

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED JUNE 28, 1998, JUNE 29, 1997 AND JUNE 30, 1996

(1) Nature of Operations:

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

(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 1998, 1997 and 1996 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 88% of total inventories at June 28, 1998, and 93% at June 29, 1997 and June 30, 1996. 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 \$48,100,000, \$48,894,000 and \$48,125,000 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.

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.

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 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 \$19,950,000 in 1998, \$19,525,000 in 1997 and \$15,019,000 in 1996.

Accrued Employee Benefits: The Company's life insurance program includes payment of a death benefit to beneficiaries of retired employees. The Company accrues for the estimated cost of these benefits over the estimated working life of the employee. Past service costs for all retired employees have been fully provided for. The Company also accrues for the estimated cost of supplemental retirement and death benefit agreements with executive officers.

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Advertising Costs: Advertising costs, included in Engineering, Selling, General and Administrative Expenses on the accompanying Consolidated Statement of Earnings, are expensed as incurred. These expenses totaled \$7,325,000 in 1998, \$7,989,000 in 1997 and \$7,066,000 in 1996.

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.

Start-Up Costs: It is the Company's policy to expense all start-up costs for new manufacturing plants. Under this policy, the Company expensed \$11,660,000 in fiscal 1996.

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 \$7,137,000 as of June 28, 1998, and \$4,442,000 as of June 29, 1997.

Deferred Revenue on Sale of Plant & Equipment: The sale of the Company's Menomonee Falls, Wisconsin facility for approximately \$16.0 million was completed at the beginning of the fiscal quarter ended December 29, 1996. 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.

Derivatives: The Company uses derivative financial instruments to manage its foreign currency and interest rate 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.

Earnings Per Share: The Company adopted Financial Accounting Standard No. 128 during the second quarter of the current fiscal year. 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 shares repurchased on May 20, 1997 pursuant to the dutch auction tender offer, which totaled 3,506,190 shares at \$51.00 per share, and the Company's ongoing share repurchase program affect the year-to-date comparisons.

Notes . . .

(3) Income Taxes:

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

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Current			
Federal	\$ 29,295	\$ 45,474	\$ 46,448
State	4,442	6,723	7,768
Foreign	1,028	1,648	1,654
	<u>34,765</u>	<u>53,845</u>	<u>55,870</u>
Deferred	7,735	(16,105)	770
Total	<u>\$ 42,500</u>	<u>\$ 37,740</u>	<u>\$ 56,640</u>

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

	<u>1998</u>	<u>1997</u>	<u>1996</u>
U.S. statutory rate	35.0%	35.0%	35.0%
State taxes, net of			
Federal tax benefit	3.1%	3.1%	3.4%
Foreign Sales Corporation			
tax benefit	(.8%)	(.9%)	(.7%)
Other3%	.8%	.3%
Effective tax rate	<u>37.6%</u>	<u>38.0%</u>	<u>38.0%</u>

The components of deferred tax assets and liabilities at the end of the fiscal year were (in thousands of dollars):

	<u>1998</u>	<u>1997</u>
Future Income Tax Benefits:		
Inventory	\$ 2,212	\$ 2,916
Payroll related accruals	3,602	4,244
Warranty reserves	11,531	10,537
Other accrued liabilities	11,542	8,926
Miscellaneous	2,400	4,979
	<u>\$ 31,287</u>	<u>\$ 31,602</u>

	<u>1998</u>	<u>1997</u>
Deferred Income Taxes:		
Difference between book and tax methods applied to maintenance and supply inventories	\$ 11,198	\$ 12,464
Pension cost	7,137	9,688
Accumulated depreciation	(53,109)	(50,207)
Accrued employee benefits	8,529	7,904
Postretirement health care obligation	27,664	28,868
Deferred revenue on sale of plant & equipment	6,198	6,226
Miscellaneous	1,938	2,032
	<u>\$ 9,555</u>	<u>\$ 16,975</u>

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 \$7,300,000 at June 28, 1998. 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) Export Sales and Significant Customers:

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

In the fiscal years 1998, 1997 and 1996, there were sales to three major engine customers that 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	<u>1998</u>		<u>1997</u>		<u>1996</u>	
	Sales	%	Sales	%	Sales	%
A	\$235,468	18%	\$282,428	21%	\$267,257	21%
B	203,931	15%	180,770	14%	177,314	14%
C	165,937	13%	142,840	11%	163,065	13%
	<u>\$605,336</u>	<u>46%</u>	<u>\$606,038</u>	<u>46%</u>	<u>\$607,636</u>	<u>48%</u>

Notes . . .

(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, and there were no borrowings at June 28, 1998 using these lines or the Credit Facility.

