions.

Accounting Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: This caption includes cash, commercial paper and certificates of deposit. The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Inventories: Inventories are stated at cost, which does not exceed market. The last-in, first-out (LIFO) method was used for determining the cost of approximately 91% of total inventories at July 2, 2000, 89% at June 27, 1999 and 88% at June 28, 1998. The cost for the remaining portion of the inventories was determined using the first-in, first-out (FIFO) method. If the FIFO inventory valuation method had been used exclusively,

inventories would have been \$45,200,000, \$43,900,000 and \$48,100,000 higher in the respective years. The LIFO inventory adjustment was determined on an overall basis, and accordingly, each class of inventory reflects an allocation based on the FIFO amounts.

Investments: This caption represents the Company's investments in five 50%-owned foreign joint ventures, preferred stock in a privately-held iron castings business and common stock in a publicly traded software company. The common stock in the publicly traded company is being classified as available-for-sale and is reported at a fair market value of \$2,100,000 as of July 2, 2000 and \$2,730,000 as of June 27, 1999. The unrealized gain incurred on this stock is recorded as Unrealized Gain on Marketable Securities in the Shareholders' Investment section of the balance sheet. The investments in the five joint ventures and the privately held business are accounted for under the equity method.

Capitalized Software: This caption represents costs of software used in the Company's business. Amortization of Capitalized Software is computed on an item-by-item basis over a period of three to ten years, depending on the estimated useful life of the software. Accumulated amortization amounted to \$6,173,000 as of July 2, 2000 and \$5,655,000 as of June 27, 1999.

Plant and Equipment and Depreciation: Plant and equipment is stated at cost, and depreciation is computed using the straight-line method at rates based upon the estimated useful lives of the assets.

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated. Upon retirement or disposition of plant and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in other income.

## Notes . . .

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### Deferred Revenue on Sale of Plant & Equipment:

In fiscal 1997, the Company sold its Menomonee Falls, Wisconsin facility for approximately \$16.0 million. The provisions of the contract state that the Company will continue to own and occupy the warehouse portion of the facility for a period of up to ten years (the "Reservation Period"). The contract also contains a buyout clause, at the buyer's option and under certain circumstances, of the remaining Reservation Period. Under the provisions of Statement of Financial Accounting Standards (FAS) No. 66, "Accounting for Sales of Real Estate," the Company is required to account for this as a financing transaction as the Company continues to have substantial involvement with the facility during the Reservation Period or until the buyout option is exercised. Under this method, the cash received is reflected as a deferred revenue, and the assets and the accumulated depreciation remain on the Company's books. Depreciation expense continues to be recorded each period, and imputed interest expense is also recorded and added to deferred revenue. Offsetting this is the imputed fair value lease income on the non-Company occupied portion of the building. A pretax gain, which will be recognized at the earlier of the exercise of the buyout option or the expiration of the Reservation Period, is estimated to be \$10 million to \$12 million. The annual cost of operating the warehouse portion of the facility is not material.

Income Taxes: The Provision for Income Taxes includes Federal, state and foreign income taxes currently payable and those deferred or prepaid because of temporary differences between the financial statement and tax basis of assets and liabilities. The Future Income Tax Benefits represent temporary differences relating to current assets and current liabilities and the Deferred Income Tax Assets/Liabilities represent temporary differences relating to noncurrent assets and liabilities.

Research and Development Costs: Expenditures relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. The amounts charged against income were

\$24,305,000 in 2000, \$17,920,000 in 1999, and \$19,950,000 in 1998. Included in the fiscal 1998 amounts were software development costs related to the Company's software business of \$3,136,000.

Advertising Costs: Advertising costs, included in Engineering, Selling, General and Administrative Expenses on the accompanying Consolidated Statements of Earnings, are expensed as incurred. These expenses totaled \$8,078,000 in 2000 \$7,724,000 in 1999, and \$7,325,000 in 1998.

Foreign Currency Translation: Foreign currency balance sheet accounts are translated into United States dollars at the rates of exchange in effect at fiscal year end. Income and expenses are translated at the average rates of exchange in effect during the year. The related translation adjustments are made directly to a separate component of Shareholders' Investment.