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 certain 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, certain indebtedness, the sales of assets and certain investments.

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

	<u>1998</u>	<u>1997</u>
Balance at		
Fiscal Year End	\$ 4,700	\$ 5,000
Weighted Average		
Interest Rate at		
Fiscal Year End	5.94%	5.98%

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 \$15,894,000, expire at various times through December, 1998 and are renewable. None of these arrangements had material commitment fees or compensating balance requirements.

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

	<u>1998</u>	<u>1997</u>
Balance at		
Fiscal Year End	\$ 14,336	\$ 13,359
Weighted Average		
Interest Rate at		
Fiscal Year End	4.97%	4.49%

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

	<u>1998</u>	<u>1997</u>
9.21% Senior Notes Due 2001		
at Face Amount	\$ 45,000	\$ 60,000
7.25% Notes Due 2007, Net of		
Unamortized Discount of		
\$1,898 in 1998 and		
\$2,103 in 1997	98,102	97,897
	<u>\$143,102</u>	<u>\$157,897</u>
Less Current Maturities	15,000	15,000
Total Long-Term Debt	<u>\$128,102</u>	<u>\$142,897</u>

The 9.21% Senior Notes are due June 15, 2001. Payments on these notes are due in five equal annual installments beginning in 1997. The notes include covenants that limit total borrowings, require maintenance of a minimum net worth and set certain restrictions on the sale or collateralizing of the Company's assets.

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>1998</u>	<u>1997</u>	<u>1996</u>
Interest income	\$ 2,720	\$ 3,981	\$ 4,477
Loss on the			
disposition of			
plant and equipment	(1,973)	(1,608)	(2,692)
Income from joint			
ventures	5,232	3,026	2,957
Other items	1,830	67	970
Total	<u>\$ 7,809</u>	<u>\$ 5,466</u>	<u>\$ 5,712</u>

Notes . . .

(7) Commitments and Contingencies:

The Company is a 50% guarantor on bank loans of two unconsolidated joint ventures. One is in Japan for the manufacture of engines and the second in the United States for the manufacture of parts. These bank loans totaled approximately \$6,000,000 at the end of 1998.

Product and general liability claims arise against the Company from time to time in the ordinary course of business. The Company is self-insured for future claims up to \$1 million per claim. Accordingly, a reserve is maintained for the estimated costs of such claims. At June 28, 1998 and June 29, 1997, the reserve for product and general liability claims was \$5.8 million and \$4.6 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 June 28, 1998.

(8) Stock Options:

The Company has a Stock Incentive Plan under which 3,361,935 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>1998</u>	<u>1997</u>	<u>1996</u>
Net Income (in thousands):			
As Reported	\$70,645	\$61,565	\$92,412
Pro Forma	\$69,574	\$60,777	\$91,690
Basic Earnings Per Share:			
As Reported	\$2.86	\$2.16	\$3.19
Pro Forma	\$2.82	\$2.13	\$3.17
Diluted Earnings Per Share:			
As Reported	\$2.85	\$2.15	\$3.18
Pro Forma	\$2.81	\$2.12	\$3.16

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.

Information on the options outstanding is as follows:

	<u>1996</u>	
	<u>Shares</u>	<u>Wtd. Avg. Ex. Price</u>
Balance, beginning of year	1,169,620	\$ 38.41
Granted during the year	600,000	49.08
Exercised during the year	<u>(65,089)</u>	17.07
Balance, end of year	<u>1,704,531</u>	\$ 42.98
	<u>1997</u>	
	<u>Shares</u>	<u>Wtd. Avg. Ex. Price</u>
Balance, beginning of year	1,704,531	\$ 42.98
Granted during the year	106,550	53.30
Exercised during the year	<u>(24,369)</u>	17.26
Balance, end of year	<u>1,786,712</u>	\$ 43.95
	<u>1998</u>	
	<u>Shares</u>	<u>Wtd. Avg. Ex. Price</u>
Balance, beginning of year	1,786,712	\$ 43.95
Granted during the year	241,980	65.69
Exercised during the year	<u>(236,873)</u>	35.65
Balance, end of year	<u>1,791,819</u>	\$ 47.98

Grant Summary

<u>Fiscal Year</u>	<u>Grant Date</u>	<u>Exercise Price (a)</u>	<u>Date Exercisable</u>	<u>Options Outstanding</u>	<u>Expiration Date</u>
1990	2-20-90	\$13.014	50%, 1-1-94; 50%, 1-1-95	1,076	2-19-00
1991	2-19-91	14.524	50%, 1-1-95; 50%, 1-1-96	45,010	2-18-01
1992	5-18-92	21.525	50%, 1-1-96; 50%, 1-1-97	111,722	5-17-02
1994	8-16-93	48.369	8-16-96	177,828	8-16-98
1995	8-12-94	45.854	8-12-97	507,653	8-12-99
1996	8-7-95	49.080	8-7-98	600,000	8-7-00
1997	8-6-96	53.300	8-6-99	106,550	8-6-01
1998	8-5-97	65.690	8-5-00	241,980	8-4-02

There were no options granted in fiscal 1993.