Earnings Per Share: The Company's earnings per share were computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share, for each period presented, were computed on the assumption that stock options were exercised at the beginning of the periods reported. The difference between weighted average shares outstanding and diluted average shares outstanding reflects the dilutive effects of stock options.

Earnings per share of common stock are computed based on the weighted average number of shares outstanding during each period. The Company's ongoing share repurchase program may affect the year-to-date comparisons.

Comprehensive Income: During fiscal 1999 the Company adopted Statement of Financial Accounting Standard (FAS) No. 130, "Reporting Comprehensive Income". This statement requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting method that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. The Company has chosen to report Comprehensive

## Notes . . .

Income and Accumulated Other Comprehensive Income (Loss) which encompasses net income, unrealized gain (loss) on marketable securities and foreign currency translation in the Consolidated Statements of Shareholders' Investment.

Information on accumulated other comprehensive income (loss) is as follows (in thousands of dollars):

	Unrealized Gain (Loss) on Marketable Securities	Cumulative Translation Adjustments	Accumulated Other Com- prehensive Income (Loss)
Balance at June 29, 1997 ..	\$ -	\$ (1,033)	\$ (1,033)
Current year change .....	-	(1,077)	(1,077)
Balance at June 28, 1998 ..	-	(2,110)	(2,110)
Current year change .....	577	(199)	378
<b>Balance at June 27, 1999 ..</b>	<b>577</b>	<b>(2,309)</b>	<b>(1,732)</b>
<b>Current year change ....</b>	<b>(383)</b>	<b>(1,816)</b>	<b>(2,199)</b>
<b>Balance at July 2, 2000 ...</b>	<b>\$ 194</b>	<b>\$ (4,125)</b>	<b>\$ (3,931)</b>

**Derivatives:** The Company uses derivative financial instruments to manage its foreign currency exposures. Gains and losses relating to hedges of probable transactions with noncontrolled subsidiaries and third parties are deferred and recognized as adjustments of carrying amounts when the transaction occurs. Gains and losses on hedges of transactions that are not probable of occurring and hedges of transactions with controlled subsidiaries are recognized in the Company's results of operations.

In June 1998 the Financial Accounting Standards Board issued Financial Accounting Standard (FAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities". This new standard as amended will be effective for the Company in fiscal 2001, and requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Any fair value changes will be recorded in net income or comprehensive income. The adoption of this standard will not have a material effect on the Company's financial statements.

**Reclassification:** Certain amounts in prior year financial statements have been reclassified to conform to current year presentation.

### (3) Income Taxes:

The provision for income taxes consists of the following (in thousands of dollars):

	2000	1999	1998
Current			
Federal .....	\$ 66,169	\$ 51,344	\$ 29,295
State .....	10,425	7,014	4,442
Foreign .....	2,014	1,260	1,028
	<u>78,608</u>	<u>59,618</u>	<u>34,765</u>
Deferred .....	1,542	4,052	7,735
Total .....	<u>\$ 80,150</u>	<u>\$ 63,670</u>	<u>\$ 42,500</u>

A reconciliation of the U.S. statutory tax rates to the effective tax rates follows:

	2000	1999	1998
U.S. statutory rate .....	35.0%	35.0%	35.0%
State taxes, net of			
Federal tax benefit .....	3.2%	2.9%	3.1%
Foreign Sales Corporation			
tax benefit .....	(.5%)	(.5%)	(.8%)
Other .....	(.7%)	.1%	.3%
Effective tax rate .....	<u>37.0%</u>	<u>37.5%</u>	<u>37.6%</u>

The components of deferred income taxes at the end of the fiscal year were (in thousands of dollars):

	2000	1999
Future Income Tax Benefits:		
Inventory .....	\$ 4,152	\$ 3,402
Payroll related accruals .....	4,539	4,363
Warranty reserves .....	18,077	14,421
Other accrued liabilities .....	11,011	12,026
Miscellaneous .....	1,359	171
	<u>\$ 39,138</u>	<u>\$ 34,383</u>

	2000	1999
Deferred Income Taxes:		
Difference between book and tax methods applied to maintenance and supply inventories .....	\$ 11,429	\$ 11,463
Pension cost .....	(1,338)	3,345
Accumulated depreciation .....	(53,719)	(56,131)
Accrued employee benefits ...	9,405	9,142
Postretirement health care obligation .....	25,649	26,472
Deferred revenue on sale of plant & equipment .....	6,115	6,161
Miscellaneous .....	(1,552)	1,587
	<u>\$ (4,011)</u>	<u>\$ 2,039</u>

## Notes . . .

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. These undistributed earnings amounted to approximately \$7,120,000 at July 2, 2000. If these earnings were remitted to the U.S., they would be subject to U.S. income tax. However, this tax would be substantially less than the U.S. statutory income tax because of available foreign tax credits.