(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.

Notes . . .

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	<u>1998</u>	<u>1997</u>	<u>1996</u>
Grant date fair value	\$5.98	\$5.42	\$5.39
Assumptions:			
Risk-free interest rates	6.1%	6.3%	6.4%
Expected volatility	20.4%	20.6%	24.6%
Expected dividend yield . . .	2.6%	2.5%	2.7%
Expected term (in years) . .	5.0	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. Rights granted under a previous plan expired July 1, 1996.

(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 never exceeds one year 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 3.6 billion Japanese yen for \$28 million through January, 1999. 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 1998 fiscal year. The amount deferred was a loss of approximately \$2.2 million.

The Company's foreign subsidiaries have the following forward currency contracts outstanding at the end of fiscal 1998:

Currency	In Millions		Latest Expiration Date
	Local Currency	U.S. Dollars	
Australian Dollars4	.3	July, 1998

There are no significant gains or losses included in the above amounts.

Notes . . .

(11) Employee Benefit Costs:

Retirement Plan

The Company has noncontributory, defined benefit retirement plans covering most Wisconsin employees. The following tables summarize the plans' income and expense, actuarial assumptions, and funded status for the three years indicated (dollars in thousands):

	Qualified Plans			Supplemental Plans		
	1998	1997	1996	1998	1997	1996
<u>Income and Expense:</u>						
Service Cost-Benefits Earned						
During the Year	\$ 9,030	\$ 11,309	\$ 13,143	\$ 461	\$ 378	\$ 456
Interest Cost on Projected						
Benefit Obligation	43,518	40,990	41,722	1,013	860	926
Actual Return on Plan Assets	(118,434)	(114,303)	(104,872)	(11)	(11)	(9)
Net Amortization, Deferral						
and Windows	59,121	58,525	51,830	374	395	462
Net Periodic Pension						
Expense (Income)	\$ (6,765)	\$ (3,479)	\$ 1,823	\$ 1,837	\$ 1,622	\$ 1,835
<u>Actuarial Assumptions:</u>						
Discount Rate Used to Determine						
Present Value of Projected						
Benefit Obligation	7.0%	7.75%	7.75%	7.0%	7.75%	7.75%
Expected Rate of Future						
Compensation Level Increases	5.0%	5.5%	5.5%	5.0%	5.5%	5.5%
Expected Long-Term Rate of						
Return on Plan Assets	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
<u>Funded Status:</u>						
Actuarial Present Value of						
Benefit Obligations:						
Vested	\$ 539,480	\$ 482,712	\$ 413,035	\$ 12,863	\$ 8,869	\$ 8,286
Non-Vested	29,638	32,735	34,268	—	—	21
Accumulated Benefit						
Obligation	569,118	515,447	447,303	12,863	8,869	8,307
Effect of Projected Future						
Wage and Salary Increases	64,472	82,941	120,083	2,630	3,228	4,766
Projected Benefit Obligation	633,590	598,388	567,386	15,493	12,097	13,073
Plan Assets at Fair Market Value	845,828	767,108	681,819	127	127	126
Plan Assets in Excess of (Less Than)						
Projected Benefit Obligation	212,238	168,720	114,433	(15,366)	(11,970)	(12,947)
Remaining Unrecognized Net						
Obligation (Asset) Arising						
from the Initial Application of						
SFAS No. 87	(20,739)	(26,006)	(31,321)	—	132	179
Unrecognized Net Loss (Gain)	(207,403)	(164,779)	(75,983)	4,778	2,531	4,494
Unrecognized Prior Service Cost	(1,394)	(2,002)	(2,447)	881	953	1,029
Prepaid (Accrued) Pension Cost	\$ (17,298)	\$ (24,067)	\$ 4,682	\$ (9,707)	\$ (8,354)	\$ (7,245)
Less Current Portion	—	—	—	528	530	511
	<u>\$ (17,298)</u>	<u>\$ (24,067)</u>	<u>\$ 4,682</u>	<u>\$ (9,179)</u>	<u>\$ (7,824)</u>	<u>\$ (6,734)</u>

Notes . . .