#### (4) Geographic Information and Significant Customers:

The Company reviewed the criteria for determining operating segments in accordance with FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" and concluded that it operates as one segment. Geographic sales by the location in which the sale originated is as follows (in thousands of dollars):

	2000	1999	1998
United States . . . . .	\$1,501,723	\$1,422,988	\$1,258,609
All Other Countries . . .	88,834	78,738	69,001
Total . . . . .	<u>\$1,590,557</u>	<u>\$1,501,726</u>	<u>\$1,327,610</u>

The Company has no material long lived assets in an individual foreign country.

In the fiscal years 2000, 1999 and 1998, there were sales to three major engine customers that individually exceeded 10% of total Company net sales. The sales to these customers are summarized below (in thousands of dollars and percent of total Company sales):

Customer	2000		1999		1998	
	Sales	%	Sales	%	Sales	%
A	\$287,769	18%	\$250,755	17%	\$235,552	18%
B	229,873	15%	219,209	14%	203,931	15%
C	190,659	12%	161,857	11%	165,937	13%
	<u>\$708,301</u>	<u>45%</u>	<u>\$631,821</u>	<u>42%</u>	<u>\$605,420</u>	<u>46%</u>

#### (5) Indebtedness:

The Company has access to a \$250,000,000 revolving credit facility (the Credit Facility) which expires in April 2002. The Company also has access to additional domestic lines of credit totaling \$18,000,000 which remain in effect until canceled by either party. They provide amounts for short-term use at the then prevailing rate. There are

no significant compensating balance requirements for any of these lines. There were borrowings of \$45 million at July 2, 2000 using these lines or the Credit Facility and are included in domestic notes payable.

Borrowings under the Credit Facility by the Company bear interest at a rate per annum equal to, at its option, either:

- (1) the higher of (a) the bank's reference rate or (b) 0.5% per annum above the Federal Funds rate; or
- (2) LIBOR plus a margin that may be adjusted up or down based on the Company's debt ratings.

The Credit Facility contains restrictive covenants that require the Company to maintain certain financial conditions including a maximum limit on the ratio of debt to capital and a minimum fixed charge coverage ratio. The Credit Facility imposes limitations on liens, indebtedness, the sales of assets and certain investments.

The following data relates to domestic notes payable (in thousands of dollars):

	2000	1999
Balance at		
Fiscal Year End . . . . .	\$48,809	\$ 4,335
Weighted Average		
Interest Rate at		
Fiscal Year End . . . . .	6.91%	5.31%

The lines of credit available to the Company in foreign countries are in connection with short-term borrowings and bank overdrafts used in the normal course of business. These amounts total \$3,380,000, expire at various times through April, 2001 and are renewable. There were borrowings of \$2 million at July 2, 2000 using these lines of credit and are included in foreign loans. None of these arrangements had material commitment fees or compensating balance requirements.

The following information relates to foreign loans (in thousands of dollars):

	2000	1999
Balance at		
Fiscal Year End . . . . .	\$ 13,356	\$ 13,824
Weighted Average		
Interest Rate at		
Fiscal Year End . . . . .	5.40%	5.30%

## Notes . . .

The Long-Term Debt caption consists of the following (in thousands of dollars):

	<u>2000</u>	<u>1999</u>
9.21% Senior Notes		
at Face Amount . . . . .	\$ -	\$ 30,000
7.25% Notes Due 2007, Net of Unamortized Discount of \$1,488 in 2000 and \$1,693 in 1999 . . . . .	<u>98,512</u>	<u>98,307</u>
	<u>\$ 98,512</u>	<u>\$ 128,307</u>
Less Current Maturities . . . . .	-	15,000
Total Long-Term Debt . . . . .	<u>\$ 98,512</u>	<u>\$ 113,307</u>

During fiscal 2000, the Company repaid the remaining \$30 million on the 9.21% Senior Notes due 2001. There was no gain or loss associated with this repayment. In fiscal 1999 the Company paid \$15 million on these notes.

The 7.25% notes are due September 15, 2007. No principal payments are due before that date. These notes have covenants that limit secured funded debt and certain sale-leaseback transactions.

### (6) Other Income:

The components of other income (expense) are (in thousands of dollars):

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Interest income . . . . .	\$ 1,589	\$ 1,993	\$ 2,720
Loss on the disposition of plant and equipment . . . . .	<u>(2,378)</u>	<u>(2,355)</u>	<u>(1,973)</u>
Income from joint ventures . . . . .	<u>14,364</u>	<u>5,442</u>	<u>5,232</u>
Other items . . . . .	<u>2,541</u>	<u>1,579</u>	<u>1,830</u>
Total . . . . .	<u>\$16,116</u>	<u>\$ 6,659</u>	<u>\$ 7,809</u>

### (7) Commitments and Contingencies:

The Company is a 50% guarantor on bank loans of two unconsolidated joint ventures. They are in the United States for the manufacture of parts and in India for the manufacture of engines and parts. These bank loans totaled approximately \$3,100,000 at July 2, 2000.

Product and general liability claims arise against the Company from time to time in the ordinary course of business. The Company is generally self-insured for future claims up to \$1 million per claim.

Accordingly, a reserve is maintained for the estimated costs of such claims. At July 2, 2000 and June 27, 1999 the reserve for product and general liability claims was \$4.0 million and \$6.8 million, respectively, based on available information. There is inherent uncertainty as to the eventual resolution of unsettled claims. Management, however, believes that any losses in excess of established reserves will not have a material effect on the Company's financial condition or results of operations.

The Company has no material commitments for materials or capital expenditures at July 2, 2000.

### (8) Stock Options:

The Company has a Stock Incentive Plan under which 5,361,935 shares of common stock have been reserved for issuance. The Company accounts for the plan under Accounting Principles Board Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined consistent with FAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net Income (in thousands):			
As Reported . . . . .	<u>\$136,473</u>	\$106,101	\$70,645
Pro Forma . . . . .	<u>\$134,600</u>	\$105,283	\$69,574
Basic Earnings Per Share:			
As Reported . . . . .	<u>\$5.99</u>	\$4.55	\$2.86
Pro Forma . . . . .	<u>\$5.91</u>	\$4.51	\$2.82
Diluted Earnings Per Share:			
As Reported . . . . .	<u>\$5.97</u>	\$4.52	\$2.85
Pro Forma . . . . .	<u>\$5.89</u>	\$4.49	\$2.81

Because the FAS No. 123 method of accounting has not been applied to options granted prior to July 2, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

## Notes . . .

Information on the options outstanding is as follows:

	Shares	Wtd. Avg. Ex. Price
Balance, June 29, 1997 . . . . .	1,786,712	\$ 43.95
Granted during the year . . . . .	241,980	65.69
Exercised during the year . . . . .	(236,873)	35.65
Balance, June 28, 1998 . . . . .	1,791,819	\$ 47.98
Granted during the year . . . . .	354,020	44.98
Exercised during the year . . . . .	(926,000)	45.30
Expired during the year . . . . .	(177,828)	48.37
<b>Balance, June 27, 1999 . . . . .</b>	<b>1,042,011</b>	<b>\$ 49.28</b>
<b>Granted during the year . . . . .</b>	<b>471,020</b>	<b>\$ 74.53</b>
<b>Exercised during the year . . . . .</b>	<b>(151,033)</b>	<b>38.49</b>
<b>Expired during the year . . . . .</b>	<b>(58,970)</b>	<b>67.55</b>
<b>Balance, July 2, 2000 . . . . .</b>	<b>1,303,028</b>	<b>\$ 58.83</b>