The Company offered early retirement windows to certain of its Milwaukee union members during the 1995 fiscal year. As a result, \$13,806,000 was added to pension expense and \$5,253,000 was added to postretirement health care expense in the fourth quarter of the 1995 fiscal year. When the retirements were scheduled to occur in the first fiscal quarter of 1996, a number of these union members canceled their acceptance, and thus credits totaling \$3,477,000 were recorded as a change in the original accounting estimate. A second retirement window was offered in fiscal 1997. The cost of this window was additional pension expense of \$33,457,000 and additional postretirement health care expense of \$3,644,000 in the fourth quarter of the 1997 fiscal year.

During fiscal 1996, the defined benefit pension plan which covered employees at two of the Company's plants was terminated and replaced by a defined contribution retirement plan that includes most U.S. non-Wisconsin employees. The impact of the termination was not material. Under the new plan, the Company will make a contribution on behalf of covered employees equal to 2% of each participant's gross income, as defined. For fiscal years 1998, 1997 and 1996, the cost to the Company was \$1,641,000, \$1,352,000 and \$757,000, respectively.

Most U.S. 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 totaled \$3,918,000 in 1998, \$3,944,000 in 1997 and \$2,825,000 in 1996.

Postretirement Benefits

The Company records the expected health care and life insurance benefits for employees during the years that the employees render service.

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care

claims was assumed for the years 1998 through 2000, decreasing gradually to 6% for the year 2007. The health care cost trend rate assumption has a significant effect on the amounts reported. The rates, if changed by one percentage point, would change the accumulated postretirement benefit by \$5,704,000 and would change the service and interest cost by \$701,000 for the year.

The discount rate used in determining the accumulated postretirement benefit obligations was 7.0% compounded annually. Both the health care and life insurance plans are unfunded.

The components of the accumulated postretirement benefit obligations were (in thousands of dollars):

	<u>Health Care</u>	
	<u>1998</u>	<u>1997</u>
Retirees	\$49,307	\$51,553
Fully eligible plan participants	2,897	467
Other active participants	30,131	26,961
	<u>82,335</u>	<u>78,981</u>
Unrecognized loss	(6,602)	(161)
	<u>75,733</u>	<u>78,820</u>
Less current portion	4,800	4,800
	<u>\$70,933</u>	<u>\$74,020</u>
		<u>Life Insurance</u>
		<u>1998</u>
		<u>1997</u>
Retirees	\$11,354	\$ 9,048
Fully eligible plan participants	1,315	1,720
Other active participants	1,576	1,453
	<u>14,245</u>	<u>12,221</u>
Unrecognized net obligation	(460)	(507)
Unrecognized prior service cost	(756)	(827)
Unrecognized loss	(1,985)	(35)
	<u>11,044</u>	<u>10,852</u>
Less current portion	-	-
	<u>\$11,044</u>	<u>\$10,852</u>

The current portion of the health care component above represents the benefits expected to be paid within the next twelve months and is included in the caption Accrued Liabilities in the accompanying balance sheet. The net health care balance has its own caption in this balance sheet. The life insurance component is included in the caption Accrued Employee Benefits.

Notes . . .

The net periodic postretirement costs recorded were (in thousands of dollars):

	<u>Health Care</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
Service cost-benefits attributed to service during the year	\$1,145	\$1,272	\$1,596
Interest cost on accumulated benefit obligation	5,856	5,226	5,480
Other	—	—	(91)
	<u>\$7,001</u>	<u>\$6,498</u>	<u>\$6,985</u>

	<u>Life Insurance</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
Service cost-benefits attributed to service during the year	\$ 61	\$ 87	\$ 90
Interest cost on accumulated benefit obligation	917	964	947
Other	118	118	118
	<u>\$1,096</u>	<u>\$1,169</u>	<u>\$1,155</u>

Postemployment Benefits

The Company also 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 included in this amount are disability payments, life insurance and medical benefits, and these amounts are also discounted using a 7.0% interest rate.

The balance in this reserve at the end of fiscal 1998 was \$1,527,000 and at the end of fiscal 1997 was \$1,468,000. Both were included in the caption Accrued Employee Benefits in the accompanying balance sheets.

(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 amount approximates 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):

	<u>1998</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 84,527	\$ 84,527
Domestic notes payable	\$ 4,700	\$ 4,700
Foreign loans	\$ 14,336	\$ 14,336
Long-term debt –		
9.21% Senior Notes due 2001, including current maturities . .	\$ 45,000	\$ 47,012
7.25% Notes due 2007	\$ 98,102	\$ 105,071
	<u>1997</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 112,859	\$ 112,859
Domestic notes payable	\$ 5,000	\$ 5,000
Foreign loans	\$ 13,359	\$ 13,359
Long-term debt –		
9.21% Senior Notes due 2001, including current maturities . .	\$ 60,000	\$ 62,885
7.25% Notes due 2007	\$ 97,897	\$ 100,531