### Grant Summary

Fiscal Year	Grant Date	Exercise Price (a)	Date Exercisable	Options Outstanding	Expiration Date
1991	2-19-91	14.524	50%, 1-1-95; 50%, 1-1-96	2,072	2-18-01
1992	5-18-92	21.525	50%, 1-1-96; 50%, 1-1-97	40,654	5-17-02
1996	8-7-95	49.080	8-7-98	180,738	8-7-00
1997	8-6-96	53.300	8-6-99	86,584	8-6-01
1998	8-5-97	65.690	8-5-00	233,480	8-5-02
1999	8-5-98	44.980	8-5-01	327,560	8-5-03
2000	8-4-99	74.530	8-4-02	431,940	8-4-04

There were no options granted in fiscal 1993. Options granted in fiscal years 1990 and 1995 expired in fiscal 2000, and options granted in fiscal 1994 expired in fiscal 1999.

- (a) Exercise prices of earlier grants have been adjusted as appropriate to reflect a two-for-one stock split in October 1994 and the spin-off of the Company's lock business in February 1995.

The fair value of each option is estimated using the Black-Scholes option pricing model. The grant-date fair market value of the options and assumptions used to determine such value are as follows:

Options granted during	2000	1999	1998
Grant date fair value . . . . .	<b>\$13.07</b>	\$5.04	\$5.98
Assumptions:			
Risk-free interest rates . . . . .	<b>6.0%</b>	5.4%	6.1%
Expected volatility . . . . .	<b>30.1%</b>	22.3%	20.4%
Expected dividend yield . . . . .	<b>2.5%</b>	2.5%	2.6%
Expected term (in years) . . . . .	<b>5.0</b>	5.0	5.0

### (9) Shareholder Rights Plan:

On August 6, 1996, the Board of Directors declared a dividend distribution of one common stock purchase right (a "right") for each share of the Company's common stock outstanding on August 19, 1996. Each right would entitle shareowners to buy one-half of one share of the Company's common stock at an exercise price of \$160.00 per full common share, subject to adjustment. The rights are not currently exercisable, but would become exercisable if certain events occurred relating to a person or group acquiring or attempting to acquire 15 percent or more of the outstanding shares of common stock. The rights expire on August 19, 2006, unless redeemed or exchanged by the Company earlier.

### (10) Foreign Exchange Risk Management:

The Company enters into forward exchange contracts to hedge purchase commitments denominated in foreign currencies. The term of these currency derivatives does not exceed thirteen months and the purpose is to protect the Company from the risk that the eventual dollars being transferred will be adversely affected by changes in exchange rates.

The Company has forward foreign currency exchange contracts to purchase 1.8 billion Japanese yen for \$17 million through September, 2000. These contracts are used to hedge the commitments to purchase engines from the Company's Japanese joint venture and accordingly any gain or loss has been deferred at the end of the 2000 fiscal year.

At July 2, 2000 the loss on these contracts at fair value totaled \$300,000.

The Company's foreign subsidiaries have the following forward currency contracts outstanding at the end of fiscal 2000:

Currency	In Millions		Dollars	Latest Expiration Date
	Local Currency	Amount		
Japanese Yen	172.6	1.7	U.S.	July 2001
U.S. Dollars	3.7	5.8	Australian	December 2000
British Pounds	.7	1.1	U.S.	March 2001

At July 2, 2000 the gain on these contracts at fair value totaled \$248,000.

# Notes . . .

## (11) Employee Benefit Costs:

### Retirement Plan and Postretirement Benefits

The Company has noncontributory, defined benefit retirement plans and postretirement benefit plans covering most Wisconsin employees. Effective the last quarter of fiscal 1999, the Company adopted FAS 132 "Disclosures about Pensions and Other Postretirement Benefits". The following provides a reconciliation of obligations, plan assets and funded status of the plans for the two years indicated, (dollars in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2000	1999	2000	1999
<u>Actuarial Assumptions:</u>				
Discounted Rate Used to Determine Present Value of Projected Benefit Obligation . . . . .	7.5%	7.0%	7.5%	7.0%
Expected Rate of Future Compensation Level Increases . . . . .	5.0%	5.0%	n/a	n/a
Expected Long-Term Rate of Return on Plan Assets . . . . .	9.0%	9.0%	n/a	n/a
<u>Change in Benefit Obligations:</u>				
Actuarial Present Value of Benefit Obligations at Beginning of Year . . . . .	\$ 689,397	\$ 649,083	\$ 109,485	\$ 96,580
Service Cost . . . . .	10,622	10,073	1,307	1,437
Interest Cost . . . . .	47,475	44,911	7,343	6,466
Actuarial (Gain) Loss . . . . .	(37,124)	27,865	(6,657)	15,924
Benefits Paid . . . . .	(43,978)	(42,535)	(11,685)	(10,922)
Actuarial Present Value of Benefit Obligation at End of Year . . . . .	\$ 666,392	\$ 689,397	\$ 99,793	\$ 109,485
<u>Change in Plan Assets:</u>				
Plan Assets at Fair Value at Beginning of Year . . . . .	\$ 886,422	\$ 845,955	\$ -	\$ -
Actual Return on Plan Assets . . . . .	108,544	82,474	-	-
Employer Contributions . . . . .	769	528	11,685	10,922
Benefits Paid . . . . .	(43,978)	(42,535)	(11,685)	(10,922)
Plan Assets at Fair Value at End of Year . . . . .	\$ 951,757	\$ 886,422	\$ -	\$ -
Plan Assets in Excess of (Less Than) Projected Benefit Obligation . . . . .	\$ 285,365	\$ 197,025	\$ (99,793)	\$(109,485)
Remaining Unrecognized Net Obligation (Asset) . . . . .	(9,995)	(15,301)	368	414
Unrecognized Net Loss (Gain) . . . . .	(285,144)	(201,227)	17,221	24,989
Unrecognized Prior Service Cost . . . . .	3,024	1,475	134	165
Net Amount Recognized at End of Year . . . . .	\$ (6,750)	\$ (18,028)	\$ (82,070)	\$ (83,917)
<u>Amounts Recognized on the Balance Sheets:</u>				
Prepaid Pension . . . . .	\$ 5,506	\$ -	\$ -	\$ -
Accrued Pension Cost . . . . .	(11,428)	(17,306)	-	-
Accrued Wages and Salaries . . . . .	(828)	(722)	-	-
Accrued Post Retirement Health Care Obligation . . . . .	-	-	(65,765)	(67,877)
Other Accruals . . . . .	-	-	(4,800)	(4,800)
Accrued Employee Benefits . . . . .	-	-	(11,505)	(11,240)
Net Amount Recognized at End of Year . . . . .	\$ (6,750)	\$ (18,028)	\$ (82,070)	\$ (83,917)

## Notes . . .

The following table summarizes the plans' income and expense for the three years indicated (dollars in thousands):

	Pension Benefits			Other Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
<u>Components of Net Periodic Benefit Cost:</u>						
Service Cost-Benefits Earned During the Year . . . . .	\$ 10,622	\$ 10,073	\$ 9,491	\$ 1,307	\$ 1,437	\$ 1,206
Interest Cost on Projected Benefit Obligation . . . . .	47,475	44,911	44,531	7,343	6,466	6,773
Expected Return on Plan Assets . . . . .	(63,845)	(58,252)	(53,881)	-	-	-
Amortization of:						
Transition Obligation (Asset) . . . . .	(5,306)	(5,306)	(5,236)	46	47	47
Prior Service Cost . . . . .	186	(106)	(106)	31	71	71
Actuarial (Gain) Loss . . . . .	359	291	273	1,111	41	-
Net Periodic Benefit Expense (Income) . . . . .	\$ (10,509)	\$ (8,389)	\$ (4,928)	\$ 9,838	\$ 8,062	\$ 8,097

As described in Note 13, the Company contributed its two ductile iron foundries to Metal Technologies Holding Company, Inc. (MTHC). In connection with the contribution, MTHC agreed to assume pension and postretirement benefit obligations related to employees working at the foundries at the time of the transaction. The Company agreed to transfer to MTHC pension assets amounting to \$11.3 million plus accrued interest from the date of the contribution to the date of the transfer. A condition of the pension asset transfer requires MTHC to establish a qualified pension plan and to obtain a favorable tax determination letter from the Internal Revenue Service. MTHC expects to receive the determination letter in early fiscal 2001. As the conditions to the transfer have not been fulfilled as of July 2, 2000, the foregoing benefit obligations and asset information has not been adjusted to reflect the assumption of obligations by MTHC or the transfer of pension assets. The assumption of obligations by MTHC and transfer of pension assets will not result in a gain or loss to the Company.

The Company's supplemental pension plan has benefit obligations in excess of plan assets. The benefit obligation, accumulated benefit obligation and fair value of plan assets were \$17,740,000, \$14,941,000 and \$0 respectively for the 2000 fiscal year, and \$16,555,000, \$13,975,000 and \$0, respectively for the 1999 fiscal year. The postretirement benefit plans are unfunded.

For the other postretirement benefit plans, the assumed early retirement rates were adjusted for participants with over 30 years of service in fiscal 1999. In addition, the postretirement medical

coverage was limited to 10 years for coverage prior to age 65. The impact of these changes was not material.

For measurement purposes a 9% annual rate of increase in the per capita cost of covered health care claims was assumed for the years 2001 through 2002, decreasing gradually to 6% for the year 2009. The health care cost trend rate assumption has a significant effect on the amounts reported. An increase of one percentage point, would increase the accumulated postretirement benefit by \$6,155,000, and would increase the service and interest cost by \$757,000 for the year. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by \$5,792,000 and decrease the service and interest cost by \$713,000 for the year.

### Defined Contribution Plans

The Company has a defined contribution retirement plan that includes most U.S. non-Wisconsin employees. Under the plan the Company makes a contribution on behalf of covered employees equal to 2% of each participant's gross income, as defined. For the fiscal years 2000, 1999 and 1998, the cost to the Company was \$2,095,000, \$1,919,000 and \$1,641,000, respectively.

Wisconsin employees of the Company may participate in a salary reduction deferred compensation retirement plan. The Company makes matching contributions of \$.50 for every \$1.00 deferred by a participant to a maximum of 1-1/2% or 3% of each participant's salary, depending upon the participant's group. Company contributions

## Notes . . .

totaled \$4,559,000 in 2000, \$4,213,000 in 1999 and \$3,918,000 in 1998.

### Postemployment Benefits

The Company accrues the expected cost of postemployment benefits over the years that the employees render service. These benefits are substantially smaller amounts because they apply only to employees who permanently terminate employment prior to retirement. The items include disability payments, life insurance and medical benefits. These amounts are also discounted using a 7.5% interest rate. Amounts are included in Accrued Employee Benefits in the balance sheet.

### **(12) Disclosures About Fair Value of Financial Instruments:**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents, Domestic Notes Payable and Foreign Loans: The carrying amounts approximate fair value because of the short maturity of those instruments.

Long-Term Debt: The fair value of the Company's long-term debt is estimated based on quotations made on similar issues.

The estimated fair values of the Company's financial instruments are as follows (in thousands of dollars):

	2000	
	Carrying Amount	Fair Value
Cash and cash equivalents . . . . .	\$ 16,989	\$ 16,989
Domestic notes payable . . . . .	\$ 48,809	\$ 48,809
Foreign loans . . . . .	\$ 13,356	\$ 13,356
Long-term debt –		
7.25% Notes due 2007 . . . . .	\$ 98,512	\$ 98,633
		1999
	Carrying Amount	Fair Value
Cash and cash equivalents . . . . .	\$ 60,806	\$ 60,806
Domestic notes payable . . . . .	\$ 4,335	\$ 4,335
Foreign loans . . . . .	\$ 13,824	\$ 13,824
Long-term debt –		
9.21% Senior Notes due 2001, including current maturities . . . . .	\$ 30,000	\$ 30,678
7.25% Notes due 2007 . . . . .	\$ 98,307	\$ 97,545

### **(13) Disposition of Businesses:**

At the end of August 1999, the Company contributed its two ductile iron foundries to MTHC in exchange for \$24 million in cash and \$45 million aggregate par value convertible preferred stock which was recorded at \$22 million. The transaction resulted in a \$17 million gain. The provisions of the preferred stock include a 15% cumulative dividend and conversion rights into a minimum of 31% of the common stock of MTHC. MTHC is the primary supplier to Briggs & Stratton Corporation of iron castings.

In September 1998, the Company completed the sale of its POWERCOM software business. The proceeds on the sale were in the form of marketable securities, and are included in investments on the balance sheet. This sale did not result in any material gains or losses.